

REPORT OF EXAMINATION
OF THE

FARMERS INSURANCE EXCHANGE
FIRE INSURANCE EXCHANGE
TRUCK INSURANCE EXCHANGE
CIVIC PROPERTY AND CASUALTY COMPANY
EXACT PROPERTY AND CASUALTY COMPANY
MID-CENTURY INSURANCE COMPANY
NEIGHBORHOOD SPIRIT PROPERTY AND CASUALTY COMPANY
FARMERS REINSURANCE COMPANY

AS OF
DECEMBER 31, 2021

Insurance Commissioner

A handwritten signature in blue ink, appearing to be 'D. DeLa...', is positioned to the right of the 'Insurance Commissioner' text.

Filed on October 27, 2023

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Los Angeles, California
September 26, 2023

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FARMERS INSURANCE EXCHANGE
FIRE INSURANCE EXCHANGE
TRUCK INSURANCE EXCHANGE
CIVIC PROPERTY AND CASUALTY COMPANY
EXACT PROPERTY AND CASUALTY COMPANY
MID-CENTURY INSURANCE COMPANY
NEIGHBORHOOD SPIRIT PROPERTY AND CASUALTY COMPANY
FARMERS REINSURANCE COMPANY

hereinafter also referred to as the "Companies." The Companies' home office is located at 6301 Owensmouth Avenue, Woodland Hills, California 91367.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Companies. The previous examination of the Companies was made as of December 31, 2017. This examination covers the period from January 1, 2018 through December 31, 2021.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Companies' financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An

examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated, both currently and prospectively.

All accounts and activities of the Companies were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Companies' financial statements.

This examination report includes findings of fact and general information about the Companies and their financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report, but separately communicated to other regulators and/or the Companies.

This examination was a coordinated examination with California as the lead state of the of the Farmers Insurance Group (Group) and it was conducted concurrently with the examinations of the following insurance entities in the holding company group:

Group/Company	NAIC CoCode	Domiciled State
FARMERS INSURANCE EXCHANGE GROUP		
Farmers Insurance Company of Arizona	21598	AZ
Farmers Insurance Exchange	21652	CA
Truck Insurance Exchange	21709	CA
Fire Insurance Exchange	21660	CA
Civic Property and Casualty Company	10315	CA
Neighborhood Spirit Property and Casualty Company	10317	CA
Exact Property and Casualty Company	10318	CA
Mid-Century Insurance Company	21687	CA
Farmers Insurance Company of Idaho	21601	ID
Farmers New Century Insurance Company	10806	IL
Illinois Farmers Insurance Company	21679	IL
Farmers Insurance Company Inc.	21628	KS
Farmers Insurance of Columbus, Inc.	36889	OH
Farmers Insurance Company of Oregon	21636	OR
Texas Farmers Insurance Company	21695	TX
Farmers Texas County Mutual Insurance Company	24392	TX
Mid Century Insurance Company of Texas	28673	TX
Farmers Insurance Company of Washington	21644	WA

Group/Company	NAIC CoCode	Domiciled State
COAST NATIONAL/BRISTOL WEST GROUP		
Coast National Insurance Company	25089	CA
Security National Insurance Company	33120	FL
Bristol West Preferred Insurance Company	12774	MI
Bristol West Casualty Insurance Company	11034	OH
Bristol West Insurance Company	19658	OH

Group/Company	NAIC CoCode	Domiciled State
FOREMOST GROUP		
Foremost Insurance Company Grand Rapids, Michigan	11185	MI
Foremost Property and Casualty Insurance Company	11800	MI
Foremost Signature Insurance Company	41513	MI
Farmers Specialty Insurance Company	43699	MI
Foremost County Mutual Insurance Company	29254	TX
Foremost Lloyds of Texas	41688	TX

Group/Company	NAIC CoCode	Domiciled State
21st CENTURY INSURANCE GROUP		
21st Century Casualty Company	36404	CA
21st Century Insurance Company	12963	CA
21st Century Pacific Insurance Company (b)	23795	CO
Toggle Insurance Company f/k/a 21st Century Assurance Company	44245	DE
American Pacific Insurance Company, Inc.	10805	HI
Farmers Insurance Hawaii, Inc.	28487	HI
21st Century Advantage Insurance Company (c)	25232	MN
21st Century Auto Insurance Company of New Jersey (b)	10184	NJ
21st Century Pinnacle Insurance Company	10710	NJ
21st Century North America Insurance Company (a)	32220	NY
21st Century Centennial Insurance Company	34789	PA
21st Century Indemnity Insurance Company (b)	43974	PA
21st Century Premier Insurance Company	20796	PA
American Federation Insurance Company f/k/a 21st Century Insurance Company of the Southwest	10245	TX

- (a) On January 13, 2020, 21st Century Superior Insurance Company was merged into 21st Century North America Insurance Company and subsequently dissolved.
- (b) Effective January 1, 2022, 21st Century Auto Insurance Company of New Jersey, 21st Century Indemnity Insurance Company, and 21st Century Pacific Insurance Company were sold, and therefore they ceased to be part of the Farmers Holding Company system.
- (c) Effective April 1, 2023, 21st Century Advantage Insurance Company was sold and ceased to be part of the Farmers Holding Company system.

Group/Company	NAIC CoCode	Domiciled State
FARMERS WORKPLACE SOLUTIONS GROUP (f/k/a METROPOLITAN INSURANCE GROUP)		
Economy Fire and Casualty Company	22926	IL
Economy Preferred Insurance Company	38067	IL
Economy Premier Assurance Company	40649	IL
Farmers Casualty Insurance Company f/k/a Metropolitan Casualty Insurance Company	40169	RI
Farmers Direct Property and Casualty Insurance Company f/k/a Metropolitan Direct Property and Casualty Insurance Company	25321	RI
Farmers Group Property and Casualty Insurance Company f/k/a Metropolitan Group Property & Casualty Insurance Company	34339	RI
Farmers Property & Casualty Insurance Company f/k/a Metropolitan Property and Casualty Insurance Company	26298	RI
Farmers Lloyds Insurance Company of Texas f/k/a Metropolitan Lloyds Insurance Company of Texas	13938	TX

Group/Company	NAIC CoCode	Domiciled State
ZURICH GROUP		
Farmers Reinsurance Company	10873	CA

With the exception of the Farmers Reinsurance Company (Farmers Re), which is part of the Zurich Group, all the above companies are part of the Farmers Insurance Group. Although owned by Farmers Group, Inc. (FGI), the Attorney-In-Fact (AIF) for Farmers Insurance Exchange, Farmers Re operates as one of the Farmers property and casualty companies.

COMPANIES HISTORY

Farmers Insurance Exchange (FIE) was organized in the state of California on March 28, 1928, and commenced business on April 6, 1928.

Fire Insurance Exchange (Fire) was organized in the state of California on November 10, 1942, and commenced business on November 20, 1942.

Truck Insurance Exchange (Truck) was organized in the state of California on February 5, 1935, and commenced business on February 5, 1935.

Civic Property and Casualty Company (Civic) was organized in the state of California on February 17, 1995, and commenced business on September 1, 1995.

Exact Property and Casualty Company (Exact) was organized in the state of California on February 17, 1995, and commenced business on September 1, 1995.

Mid-Century Insurance Company (Mid-Century) was organized in the state of California on December 3, 1949, and commenced business on February 17, 1953.

Neighborhood Spirit Property and Casualty Company (Neighborhood Spirit) was organized in the state of California on February 17, 1995, and commenced business on September 1, 1995.

Farmers Reinsurance Company (Farmers Re) was organized on August 21, 1997, and commenced business on December 30, 1997. The Company is 100% owned by Farmers Group, Inc. (FGI), the Attorney-In-Fact of FIE. FGI is a U.S. subsidiary of Zurich Insurance Group Ltd. (Zurich), a Swiss holding company.

Acquisitions

On January 11, 2021, FGI submitted a Form A application pursuant to California Insurance Code Section 1215.2 (d) regarding the acquisition of Metropolitan Direct

Property and Casualty Company (MetDirect), a California commercially domiciled insurer subsequently renamed Farmers Direct Property and Casualty Company, for the purchase of its immediate parent, Metropolitan Property and Casualty Insurance Company (MPC), which was subsequently renamed Farmers Property and Casualty Insurance Company. Under the terms of the Stock Purchase Agreement dated as of December 11, 2020, FGI agreed to purchase all issued and outstanding common stock at a par value of \$3,000 per share, of MPC from MetLife, Inc. for \$3.94 billion, subject to adjustments in price as referenced in the agreement.

Upon closure of the sale of MPC to FGI, FGI agreed to transfer all of MPC shares to FIE, Fire, and Truck (Exchanges), which became the indirect owners of MetDirect. Total consideration payable by the Exchanges to FGI was \$1.509 billion, of which FIE, Fire, and Truck agreed to pay 80%, 10%, and 10% of the purchase price for the equivalent percentage shares of the ownership, respectively. The payment for the purchase price by the Exchanges was from assets available with no borrowed funds.

On April 7, 2021, FGI completed the acquisition of MPC and its subsidiaries, including MetDirect. After the purchase, MPC and its acquired subsidiaries had name changes, effective April 8, 2021, and rebranded as Farmers Workplace Solutions.

Capital Contributions

In April 2018, FIE, Fire, and Truck contributed 100% of their ownership interest, valued at \$1.416 billion, in their 21st Century subsidiaries to Mid-Century. This non-cash transaction was accounted for as a reorganization and change in ownership interest in all of the 21st Century subsidiaries. FIE, Fire, and Truck's shares were \$1.133 billion, \$141.6 million, and \$141.6 million, respectively. The restructuring transaction was exempted from the Form A filing requirement and granted by the California Department of Insurance (CDI) on February 27, 2018.

In March 2019, Mid-Century made a capital contribution of \$45 million in cash to its affiliate, American Federation Insurance Company.

In December 2018, Farmers Re received a capital contribution of \$150 million in cash from its parent, FGI.

Dividends

Several of the 21st Century affiliates paid the following extraordinary dividends to Mid-Century during the examination period. All of the extraordinary dividend payments were approved by the respective domiciliary departments of insurance:

- In February 2019, Mid-Century received an extraordinary dividend of \$70.8 million in cash from its subsidiary, Farmers Insurance Hawaii, Inc.
- In September 2019, Mid-Century received an extraordinary dividend of \$415.0 million in cash from its subsidiary, 21st Century Centennial Insurance Company.
- In June 2021, Mid-Century received an extraordinary dividend of \$38.1 million in cash from its subsidiary 21st Century Pacific Insurance Company.

In June 2021, Farmers Re paid an extraordinary cash dividend of \$50.0 million to its parent, FGI. This extraordinary dividend payment was approved by the CDI on May 27, 2021.

Surplus Notes and Contribution Certificates

A significant portion of the Companies' reported surplus as regards policyholders at the examination date was comprised of surplus notes issued to non-affiliates and to Farmers New World Life Insurance Company, a subsidiary of FGI. The notes have restrictions, which require the approval of the CDI before payment of any interest and principal. Interest can be paid out of earned (unassigned) surplus only. The following schedule depicts the specific issuances, interest rates, par values, maturity dates, and carrying values outstanding on December 31, 2021:

Farmers Insurance Exchange:

<u>Ref. #</u>	<u>Date Issued</u>	<u>Interest Rate</u>	<u>Par Value</u>	<u>Carrying Value</u>	<u>Maturity Date</u>
1)	05/11/94	8.625%	\$ 203,444,000	\$ 203,444,000	05/01/24
2)	07/10/98	7.050%	\$ 373,077,923	\$ 279,776,923	07/15/28
3)	07/10/98	7.200%	\$ 111,923,077	\$ 103,316,077	07/15/48
4)	11/05/13	6.151%	\$ 312,000,000	\$ 312,000,000	11/01/53
5)	10/07/14	5.454%	\$ 399,000,000	\$ 399,000,000	10/15/54
6)	10/10/17	4.747%	\$ 400,000,000	\$ 396,400,000	11/01/57
7)	12/20/17	3.758%	\$ 100,000,000	\$ 100,000,000	12/20/27
			<u>\$ 1,899,445,000</u>	<u>\$ 1,793,937,000</u>	

The above surplus notes are all external surplus notes, except for surplus note contribution reference #7, which was issued to Farmers New World Life Insurance Company on December 20, 2017 and which was repaid on December 20, 2022, in the amount of \$100 million plus interest of \$1.88 million. The transaction was approved by the CDI on December 15, 2022.

Fire Insurance Exchange:

<u>Ref. #</u>	<u>Date Issued</u>	<u>Interest Rate</u>	<u>Par Value</u>	<u>Carrying Value</u>	<u>Maturity Date</u>
1)	7/10/98	7.050%	\$ 53,846,154	\$ 40,380,154	7/15/28
2)	7/10/98	7.200%	\$ 16,153,846	\$ 14,911,846	7/15/48
3)	12/31/11	6.000%	\$ 80,000,000	\$ 0	12/31/21
4)	11/5/13	6.151%	\$ 1,000,000	\$ 1,000,000	11/1/53
5)	10/7/14	5.454%	\$ 1,000,000	\$ 1,000,000	10/15/54
6)	12/31/21	4.000%	\$ 80,000,000	\$ 80,000,000	12/31/31
			<u>\$ 232,000,000</u>	<u>\$ 137,292,000</u>	

The above surplus notes are all external surplus notes, except for the above reference surplus note #3 in the amount of \$80 million, which was issued to FIE on December 31, 2011 and fully repaid on December 31, 2021. A new replacement surplus note #6 in the

amount of \$80 million was issued by Fire to FIE on December 31, 2021. The interest rate on the replacement note was 4.0%. The replacement note matures December 31, 2031.

Truck Insurance Exchange:

<u>Ref. #</u>	<u>Date Issued</u>	<u>Interest Rate</u>	<u>Par Value</u>	<u>Carrying Value</u>	<u>Maturity Date</u>
1)	7/10/98	7.050%	\$ 73,076,923	\$ 54,801,923	7/15/28
2)	7/10/98	7.200%	\$ 21,923,077	\$ 20,237,077	7/15/48
3)	12/31/11	6.000%	\$ 120,000,000	\$ 0	12/31/21
4)	11/5/13	6.151%	\$ 22,000,000	\$ 22,000,000	11/1/53
5)	10/7/14	5.454%	\$ 100,000,000	\$ 100,000,000	10/15/54
6)	12/31/21	4.000%	<u>\$ 120,000,000</u>	<u>\$ 120,000,000</u>	12/31/31
			<u>\$ 457,000,000</u>	<u>\$ 317,039,000</u>	

The above surplus notes are all external surplus notes, except for the above reference surplus note #3 in the amount of \$120 million, which was issued to FIE on December 31, 2011 and fully repaid on December 31, 2021. A new replacement surplus note #6 in the amount of \$120 million was issued by Fire to FIE on December 31, 2021. The interest rate on the replacement note was 4.0%. The replacement note matures December 31, 2031.

Civic, Exact, Mid-Century, Neighborhood Spirit, and Farmers Re did not have any outstanding surplus notes or contribution certificates as of December 31, 2021.

Surplus Loan Note Facility

Farmers Insurance Exchange (FIE) obtained regulatory approval to issue \$500.0 million in pre-approved surplus notes to provide additional regulatory capital to cover catastrophic losses in the years 2012 to 2015. A Surplus Loan Note Facility (Facility) was established by a Credit Agreement among between FIE and a consortium of

financial institutions (lenders). A securities permit authorizing this Facility was approved by the CDI on April 26, 2012.

In January 2015, the CDI approved a renewal of the \$500 million Facility, which offers broader coverage than the prior Facility, including the ability to issue 5-year surplus notes at any time during a three-year period in the event of a specified major catastrophe loss at a pre-agreed price (see also the “REINSURANCE” section in this examination report).

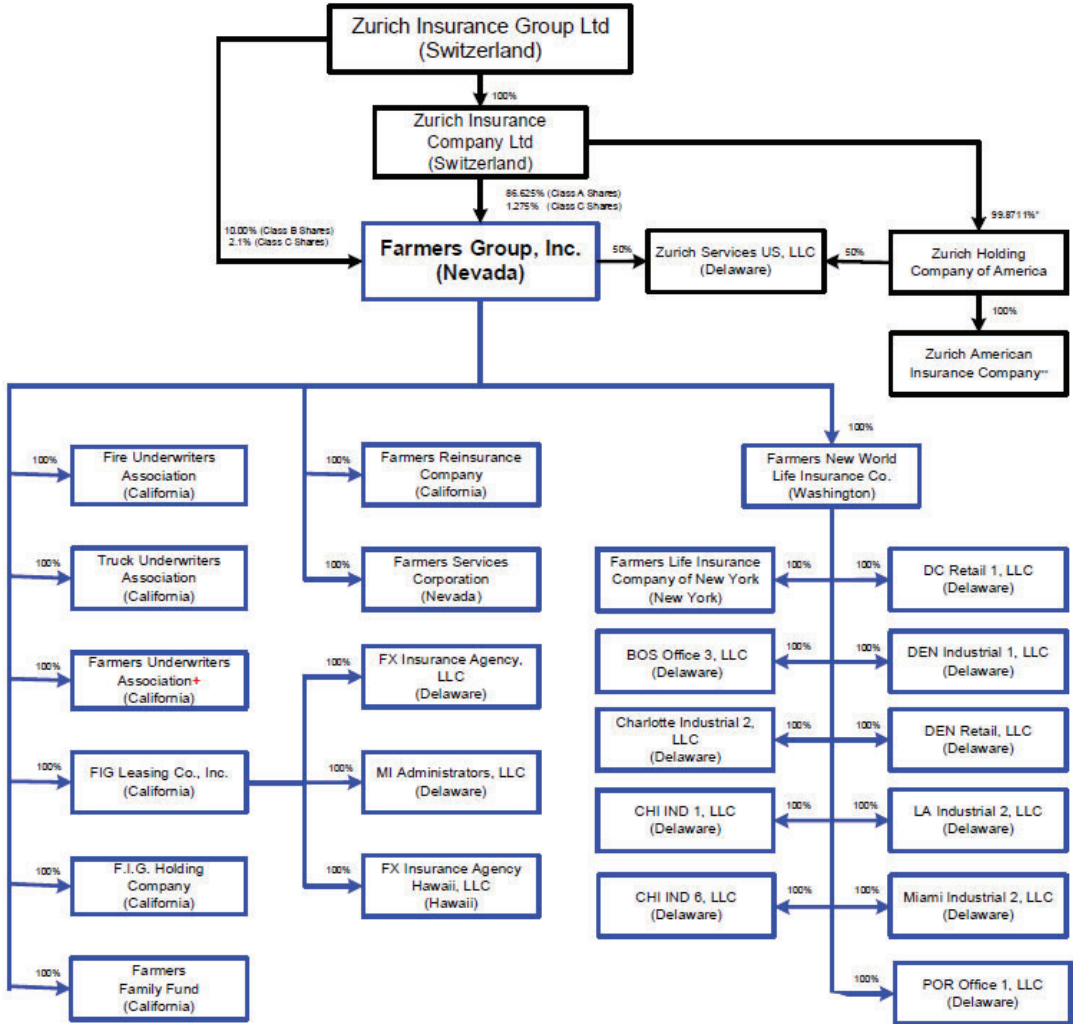
Effective June 28, 2019, FIE renewed the \$500 million Facility. FIE has not borrowed against the current or prior lines of credit on this Facility. Fees paid by FIE for the right to access this Facility were \$10.0 million and \$3.3 million on December 31, 2019 and 2020, respectively. The fees paid through June 28, 2021 were \$1.6 million. The agreement expired on June 28, 2021 and was not renewed.

