

**BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA**

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Farmers Group, Inc., : Companies Act, Article XIV of the
Farmers Insurance Exchange, Fire : Insurance Company Law of 1921, Act
Insurance Exchange and Truck Insurance : of May 17, 1921, P. L. 682, as
Exchange in Support of the Request for : amended, 40 P.S. §§991.1401,
Approval to Acquire Control of : 991.1402 and 991.1403; Chapter
AIG Centennial Insurance Company, : 25 of Title 31 of the Pennsylvania
AIG Indemnity Insurance Company, : Code, 31 Pa. Code §§25.1-25.23.
AIG Preferred Insurance Company, :
AIG Premier Insurance Company and :
New Hampshire Indemnity Company, Inc. : Order No. ID-RC-09-13

DECISION AND ORDER

AND NOW, on this 29th day of June, 2009, Joel Ario, Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

Identity of Involved Persons

Identity of Applicants

1. Farmers Insurance Exchange ("Farmers Exchange") is a reciprocal insurance exchange organized under the laws of the State of California with its principal place of business in Los Angeles, California.

2. Fire Insurance Exchange (“Fire Exchange”) is a reciprocal insurance exchange organized under the laws of the State of California with its principal place of business in Los Angeles, California.
3. Truck Insurance Exchange (“Truck Exchange”) is a reciprocal insurance exchange organized under the laws of the State of California with its principal place of business in Los Angeles, California.
4. Farmers Exchange, Fire Exchange and Truck Exchange are collectively hereinafter referenced as the “Exchanges.”
5. Farmers Group, Inc. (“Farmers”) is an insurance management services provider organized under the laws of the State of Nevada with its principal place of business in Los Angeles, California.
6. Farmers is the attorney-in-fact for Farmers Exchange.
7. Truck Underwriters Association, a wholly-owned subsidiary of Farmers, is the attorney-in-fact for Truck Exchange.
8. Fire Underwriters Association, a wholly-owned subsidiary of Farmers, is the attorney-in-fact for Fire Exchange.
9. Farmers Exchange, Fire Exchange, Truck Exchange and Farmers are collectively hereinafter referenced as the “Applicants.”
10. Zurich Financial Services Ltd. (“Zurich”) is an insurance-based financial services provider organized under the laws of Switzerland with its principal place of business in Zurich, Switzerland. No person controls 10% or more of the voting securities of Zurich.
11. Farmers is an indirect wholly-owned subsidiary of Zurich.

Identity of Sellers

12. American International Group, Inc. (“AIG”) is a holding company organized under the laws of State of Delaware with its principal place of business in New York, New York.

Identity of Pennsylvania Domiciled Insurers to be Acquired

13. AIG Centennial Insurance Company (“AIG Centennial”) is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its

principal place of business located in Wilmington, Delaware.

14. AIG Preferred Insurance Company (“AIG Preferred”) is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilmington, Delaware.
15. AIG Premier Insurance Company (“AIG Premier”) is a stock property insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilmington, Delaware.
16. AIG Indemnity Insurance Company (“AIG Indemnity”) is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilmington, Delaware.
17. New Hampshire Indemnity Company, Inc. (“NH Indemnity”) is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilmington, Delaware.
18. AIG Centennial, AIG Preferred, AIG Premier, AIG Indemnity and NH Indemnity are collectively hereinafter referenced as the “PA Domestic Insurers.”
19. The PA Domestic Insurers are indirect wholly-owned subsidiaries of AIG.

Acquisition Filing

20. On April 16, 2009, Farmers, AIG and certain affiliates of AIG executed a Purchase Agreement under which Farmers will acquire control of various AIG insurance subsidiaries to include the PA Domestic Insurers (“Purchase Agreement”). The Purchase Agreement was amended by the parties to the agreement on June 23, 2009.
21. On April 16, 2009, Farmers, Farmers Exchange, Fire Exchange and Truck Exchange executed a Purchase and Sale Agreement (“Purchase and Sale Agreement”) under which Farmers will sell the PA Domestic Insurers to the Exchanges following consummation of the closing under the Purchase Agreement.
22. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1922, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.

