

Farmers Management Services

in USD millions, for the years ended December 31	2006	2005	Change
Management fees and other related revenues	2,133	2,058	4%
Management and other related expenses	(1,086)	(990)	(10%)
Business operating profit	1,202	1,221	(2%)
Gross operating margin	49.1%	51.9%	(2.8 pts)

Business operating profit decreased by USD 19 million, or 2 percent, to USD 1.2 billion during 2006. Management fees and other related revenues increased by 4 percent. This is in line with the full year growth of 2 percent in gross earned premiums at the Farmers Exchanges, which we manage but do not own. In addition to an increase of USD 52 million in management fees, other related revenue increased by USD 23 million, primarily as a result of increased service fees, auto membership fees and property inspection fees. In 2006 work began on the creation of a shared service platform in North America. In addition, several investments were made in agency development and other growth initiatives. Altogether, these investments led to an increase in management and other related expenses, causing a reduction in gross operating margin to a solid 49.1 percent.

Farmers Exchanges – highlights

in USD millions, for the years ended December 31	2006	2005	Change
Gross earned premiums	14,721	14,380	2%
Combined ratio	95.9%	97.1%	1.2 pts

The **Farmers Exchanges** achieved a 2 percent increase in gross earned premiums compared with 2005, driven by increases across all major lines of business. The 1.2 percentage point improvement in the combined ratio was attributable to a decrease in the loss ratio as a result of the lower level of catastrophes compared with 2005.