MANAGEMENT AND CONTROL

Farmers Insurance Exchange (FIE), Fire Insurance Exchange (Fire), and Truck Insurance Exchange (Truck), (collectively known as “The Exchanges”), are reciprocal insurers organized under California Insurance Code (CIC) Section § 1300 et. Seq. Pursuant to a subscription agreement grandfathered from the prior approval requirement pursuant to CIC Section § 1215.5(b)(4), certain non-claims administrative services are provided by their respective Attorneys-In-Fact, Farmers Group, Inc. (FGI), dba Farmers Underwriters Association for FIE, Fire Underwriters Association (FUA) for Fire, and Truck Underwriters Association (TUA) for Truck. FUA and TUA are wholly-owned subsidiaries of FGI, which is a wholly-owned U.S. subsidiary of Zurich Insurance Group Ltd. (Zurich), a Swiss holding company. FGI is also the parent corporation of Farmers Reinsurance Company (Farmers Re), which is not part of the Farmers Insurance Group’s holding company structure, but is under the Zurich holding company structure.

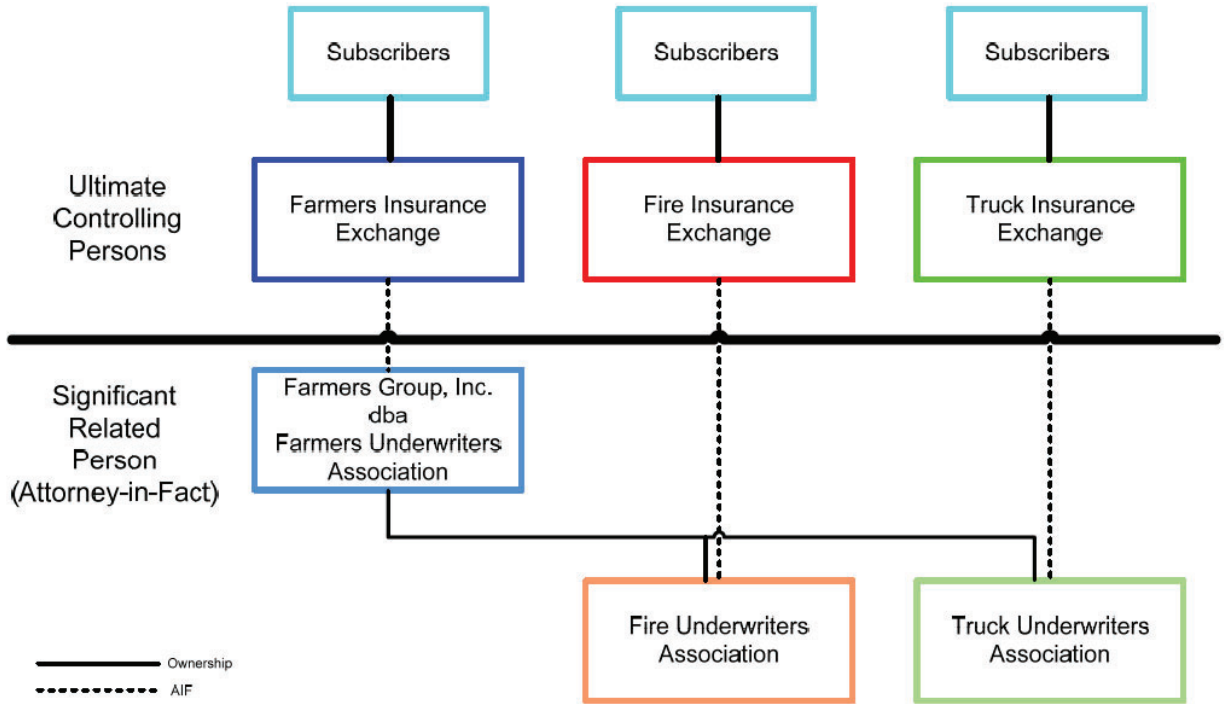
The following abridged organizational charts show the relationships of FGI to its ultimate parent, Zurich, and of the Exchanges to their subsidiaries and affiliates as of December 31, 2021:

ZURICH GROUP (NAIC GROUP CODE 0212)



* Dormant Company
 * Crown Management Services Limited owns 0.1289% of shares
 ** Listing of Zurich's numerous North American Insurance subsidiaries is available upon request

ULTIMATE CONTROLLING PERSON TO SIGNIFICANT RELATED PERSON



**FARMERS EXCHANGES ORGANIZATION
(NAIC GROUP CODE 0069)**

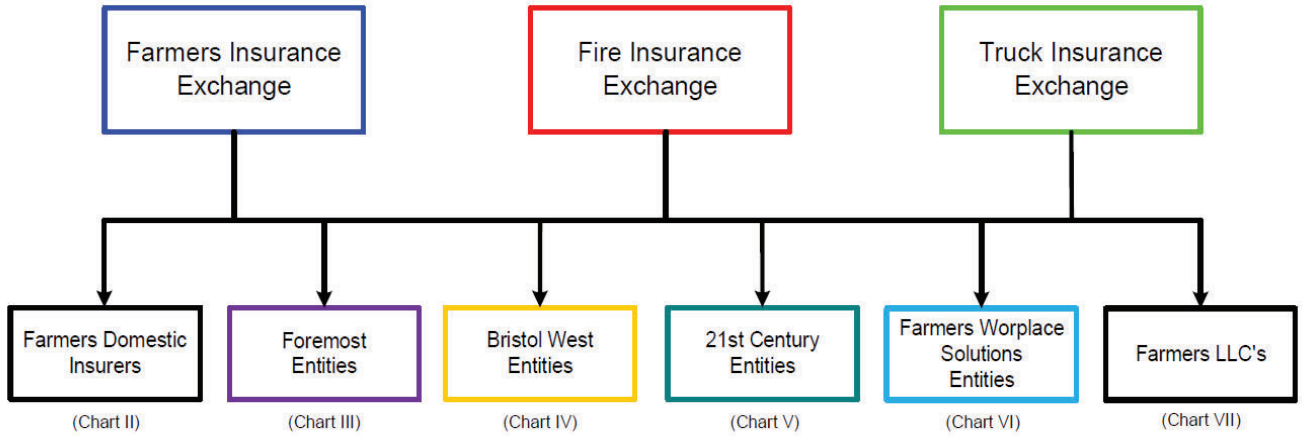
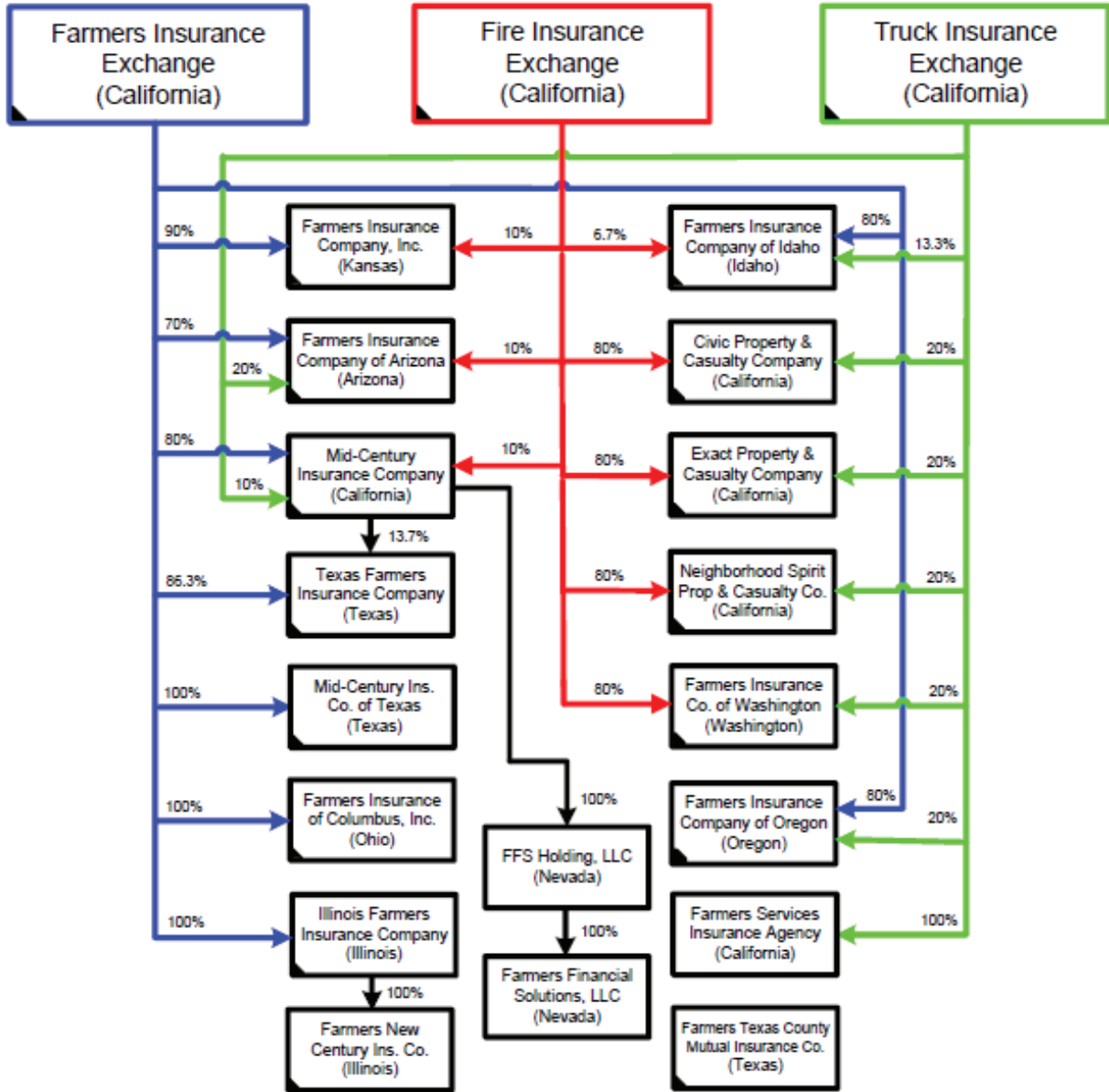


CHART II: EXCHANGES / FARMERS DOMESTIC INSURERS



▲ - U.S. Insurance Company

CHART III: EXCHANGES / FOREMOST GROUP

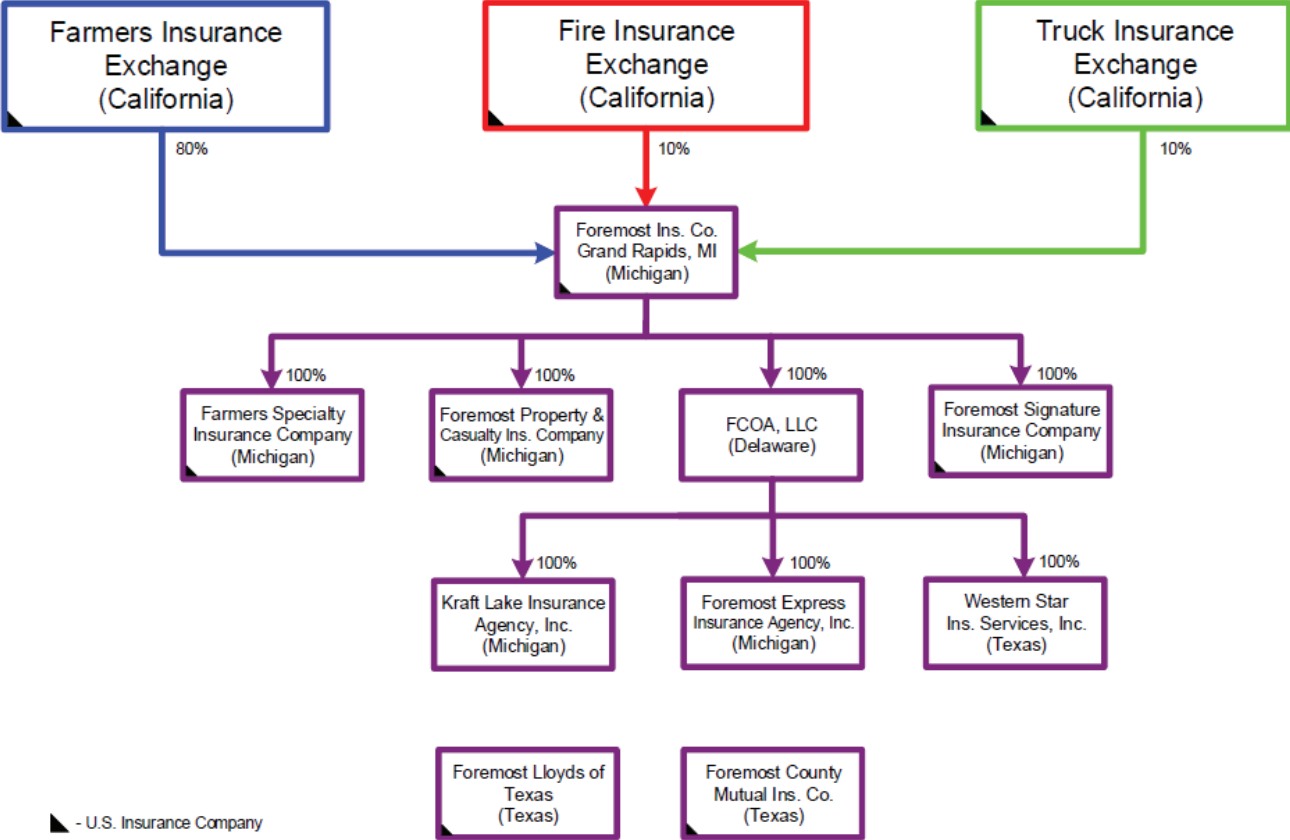
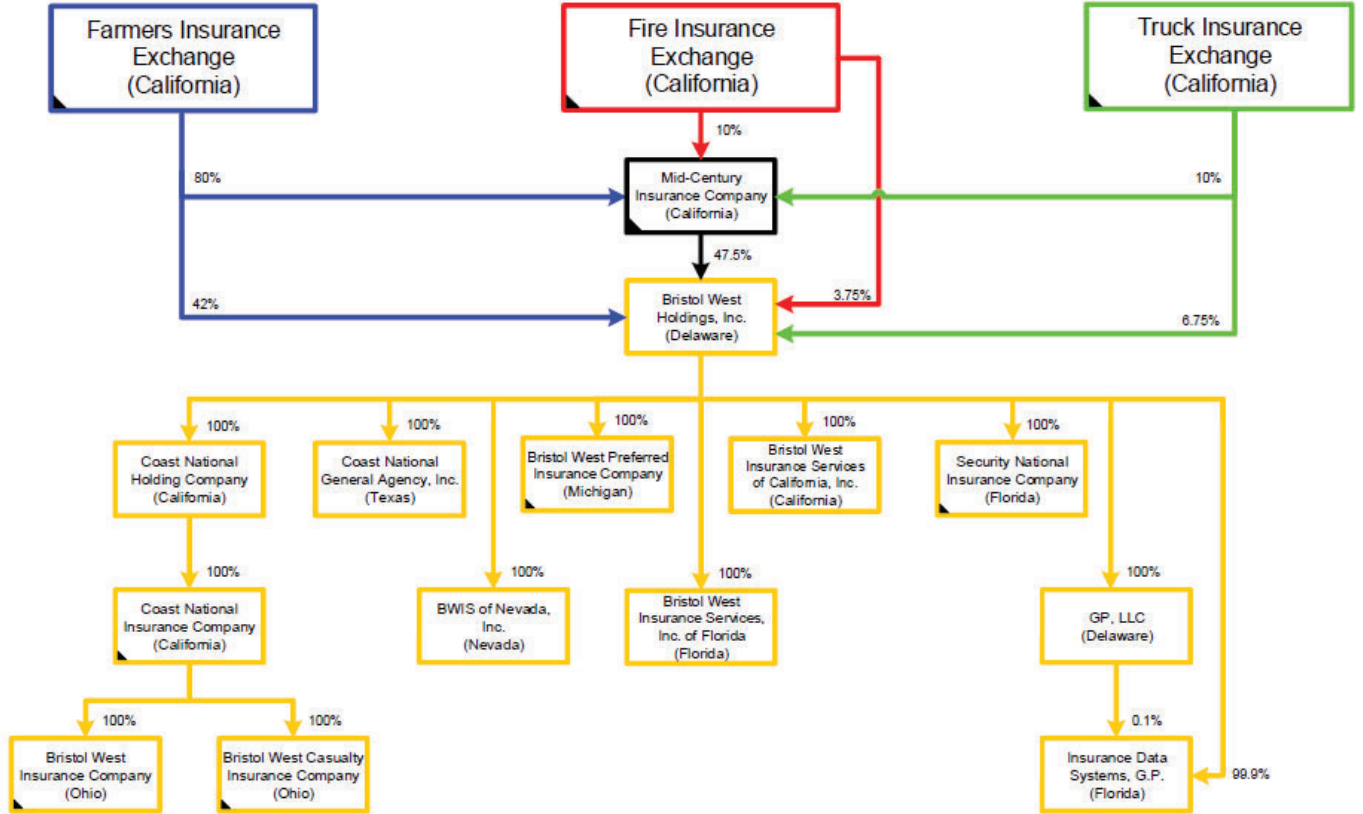