23. On April 29, 2009, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is hereinafter referenced as “Application” or “Form A filing”) from Applicants for approval to acquire control of the PA Domestic Insurers.
24. The Application included the Purchase Agreement and the Purchase and Sale Agreement.
25. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.
26. Simultaneous with filing the Application in Pennsylvania, the Applicants filed similar Form A filings in the states of California, Colorado, Delaware, Hawaii, Minnesota, New Jersey, New York and Texas for approval to acquire control of the other affected AIG subsidiaries.

Department Procedures

27. On May 9, 2009, the Department published notice in the Pennsylvania Bulletin that the Application was submitted by Applicants and such notice invited interested persons to submit comments to the Department regarding the Application for 15 days following the date of the publication (“Comment Period”).
28. During the Comment Period, the Department received no comments regarding the proposed Application.
29. Section 1402(f)(2) of the Insurance Holding Companies Act provides that the Commissioner may exercise his discretion to hold a hearing on whether an application complies with the Insurance Holding Companies Act, unless either the potential acquiring party or the insurer being acquired demands a hearing within ten (10) days following the initial filing on an application.
30. If neither the potential acquiring party nor the insurer being acquired timely demands a hearing, the holding of a hearing is solely at the discretion of the Commissioner.
31. No hearing was demanded by the Applicants or the PA Domestic Insurers.
32. After consideration of all documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner exercised

his discretion not to hold a hearing on the Application.

Description of the Proposed Acquisition

33. As described in the Application:
- a) Farmers will purchase the personal lines automobile insurance business (“PAG Business”) of AIG.
 - b) The sale will be effected pursuant to the terms of the Purchase Agreement through which Farmers will purchase (“Farmers Purchase”) 100% of the shares of various insurance companies that are directly or indirectly owned by AIG including the PA Domestic Insurers, and that comprise the AIG personal auto group (“PAG Insurers”).
 - c) Immediately prior to or at the time of the closing of the Farmers Purchase, certain reinsurance and other transactions will occur that are necessary to align the PAG Business to be sold by AIG with the PAG Insurers (the “Separation Transactions”). As described in the Application, these Separation Transactions are necessary to separate the business being sold by AIG from the business being retained by AIG.
 - d) As a result of the Farmers Purchase, Zurich will become the ultimate controlling person of the PA Domestic Insurers.
 - e) Immediately following the completion of the Farmers Purchase, Farmers will sell the PAG Insurers to Farmers Exchange, Fire Exchange and Truck Exchange (“Exchange Purchase”) pursuant to the terms of the Purchase and Sale Agreement.
 - f) As a result of the Exchange Purchase, Zurich will remain the ultimate controlling person of the PA Domestic Insurers.
34. The instant Application requests approval for the change in control of the PA Domestic Insurers which would result from the effectuation of the Purchase Agreement and the Purchase and Sale Agreement.

Standards for Review

35. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.

36. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.
37. The Commissioner carefully considered the compliance of the proposed transaction with all of the requirements under the statutory standards as follows:

Licensing Requirements

38. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
39. The lines of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. §382).
40. The minimum paid up capital stock and paid in surplus required of a stock insurer for each line of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
41. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), the PA Domestic Insurers are independently required to maintain a minimum paid up capital stock of \$2,350,000 and a minimum paid in surplus of \$1,175,000 to write the lines of insurance for which each is presently licensed.
42. As of December 31, 2008, the PA Domestic Insurers each maintained the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which each is presently licensed.
43. Upon completion of the transaction, the PA Domestic Insurers will each have the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which each is presently licensed.
44. Based on all relevant facts of record, the Commissioner concludes that the approval of the Application would not result in the PA Domestic Insurers' inability to satisfy requirements for licensure or require the PA Domestic Insurers to lose their licenses.

Competitive Impact

45. The acquisition of control of the PA Domestic Insurers is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth (“Competitive Standard”).
46. The Competitive Standard analysis requires a comparison of the market share of the “involved insurers,” including all insurers being acquired, acquiring, or affiliated with the acquirer.
47. Based upon the submitted Application, including a Competitive Impact Statement, and all other relevant facts of record, the Commissioner concludes that the acquisition of control of the PA Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth.