CHART IV: EXCHANGES / BRISTOL WEST GROUP



▲ - U.S. Insurance Company

CHART V: EXCHANGES / 21st CENTURY / TOGGLE GROUP

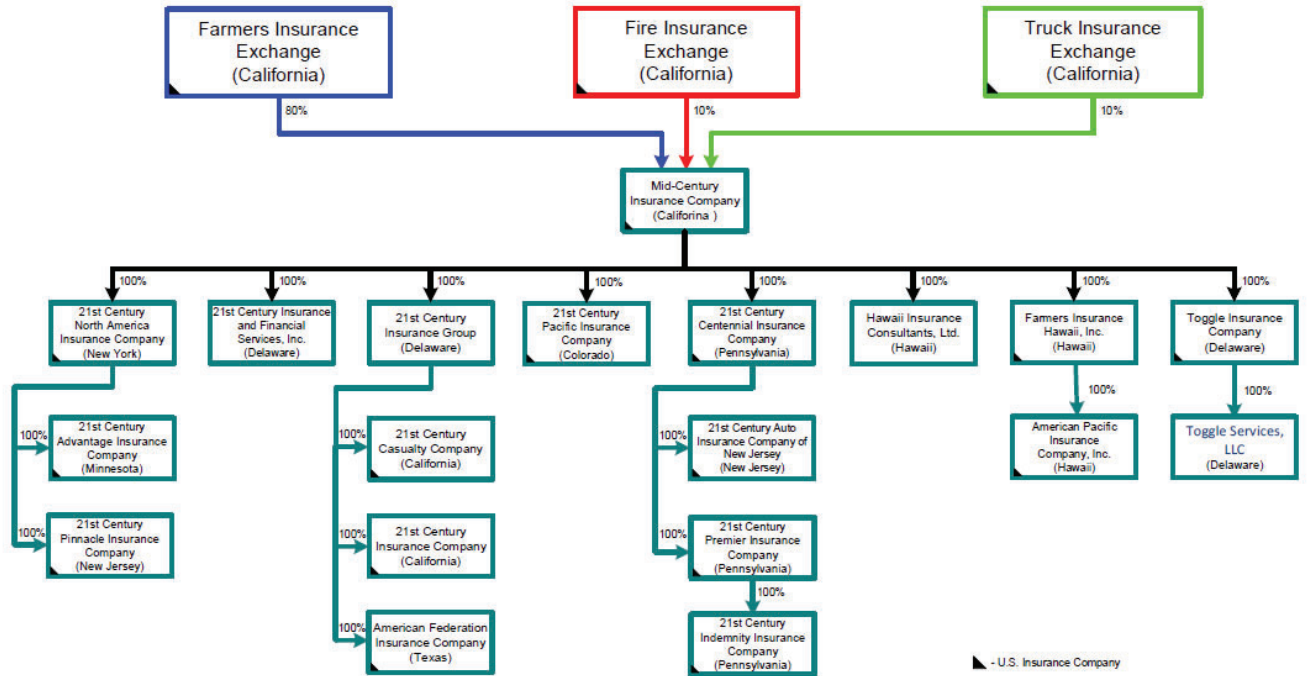
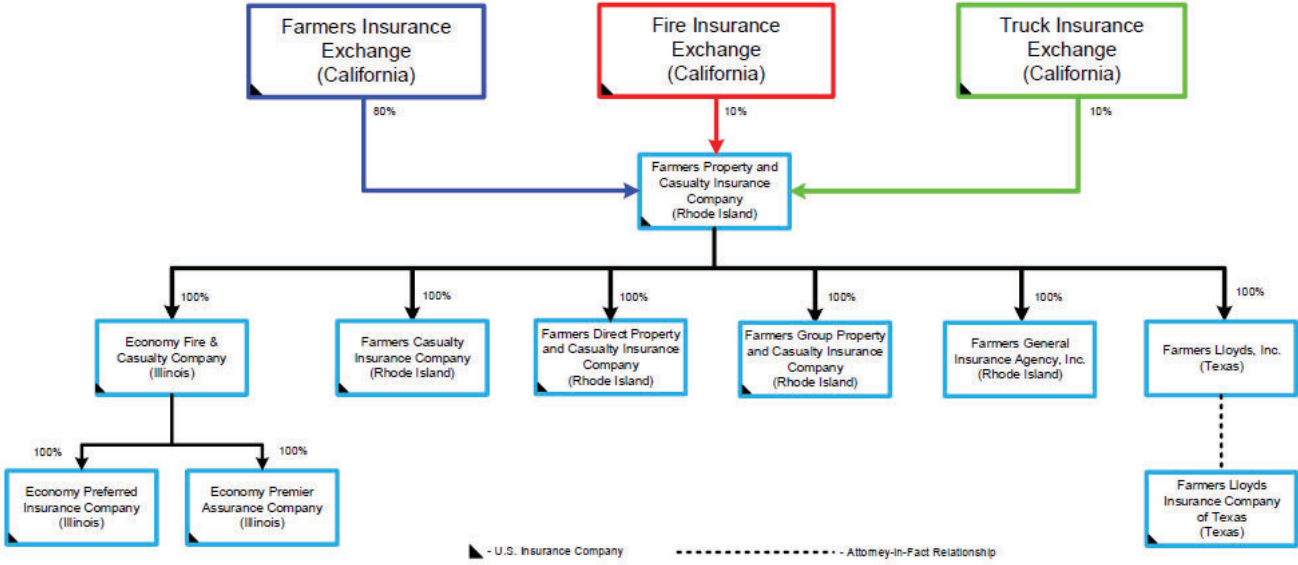


CHART VI: EXCHANGES / FARMERS WORKPLACE SOLUTIONS GROUP



Management of the Farmers Insurance Exchange (FIE) is vested in a board of governors elected annually, composed of not less than five nor more than twelve members. A listing of the members of the board and principal officers serving on December 31, 2021 follows:

Board of Governors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Thomas G. Allen Denver, Colorado	President Electrical Contracting Services Compar
Thomas D. Brown (a) Urbandale, Iowa	Chief Executive Officer Truck Leasing Corporation
Joe D. Bryant Moore, Oklahoma	Owner Military Medal Manufacturing
Julio A. Da Silva Littleton, Colorado	Chief Information Officer Building Materials Company
Alan R. Gildemeister Batavia, Illinois	President Metal Fabricating Equipment Business
Scott W. Hood Leawood, Kansas	Strategy, Risk, And Assurance Partner Software and Consulting Firm
Fredrick H. Kruse (a) Fort Myers, Florida	Retired
Ronald L. Marrone (b) Fort Myers, Florida	Co-owner Wholesale Food Service Distributor
Gary R. Martin Monument, Colorado	President Commercial Real Estate Management
Ronald G. Myhan Austin, Texas	Retired

(a) Mr. Brown and Mr. Kruse vacated their positions effective, December 31, 2022 with no replacement elected.

(b) Mr. Marrone vacated his position, effective March 20, 2023. He was replaced by Al B. Reid, effective March 20, 2023.

Principal Officers

<u>Name</u>	<u>Title</u>
Jeffrey J. Dailey (a)	President and Chief Executive Officer
Robert P. Howard (c)	Chief Claims Officer
Thomas S. Noh	Chief Financial Officer and Treasurer
James L. Nutting	Chief Actuary
Doren E. Hohl (d)	Secretary and Chief Governance Officer
Frank Anthony Carni (b)	Claims Executive (Head of Claims Shared Services)
Timothy E. Felks (b)	Claims Executive (Head of Property Claims)

- (a) Mr. Dailey vacated his position as President and CEO, effective December 31, 2022. He was replaced by Raul N. Vargas, effective January 1, 2023.
- (b) Mr. Carni and Mr. Felks vacated their positions, effective March 31, 2022. They were replaced by Timothy J. Murray and Craig A. Orraj, effective March 31, 2022.
- (c) Mr. Howard vacated his position as Chief Claims Officer, effective July 12, 2023. He was replaced by Seung Yong Yoo, effective July 12, 2023.
- (d) Mr. Hohl vacated his position as Secretary, effective July 1, 2023. He was replaced by Chau Thi Do as Secretary, effective July 1, 2023.

Management of the Fire Insurance Exchange (Fire) is vested in a board of governors elected annually, composed of not less than five nor more than twelve members. A listing of the members of the board and principal officers serving on December 31, 2021 follows:

Board of Governors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Kenneth W. Bentley Los Angeles, California	Retired
Marla B. Bleavins Los Angeles, California	Deputy Executive Director and Chief Financial Officer Port of Los Angeles
Alan R. Gildemeister Batavia, Illinois	President Metal Fabricating Equipment Business
Guy M. Hanson Missoula, Montana	Owner Retail Business
Gail N. Jackson Playa del Rey, California	Physician
Donald Jue San Marino, California	Retired
Dennis J. Lorch Advance, Missouri	Retired
Donald E. Rodriguez Long Beach, California	Chief Executive Officer Community Non-Profit Organization

Principal Officers

<u>Name</u>	<u>Title</u>
Keith G. Daly (a)	President
Robert P. Howard (c)	Chief Claims Officer
Thomas S. Noh	Chief Financial Officer and Treasurer
James L. Nutting	Chief Actuary
Doren E. Hohl (d)	Secretary
Frank Anthony Carni (b)	Claims Executive (Head of Claims Shared Services)
Timothy E. Felks (b)	Claims Executive (Head of Property Claims)

- (a) Mr. Dailey vacated his position as President and CEO, effective December 31, 2022. He was replaced by Raul N. Vargas, effective January 1, 2023.
- (b) Mr. Carni and Mr. Felks vacated their positions, effective March 31, 2022. They were replaced by Timothy J. Murray and Craig A. Orraj, effective March 31, 2022.
- (c) Mr. Howard vacated his position as Chief Claims Officer, effective July 12, 2023. He was replaced by Seung Yong Yoo, effective July 12, 2023.
- (d) Mr. Hohl vacated his position as Secretary, effective July 1, 2023. He was replaced by Chau Thi Do as Secretary, effective July 1, 2023.

Management of the Truck Insurance Exchange (Truck) is vested in a board of governors elected annually, composed of not less than five nor more than fifteen members. A listing of the members of the board and principal officers serving on December 31, 2021 follows:

Board of Governors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Gisselle M. Acevedo New Canaan, Connecticut	Therapist
Kenneth W. Bentley Los Angeles, California	Retired
Joe D. Bryant Moore, Oklahoma	Owner Military Medal Manufacturing
Guy M. Hanson Missoula, Montana	Owner Retail Business
Gail N. Jackson Playa del Rey, California	Physician
Sherman L. Lewis, III Pearland, Texas	Chief Executive Officer Businesses with Franchise Operations
Dennis J. Lorch Advance, Missouri	Retired
Ronald L. Marrone Pittsburg, Kansas	Co-owner Wholesale Food Distributor Company
Donald E. Rodriguez Long Beach, California	Chief Executive Officer Community Non-Profit Organization
Janice G. Scott Stockton, California	Dentist

Principal Officers

<u>Name</u>	<u>Title</u>
Keith G. Daly (a)	President
Robert P. Howard (c)	Chief Claims Officer
Thomas S. Noh	Chief Financial Officer and Treasurer
James L. Nutting	Chief Actuary
Doren E. Hohl (d)	Secretary
Frank Anthony Carni (b)	Claims Executive (Head of Claims Shared Services)
Timothy E. Felks (b)	Claims Executive (Head of Property Claims)

- (a) Mr. Daly vacated his position as President, effective March 22, 2022. He was replaced by Stephen J. McAnena, effective March 22, 2022. Mr. McAnena vacated his position as President, effective April 28, 2023. The position is currently vacant.
- (b) Mr. Carni and Mr. Felks vacated their positions, effective March 31, 2022. They were replaced by Timothy J. Murray and Craig A. Orraj, effective March 31, 2022.
- (c) Mr. Howard vacated his position as Chief Claims Officer, effective July 12, 2023. He was replaced by Seung Yong Yoo, effective July 12, 2023.
- (d) Mr. Hohl vacated his position as Secretary, effective July 1, 2023. He was replaced by Chau Thi Do as Secretary, effective July 1, 2023.

Principal Officers of the Attorney-In-Fact

<u>Name</u>	<u>Title</u>
Jeffrey J. Dailey (a)	President and Chief Executive Officer
James L. Nutting	Chief Actuary

- (a) Mr. Dailey vacated his position, effective December 31, 2022. He was replaced by Raul N. Vargas, effective January 1, 2023.

Management of Civic Property and Casualty Company (Civic), Exact Property and Casualty Company (Exact), and Neighborhood Spirit Property and Casualty Company (Neighborhood Spirit) are vested in a shared board of directors elected annually, composed of not less than five nor more than nine members. The board of directors of Mid-Century Insurance Company (Mid-Century) is composed of not less than five nor more than seven members. A listing of the members of the board and principal officers serving on December 31, 2021 follows:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Julio A. Da Silva (a) Littleton, Colorado	Chief Information Officer Building Materials Company
Keith G. Daly (a) Westlake Village, California	Farmers Group, Inc. President of Personal Lines
Alan R. Gildemeister Batavia, Illinois	President Metal Fabricating Equipment Business
Ronald L. Marrone Pittsburg, Kansas	Co-owner Wholesale Food Distributor Company
Gary R. Martin (a) Monument, Colorado	President Commercial Real Estate Management

(a) Mr. Da Silva, Mr. Daly, and Mr. Martin vacated their positions, effective March 22, 2022. They were replaced by Thomas G. Allen, Stephen J. McAnena, and Janice G. Scott, effective March 22, 2022. Mr. McAnena vacated his position, effective April 28, 2023. The position is currently vacant.

Principal Officers

<u>Name</u>	<u>Title</u>
Keith G. Daly (a)	President
Robert P. Howard (b)	Vice President
Thomas S. Noh	Vice President and Treasurer
James L. Nutting	Vice President and Actuary
Doren E. Hohl (c)	Secretary

- (a) Mr. Daly vacated his position as President, effective March 22, 2022. He was replaced by Stephen J. McAnena, effective March 22, 2022. Mr. McAnena vacated his position as President, effective April 28, 2023. The position is currently vacant.
- (b) Mr. Howard vacated his position as Chief Claims Officer, effective July 12, 2023. He was replaced by Seung Yong Yoo, effective July 12, 2023.
- (c) Mr. Hohl vacated his position as Secretary, effective July 1, 2023. He was replaced by Chau Thi Do as Secretary, effective July 1, 2023.

Management of Farmers Reinsurance Company (Farmers Re) is vested in a board of directors elected annually, composed of not less than three members. A listing of the members of the board and principal officers serving on December 31, 2021 follows:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Giles Harrison Kauai, Hawaii	Chief Financial Officer Farmers Group, Inc.
Kassie M. Keane (a) Los Angeles, California	Head of Planning and Performance Management Exp, A&F Ops Farmers Group, Inc.
Linda M. Sanazaro (b) Montebello, California	Head of FGI Financial Reporting, Internal Control over Financial Reporting, and Corporate Services Farmers Group, Inc.
Annie Wang San Marino, California	Head of Corporate Accounting Farmers Group, Inc.

(a) Ms. Keane vacated her position, effective March 24, 2022. She was replaced by Maite Irakoze Baur, effective April 5, 2022.

(b) Ms. Sanazaro vacated her position, effective April 3, 2023. She was replaced by Brian J. Savage, effective April 3, 2023.

Principal Officers

<u>Name</u>	<u>Title</u>
Giles E. Harrison	Chairman and President
Linda M. Sanazaro (a)	Chief Financial Officer
James L. Nutting	Vice President and Actuary
Maite Irakoze Baur	Vice President
Victoria Louise McCarthy	Vice President
Michael J. Langford	Treasurer
Steven H. Weinstein (b)	Secretary

- (a) Ms. Sanazaro vacated her position, effective April 3, 2023. She was replaced by Brian J. Savage, effective April 3, 2023.
- (b) Mr. Weinstein vacated his position, effective May 1, 2023. He was replaced by Asya Alexandrovich, effective May 1, 2023.

Committees

As of December 31, 2021, the following committees were appointed by the Board of Governors, except for Farmers Re, and served in accordance with the bylaws of the Companies:

Executive Committee

Alan R. Gildemeister, Chair
Gary R. Martin
Kenneth W. Bentley
Donald E. Rodriguez
Sherman L. Lewis, III
Ronald L. Marrone

Audit Committee

Scott W. Hood, Chair
Thomas G. Allen
Marla B. Bleavins
Donald Jue
Janice G. Scott

Investment Committee

Maite Irakoze Baur, Chair
Jeffrey J. Dailey
Keith G. Daly
Giles Harrison
Stephen J. McAnena
Thomas S. Noh

Claims Committee

Giselle M. Acevedo, Chair
Kenneth W. Bentley
Frederick H. Kruse
Donald E. Rodriguez

Management Agreement

Attorney-In-Fact Arrangement: FGI, as the Attorney-In-Fact of FIE, as the parent of Fire Underwriters Association and Truck Underwriters Association, the Attorneys-in-Fact of Fire and Truck, respectively, and as the parent of Farmers Re, provides non-claims administrative services, including staffing and occupancy, directly or indirectly, to the Companies. The operating services do not include claims adjustment services, nor do they include the payment of claims, commissions, and the payment of premium and income taxes, all of which are the responsibility of the Companies. These operating services are provided directly or indirectly to the Companies by FGI pursuant to Subscription Agreements signed by the individual policyholders of FIE, Fire and Truck. Service Agreements between FIE and each of Mid-Century, Exact, Civic, Neighborhood, and a Service Agreement between FGI and Farmers Re. Except for the Service Agreement between FGI and Farmers Re, there is no specific management services agreement required between the Companies and FGI for these services provided.

The compensation to the Attorneys-in-Fact for these services is derived through membership fees and subscription fees under the terms of the Subscription Agreements. In accordance with the agreements, compensation to the Attorneys-in-Fact is to be calculated based on a percentage of the insurance premium deposited by the policyholder. For FIE and Truck, the agreements specify that up to 20% of the insurance premiums deposited can be charged for the issued policies. For Fire, the agreement specifies that up to 25% of the insurance premiums deposited can be charged to the issued policies. Although the agreements specify up to 20%, or in the case of Fire up to 25%, of premiums deposited, a review of the actual calculation disclosed that (1) all direct and reinsurance premiums earned by FIE, Fire, and Truck are used and (2) the rate used to calculate the compensation has been historically less than 20%, or in the case of Fire, less than 25%.

FIE charges a portion of the compensation it pays FGI to its subsidiaries based on each company's percentage participation in the Intercompany Reinsurance and Pooling Agreement.

For 2018, 2019, 2020, and 2021, the pooled share of the compensation paid by the Exchanges and their subsidiaries to FGI for its services was as follows (including membership, installment, and policy fees):

<u>Company</u>	<u>Compensation Paid to Farmers Group, Inc. (for Exchanges Issued Policies)</u>			
	<u>in 000's</u>			
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Farmers Insurance Exchange	\$ 1,649,848	\$ 1,420,031	\$ 1,457,812	\$ 1,447,731
Fire Insurance Exchange	239,108	205,802	211,277	209,816
Truck Insurance Exchange	247,079	212,662	218,320	216,810
Mid-Century Insurance Company	510,098	439,043	450,725	447,608
Civic Property and Casualty Company	31,881	27,440	28,170	27,975
Exact Property and Casualty Company	31,881	27,440	28,170	27,975
Neighborhood Spirit Property and Casualty Company	31,881	27,440	28,170	27,975
Subtotals	\$ 2,741,777	\$ 2,359,858	\$ 2,422,644	\$ 2,405,891
All Other Subsidiaries	446,336	384,163	394,384	391,657
Totals - Compensation Paid	\$ 3,188,113	\$ 2,744,021	\$ 2,817,028	\$ 2,797,547
Totals - Membership, Installment, and Policy Fees Paid	\$ 40,663.92	\$ 97,963.06	\$ 92,835.80	\$ 100,457.29

As previously noted, the above amounts paid to FGI by the FIE and its subsidiaries do not include the cost of claims adjustment services, nor do they include the payment of claims, commissions, and the payment of premium and income taxes, all of which are the responsibility of the Exchanges and their subsidiaries.

Tax Sharing Agreement

Effective September 1, 2013, FIE entered into a Tax Sharing Agreement with its various insurance and non-insurance subsidiaries, including Mid-Century Insurance Company (Mid-Century). FIE is the party primarily responsible for filing and making all tax payments on behalf of the parties to this agreement. Allocation of taxes is based upon separate return calculations, with intercompany tax balances payable or receivable being settled in amounts equal to the amounts which would be due to or from federal taxing authorities as if separate returns were filed. Intercompany balances are settled monthly, and the final settlement is made within 30 days after the filing date of the consolidated return. The

agreement was approved by the CDI on February 18, 2014 pursuant to California Insurance Code (CIC) Section 1215.5(b)(4), as well as by the insurance departments of the domiciliary states of the affiliated parties outside of California. The agreement was amended as of January 1, 2022 to remove certain parties that were sold and include the FWS subsidiaries.

Effective January 1, 2015, Fire Insurance Exchange (Fire), entered into a Tax Sharing Agreement with its subsidiaries, including Civic Property and Casualty Company (Civic), Exact Property and Casualty Company (Exact), and Neighborhood Spirit Property and Casualty Company (Neighborhood Spirit). There were no amendments during the examination period.

Effective January 1, 2015, Truck Insurance Exchange (Truck) entered into a Tax Sharing Agreement with its subsidiary. There were no amendments during the examination period,

For 2018, 2019, 2020, and 2021, the federal income taxes paid or (recovered) by FIE, Fire, Truck, and California-domiciled subsidiaries were as follows:

<u>Federal Income Taxes Paid or (Recovered) under Tax Sharing Agreement</u>				
<u>Company</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Farmers Insurance Exchange	\$ 8,948,050	\$ (45,221,660)	\$ (85,101,230)	\$ (20,436,257)
Fire Insurance Exchange	102,396	(3,057,328)	(5,831,103)	(1,680,555)
Truck Insurance Exchange				
Mid-Century Insurance Company	7,302,434	16,069,101	26,110,307	(3,565,371)
Civic Property and Casualty Company	(232,749)	527,158	1,070,840	496,280
Exact Property and Casualty Company	(127,599)	464,077	1,012,971	432,816
Neighborhood Spirit Property and Casualty Company	(79,530)	487,313	1,108,259	496,361
	<u>\$ 15,913,002</u>	<u>\$ (30,731,339)</u>	<u>\$ (61,629,956)</u>	<u>\$ (24,256,726)</u>

Service Agreements

On April 8, 2021, FIE and Farmers Property and Casualty Company (Farmers P&C) along with its affiliates, Farmers Casualty Insurance Company (Farmers Casualty) Farmers Direct Property and Casualty Insurance Company (Farmers Direct), Farmers Group Property and Casualty Insurance Company, Farmers Lloyds Insurance Company of

Texas (Farmers Lloyds), Economy Fire and Casualty Company (Economy Fire), Economy Preferred Insurance Company (Economy Preferred), and Economy Premier Insurance Company (Economy Preferred) (collectively known as Farmers Workspace Solutions or “FWS”) entered into a Service Agreement pursuant to which FIE provides various services, including claims adjustment services, accounting and financial reporting services, investment management services, preparation of insurance policies, billing and collections, and other administrative services to FWS. The CDI provided its non-objection letter on March 30, 2021. The agreement was also approved by the Illinois Department of Insurance on April 8, 2021, the Rhode Island Division of Insurance on April 9, 2021, and the Texas Department of Insurance on April 9, 2021.

Effective November 1, 2020, FIE entered into a Professional Services Agreement with Zurich American Insurance Company (ZAIC) pursuant to which FIE provides auto damage estimate review services to ZAIC through the Guaranteed Program Repair Shops. This is a 3-year agreement with a 1-year renewal provision.

Effective October 24, 2019, FIE entered into a Service Agreement with its affiliate, American Federation Insurance Company (AFIC) pursuant to which FIE provides various services, including preparation of insurance policies, calculation of premiums, calculation and payment of commissions to agents, accounting services, claims adjustment services, and other administrative services to AFIC.

On August 1, 2018, FIE and Farmers New World Life Insurance Company entered into a Service Agreement pursuant to which FIE provides various services, including advertising and marketing services related to the “Farmers” brand, training, support and promotion of Farmers agents, billing, and calculating and paying commissions, subsidies, and contract values for Farmers agents. The agreement renewed and replaced the previous Service Agreement dated December 21, 2015.

On January 7, 2018, Truck and Foremost Insurance Company Grand Rapids, Michigan (Foremost) entered into a Service Agreement pursuant to which Truck provides various

services, including preparation of commercial insurance policies, calculation and collection of premiums, calculation and payment of commissions to agents, accounting services, claims adjustment services, and other administrative services to Foremost. In addition, the agreement also provides for Truck to perform the above services on behalf of Foremost to Foremost's subsidiaries in order for Foremost to comply with obligations under the agreements with its subsidiaries. The CDI provided a non-objection letter on November 8, 2017. The agreement supersedes the January 7, 2013 Service Agreement.

The Companies are also party to a number of service and operating agreements with affiliates entered into prior to the examination period, effective July 1, 2015. These intercompany agreements can be classified as one of the following types: administrative; accounting; legal service; expense allocation; investment advisory; employee leasing; and claim adjusting services. The terms and conditions of these agreements were reviewed and determined to be in compliance with all regulatory requirements and approved by the CDI prior to or during the examination period. Effective January 1, 2021, parties to these agreements agreed to extend the agreements to 2024 with no term revisions and/or amendments. These service agreements were originally approved by the CDI on December 9, 2015.

Agency Agreements

Effective October 6, 2021, Farmers General Insurance Agency, Inc (Agency) entered into an Agency Agreement with FIE and various affiliates within the Farmers Insurance Group. The agreement appoints the Agency to sell, solicit, and service insurance for the classes and lines of business underwritten by the parties. The CDI provided a non-objection letter on September 23, 2021.

Effective January 1, 2019, FX Insurance Agency, LLC (Agency) entered into an Agency Agreement with FIE, Fire, Truck, Mid-Century, Civic, Exact, Neighborhood Spirit, Coast National Insurance Company (Coast National), 21st Century Casualty Company (21st Century Casualty), 21st Century Insurance Company (21st Century Insurance), Farmers

Specialty Insurance Company (Farmers Specialty), 21st Century Premier Insurance Company, AFIC, as well as other insurers within the Farmers Insurance Group (Group). Effective December 9, 2021, the agreement was amended to include additional parties, which included Farmers Direct. The agreement appoints the Agency to sell, solicit, and service insurance for the classes and lines of business underwritten by the parties. The CDI provided a non-objection letter on November 18, 2021.

Related Party Transactions

Revolving Credit Facility Framework Agreement: Effective January 25, 2017, FIE, Fire, Truck, Mid-Century, Civic, Exact, Neighborhood Spirit, Coast National, 21st Century Casualty, 21st Century Insurance, and Farmers Specialty became signatories to a Revolving Credit Facility Framework Agreement for the purposes of eliminating the need to maintain large cash balances, or unnecessarily liquidating investments during the monthly reinsurance cash settlement process among participating affiliates.

The revolving credit framework allows participating affiliates to make short-term loans to each other to cover debt arising from the monthly reinsurance settlement process. The loans, executed on an as-needed basis, mature in ninety (90) days, and cannot exceed in the cumulative aggregate three percent (3%) of a borrower's or lenders admitted assets. Loans may be collateralized with a pledge of securities at lender's option, and in any event, must be collateralized if the loan crosses from one calendar year into the next calendar year, such that the loan is secured and perfected as of December 31 of the year the loan was made.

Parties to the agreement will renegotiate the terms of the agreement at least once every three (3) years. The agreement was approved by the CDI on January 18, 2017, pursuant to California Insurance Code (CIC) Section 1215.5(b)(1)(A), as well as by the regulators of the domiciliary states of the FIE's affiliates outside of California. The parties to the agreement are:

21st Century Advantage Insurance Company
21st Century Casualty Company
21st Century Indemnity Insurance Company
21st Century Pacific Insurance Company
American Pacific Insurance Company
Bristol West Casualty Insurance Company
Bristol West Preferred Insurance Company
Coast National Insurance Company
Farmers Insurance Company, Inc.
Farmers Insurance of Columbus, Inc.
Farmers Insurance Company of Oregon
Farmers Insurance Exchange
Farmers New Century Insurance Company
Farmers Texas County Mutual Insurance Company
Foremost Insurance Company Grand Rapids, Michigan
Foremost Property & Casualty Insurance Company
Fire Insurance Exchange
Mid-Century Insurance Company
Neighborhood Spirit Property and Casualty Company
Texas Farmers Insurance Company
Toggle Insurance Company

21st Century Centennial Insurance Company
21st Century Insurance Company
21st Century North America Insurance Company
21st Century Pinnacle Insurance Company
21st Century Premier Insurance Company
Bristol West Insurance Company
Civic Property and Casualty Company
Exact Property and Casualty Company
Farmers Insurance Company of Arizona
Farmers Insurance Company of Idaho
Farmers Insurance Company of Washington
Farmers Insurance Hawaii, Inc.
Farmers Specialty Insurance Company
Foremost County Mutual Insurance Company
Foremost Lloyds of Texas
Foremost Signature Insurance Company
Illinois Farmers Insurance Company
Mid-Century Insurance Company of Texas
Security National Insurance Company
Truck Insurance Exchange

In 2021, there were four intercompany loans executed among the various affiliates for the total of \$256 million. All were repaid with interest and there was no outstanding balance by the year-end 2021.

Effective January 1, 2022, 21st Century Indemnity Insurance Company, and 21st Century Pacific Insurance Company ceased to be parties to the Framework Agreement as they were sold. Effective April 1, 2023, 21st Century Advantage Insurance Company ceased to be a party to the Framework Agreement as it was sold.

On March 10, 2022, in accordance with CIC Section 1215.5(b), the Companies (excluding Farmers Re) filed a Form D application with the CDI seeking approval of the Amended and Restated Revolving Credit Facility Framework Agreement. Under the terms of the amended agreement, the loans, executed on an as-needed basis, mature in ninety (90) days, and cannot exceed in the cumulative aggregate the lesser of three percent (3%) of a borrower's or lenders admitted assets or twenty-five percent (25%) of a borrower's or lenders policyholder surplus. The CDI approved the agreement on March 20, 2023 pursuant to CIC Section 1215.5(b).

TERRITORY AND PLAN OF OPERATION

Farmers Insurance Exchange (FIE) is licensed to transact insurance business in the District of Columbia and the following 48 states:

Alabama	Iowa	Nebraska	Rhode Island
Arizona	Kansas	Nevada	South Carolina
Arkansas	Kentucky	New Hampshire	South Dakota
California	Louisiana	New Jersey	Tennessee
Colorado	Maine	New Mexico	Texas
Connecticut	Maryland	New York	Utah
Delaware	Massachusetts	North Carolina	Vermont
Florida	Michigan	North Dakota	Virginia
Georgia	Minnesota	Ohio	Washington
Idaho	Mississippi	Oklahoma	West Virginia
Illinois	Missouri	Oregon	Wisconsin
Indiana	Montana	Pennsylvania	Wyoming

In 2021, FIE wrote \$5.7 billion of direct premiums. Of the direct premiums written, \$2.8 billion (48.6%) was written in California, \$445 million (7.8%) was written in Colorado, \$260 million (4.6%) was written in Georgia, \$255 million (4.5%) was written in Nevada, and \$2.0 billion (34.6%) was written in the remaining states. On July 10, 2023, FIE and Truck Insurance Exchange (Truck) notified The Florida Office of Insurance Regulation they would discontinue Farmers-Branded policies and would non-renew existing policies. Effective July 2, 2023, FIE, Fire Insurance Exchange (Fire), and Mid-Century Insurance Company (Mid-Century) changed new business eligibility guidelines to issue a maximum of 7,000 Home policies per month in California.

Fire is licensed to transact insurance business in the following 36 states:

Alabama	Illinois	Nebraska	Pennsylvania
Arizona	Indiana	Nevada	South Dakota
Arkansas	Iowa	New Hampshire	Tennessee
California	Kansas	New Jersey	Texas
Colorado	Maryland	New Mexico	Utah
Connecticut	Michigan	North Dakota	Virginia

Florida
Georgia
Idaho

Minnesota
Missouri
Montana

Ohio
Oklahoma
Oregon

Washington
Wisconsin
Wyoming

In 2021, Fire wrote \$1.6 billion of direct premiums. Of the direct premiums written, \$1.1 billion (71.7%) was written in California, \$91.9 million (5.9%) was written in Texas, \$64.0 million (4.1%) was written in Minnesota, \$60.0 million (3.8%) was written in Washington, \$55.7 million (3.6%) was written in Colorado, and \$172 million (11.0%) was written in the remaining states.

Truck is licensed to transact insurance business in the District of Columbia and all 50 states. In 2021, Truck wrote \$1.3 billion of direct premiums. Of the direct premiums written, \$414.8 million (30.1%) was written in California, \$150.8 million (11.2%) was written in Washington, \$83.6 million (6.2%) was written in Florida, \$78.3 million (5.8%) was written in Minnesota, and \$621.2 million (46.1%) was written in the remaining states.

Civic Property and Casualty Company (Civic) is licensed to transact insurance business in the states of California, Georgia, Michigan, Missouri, Ohio, and Pennsylvania. In 2021, Civic wrote \$9.7 million of direct premiums. Of the direct premiums written, \$9.2 million (95.0%) was written in California and \$0.5 million (5.0%) was written in Ohio. In May 2022, Civic ceased to offer new direct insurance policies covering California residential properties. On September 1, 2022, Civic began sending notices of nonrenewal on existing policies covering California residential properties. The first nonrenewal effective date was December 5, 2022.

Exact Property and Casualty Company (Exact) is licensed to transact insurance business in the states of California, Michigan, Missouri, Ohio, and Pennsylvania. In 2021, Exact wrote \$3.7 million of direct premiums, all of which was written in California. In May 2022, Exact ceased to offer new direct insurance policies covering California residential properties. On September 1, 2022, Exact began sending notices of nonrenewal on

existing policies covering California residential properties. The first nonrenewal effective date was December 5, 2022.

Mid-Century is licensed to transact insurance business in the District of Columbia and the following 48 states:

Alabama	Indiana	Nebraska	Rhode Island
Arizona	Iowa	Nevada	South Carolina
Arkansas	Kansas	New Hampshire	South Dakota
California	Kentucky	New Jersey	Tennessee
Colorado	Louisiana	New Mexico	Texas
Connecticut	Maryland	New York	Utah
Delaware	Massachusetts	North Carolina	Vermont
Florida	Michigan	North Dakota	Virginia
Georgia	Minnesota	Ohio	Washington
Hawaii	Mississippi	Oklahoma	West Virginia
Idaho	Missouri	Oregon	Wisconsin
Illinois	Montana	Pennsylvania	Wyoming

In 2021, Mid-Century wrote \$2.6 billion of direct premiums. Of the direct premiums written, \$1.6 billion (42.0%) was written in California, \$215.9 million (8.4%) was written in Georgia, \$181.3 million (7.1%) was written in Utah, \$141.6 million (5.5%) was written in Washington, and \$944.6 million (37.0%) was written in the remaining states.

Neighborhood Spirit Property and Casualty Company (Neighborhood Spirit) is licensed to transact insurance business in the state of California, Michigan, Missouri, Ohio, and Pennsylvania. In 2021, Neighborhood Spirit wrote \$22.1 million of direct premiums. Of the direct premiums written, \$22.1 million (99.9%) was written in California, and the remaining 0.1% was written in Ohio. In May 2022, Neighborhood Spirit ceased to offer new direct insurance policies covering California residential properties. On September 1, 2022, Neighborhood Spirit began sending notices of nonrenewal on existing policies covering California residential properties. The first nonrenewal effective date was December 5, 2022.

Farmers Reinsurance Company (Farmers Re) is licensed to transact insurance business only in California as a multiple line property and casualty insurer. The Farmers Re does not write any direct business, and only assumes business from FIE under the terms of the All Lines Quota Share Reinsurance Agreement and from 21st Century Premier Insurance Company under the terms of the CannGen Commercial Automobile Quota Share Reinsurance Contract as described under the “REINSURANCE” section.

The majority of the Companies’ policies are marketed through a captive agency force (approximately 12,000 exclusive agents) mainly in the western and mid-western United States. The Companies also sell through independent agents and directly to consumers. Independent agents are primarily used to distribute Foremost Choice® Property and Casualty products, Foremost SignatureSM Auto, Home and Umbrella or Personal Excess Liability products, and Bristol West® Personal and Commercial Auto products. In 2019, the Companies started to sell and service certain insurance policies through licensed in-house producers employed by FX Insurance Agency, LLC. The acquisition of Metropolitan Direct Property and Casualty Company and its subsidiaries in April 2021 gives the Companies access to an employer distribution channel via a leading worksite marketing platform and a deepened presence in independent agent and affinity channels.

Uber

On March 1, 2018, FIE entered into an Insurance Program Agreement (Agreement) with Raiser, LLC and as later amended to add Portier, LLC, Schleuder, LLC and Uber USA, LLC (collectively, Uber), to provide commercial automobile insurance coverage for Uber and their independent contractor drivers, while engaging in official company ridesharing activities in the states of Georgia and Pennsylvania. Insurance coverage provided by FIE includes commercial automobile liability, commercial automobile physical damage, and related coverages for Uber, its affiliates, and independent contractors, utilizing digital networks operated by Uber.

Effective December 31, 2019, FIE amended and expanded its Insurance Program Agreement with Uber into the following additional 12 states and the District of Columbia: Delaware, Hawaii, Indiana, Iowa, Kansas, Maryland, Missouri, Nebraska, North Dakota, South Dakota, Virginia, and West Virginia. This amendment sought the total of the Uber related operating territories to 14 states and the District of Columbia.

Effective March 1, 2021, FIG amended and expanded its Insurance Program Agreement with Uber into the states of Arizona and Nevada, bringing the total of the Uber related operating territories to 16 states and the District of Columbia. This revised agreement continues to provide commercial automobile insurance protection for Uber and their independent contractor drivers while engaging in official company ridesharing activities.

Effective March 1, 2022, FIE amended its Insurance Program Agreement with Uber again, with the total of Uber related operating territories remaining the same at 16 states and the District of Columbia. The annual premium written for Uber totaled \$684.2 million and \$338.4 million for years ended December 31, 2022 and December 31, 2021, respectively.

Effective March 1, 2023, FIE amended and expanded its Insurance Program Agreement with Uber into the states of Idaho, Montana, New Mexico, Utah and Wyoming, with the total of Uber related territories increased to 21 states and the District of Columbia. Also effective March 1, 2023, Uber agreed to indemnify and reimburse FIE for 90% of all losses, loss adjustment expenses and program expenses arising under the policies issued by FIE and its affiliates under the Uber program, pursuant to an indemnity agreement entered into among FIE, Uber and Aleka Insurance, Inc., an Uber affiliate (“Aleka”). Under this agreement, Aleka guarantees the payment and performance of Uber’s indemnification obligations to FIE and posts collateral as security for its obligations. Under this arrangement effective March 1, 2023 with Uber, FIE accepts 10% of the losses, loss adjustment expenses and program expenses on a direct basis, except for the 5 states added effective March 1, 2023, wherein losses are 100 percent reinsured by Aleka pursuant to a reinsurance agreement.

LOSS EXPERIENCE

The following schedules reflects the net underwriting and net investment results along with the net income and losses as reported by Farmers Insurance Exchange (FIE) and its affiliates in the financial statements for the years under examination and through December 31, 2022:

<u>Loss Experience - FIE</u>				
<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Underwriting Gains/(Losses)</u>	<u>Net Investment Gains/(Losses)</u>	<u>Net Income/(Losses)</u>
2018	\$ 7,160,925,814	\$ (109,252,076)	\$ 45,729,708	\$ (70,475,902)
2019	7,429,008,930	(101,292,901)	118,499,900	55,273,627
2020	7,378,912,160	(186,998,324)	78,355,832	(116,358,560)
2021	8,508,707,331	(354,372,536)	44,414,990	(366,816,082)
Sub-Totals	\$ 30,477,554,235	\$ (751,915,837)	\$ 287,000,430	\$ (498,376,917)
2022	8,829,247,019	(602,064,380)	318,506,408	(314,156,144)
Totals	<u>\$ 39,306,801,254</u>	<u>\$ (1,353,980,217)</u>	<u>\$ 605,506,838</u>	<u>\$ (812,533,061)</u>

FIE reported net underwriting losses in all years under examination and through December 31, 2022. In aggregate, FIE reported \$1.4 billion of net underwriting losses for the five years from 2018 through 2022. Also, as noted, FIE reported net losses in four of the last five years.

<u>Loss Experience - Fire</u>				
<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Underwriting Gains/(Losses)</u>	<u>Net Investment Gains/(Losses)</u>	<u>Net Income/(Losses)</u>
2018	\$ 1,037,815,335	\$ (15,699,169)	\$ 32,969,002	\$ 29,796,715
2019	1,076,667,961	(14,543,378)	18,653,174	10,674,343
2020	1,069,407,560	(27,095,665)	15,877,494	(233,583)
2021	1,233,145,985	(51,228,015)	13,196,730	(31,738,697)
Sub-Totals	\$ 4,417,036,841	\$ (108,566,227)	\$ 80,696,400	\$ 8,498,778
2022	1,279,601,015	(87,075,381)	49,352,140	(11,723,850)
Totals	<u>\$ 5,696,637,856</u>	<u>\$ (195,641,608)</u>	<u>\$ 130,048,540</u>	<u>\$ (3,225,072)</u>

Fire Insurance Exchange (Fire) reported net underwriting losses in all years under

examination and through December 31, 2022. In aggregate, Fire reported \$195.6 million of net underwriting losses for the five years from 2018 through 2022. Also, as noted, Fire reported net losses in the last three of the past five years.