Financial Condition of Applicants

48. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring person(s) to determine whether they are such as might jeopardize the financial stability of the insurer or prejudice the interest of its policyholders.
49. The Department has reviewed the annual financial statements submitted by Zurich and the Applicants as of December 31, 2008.
50. As of December 31, 2008, Zurich reported:

Assets of \$327,944 million
Liabilities of \$304,163 million
Total Equity of \$23,781 million

51. Based upon the submitted Application, including the financial statements, and all relevant facts of record, the Commissioner concludes that the financial condition of Zurich and the Applicants will not pose any impediments to the change in control nor jeopardize the financial condition of the PA Domestic Insurers.

Plans for the Acquired Insurer

52. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or

proposals which the acquiring party has for the insurer to determine whether they are unfair or unreasonable to its policyholders and not in the public interest.

53. As provided in the Application, the Applicants have no present plans or proposals to declare any extraordinary dividends in the short term, to liquidate the PA Domestic Insurers, to sell their assets or merge them with any person or persons, or make any other material change in their business or corporate structures or management.

Management

54. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurers.
55. As described in the Application, Farmers, the Exchanges, and their respective subsidiaries collectively form one of the nation's largest personal lines property and casualty insurance groups and provide homeowners, auto, recreational vehicle, business and life insurance and financial services to more than 10 million households.
56. As described in the Application, Zurich has a global network of subsidiaries and offices in North America and Europe as well as in Asia Pacific, Latin America and other markets and employs approximately 60,000 people serving customers in more than 170 countries.
57. Biographical affidavits for all directors and executive officers of Zurich and the Applicants were provided as part of the Application, and were reviewed by the Department.
58. Biographical affidavits for proposed new directors and executive officers of the PA Domestic Insurers were also reviewed by the Department.
59. Based upon the submitted Application and all relevant materials of record, the Department is satisfied that the persons who would control the operations of the PA Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
60. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Department has jurisdiction to review and approve the change in control of the PA Domestic Insurers.
2. Under Section 1402 of the Insurance Holding Companies Act, the Department must approve an application for a change in control unless the Department has found that:
 - a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which it is presently licensed;
 - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
 - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable and fail to confer benefit on policyholders of the insurers and are not in the public interest;
 - e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control; or,
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or
 - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.
3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of the PA Domestic Insurers.
4. The Application filed by the Applicants, with amendments, complies with the requirements of 40 P.S. §991.1402.

5. Thus, the acquisition of the PA Domestic Insurers by the Applicants is permitted under Pennsylvania law.
6. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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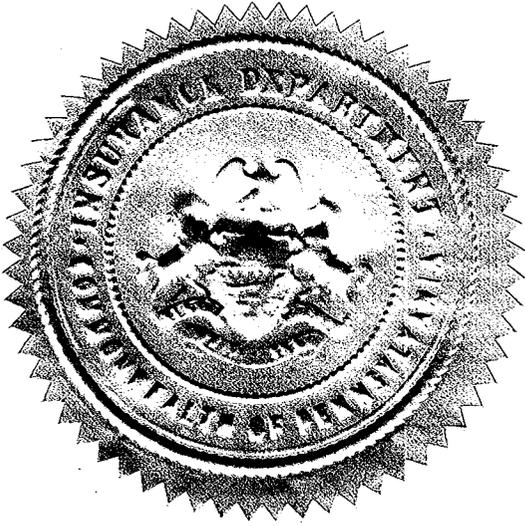
ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”) hereby makes the following Order:

The application of Farmers Group, Inc., Farmers Insurance Exchange, Fire Insurance Exchange and Truck Insurance Exchange in support of the request for approval to acquire control of AIG Centennial Insurance Company, AIG Indemnity Insurance Company, AIG Preferred Insurance Company, AIG Premier Insurance Company and New Hampshire Indemnity Company, Inc., as set forth in the application as amended, is hereby approved, subject to this Order and the following conditions:

1. All necessary regulatory filings and approvals are obtained prior to consummation of the Purchase Agreement and Purchase and Sale Agreement.
2. Farmers Group, Inc. shall provide to the Pennsylvania Insurance Department (“Department”) a list of closing documents within five (5) days after consummation of the subject transaction and shall maintain the listed documents and make them available to the Department for a period of not less than five (5) years from the date of consummation.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation.



A handwritten signature in black ink, appearing to read "Joel Ario".

JOEL ARIO
Insurance Commissioner
Commonwealth of Pennsylvania