<u>Loss Experience - Truck</u>				
<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Underwriting Gains/(Losses)</u>	<u>Net Investment Gains/(Losses)</u>	<u>Net Income/(Losses)</u>
2018	\$ 1,072,409,180	\$ (16,266,074)	\$ 24,922,593	\$ 19,435,220
2019	1,112,556,893	(15,067,554)	13,798,796	4,875,605
2020	1,105,054,478	(28,002,351)	3,970,539	(11,263,906)
2021	1,274,250,852	(52,971,994)	11,812,351	(33,154,845)
Sub-Totals	\$ 4,564,271,403	\$ (112,307,973)	\$ 54,504,279	\$ (20,107,926)
2022	1,322,254,383	(90,035,656)	11,794,704	(53,228,900)
Totals	\$ 5,886,525,786	\$ (202,343,629)	\$ 66,298,983	\$ (73,336,826)

Truck Insurance Exchange (Truck) reported net underwriting losses in all years under examination and through December 31, 2022. In aggregate, Truck reported \$202.3 million of net underwriting losses for the five years from 2018 – 2022. Also, as noted, Truck reporting net losses in the last three of the past five years.

<u>Loss Experience - Civic</u>				
<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Underwriting Gains/(Losses)</u>	<u>Net Investment Gains/(Losses)</u>	<u>Net Income/(Losses)</u>
2018	\$ 138,375,378	\$ (1,759,014)	\$ 4,484,667	\$ 3,268,905
2019	143,555,728	(1,646,913)	5,420,612	3,605,973
2020	142,587,675	(3,549,200)	5,031,635	1,599,272
2021	164,419,462	(6,357,225)	3,171,780	(2,854,609)
Sub-Totals	\$ 588,938,243	\$ (13,312,352)	\$ 18,108,694	\$ 5,619,541
2022	170,613,468	(11,163,562)	3,624,510	(4,789,444)
Totals	\$ 759,551,711	\$ (24,475,914)	\$ 21,733,204	\$ 830,097

Civic Property and Casualty Company (Civic) reported net underwriting losses in all years under examination and through December 31, 2022. In aggregate, Civic reported \$24.5 million of net underwriting losses for the five years from 2018 – 2022. Also, as noted, Civic reporting net losses in the last two of the past five years.

Loss Experience - Exact

<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Underwriting Gains/(Losses)</u>	<u>Net Investment Gains/(Losses)</u>	<u>Net Income/(Losses)</u>
2018	\$ 138,375,378	\$ (1,728,906)	\$ 4,343,713	\$ 3,232,040
2019	143,555,728	(1,639,505)	5,282,776	3,535,975
2020	142,587,675	(3,560,148)	5,018,037	1,494,469
2021	164,419,462	(6,386,594)	3,800,466	(2,360,701)
Sub-Totals	\$ 588,938,243	\$ (13,315,153)	\$ 18,444,992	\$ 5,901,783
2022	170,613,468	(11,189,097)	4,116,521	(4,386,164)
Totals	\$ 759,551,711	\$ (24,504,250)	\$ 22,561,513	\$ 1,515,619

Exact Property and Casualty Company (Exact) reported net underwriting losses in all years under examination and through December 31, 2022. In aggregate, Exact reported \$24.5 million of net underwriting losses for the five years from 2018 – 2022. Also, as noted, Exact reported net losses in the last two of the past five years.

Loss Experience - Mid-Century

<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Underwriting Gains/(Losses)</u>	<u>Net Investment Gains/(Losses)</u>	<u>Net Income/(Losses)</u>
2018	\$ 2,214,006,049	\$ (38,942,994)	\$ 299,816,121	\$ 284,339,019
2019	2,296,891,650	(21,209,923)	599,877,334	569,342,958
2020	2,281,402,794	(57,149,643)	109,198,271	47,227,377
2021	2,630,711,436	(101,070,521)	131,928,318	25,513,890
Sub-Totals	\$ 9,423,011,929	\$ (218,373,081)	\$ 1,140,820,044	\$ 926,423,244
2022	2,729,815,497	(179,778,031)	142,616,542	(4,104,497)
Totals	\$ 12,152,827,426	\$ (398,151,112)	\$ 1,283,436,586	\$ 922,318,747

Mid-Century Insurance Company (Mid-Century) reported net underwriting losses in all years under examination and through December 31, 2022. In aggregate, Mid-Century reported \$398.1 million of net underwriting losses for the five years from 2018 – 2022. Mid-Century only reported net loss in 2022.

Loss Experience - Neighborhood Spirit

<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Underwriting Gains/(Losses)</u>	<u>Net Investment Gains/(Losses)</u>	<u>Net Income/(Losses)</u>
2018	\$ 138,375,378	\$ (1,745,652)	\$ 4,582,208	\$ 3,366,338
2019	143,555,728	(1,677,281)	5,746,614	3,892,341
2020	142,587,675	(3,553,179)	5,154,868	1,625,599
2021	164,419,462	(6,403,471)	4,175,045	(2,018,025)
Sub-Totals	\$ 588,938,243	\$ (13,379,583)	\$ 19,658,735	\$ 6,866,253
2022	170,613,468	(11,158,822)	4,461,652	(4,106,806)
Totals	\$ 759,551,711	\$ (24,538,405)	\$ 24,120,387	\$ 2,759,447

Neighborhood Spirit Property and Casualty Company (Neighborhood Spirit) reported net underwriting losses in all years under examination and through December 31, 2022. In aggregate, Neighborhood Spirit reported \$24.5 million of net underwriting losses for the five years from 2018 – 2022. Also, as noted, Neighborhood Spirit reported net losses in the last two of the past five years.

The overall underwriting results of FIE and its affiliated property and casualty insurers for 2021 produced a combined loss of \$676.5 million compared to a combined loss of \$352.0 million in 2020. The 2021 underwriting loss is primarily driven by higher than expected catastrophes, higher frequency and severity of automobile claims, and higher material costs related to claims such as automobile replacement parts and lumber for homeowner claims.

Combined net premiums written increased \$1.7 billion, or 11.6%, from \$14.3 billion at year-end 2020 to \$16.0 billion at year-end 2021. The increase was primarily attributable to the acquisition of Farmers Workspace Solutions (FWS) and growth in the Companies' core books compared with the prior year that was negatively impacted by the COVID-19 pandemic. Offsetting this increase was an increase in ceded premiums as a result of a change in the All Lines Quota Share Reinsurance Agreement with Farmers Reinsurance Company (Farmers Re) from 26% to 31%, effective April 1, 2021 and the One-Year Quota Share Reinsurance Agreement with Odyssey Reinsurance Company, to bring the overall coverage to 33%.

The Companies have taken actions to improve their underwriting results by seeking products rate increases, especially in homeowner and private passenger automobile lines of business. The rate increases for these lines of business in various states are expected to result in profitability.

In California, which is the Companies' largest market, the Companies received in August 2023 rate increases that average 9.7% for private passenger automobile and 12.5% for homeowners lines of businesses. The Companies will continue to seek rate increases and take needed expense cutting measures as deemed necessary to improve the overall profitability of the Companies.

REINSURANCE

Intercompany Reinsurance and Pooling Agreement

Farmers Insurance Exchange (FIE) is the lead insurer in an Intercompany Reinsurance and Pooling Agreement (Pooling Agreement) with 14 affiliates, under which premiums, losses, and expenses are allocated to each party based on the following percentages of participation as outlined in the agreement:

Participant	NAIC No.	State of Domicile	Participation %
Farmers Insurance Exchange	21652	CA	51.75%
Mid-Century Insurance Company	21687	CA	16.00%
Truck Insurance Exchange	21660	CA	7.75%
Fire Insurance Exchange	21709	CA	7.50%
Farmers Insurance Company of Oregon	21636	OR	7.00%
Farmers Insurance Company of Washington	21644	WA	2.00%
Civic Property and Casualty Company	10315	CA	1.00%
Exact Property and Casualty Company	10318	CA	1.00%
Farmers Insurance of Columbus, Inc.	36889	OH	1.00%
Neighborhood Spirit Property and Casualty Company	10317	CA	1.00%
Texas Farmers Insurance Company	21695	TX	1.00%
Farmers Insurance Company, Inc.	21628	KS	0.75%
Farmers Insurance Company of Idaho	21601	ID	0.75%
Farmers New Century Insurance Company	10806	IL	0.75%
Illinois Farmers Insurance Company	21679	IL	0.75%

The last amendment to this long-standing Pooling Agreement was approved by the California Department of Insurance (CDI) on January 12, 1999.

Assumed - Affiliated

Other than the aforementioned Pooling Agreement, FIE assumes business through a combination of affiliated fronting or reinsurance indemnity agreements, and a series of long-standing 100% affiliated reinsurance assumption agreements. All of the business written by certain affiliated property and casualty companies not participating in the Pooling Agreement is ceded to FIE, prior to the retrocession to all the pool participants. The following companies cede 100% of their business to FIE and do not participate in the Pooling Agreement: Farmers Insurance Company of Arizona, Mid-Century Insurance Company of Texas, Farmers Texas County Mutual Insurance Company, the Bristol West Group, the 21st Century Group, the Foremost Group, and the FWS Group.

As approved by the CDI during the acquisition and effective April 8, 2021, FIE entered into a 100% Quota Share Reinsurance Agreement with the Farmers Property and Casualty Insurance Company (Farmers P&C). Pursuant to the terms of the agreement, FIE reinsures the net retained liability of Farmers P&C, including the insurance policies assumed by Farmers P&C from its subsidiaries under the Restated Quota Share Reinsurance Agreement, effective January 1, 2001. FIE is also responsible for the costs associated with the issuance and administration of the policies reinsured, including claims adjustment services under the agreement.

Lastly, FIE is also a party to various 100% fronting and quota share agreements, which are historically long-standing reinsurance agreements with affiliates initiated variously between 1950 and 1995, and by which all the business written in the ceding companies is ceded to FIE, which in turns cedes the property business Fire Insurance Exchange (Fire) and the commercial business is ceded to Truck Insurance Exchange (Truck) under these treaties prior to the Pooling Agreement. The only exception is that Texas Farmers Insurance Company cedes its property business directly to Fire and its commercial

business directly to Truck. Fire and Truck then retrocede 100% of this business to FIE, in accordance with the Pooling Agreement.

Assumed - Unaffiliated

As noted in this examination report under the “TERRITORY AND PLAN OF OPERATION” section, FIE entered into an Insurance Program Agreement with Uber on March 1, 2018, to provide commercial automobile insurance protection for Uber and their independent contractor drivers. Concurrent with this agreement, also effective March 1, 2018, FIE entered into a Quota Share Agreement with Aleka Insurance, Inc. (Aleka) to cede 30% of the underwritten policies issued to Uber. Upon the amendment and expansion of the Insurance Program Agreement, effective March 1, 2021, FIE concurrently amended the Quota Share agreement with Aleka. Under the amended agreement, also effective March 1, 2021, a few and relatively small segments of policies written within a defined period were ceded 100% to Uber. Aleka receives a ceding commission ranging from 6.75% to 13.76% under this agreement, except in Hawaii, which has a ceding commission up to 21.46%.

Ceded – Affiliated

Effective December 31, 2002, FIE, on behalf of itself and its pooling participants, began participating in an All Line Quota Share Agreement (ALQS Agreement) with Farmers Reinsurance Company (Farmers Re) and Zurich Insurance Company, Ltd, which has been amended over the years. The aggregate participation percentage was originally at 10% in 2002, and through amendments approved by the CDI, the aggregate participation percentage and participants have varied over the years.

Effective December 31, 2022, the ALQS Agreement has substantially the same terms as previous agreements, but with several added features to certain sections. In addition to these changes, the participation ratios of Farmers Re, Hannover Rück, SE (Hannover Re), Swiss Reinsurance Company Ltd. (Swiss Re) were increased by 6.75%, 1.0%, and

1.0%, respectively, while those of New Reinsurance Company (New Re), Transatlantic Reinsurance Company (Transatlantic Re), and Catlin Re Switzerland Ltd (Catlin Re) were reduced by 3.5%, 3.5%, and 4.5%, respectively. Consequently, Transatlantic Re and Catlin Re ceased as participants to the agreement effective December 31, 2022. The new agreement calls for Farmers Re to assume an additional 6.75% of the quota share, which is then retroceded to Zurich Global Ltd (Zurich), a subsidiary of the Zurich Holding Company of America, Inc., through a quota share retrocession agreement.

The below table shows the participation changes from 2019 to 2022, which reflect overall net results after the retrocession of 6.75% of the quota share that Farmers Re assumed from the Exchanges to Zurich:

	Reinsurers	2019	2020	2021	2021 (Effective 4/1/2021)	2022 (Effective 12/31/2022)
1	Farmers Reinsurance Company (unauthorized)	1.00%	0.25%	1.00%	1.00%	1.75%
2	Hannover Rück SE (certified)	7.00%	7.00%	7.00%	8.00%	9.00%
3	Swiss Reinsurance Company Ltd (certified)	7.00%	7.00%	7.00%	8.00%	9.00%
4	New Reinsurance Company (authorized)	5.00%	3.75%	3.75%	8.00%	4.50%
5	Catlin Re Switzerland Ltd (unauthorized)	4.50%	4.50%	4.50%	4.50%	0.00%
6	Transatlantic Reinsurance Company (authorized)	3.50%	3.50%	3.50%	3.50%	0.00%
7	Ariel Re Bermuda Ltd (authorized)	1.00%	0.00%	0.00%	0.00%	0.00%
8	Zurich Global Ltd (unauthorized)	0.00%	0.00%	0.00%	0.00%	6.75%
	Total	29.00%	26.00%	26.75%	33.00%	31.00%

In addition to the ALQS, there is also a series of 100% Equipment Breakdown Quota Share Reinsurance Agreements, effective November 1, 2000, under which Zurich reinsures FIE and certain of its affiliates for specified industry programs.

Ceded - Non-affiliated

Throughout the examination period, the Farmers Insurance Group (Group), except Farmers Re, utilized approximately 40 various excess of loss (XoL) and quota share agreements to cover risks in its different product lines and specific peril events with various unaffiliated reinsurers. The coverage covered assumed and retained business after the intercompany reinsurance agreements: (1) FIE; (2) Fire; (3) Truck; (4) the subsidiaries of FIE, Fire and Truck; (5) Farmers Texas County Mutual Insurance Company; (6) Foremost County Mutual Insurance Company; (7) Foremost Lloyds of Texas; and (8) Farmers Lloyds Insurance Company of Texas. These agreements were originally effective prior to the examination period but have been renewed continuously since the original effective date.

During the examination period and effective January 1, 2018, FIE and certain Farmers insurance companies entered into a two-year Personal Umbrella Quota Share and Excess of Loss Reinsurance Agreement with various third-party reinsurers, in which General Reinsurance Corporation (General Re) is the lead reinsurer. The other subscribing reinsurers are Hannover Re, Swiss Re, and Everest Reinsurance Bermuda Ltd (Everest Re), each with varying participating percentages. Under this agreement, FIE cedes 100% of its personal umbrella exposure above \$500,000 for each and every loss, with all losses in excess of \$500,000 fully reinsured up to \$21 million. In addition, the agreement provides for the cession of 75.0% of all losses within the first \$500,000 and below.

Effective December 31, 2021, FIE entered into a One-Year Quota Share Reinsurance Agreement with Odyssey Reinsurance Company (Odyssey Re), which provides for FIE to cede 5.0% of homeowners' business written or assumed by FIE through the Farmers Brand Personal Lines and Farmers Workplace Solutions (FWS) Group and 5.0% of the Foremost Specialty Insurance Company business to Odyssey Re. The 2022 ALQS combined with this reinsurance agreement is equivalent to 33% of overall coverage.

Catastrophe Reinsurance

Farmers Insurance Group (Group), excluding Farmers Re, also utilized multiple layers of Property Catastrophe Excess of Loss (Catastrophe XoL) agreements to cover the Group's catastrophe risks. The Catastrophe XoL agreements provide six layers of coverage occurrence with an additional aggregate layer. In addition, there are specialty layers and coverages that are not included in the six layers of coverage of the Catastrophe XoL. The same six entities in the Group that participated in the above-mentioned excess of loss and quota share agreements with unaffiliated reinsurers also are the parties to Catastrophe XoL agreements.

The following is a summary of the Group's in-force catastrophe reinsurance treaties with non-affiliated reinsurers (excluding Farmers Re) as of December 31, 2021:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Underlying Property Catastrophe Excess of Loss (2020 to 2021)	Various Lloyd's Underwriters (authorized, 10.5375%) Renaissance Reinsurance Limited, (authorized, 9%) Davinci Reinsurance Ltd (authorized, 6%) Various Reinsurers with less than 5% participation each (authorized and authorized, 20.7125%)	\$200 million per occurrence	46.25% of \$200 million excess of \$200 million, and excess of \$100 million annual aggregate deductible retention per occurrence, subject to a maximum aggregate recovery of \$600 million during the term of the contract;
Underlying Property Catastrophe Excess of Loss (2021 to 2022)	Renaissance Reinsurance Limited, (authorized, 7.5%) Davinci Reinsurance Ltd. (authorized, 7.5%) Fidelis Insurance Bermuda Limited (unauthorized, 5%) Various Reinsurers with less than 5% participation each (authorized and unauthorized, 17.575%)	\$200 million per occurrence	37.575% of \$200 million excess of \$200 million, and excess of \$100 million annual aggregate deductible retention per occurrence, subject to a maximum aggregate recovery of \$600 million during the term of the contract;
Property Catastrophe	Various Lloyd's Underwriters (authorized, 12.944%)	\$400 million per occurrence	Coverage A: 48.75% of \$600 million excess of \$400

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Second Excess of Loss (2020 to 2021)	Various Reinsurers with less than 5% participation each (authorized and authorized, 35.806%)		million per occurrence; Coverage B: 48.75% of \$600 million excess of \$200 million excess of \$700 million on the underlying \$200 million excess of \$200 million excess of \$100 million retention per occurrence, subject to a maximum aggregate recovery of \$1.2 billion during the term of the contract
Property Catastrophe Second Excess of Loss (2021 to 2022)	Various Lloyd's Underwriters (5.7%) Various Reinsurers with less than 5% participation each (authorized and unauthorized, 30.675%)	\$400 million per occurrence	Coverage A: 36.375% of \$600 million excess of \$400 million per occurrence; Coverage B: 36.375% of \$600 million excess of \$200 million excess of \$700 million on the underlying \$200 million excess of \$200 million excess of \$100 million retention per occurrence, subject to a maximum aggregate recovery of \$1.2 billion during the term of the contract
Property Catastrophe Third Excess of Loss (2020 to 2021)	Various Lloyd's Underwriters (14.2%) Various Reinsurers with less than 5% participation each (authorized and unauthorized, 30.55%)	\$1 billion per occurrence	Coverage A: 44.75% of \$500 million excess of \$1 billion per occurrence; Coverage B: 44.75% of \$500 million excess of \$1.2 billion on \$600 million excess of \$400 million-layer, excess of \$700 million on the underlying \$200 million excess of \$200 million excess of \$100 retention per occurrence, subject to a maximum aggregate recovery of \$1

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
			billion during the term of the contract
Property Catastrophe Third Excess of Loss (2021 to 2022)	Various Lloyd's Underwriters (authorized, 6.6%) Various Reinsurers with less than 5% participation each (authorized and unauthorized, 35.1%)	\$1 billion per occurrence	Coverage A: 41.7% of \$500 million excess of \$1 billion per occurrence; Coverage B: 41.7% of \$500 million excess of \$1.2 billion on \$600 million excess of \$400 million-layer, excess of \$700 million on the underlying \$200 million excess of \$200 million excess of \$100 retention per occurrence, subject to a maximum aggregate recovery of \$1 billion during the term of the contract
Property Catastrophe Fourth Excess of Loss (2020 to 2021)	Various Lloyd's Underwriters (authorized, 10.1%) Various Reinsurers with less than 5% participation each (authorized and unauthorized, 34.9%)	\$1.5 billion per occurrence	Coverage A: 45% \$500 million excess of \$1.5 billion Coverage B: 45% \$500 million excess of \$1 billion on the 500 x 1000 layer; excess of \$1.2 billion on the 600 x 400 layer Maximum aggregate recovery for not exceed \$500 million as respect one Loss Occurrence and \$1 billion during any 12-month period
Property Catastrophe Fourth Excess of Loss (2021 to 2022)	Various Lloyd's Underwriters (authorized, 7%) Fidelis Insurance Bermuda Limited (authorized, 5%) Various Reinsurers with less than 5% participation each (authorized and unauthorized, 35.1%)	\$1.5 billion per occurrence	Coverage A: 47.1% \$500 million excess of \$1.5 billion Coverage B: 47.1% \$500 million excess of \$1 billion on the 500 x 1000 layer; excess of \$1.2 billion on the 600 x 400 layer Maximum aggregate recovery for not exceed \$500 million as respect one

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
			Loss Occurrence and \$1 billion during any 12-month period
Property Catastrophe Fifth Excess of Loss	XL Bermuda Ltd. (authorized, 9.60%) Various Lloyd's Underwriters (12.25%) Various Reinsurers with less than 5% participation each (authorized and unauthorized, 58.134%)	\$2 billion per occurrence	<p>Coverage A: 78.984% of \$250 million excess of \$2 billion per occurrence; \$500 million for all occurrences</p> <p>Coverage B: 1) \$250 million excess \$1 million Property Claims Service CAT event or \$5 million for non-Property Claims Service CAT event excess of \$1.45 billion, excluding Loss Adjustment Expenses.</p> <p>2) \$200 million excess \$1 million Property Claims Service CAT event or \$5 million for non-Property Claims Service CAT event excess of \$1.9 billion, excluding Loss Adjustment Expenses</p> <p>Maximum aggregate recovery for Coverage A&B shall not exceed \$250 million as respects one loss occurrence and \$500 million during the term of the contract</p>
Property Catastrophe Sixth Excess of Loss	Aeolus Re. Ltd (unauthorized, 17.86%)	\$2 billion per occurrence	<p>Coverage A: 17.86% of \$450 million excess of \$2 billion retention per occurrence, subject to a maximum aggregate recovery of \$700 million during the term of the contract</p> <p>Coverage B: 17.86% \$700 million excess of \$1.45 billion excluding Loss Adjustment Expenses</p>

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
			excess \$1 million Property Claims Service CAT event or \$5 million for non-Property Claims Service
Property Catastrophe Aggregate Excess of Loss	XL Bermuda Ltd (5.0%) Various Reinsurers with less than 5% participation each (authorized and unauthorized, 17%)	\$2.25 billion per occurrence for coverage A1, \$2 billion per occurrence for coverage A2	Coverage A1: 22% of \$200 million excess of \$2.25 billion Coverage A2: 22% of \$200 million excess of \$2 billion (cascade) Coverage B: 22% of \$200 million excess \$1 million Property Claims Service CAT event or \$5 million for non-Property Claims Service CAT event excess of \$1.7 billion, excluding Loss Adjustment Expenses

For 2021 calendar year, the total gross and net catastrophic losses for the Group were \$3.1 billion and \$1.4 billion, respectively. Under the Intercompany Reinsurance and Pooling Agreement, FIE's participation is 51.75% of the pooled losses. As such, FIE's share of the Group's net catastrophe losses for 2021 was \$724.5 million.

Other than the above-mentioned catastrophe-related coverage, the Companies also participate in the California Earthquake Authority (CEA), which was established by the California Legislature to provide earthquake insurance to the owners of residential property in the state of California. Insurers who elect to participate in the program are responsible for a portion of aggregate losses up to \$1.7 billion, contingent on losses exceeding a specified limit. As of March 10, 2021, the Companies' residential earthquake insurance market share was 13.78%, and its respective share of this contingent liability before external reinsurance was \$229.2 million on December 31, 2021. As of March 18, 2022, the Companies' residential earthquake insurance market share was

12.56%, and its respective share of this contingent liability before external reinsurance was \$208.8 million on December 31, 2022.

On December 21, 2021, FIE announced that it and its subsidiaries and affiliates, comprising the Group (excluding Farmers Reinsurance Company), successfully closed a \$160 million 144A Catastrophe Bond completed through Topanga Re Ltd. (Topanga Re). The Group entered into a multi-year reinsurance arrangement with Topanga Re, a newly established special purpose insurer in Bermuda which provides the Companies with indemnity-based coverage. The Catastrophe Bond was designed to integrate into the Group's existing traditional catastrophe reinsurance program by providing additional protection against damages from U.S. named storms, earthquakes, severe weather, and fire.

Other Reinsurance

The following is a summary of the Group's principal non-affiliated ceded reinsurance treaties in-force as of December 31, 2021:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Multiple Lines Excess of Loss (Property, Commercial Liability, and Workers' Compensation)	Layer 1: Various Lloyd's Underwriters (authorized, 45.50%) Hannover Ruck SE (certified, 22.50%) Various Reinsurers with less than 10% participation each (authorized and unauthorized, 22%)	Layer 1: \$7.5 million per occurrence	Layer 1: 90% of \$17.5 million excess of \$7.5 million, subject to \$17.5 million in occurrence limit and terrorism sub-limit, and \$87.5 million annual treaty aggregate
	Layer 2: Various Lloyd's Underwriters (49.5%) Hannover Ruck SE (17.5.00%) Various Reinsurers with less than 10% participation	Layer 2: \$25 million per occurrence	Layer 2: 90% of \$25 million excess of \$25 million, subject to \$25 million in occurrence limit and terrorism sub-limit, and \$75 million annual treaty aggregate

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
	<p>each (authorized and unauthorized, 23%)</p> <p>Layer 3: Various Lloyd's Underwriters (authorized, 44.5%) Hannover Ruck SE (certified, 17.5%) Various Reinsurers with less than 10% participation each (authorized and unauthorized, 23%)</p> <p>Safety National Casualty Corporation (authorized, 40.00%) Hannover Ruck SE (certified, 10%)</p>	<p>Layer 3: \$50 million per occurrence</p> <p>Workers' Compensation per person \$7.5 million per occurrence</p>	<p>Layer 3: 85% of \$50 million excess of \$50 million, subject to \$50 million in occurrence limit and terrorism sub-limit, and \$100 million annual treaty aggregate</p> <p>Workers' Compensation Per Person: 50% of \$17.5 million excess of \$7.5 million, subject to \$35 million annual treaty aggregate</p>
Equipment Breakdown Coverage 100% Quota Share (Commercial Lines)	Factory Mutual Insurance Company (authorized, 100%)	\$0	100% up to \$100 million
Equipment Breakdown Coverage 100% Quota Share (Personal Lines)	Factory Mutual Insurance Company (authorized, 100%)	\$0	100% up to \$100 million
Equipment Breakdown Coverage 100% Quota Share (Foremost)	Factory Mutual Insurance Company (authorized, 100%)	\$0	100% up to \$100 million
Equipment Breakdown Coverage 100% Quota Share	The Travelers Indemnity Company (authorized, 100%)	\$0	100% up to \$100 million
Commercial	Hannover Ruck SE (certified, 80%)	20% net of All	80% net of All Lines Quota Share Treaty

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Independent Agency Quota Share		Lines Quota Share Treaty	
Personal Umbrella Excess of Loss	Hannover Ruck SE (certified, 35%) Ascot Underwriting (Bermuda) Limited (unauthorized, 25%) Markel Global Reinsurance Company (authorized, 15%) Various Reinsurers with less than 10% participation each (authorized, 2%)	0%	100% of \$9.75 mil excess of \$250,000 100% of \$11 mil in excess of policy limits for defense
Employment Practices Liability Insurance Quota Share	Hannover Ruck SE (certified, 20%) Liberty Mutual Insurance Company (authorized, 12.5%) Various Reinsurers with less than 10% participation each (authorized and unauthorized, 17.5%)	50%	50% up to \$1,000,000 for Employers' Liability
Cyber Liability Insurance Quota Share	Lloyd's Underwriters Syndicate No. 2623 (authorized, 82.0%) Lloyd's Underwriters Syndicate No. 0623 (authorized, 18.0%)	50%	50% with a maximum cession in one policy of \$1 million
General Liability and Liquor Liability Excess of Loss	General Reinsurance Corporation (authorized, 100%)	\$500,000 per occurrence	100% of \$1.5 million excess of \$500 thousand retention per occurrence, subject to a maximum aggregate recovery of \$3 million during the term of the contract for losses and \$2 million for loss adjustment expenses
CannGen Commercial Auto Quota Share	Hannover Ruck SE (certified, 65.00%) Farmers Re (unauthorized, 15%)	20%	80%

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
CannGen Package Quota Share	Hannover Ruck SE (certified, 80%)	20%	80%
CannGen Breakdown Quota Share	Factory Mutual Insurance Company (authorized, 100%)	0%	100%

As of December 31, 2021, reinsurance recoverables for all ceded reinsurance for the Group totaled \$22.5 billion, or 245% of surplus as regards policyholders. Of the reinsurance recoverables, 66.6% were from admitted affiliates, primarily resulting from the Intercompany Reinsurance and Pooling Agreement in which FIE is the lead insurer.

ACCOUNTS AND RECORDS

An examination is conducted to determine the financial condition of insurance companies in accordance with the California Insurance Code (CIC) Sections 700(c), 730(b), 730(c), 733, and 734, and prescribed accounting practices as promulgated by the National Association of Insurance Commissioners (NAIC). One must consider, among other things, the results of financial statement analyses and ratios, have open access to all the books and papers of the company, and conduct the examination in accordance with the NAIC's *Financial Condition Examiners Handbook* (Handbook), which requires the examination to evaluate the insurer's financial condition, assess corporate governance, identify current and prospective risks, and evaluate systems controls and procedures used to mitigate those risks.

During the course of the examination, the California Department of Insurance (CDI) experienced significant delays in obtaining access to various supporting documentation because the Group initially would not provide certain documentation and asserted the documentation was under the protection of the Attorney-Client Privilege (ACP), which

resulted in significant delays in the progress and timing of the completion of the examination. The following is the list of compliance findings that were a result of the limitations in receiving the requested documentation:

1. CIC Section 734 requires that every company or person from whom information is sought, and its officers, directors, employees, and agents, shall provide to the examiners appointed pursuant to this article, timely, convenient, and free access at all reasonable hours at its offices to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the company being examined. During the course of this examination, the examiners were not provided full access to all of the information requested from the Group.

Furthermore, CIC Section 730(f) requires an admitted insurer to maintain all records necessary to determine its financial condition for the current year plus five previous years. Certain communication and/or documentation to support the review/testing were not maintained due to the Groups' one-year email retention policy.

It is recommended that the Companies adhere to CIC Sections 734 and 730(f) by providing full access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail. If the maintenance of such audit trail is against the Groups' policy, then the records should be kept separately within the required maintenance period pursuant to CIC Section 730(f).

2. California Code of Regulation (CCR) Section 2309.13 and NAIC Model Audit Regulation (MAR) Section 13, Paragraph B, requires that "Every insurer required to file an audited financial report shall require the accountant to make available for review by Insurance Department examiners, all work papers prepared in the conduct of the accountant's audit and any communications related to the audit between the accountant and the insurer, at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the commissioner. The insurer shall require that the accountant retain the audit work papers and communications until the Insurance Department has filed a report on examination covering the period of the audit but no longer than seven (7) years from the date of the audit report."

In the process of authorizing the release the external audit's audit workpapers, the Group obtained the audit workpaper index of the archived workpapers from the external auditor. The Company initially declined to consent to the release of 13 workpapers listed on the index on the basis of attorney-client privilege. All but one

of the 13 withheld documents were later provided. The observed process of reviewing and approving the release of the audit workpaper does not comply with CCR Section 2309.13 and MAR Section 13, paragraph B. It is recommended that the Companies comply with CCR Section 2309.13 and MAR Section 13, Paragraph B and not interfere with the requirements of the external auditors to provide the state examiners with full access to the external workpapers without company involvement.

3. CIC Section 900.3 and NAIC MAR Section 15, Paragraph B–D, require an insurer or group of insurers doing business in California to establish an internal audit (IA) function to provide independent, objective, and reasonable assurance to the insurer’s audit committee and management regarding the insurer’s governance, risk management, and internal controls. To ensure that an internal auditor remains objective, the IA function shall be organizationally independent. Organizational independence does not preclude dual-reporting relationships. The IA function shall not defer ultimate judgment of the responsibilities or audit matters to others. Furthermore, the head of the IA function shall report to the Audit Committee regularly, but no less than annually, on the periodic audit plan, factors that may adversely impact the IA function’s independence or effectiveness, material findings from completed audits, and the appropriateness of corrective actions implemented by management as a result of audit findings.

During the course of the examination, it was determined that:

- (a) The IA function performs a significant number of its audits of key activities under the protection of Attorney-Client Privilege, with the audits being performed under the advisement of the legal counsel within the Office of the General Counsel (OGC);
- (b) The IA Reports prepared under the advisement of the legal counsel are not shared directly with the Audit Committee but with the selected legal counsel from OGC and senior management. IA shares with the Audit Committee a summary of all audit reports concluded during the quarter; and
- (c) The Internal Controls over Financial Reporting (ICFR) function, which is responsible for testing controls in compliance with MAR regulations, is not aligned under IA, but is a centralized assurance unit within the Companies’ Finance Department, reporting directly to the management, therefore, not an independent function despite being responsible for internal control testing.

It is recommended that the Companies take necessary steps to adjust the reporting structure for both IA and ICFR to comply with the CIC Section 900.3 and MAR, Section 15, Paragraphs B-D. These steps shall include but are not limited to:

- 1) Ensure IA function is organizational independent, which shall directly report to Audit Committee; however, dual reporting is allowed;
- 2) The IA function shall not defer ultimate judgment on the responsibilities or audit matters to others. the scope of the IA shall be determined independently based on the operational needs; and
- 3) Having the ICFR function align with the IA function, whose purpose is to test controls in compliance with MAR, and report directly to the Audit Committee. Dual reporting is allowed.

Certificate of Authority requirements

CIC Section 706.7 requires that a domestic insurer shall not enter into a contract of insurance upon the life or person of a resident of, or property or operations located in, a reciprocal state unless it is authorized pursuant to the laws of that state to transact such insurance therein. The commissioner shall, every four years, mail notice to every domestic insurer, specifying the reciprocal states.

The Companies were licensed in various states outside the state of California, and many states require annual renewal of the Certificate of Authority (COA) to continue operations in the state. During the course of this examination, it was noted that there were a material number of COAs issued by states outside of California that were expired with no proof of renewal, and several COAs that were not available for review. The oversight was a result of the frequent change of personnel and the shift in the work environment during and after the pandemic. It is recommended that the Companies adhere to CIC Section 706.7 by implementing processes and procedures to obtain, track, and maintain up-to-date COAs, company name changes, and proof of payment of licensing fees.

Corporate Records

Management of Civic Property and Casualty Company (Civic), Exact Property and Casualty Company (Exact), and Neighborhood Spirit Property and Casualty Company (Neighborhood Spirit) are vested in a board of directors elected annually, composed of not less than five nor more than nine members per their bylaws. The board of directors of Mid-Century Insurance Company (Mid-Century) is composed of not less than five nor

more than seven members. With the departure of Stephen J. McAnena, effective April 28, 2023, there is a vacant seat on the Board of Directors subsequent to the examination date that has not been filled. Therefore, Civic, Exact, Mid-Century, and Neighborhood Spirit are not in compliance with their bylaws of not less than five members. It is recommended that the Companies comply with their bylaws and take the necessary steps to fill the vacant Board of Directors position.

Premium Tax Filing

Pursuant to the CDI Bulletin No. 80-6, "All payments by the insureds which are a part of the cost of insurance are premium and subject to premium tax." During the review of the premium tax return filings under the examination years, it was noted that various policy-related fees collected were not included in the 2020 and 2021 Premium Tax Returns for Farmers Insurance Exchange (FIE), Fire Insurance Exchange (Fire), Truck Insurance Exchange (Truck), and Mid-Century Insurance Company (Mid-Century). This resulted in understatement of the taxable income by approximately \$8.8 million and \$10.1 million, in 2020 and 2021, respectively. It is recommended that the Companies amend their 2020 and 2021 premium tax returns to reflect the correct policies-related fees collected. It is further recommended that the Companies take necessary action to improve procedures for quality assurance reviews of their premium tax returns for accuracy prior to filing.

Vehicle Fraud Assessment

CIC Section 1872.8 states, in part, that each insurer doing business in the state of California must pay an annual "Vehicle Fraud Assessment Fee" for each vehicle insured under an insurance policy it issues in California. The fee provides funding for the investigation and prosecution of fraudulent automobile insurance claims and automobile theft in the state of California. CCR Section 2698.62(d) requires that the Auto Assessment File contain vehicle identification, policy number, and transaction for every vehicle for which a policy was in force for each quarter or any part thereof. The data shall be kept in a computer format for a minimum of five years after each calendar year quarter.

During the course of this examination, it was noted that the Auto Assessment File (AAF) provided did not reconcile with the Vehicle Fraud Assessment filings and contained duplicate Vehicle Identification Numbers (VINs) for FIE, Truck, and Mid-Century. The difference in vehicle count between AAF and the filings were immaterial. It is recommended that the Companies establish and implement procedures to ensure that the filings are accurate and maintain accurate and adequate documentation to support their Vehicle Fraud Assessment filings with the CDI to comply with CCR Section 2698.62(d).

Upon being notified by the CDI of the above-mentioned violations, the Group has acknowledged the oversight and taken corrective actions, although not all violations were remediated during the examination. It is recommended that the Group continue the corrective actions to ensure the full compliance with the above laws and regulations.

FINANCIAL STATEMENTS

The following financial statements of Farmers Insurance Exchange and the financial statements (attached as Exhibit A) of the Fire Insurance Exchange, Truck Insurance Exchange, Civic Property and Casualty Company, Exact Property and Casualty Company, Mid-Century Insurance Company, Neighborhood Spirit Property and Casualty Company, and Farmers Reinsurance Company, are based on the statutory financial statements filed by Companies with the California Department of Insurance and present the financial condition of Companies for the period ending December 31, 2021.

- Farmers Insurance Exchange (Page 67)
- Fire Insurance Exchange (Page 80)
- Truck Insurance Exchange (Page 84)
- Civic Property and Casualty Company (Page 88)
- Exact Property and Casualty Company (Page 92)
- Mid-Century Insurance Company (Page 96)
- Neighborhood Spirit Property and Casualty Company (Page 100)
- Farmers Reinsurance Company (Page 104)

Farmers Insurance Exchange

The accompanying comments on financial statements items reflect reclassifications to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Summary of Reclassifications as of December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	Ledger and Non-ledger <u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$ 4,513,532,940	\$	\$ 4,513,532,940	
Preferred stocks	6,412,677	6,412,677		
Common stocks	7,735,778,279	4,596,702	7,731,181,577	
Real Estate:				
Properties occupied by the Company	31,070,950		31,070,950	
Properties held for production of income	231,706,554		231,706,554	
Cash, cash equivalents and short-term investments	544,587,611		544,587,611	
Other invested assets	226,673,124		226,673,124	
Receivable for securities	9,280,103		9,280,103	
Investment income due and accrued	33,846,180	68,553	33,777,627	
Uncollected premiums and agents' balances in course of collection	391,902,637	9,041,584	382,861,053	(1)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,384,088,129		5,384,088,129	(1)
Accrued retrospective premiums	535,270		535,270	
Amounts recoverable from reinsurers	846,144,798		846,144,798	
Current federal and foreign income tax recoverable and interest thereon	228,610,181		228,610,181	
Net deferred tax asset	246,391,293		246,391,293	
Guaranty funds receivable or on deposit	292,270		292,270	
Furniture and equipment; including health care delivery assets (\$0)	884,723	884,723		
Net adjustment in assets and liabilities due to foreign Exchange rates	24,852,848	24,852,848		
Receivables from parent, subsidiaries and affiliates	566,799,486		566,799,486	(1)
Aggregate write-ins for other than invested assets	<u>840,143,486</u>	<u>76,980,172</u>	<u>763,163,315</u>	
Total assets	<u>\$21,863,533,538</u>	<u>\$122,837,259</u>	<u>\$21,740,696,280</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 5,447,686,596	(2)
Reinsurance payable on paid loss and loss adjustment expenses			1,042,266,957	
Other expenses			6,587,529	
Taxes, licenses and fees			43,564,147	
Unearned premiums			3,588,323,448	
Advance premiums			90,017,272	
Ceded reinsurance premiums payable			988,890,535	
Funds held by Company under reinsurance treaties			5,319,946,464	
Amounts withheld or retained by Company for account of others			266,335	
Remittances and items not allocated			36,777,239	
Provision for reinsurance			2,054,732	
Payable for securities			22,437,726	
Aggregate write-ins for liabilities			<u>319,602,705</u>	
Total liabilities			16,908,421,686	
Aggregate write-ins for special surplus funds		\$ 3,600,000		
Surplus notes		1,793,936,999		
Unassigned funds (surplus)		<u>3,034,737,596</u>		
Surplus as regards policyholders			<u>4,832,274,595</u>	
Total liabilities, surplus and other funds			<u>\$21,740,696,280</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned		\$8,056,067,860
Deductions:		
Losses incurred	\$ 5,148,552,868	
Loss adjustment expenses incurred	779,678,646	
Other underwriting expenses incurred	2,484,079,288	
Aggregate write-ins for underwriting deductions	<u>(1,870,406)</u>	
Total underwriting deductions		<u>8,410,440,396</u>
Net underwriting loss		(354,372,536)

Investment Income

Net investment income earned	\$ 35,867,581	
Net realized capital gains	<u>8,547,409</u>	
Net investment gain		44,414,990

Other Income

Net loss from agents' or premium balances charged off	\$ (33,245,899)	
Finance and service charges not included in premiums	80,545,860	
Aggregate write-ins for miscellaneous income	<u>(176,887,245)</u>	
Total other income		<u>(129,587,284)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		(439,544,830)
Dividends to policyholders		<u>549,112</u>
Net income after dividends to policyholders but before federal and foreign income taxes		(440,093,941)
Federal and foreign income taxes incurred		<u>(73,277,859)</u>
Net loss		<u>\$ (366,816,082)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$4,667,381,410
Net loss	\$ (366,816,082)	
Change in net unrealized capital gains less capital gains tax	485,490,175	
Change in net deferred income tax	26,274,498	
Change in non-admitted assets	17,801,958	
Change in provision for reinsurance	245,407	
Change in surplus notes	100,000	
Aggregate write-ins for gains and losses in surplus	<u>1,797,229</u>	
Change in surplus as regards policyholders for the year		<u>164,893,185</u>
Surplus as regards policyholders, December 31, 2021		<u>\$4,832,274,595</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Surplus as regards policyholders, December 31, 2017 per Examination			\$4,203,105,006
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net loss	\$	\$ 498,376,918	
Change in net unrealized capital gains less capital gains tax	1,167,568,546		
Change in net deferred income tax	46,720,992		
Change in non-admitted assets	103,659,658		
Change in provision for reinsurance		1,993,924	
Change in surplus notes		199,600,000	
Aggregate write-ins for gains and losses in surplus	<u>11,191,235</u>	<u></u>	
Total gains and losses	<u>\$1,329,140,431</u>	<u>\$ 699,970,842</u>	
Net increase in surplus as regards policyholders			<u>629,169,589</u>
Surplus as regards policyholders, December 31, 2021, per Examination			<u>\$4,832,274,595</u>

Summary of Reclassifications as of December 31, 2021

The following reclassifying entries adjustments were to reflect the misclassification of certain intercompany reinsurance balances between Farmers Insurance Exchange (FIE) and Farmers Property and Casualty Company (Farmers P&C), which were incorrectly classified as intercompany receivable balances. These examination adjustments have no impact on the surplus as regards policyholders.

<u>Annual Statement Line Item</u>	<u>Balance per Annual Statement</u>	<u>Increase</u>	<u>Decrease</u>	<u>Adjusted Balance</u>
Uncollected Premiums and Agents' Balances in Course of Collection	\$ 267,048,552	\$ 115,812,501		\$ 382,861,053
Deferred Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due	\$ 3,754,766,993	\$ 1,629,321,136		\$ 5,384,088,129
Receivables from Parent, Subsidiaries and Affiliates	\$ 2,311,933,123		\$ 1,745,133,637	\$ 566,799,486

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Uncollected Premiums and Agents' Balances in Course of Collection
Deferred Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet
Due
Receivables from Parent, Subsidiaries, and Affiliates

The National Association of Insurance Commissioners Property and Casualty Annual Statement Instructions (Annual Statement Instructions) explicitly state that intercompany reinsurance transactions should be reported on the appropriate reinsurance lines of the Annual Statement.

On Farmers Insurance Exchange's (FIE) and Farmers Property and Casualty Company's (Farmers P&C) respective 2021 Annual Statements, each company reported the prior year-end unearned premium balances of approximately \$1.745 billion due from and due to each company respectively, as a Receivable/Payable from/to parent, subsidiaries, and affiliates. The incorrect reporting resulted in a reclassification entry to the reported balance, which decreased the receivable from the parent, subsidiaries, and affiliates by \$1.745 billion. The uncollected premium and agents' balances in course of collection and deferred premiums, agents' balances and installments booked but deferred and not yet due increased by the same amount.

Statements of Statutory Accounting Principles No. 3 states correction of all accounting errors in previously issued financial statements, for which an amended financial statement was not filed, shall be reported as an adjustment to the unassigned funds (surplus) in the period an error is detected. Once informed of the error, FIE and Farmers P&C reported the correction in the Companies' 2023 2nd Quarterly Statement. The adjustments have no impact on the surplus as regards policyholders of both companies. A review of the 2023 2nd Quarterly Statement indicated that the FIE had made the correction entry and included the related footnote. It is recommended that FIE takes the necessary steps to ensure that all parts of the Annual Statement Instructions are complied with.

(2) Losses and Loss Adjustment Expenses

California Department of Insurance (CDI) retained Risk Regulatory Consulting, Inc. (RRC) for the purpose of assisting this examination in determining the reasonableness of the Group's loss and loss adjustment expense reserves. The analysis of the loss and loss adjustment expense reserves was performed on a group-wide basis. Based on the analysis performed by RRC and a peer review of their work by a Casualty Actuary from the CDI, the Group's reserves for losses and loss adjustment expenses were found to be reasonably stated and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

Permitted Accounting Practices – Negative Goodwill

Pursuant to the Statement of Statutory Accounting Principles No. 68R, negative goodwill shall be amortized over the period in which the insurer benefits economically, not to exceed ten years. On November 19, 2022, the Farmers Insurance Exchange (FIE), Fire Insurance Exchange (Fire), and Truck Insurance Exchange (Truck) (Collectively, the Exchanges) requested a permitted accounting practice to allow the immediate recognition of the remaining unamortized negative goodwill totaling \$172,255,749 that resulted from the acquisition of Farmers Property and Casualty Company (formerly Metropolitan Property and Casualty Company) in April 2021. The amount of goodwill reported on December 31, 2021 for FIE, Fire, and Truck were \$137,804,863, \$17,225,608, \$17,225,608, respectively.

On December 21, 2022, the permitted accounting practice request was granted by the California Department of Insurance (CDI). Accordingly, this negative goodwill is fully recognized as a credit to surplus as regards policyholders in the 2022 Annual Statement.

Coronavirus Pandemic (COVID-19) and Farmers Business Resumption Plan

Pursuant to the CDI Bulletin 2020-3, California Insurance Commissioner (Commissioner) requested insurance companies to provide premium credit, reduction, return of premium or other appropriate premium adjustment to the policyholders during the pandemic. In response to the request by the Commissioner, the Farmers Insurance Group made a \$311.2 million voluntary return of premium as an adjustment to policyholder premiums in the 2022 Annual Statements.

In mid-December 2022, the California Department of Insurance (CDI) requested that Farmers Insurance Exchange, Truck Insurance Exchange, Mid-Century Insurance Company, and Coast National Insurance Company (Coast National) refund additional premiums to private passenger auto policyholders due to changes in driving behaviors during the pandemic. Coast National negotiated with CDI and agreed to refund an additional \$2,959,715 on January 27, 2023. The other companies continue to discuss the request with CDI.

Michigan Catastrophic Claims Association (MCCA) Refund of Surplus

On February 2, 2022, the Michigan Catastrophic Claims Associations (MCCA) issued a bulletin informing members of a November 3, 2021 decision made by the MCCA board of directors to refund approximately \$3.0 billion of its estimated surplus to its member insurance companies on all policies in-force as of October 31, 2021. This estimated refund of surplus resulted primarily from the realized and expected savings and benefits from the reforms to Michigan's no-fault law and higher than projected investment returns. Guidance accompanying this bulletin instructed all member companies to report this pass-through refund to policyholders as an asset and a liability in their 2021 financial statements. In addition, it requires all refunds to policyholders to be completed within 60 days after the MCCA refunds the surplus to its members. The Farmers Insurance Group's share of the refund is \$48.7 million and is reflected in the aggregate write-in sections of the assets and liability pages of the 2021 Group's combined financial statement.

Dispositions

Effective January 1, 2022, 21st Century Auto Insurance Company of New Jersey, 21st Century Indemnity Insurance Company, and 21st Century Pacific Insurance Company were sold to Everspan Insurance Company, an Arizona domiciled company, for \$6.8 million, \$11.6 million, and \$11.5 million, respectively. The sales were approved by the New Jersey Department of Insurance, the Pennsylvania Insurance Department, and the Colorado Division of Insurance, respectively.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 60): It is recommended that the Companies adhere to California Insurance Code (CIC) Sections 734 and 730(f) by providing full access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail. If the maintenance of such audit trail is against the Groups' policy, then the records should be kept separately within the required maintenance period pursuant to CIC Section 730(f).

Accounts and Records (Page 61): It is recommended that the Companies comply with California Code of Regulation (CCR) Section 2309.13 and Model Audit Rule (MAR) Section 13, Paragraph B and not interfere with the requirements of the external auditors to provide the state examiners with full access to the external workpapers without company involvement.

Accounts and Records (Page 62): It is recommended that the Companies take necessary steps to adjust the reporting structure for both Internal Audit (IA) and Internal Control over

Financial Report (ICFR) to comply with the CIC Section 900.3 and MAR, Section 15, Paragraphs B-D. These steps shall include but are not limited to:

- 1) Ensure IA function is organizational independent, which shall directly report to Audit Committee; however, dual reporting is allowed;
- 2) The IA function shall not defer ultimate judgment on the responsibilities or audit matters to others. the scope of the IA shall be determined independently based on the operational needs; and
- 3) Having the ICFR function align with the IA function, whose purpose is to test controls in compliance with MAR, and report directly to the Audit Committee. Dual reporting is allowed.

Accounts and Records – Certificate of Authority Requirements (Page 63): It is recommended that the Companies adhere to CIC Section 706.7 by implementing processes and procedures to obtain, track, and maintain up-to-date Certificates of Authority, company name changes, and proof of payment of licensing fees.

Accounts and Records – Corporate Records (Page 63): It is recommended that the Companies comply with their bylaws and take the necessary steps to fill the vacant Board of Directors position.

Accounts and Records – Premium Tax Filing (Page 64): It is recommended that the Companies amend their 2020 and 2021 premium tax returns to reflect the correct policies-related fees collected. It is further recommended that the Companies take necessary action to improve procedures for quality assurance reviews of their premium tax returns for accuracy prior to filing.

Accounts and Records – Vehicle Fraud Assessment (Page 64): It is recommended that the Companies establish and implement procedures to ensure that the accuracy of the filings and maintain accurate and adequate documentation to support their filing with the California Department of Insurance to ensure future compliance with CCR Section 2698.62(d).

Notes to Financial Statements items - Uncollected Premiums and Agents' Balances in Course of Collection, Deferred Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due, Receivables from Parent, Subsidiaries, and Affiliates (Page 69): It is recommended that the Companies take the necessary steps to ensure future compliance with the Annual Statement Instructions.

Previous Report of Examination

Accounts and Records (Page 42): It is recommended that the Farmers Insurance Group (Group) adhere to CIC Section 734 by providing full access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined and implement procedures to ensure future compliance with CIC Section 734. This is a repeat finding during the current examination; however, the Group has taken actions to remediate the violation.

ACKNOWLEDGMENT

Acknowledgment is made of the assistance extended by the Farmers Insurance Exchange and its subsidiaries' officers and employees during the course of this examination.

Respectfully submitted,

**Alea Talbert
Pence** 
Digitally signed by Alea Talbert Pence
DN: DC=net, DC=rsm, DC=mgldrey, OU=Field Resources, OU=Offices, OU=Fairington
CT-01, OU=Users, CN=Alea Talbert Pence
Reason: I am the author of this document
Location:
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Alea P. Talbert-Pence, CFE
Examiner-In-Charge
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State of California

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Vivien Fan, CFE
Bureau Chief, LA-II
Department of Insurance
State of California

EXHIBIT A

FINANCIAL STATEMENTS

Fire Insurance Exchange

The accompanying comments on financial statements reflect no examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Non-ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 1,040,545,166	\$	\$ 1,040,545,166	
Common stocks	1,280,430,155		1,280,430,155	
Real Estate:				
Properties held for production of income	113,235,649		113,235,649	
Cash, cash equivalents and short-term investments	(160,562,438)		(160,562,438)	
Receivable for securities	24,688,325		24,688,325	
Investment income due and accrued	6,709,432	1,625	6,707,807	
Uncollected premiums and agents' balances in course of collection	21,142,699	1,310,375	19,832,324	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	278,847,253		278,847,253	
Accrued retrospective premiums	77,575		77,575	
Amounts recoverable from reinsurers	313,938,867		313,938,867	
Current federal and foreign income tax recoverable and interest thereon	97,032,707		97,032,707	
Guaranty funds receivable or on deposit	114,492		114,492	
Aggregate write-ins for other than invested assets	<u>43,290,865</u>	<u>95,643</u>	<u>43,195,222</u>	
Total assets	<u>\$ 3,059,490,747</u>	<u>\$ 1,407,643</u>	<u>\$ 3,058,083,104</u>	

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses		\$ 787,557,280	(2)
Reinsurance payable on paid loss and loss adjustment expenses		283,252,949	
Other expenses		737,738	
Taxes, licenses and fees		3,662,167	
Net deferred tax liability		21,361,598	
Unearned premiums		520,046,884	
Advance premiums		13,045,982	
Ceded reinsurance premiums payable		480,007,036	
Funds held by Company under reinsurance treaties		620,441	
Provision for reinsurance		817,568	
Payable to parent, subsidiaries and affiliates		67,409,315	
Payable for securities		28,440,278	
Aggregate write-ins for liabilities		<u>(56,038,415)</u>	
Total liabilities		2,150,920,820	
Surplus notes	\$ 137,292,000		
Unassigned funds (surplus)	<u>769,870,284</u>		
Surplus as regards policyholders		<u>907,162,284</u>	
Total liabilities, surplus and other funds		<u>\$ 3,058,083,104</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned		\$1,167,546,054
Deductions:		
Losses incurred	\$ 746,453,397	
Loss adjustment expenses incurred	112,580,242	
Other underwriting expenses incurred	360,011,504	
Aggregate write-ins for underwriting deductions	<u>(271,073)</u>	
Total underwriting deductions		<u>1,218,774,069</u>
Net underwriting loss		(51,228,015)

Investment Income

Net investment income earned	\$ 10,274,352	
Net realized capital gains	<u>2,922,378</u>	
Net investment gain		13,196,730

Other Income

Net loss from agents' or premium balances charged off	\$ (4,818,246)	
Finance and service charges not included in premiums	11,673,302	
Aggregate write-ins for miscellaneous income	<u>(5,604,176)</u>	
Total other income		<u>1,250,880</u>
Net income before dividends to policyholders and before federal and foreign income taxes		(36,780,405)
Dividends to policyholders		<u>79,581</u>
Net income after dividends to policyholders but before federal and foreign income taxes		(36,859,986)
Federal and foreign income taxes incurred		<u>(5,121,290)</u>
Net loss		<u>\$ (31,738,697)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$ 891,374,536
Net loss	\$ (31,738,697)	
Change in net unrealized capital gains less capital gains tax	42,586,238	
Change in net deferred income tax	3,910,295	
Change in non-admitted assets	979,375	
Change in provision for reinsurance	175,555	
Aggregate write-ins for gains and losses in surplus	<u>(125,018)</u>	
Change in surplus as regards policyholders for the year		<u>15,787,747</u>
Surplus as regards policyholders, December 31, 2021		<u>\$ 907,162,284</u>

FINANCIAL STATEMENTS

TRUCK INSURANCE EXCHANGE

The accompanying comments on financial statements reflect no examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Non-ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 1,098,920,084	\$	\$ 1,098,920,084	
Common stocks	1,134,911,723	3,655	1,134,908,068	
Real Estate:				
Properties held for production of income	16,233,034		16,233,034	
Cash, cash equivalents and short-term investments	(223,065,861)		(223,065,861)	
Receivable for securities	7,665,086		7,665,086	
Investment income due and accrued	5,636,260		5,636,260	
Uncollected premiums and agents' balances in course of collection	18,039,260	1,352,007	16,687,253	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	234,626,805		234,626,805	
Accrued retrospective premiums	80,161		80,161	
Amounts recoverable from reinsurers	173,760,936		173,760,936	
Funds held by or deposited with reinsured companies	5,991,173		5,991,173	
Current federal and foreign income tax recoverable and interest thereon	14,354,374		14,354,374	
Guaranty funds receivable or on deposit	121,011		121,011	
Aggregate write-ins for other than invested assets	<u>174,918,065</u>		<u>174,918,065</u>	
Total assets	<u>\$ 2,662,192,112</u>	<u>\$ 1,355,662</u>	<u>\$ 2,660,836,451</u>	

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses		\$ 814,512,532	(2)
Reinsurance payable on paid loss and loss adjustment expenses		170,483,957	
Other expenses		763,066	
Taxes, licenses and fees		19,584,938	
Net deferred tax liability		43,081,068	
Unearned premiums		537,381,779	
Advance premiums		13,480,848	
Ceded reinsurance premiums payable		171,136,994	
Funds held by Company under reinsurance treaties		506,628	
Provision for reinsurance		1,447,893	
Payable to parent, subsidiaries and affiliates		174,660,126	
Payable for securities		7,328,097	
Aggregate write-ins for liabilities		<u>(51,593,901)</u>	
Total liabilities		1,902,774,025	
Surplus notes	\$ 317,039,000		
Unassigned funds (surplus)	<u>441,023,425</u>		
Surplus as regards policyholders		<u>758,062,425</u>	
Total liabilities, surplus and other funds		<u>\$ 2,660,836,451</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned		\$1,206,464,258
Deductions:		
Losses incurred	\$ 771,231,859	
Loss adjustment expenses incurred	116,473,829	
Other underwriting expenses incurred	372,010,674	
Aggregate write-ins for underwriting deductions	<u>(280,109)</u>	
Total underwriting deductions		<u>1,259,436,252</u>
Net underwriting loss		(52,971,994)

Investment Income

Net investment income earned	\$ 3,425,810	
Net realized capital gains	<u>8,386,541</u>	
Net investment gain		11,812,351

Other Income

Net loss from agents' or premium balances charged off	\$ (4,978,854)	
Finance and service charges not included in premiums	12,062,409	
Aggregate write-ins for miscellaneous income	<u>(6,219,527)</u>	
Total other income		<u>864,028</u>
Net income before dividends to policyholders and before federal and foreign income taxes		(40,295,615)
Dividends to policyholders		<u>82,234</u>
Net income after dividends to policyholders but before federal and foreign income taxes		(40,377,849)
Federal and foreign income taxes incurred		<u>(7,223,005)</u>
Net loss		<u>\$ (33,154,845)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$ 731,528,249
Net loss	\$ (33,154,845)	
Change in net unrealized capital gains less capital gains tax	54,971,704	
Change in net deferred income tax	3,625,676	
Change in non-admitted assets	1,039,373	
Change in provision for reinsurance	243,486	
Aggregate write-ins for gains and losses in surplus	<u>(191,218)</u>	
Change in surplus as regards policyholders for the year		<u>26,534,176</u>
Surplus as regards policyholders, December 31, 2021		<u>\$ 758,062,425</u>

FINANCIAL STATEMENTS

CIVIC PROPERTY AND CASUALTY COMPANY

The accompanying comments on financial statements reflect no examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Non-ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 266,746,099	\$	\$ 266,746,099	
Cash, cash equivalents and short-term investments	2,786,856		2,786,856	
Other invested assets	1,252,401		1,252,401	
Investment income due and accrued	752,218		752,218	
Uncollected premiums and agents' balances in course of collection	2,009,812	174,717	1,835,095	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	25,801,882		25,801,882	
Accrued retrospective premiums	10,343		10,343	
Amounts recoverable from reinsurers	881,337		881,337	
Net deferred tax asset	<u>4,855,472</u>	<u>383,950</u>	<u>4,471,522</u>	
Total assets	<u>\$ 305,096,421</u>	<u>\$ 558,667</u>	<u>\$304,537,754</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 98,992,820	(2)
Reinsurance payable on paid loss and loss adjustment expenses			9,557,790	
Other expenses			98,460	
Unearned premiums			69,339,586	
Advance premiums			1,739,464	
Ceded reinsurance premiums payable			616,419	
Amounts withheld or retained by Company for account of others			25,716	
Payable to parent, subsidiaries and affiliates			349,869	
Aggregate write-ins for liabilities			<u>899,524</u>	
Total liabilities			181,619,647	
Common capital stock		\$ 5,000,000		
Gross paid in and contributed surplus		60,000,000		
Unassigned funds (surplus)		<u>57,918,107</u>		
Surplus as regards policyholders			<u>122,918,107</u>	
Total liabilities, surplus and other funds			<u>\$304,537,754</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned		\$ 155,672,804
Deductions:		
Losses incurred	\$ 100,371,420	
Loss adjustment expenses incurred	13,693,213	
Other underwriting expenses incurred	48,001,539	
Aggregate write-ins for underwriting deductions	<u>(36,143)</u>	
Total underwriting deductions		<u>162,030,029</u>
Net underwriting loss		(6,357,225)

Investment Income

Net investment income earned	\$ 3,205,097	
Net realized capital gains	<u>(33,317)</u>	
Net investment gain		3,171,780

Other Income

Net loss from agents' or premium balances charged off	\$ (642,433)	
Finance and service charges not included in premiums	1,556,433	
Aggregate write-ins for miscellaneous income	<u>(797,373)</u>	
Total other income		<u>116,627</u>
Net income before dividends to policyholders and before federal and foreign income taxes		(3,068,818)
Dividends to policyholders		<u>10,611</u>
Net income after dividends to policyholders but before federal and foreign income taxes		(3,079,429)
Federal and foreign income taxes incurred		<u>(224,821)</u>
Net loss		<u>\$ (2,854,609)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$ 125,247,056
Net loss	\$ (2,854,609)	
Change in net deferred income tax	509,484	
Change in non-admitted assets	9,821	
Aggregate write-ins for gains and losses in surplus	<u>6,355</u>	
Change in surplus as regards policyholders for the year		<u>(2,328,949)</u>
Surplus as regards policyholders, December 31, 2021		<u>\$ 122,918,107</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Surplus as regards policyholders, December 31, 2017 per Examination			\$ 116,053,948
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 5,619,542	\$	
Change in net unrealized capital gains less capital gains tax	7,130		
Change in net deferred income tax	825,691		
Change in non-admitted assets	428,614		
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>16,818</u>	
Total gains and losses	<u>\$ 6,880,977</u>	<u>\$ 16,818</u>	
Net increase in surplus as regards policyholders			<u>6,864,159</u>
Surplus as regards policyholders, December 31, 2021, per Examination			<u>\$ 122,918,107</u>

FINANCIAL STATEMENTS

EXACT PROPERTY AND CASUALTY COMPANY

The accompanying comments on financial statements reflect no examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Non-ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 266,611,858	\$	\$ 266,611,858	
Cash, cash equivalents and short-term investments	2,663,478		2,663,478	
Other invested assets	1,799,449		1,799,449	
Investment income due and accrued	799,791		799,791	
Uncollected premiums and agents' balances in course of collection	2,010,145	174,717	1,835,429	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	25,806,568		25,806,568	
Accrued retrospective premiums	10,343		10,343	
Amounts recoverable from reinsurers	154,714		154,714	
Current federal and foreign income tax recoverable and Net deferred tax asset	<u>4,847,268</u>	<u>381,145</u>	<u>4,466,123</u>	
Total assets	<u>\$ 304,703,615</u>	<u>\$ 555,862</u>	<u>\$ 304,147,753</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 98,982,368	(2)
Reinsurance payable on paid loss and loss adjustment expenses			9,557,790	
Other expenses			98,460	
Taxes, licenses and fees			1,182	
Unearned premiums			69,339,586	
Advance premiums			1,739,464	
Ceded reinsurance premiums payable			236,553	
Amounts withheld or retained by Company for account of others			22,860	
Payable to parent, subsidiaries and affiliates			35,409	
Aggregate write-ins for liabilities			<u>914,065</u>	
Total liabilities			180,927,736	
Common capital stock		\$ 5,000,000		
Gross paid in and contributed surplus		60,000,000		
Unassigned funds (surplus)		<u>58,220,016</u>		
Surplus as regards policyholders			<u>123,220,016</u>	
Total liabilities, surplus and other funds			<u>\$ 304,147,753</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned		\$ 155,672,804
Deductions:		
Losses incurred	\$ 100,394,039	
Loss adjustment expenses incurred	13,699,963	
Other underwriting expenses incurred	48,001,539	
Aggregate write-ins for underwriting deductions	<u>(36,143)</u>	
Total underwriting deductions		<u>162,059,397</u>
Net underwriting loss		(6,386,594)

Investment Income

Net investment income earned	\$ 3,836,083	
Net realized capital gains	<u>(35,617)</u>	
Net investment gain		3,800,466

Other Income

Net loss from agents' or premium balances charged off	\$ (642,433)	
Finance and service charges not included in premiums	1,556,433	
Aggregate write-ins for miscellaneous income	<u>(797,162)</u>	
Total other income		<u>116,838</u>
Net income before dividends to policyholders and before federal and foreign income taxes		(2,469,289)
Dividends to policyholders		<u>10,611</u>
Net income after dividends to policyholders but before federal and foreign income taxes		(2,479,900)
Federal and foreign income taxes incurred		<u>(119,199)</u>
Net loss		<u>\$ (2,360,701)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$ 125,053,015
Net loss	\$ (2,360,701)	
Change in net deferred income tax	516,783	
Change in non-admitted assets	4,565	
Aggregate write-ins for gains and losses in surplus	<u>6,355</u>	
Change in surplus as regards policyholders for the year		<u>(1,832,998)</u>
Surplus as regards policyholders, December 31, 2021		<u>\$ 123,220,016</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Surplus as regards policyholders, December 31, 2017 per Examination			\$ 116,065,589
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 5,901,783	\$	
Change in net unrealized capital gains less capital gains tax	7,130		
Change in net deferred income tax	836,498		
Change in non-admitted assets	425,834		
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>16,818</u>	
Total gains and losses	<u>\$ 7,171,245</u>	<u>\$ 16,818</u>	
Net increase in surplus as regards policyholders			<u>7,154,427</u>
Surplus as regards policyholders, December 31, 2021, per Examination			<u>\$ 123,220,016</u>

FINANCIAL STATEMENTS

MID-CENTURY INSURANCE COMPANY

The accompanying comments on financial statements reflect no examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Non-ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 3,752,799,532	\$	\$ 3,752,799,532	
Common stocks	2,638,751,333	306,838	2,638,444,495	
Real Estate:				
Properties held for production of income	190,093,729		190,093,729	
Cash, cash equivalents and short-term investments	46,419,272		46,419,272	
Other invested assets	87,221,999	18,887,292	68,334,707	
Receivable for securities	9,645,217		9,645,217	
Investment income due and accrued	24,148,456	35,356	24,113,101	
Uncollected premiums and agents' balances in course of collection	34,813,146	2,795,459	32,017,688	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	450,176,402		450,176,402	
Accrued retrospective premiums	165,494		165,494	
Amounts recoverable from reinsurers	133,684,590		133,684,590	
Current federal and foreign income tax recoverable and interest thereon	249		249	
Net deferred tax asset	61,703,046	15,444	61,687,602	
Guaranty funds receivable or on deposit	268,688		268,688	
Aggregate write-ins for other than invested assets	<u>42,987,051</u>	<u>371,061</u>	<u>42,615,991</u>	
Total assets	<u>\$ 7,472,878,204</u>	<u>\$ 22,411,450</u>	<u>\$ 7,450,466,754</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 1,638,385,668	(2)
Reinsurance payable on paid loss and loss adjustment expenses			153,172,619	
Other expenses			3,206,501	
Taxes, licenses and fees			11,213,034	
Unearned premiums			1,109,433,348	
Advance premiums			27,831,427	
Ceded reinsurance premiums payable			144,513,350	
Amounts withheld or retained by Company for account of others			416,481	
Payable to parents, subsidiaries and affiliates			68,376,708	
Payable for securities			28,684,038	
Aggregate write-ins for liabilities			<u>59,893,080</u>	
Total liabilities			3,245,126,254	
Common capital stock		\$ 4,800,000		
Gross paid in and contributed surplus		3,053,036,112		
Unassigned funds (surplus)		<u>1,147,504,388</u>		
Surplus as regards policyholders			<u>4,205,340,501</u>	
Total liabilities, surplus and other funds			<u>\$7,450,466,754</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned		\$2,490,764,921
Deductions:		
Losses incurred	\$ 1,604,359,253	
Loss adjustment expenses incurred	220,029,942	
Other underwriting expenses incurred	768,024,537	
Aggregate write-ins for underwriting deductions	<u>(578,290)</u>	
Total underwriting deductions		<u>2,591,835,442</u>
Net underwriting loss		(101,070,521)

Investment Income

Net investment income earned	\$ 131,374,387	
Net realized capital gains	<u>553,931</u>	
Net investment gain		131,928,318

Other Income

Net loss from agents' or premium balances charged off	\$ (10,278,924)	
Finance and service charges not included in premiums	24,903,040	
Aggregate write-ins for miscellaneous income	<u>(13,962,265)</u>	
Total other income		<u>661,850</u>
Net income before dividends to policyholders and before federal and foreign income taxes		31,519,647
Dividends to policyholders		<u>169,774</u>
Net income after dividends to policyholders but before federal and foreign income taxes		31,349,874
Federal and foreign income taxes incurred		<u>5,835,984</u>
Net income		<u>\$ 25,513,890</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$4,112,482,359
Net income	\$ 25,513,890	
Change in net unrealized capital gains less capital gains tax	60,739,517	
Change in net deferred income tax	12,945,879	
Change in non-admitted assets	(6,443,246)	
Aggregate write-ins for gains and losses in surplus	<u>102,102</u>	
Change in surplus as regards policyholders for the year		<u>92,858,142</u>
Surplus as regards policyholders, December 31, 2021		<u>\$4,205,340,501</u>

FINANCIAL STATEMENTS

NEIGHBORHOOD SPIRIT PROPERTY AND CASUALTY COMPANY

The accompanying comments on financial statements reflect no examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Non-ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 271,414,700	\$	\$ 271,414,700	
Cash, cash equivalents and short-term investments	1,783,328		1,783,328	
Other invested assets	1,799,443		1,799,443	
Investment income due and accrued	871,407		871,407	
Uncollected premiums and agents' balances in course of collection	2,000,922	174,717	1,826,206	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	25,676,891		25,676,891	
Accrued retrospective premiums	10,343		10,343	
Amounts recoverable from reinsurers	1,563,588		1,563,588	
Net deferred tax asset	<u>4,872,450</u>	<u>388,568</u>	<u>4,483,882</u>	
Total assets	<u>\$ 309,993,073</u>	<u>\$ 563,285</u>	<u>\$ 309,429,789</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 99,052,504	(2)
Reinsurance payable on paid loss and loss adjustment expenses			9,557,790	
Other expenses			98,460	
Taxes, licenses and fees			55,953	
Unearned premiums			69,339,586	
Advance premiums			1,739,464	
Ceded reinsurance premiums payable			1,359,855	
Amounts withheld or retained by Company for account of others			3,730	
Payable to parent, subsidiaries and affiliates			320,709	
Aggregate write-ins for liabilities			<u>883,108</u>	
Total liabilities			182,411,161	
Common capital stock		\$ 5,000,000		
Gross paid in and contributed surplus		60,000,000		
Unassigned funds (surplus)		<u>62,018,628</u>		
Surplus as regards policyholders			<u>127,018,628</u>	
Total liabilities, surplus and other funds			<u>\$309,429,789</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned		\$ 155,672,804
Deductions:		
Losses incurred	\$ 100,406,639	
Loss adjustment expenses incurred	13,704,240	
Other underwriting expenses incurred	48,001,539	
Aggregate write-ins for underwriting deductions	<u>(36,143)</u>	
Total underwriting deductions		<u>162,076,275</u>
Net underwriting loss		(6,403,471)

Investment Income

Net investment income earned	\$ 4,086,179	
Net realized capital gains	<u>88,866</u>	
Net investment gain		4,175,045

Other Income

Net loss from agents' or premium balances charged off	\$ (642,433)	
Finance and service charges not included in premiums	1,556,433	
Aggregate write-ins for miscellaneous income	<u>(797,085)</u>	
Total other income		<u>116,915</u>
Net income before dividends to policyholders and before federal and foreign income taxes		(2,111,511)
Dividends to policyholders		<u>10,611</u>
Net income after dividends to policyholders but before federal and foreign income taxes		(2,122,122)
Federal and foreign income taxes incurred		<u>(104,097)</u>
Net loss		<u>\$ (2,018,025)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$ 128,536,647
Net loss	\$ (2,018,025)	
Change in net deferred income tax	492,120	
Change in non-admitted assets	1,531	
Aggregate write-ins for gains and losses in surplus	<u>6,355</u>	
Change in surplus as regards policyholders for the year		<u>(1,518,019)</u>
Surplus as regards policyholders, December 31, 2021		<u>\$ 127,018,628</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Surplus as regards policyholders, December 31, 2017 per Examination			\$ 118,905,972
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 6,866,253	\$	
Change in net unrealized capital gains less capital gains tax	7,144		
Change in net deferred income tax	874,428		
Change in non-admitted assets	381,650		
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>16,819</u>	
Total gains and losses	<u>\$ 8,129,475</u>	<u>\$ 16,819</u>	
Net increase in surplus as regards policyholders			<u>8,112,656</u>
Surplus as regards policyholders, December 31, 2021, per Examination			<u>\$ 127,018,628</u>

FINANCIAL STATEMENTS

FARMERS REINSURANCE COMPANY

The accompanying comments on financial statements reflect no examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Non-ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 364,087,542	\$	\$ 364,087,542	
Common Stocks	14,446,881		14,446,881	
Cash, cash equivalents and short-term investments	9,513,453		9,513,453	
Investment income due and accrued	2,974,629		2,974,629	
Uncollected premiums and agents' balances in course of collection	92,285,921		92,285,921	
Current federal and foreign income tax recoverable and Interest thereon	2,124,551		2,124,551	
Net deferred tax asset	8,441,224		8,441,224	
Receivables from parent, subsidiaries and affiliates	<u>299,946</u>		<u>299,946</u>	
Total assets	<u>\$ 494,174,147</u>	<u>\$</u>	<u>\$ 494,174,147</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 89,424,733	(2)
Reinsurance payable on paid loss and loss adjustment expenses			27,627,981	
Unearned premiums			182,440,551	
Payable for securities			249,169	
Aggregate write-ins for liabilities			<u>41,221</u>	
Total liabilities			299,783,655	
Common capital stock		\$ 5,000,000		
Gross paid in and contributed surplus		170,000,000		
Unassigned funds (surplus)		<u>19,390,492</u>		
Surplus as regards policyholders			<u>194,390,492</u>	
Total liabilities, surplus and other funds			<u>\$494,174,147</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned		\$ 191,790,988
Deductions:		
Losses incurred	\$ 117,335,357	
Loss adjustment expenses incurred	18,480,265	
Other underwriting expenses incurred	<u>104,762,313</u>	
Total underwriting deductions		<u>240,577,935</u>
Net underwriting loss		(48,786,947)

Investment Income

Net investment income earned	\$ 9,703,856	
Net realized capital gains	<u>102,237</u>	
Net investment gain		9,806,094

Other Income

Aggregate write-ins for miscellaneous income	<u>(399)</u>	
Total other income		<u>(399)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		<u>(38,981,253)</u>
Net income after dividends to policyholders but before federal and foreign income taxes		(38,981,253)
Federal and foreign income taxes incurred		<u>(1,743,183)</u>
Net loss		<u>\$ (37,238,070)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$ 274,248,827
Net loss	\$ (37,238,070)	
Change in net unrealized capital gains or (losses) less capital gains tax	362,429	
Change in net deferred income tax	7,017,306	
Dividends to stockholders	<u>(50,000,000)</u>	
Change in surplus as regards policyholders for the year		<u>(79,858,335)</u>
Surplus as regards policyholders, December 31, 2021		<u>\$ 194,390,492</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2017 through December 31, 2021

Surplus as regards policyholders, December 31, 2017 per Examination			\$ 77,507,724
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 13,403,072	\$	
Change in net unrealized capital gains less capital gains tax	305,595		
Change in net deferred income tax	760,520		
Change in non-admitted assets	2,413,581		
Surplus adjustments: Paid in Dividends to stockholders	150,000,000		
	<u> </u>	<u>50,000,000</u>	
Total gains and losses	<u>\$ 166,882,768</u>	<u>\$ 50,000,000</u>	
 Net increase in surplus as regards policyholders			 <u>116,882,768</u>
Surplus as regards policyholders, December 31, 2021, per Examination			<u>\$ 194,390,492</u>