

REPORT OF EXAMINATION  
OF THE  
21st CENTURY INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2017



Insurance Commissioner

FILED 6-28-19

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Los Angeles, California  
May 16, 2019

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

21st CENTURY INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 3 Beaver Valley Road, Wilmington, Delaware 19803. The Company's statutory home office is located at 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California 95833.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2013. This examination covers the period from January 1, 2014 through December 31, 2017.

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 Company's 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 Company 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 Company’s financial statements.

This examination report includes findings of fact and general information about the Company and its 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 Company.

This was a coordinated examination with California as the lead state of the Farmers Insurance Group. The states of Delaware, New Jersey, New York, and Pennsylvania participated on the examination, and it was conducted concurrently with the examinations of the following insurance entities in the holding company group:

<b>Group/Company</b>	<b>NAIC CoCode</b>	<b>Domiciled State</b>
<b>FARMERS INSURANCE EXCHANGE GROUP</b>		
Farmers Insurance Company of Arizona	21598	AZ
Farmers Insurance Exchange (the 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

<b>Group/Company</b>	<b>NAIC CoCode</b>	<b>Domiciled State</b>
<b>FARMERS INSURANCE EXCHANGE GROUP</b>		
<b>Group/Company</b>	<b>NAIC CoCode</b>	<b>Domiciled State</b>
<b>FARMERS INSURANCE EXCHANGE GROUP (continued)</b>		
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

<b>Group/Company</b>	<b>NAIC CoCode</b>	<b>Domiciled State</b>
<b>COAST NATIONAL/BRISTOL WEST GROUP</b>		
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

<b>Group/Company</b>	<b>NAIC CoCode</b>	<b>Domiciled State</b>
<b>FOREMOST GROUP</b>		
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

<b>Group/Company</b>	<b>NAIC CoCode</b>	<b>Domiciled State</b>
<b>21st CENTURY INSURANCE GROUP</b>		
21st Century Casualty Company	36404	CA
21st Century Insurance Company	12963	CA
21st Century Superior Insurance Company	43761	CA
21st Century Pacific Insurance Company	23795	CO

<b>Group/Company</b>	<b>NAIC CoCode</b>	<b>Domiciled State</b>
<b>21st CENTURY INSURANCE GROUP</b>		
21st Century Assurance Company	44245	DE
American Pacific Insurance Company, Inc.	10805	HI
Farmers Insurance Hawaii, Inc.	28487	HI
21st Century Advantage Insurance Company	25232	MN

<b>Group/Company</b>	<b>NAIC CoCode</b>	<b>Domiciled State</b>
<b>21st CENTURY INSURANCE GROUP (continued)</b>		
21st Century Auto Insurance Company of New Jersey	10184	NJ
21st Century Pinnacle Insurance Company	10710	NJ
21st Century National Insurance Company <sup>(a)</sup>	36587	NY
21st Century North America Insurance Company	32220	NY
21st Century Centennial Insurance Company	34789	PA
21st Century Indemnity Insurance Company	43974	PA
21st Century Preferred Insurance Company	22225	PA
21st Century Premier Insurance Company	20796	PA
21st Century Security Insurance Company <sup>(b)</sup>	23833	PA
21st Century Insurance Company of the Southwest	10245	TX

- (a) 21st Century National Insurance Company was sold to Plymouth Rock Assurance Corporation (Plymouth), effective April 1, 2018.
- (b) 21st Century Security Insurance Company (Security) was sold to Plymouth, which assigned its right to acquire Security to High Point Preferred Insurance Company, effective August 1, 2018.

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

Except for the Farmers Reinsurance Company, which is part of the Zurich Group, all the above companies are part of the Farmers Insurance Group of companies.

### COMPANY HISTORY

On July 1, 2009, Farmers Group, Inc. (FGI), a Nevada corporation that is an indirect wholly-owned subsidiary of Zurich Financial Services, Ltd., purchased the 21st Century

Personal Auto Group (21st Century PAG) companies which included the Company's parent, 21st Century Insurance Group, from American International Group (AIG). Subsequently, on July 1, 2009, FGI sold 80% of the shares of the 21st Century PAG entities to Farmers Insurance Exchange (Exchange), and 10% of the shares each to Fire Insurance Exchange (Fire), and Truck Insurance Exchange (Truck). FGI, doing business as Farmers Underwriters Association, is the Attorney-in-Fact for the Exchange; Fire Underwriters Association is Attorney-in-Fact for Fire, and Truck Underwriters Association is the Attorney-in-Fact for Truck. FGI owns 100% of the Fire Underwriters Association and Truck Underwriters Association. The California Department of Insurance approved FGI's acquisition and subsequent sale, as described above, of the 21st Century PAG companies from AIG, effective July 1, 2009.

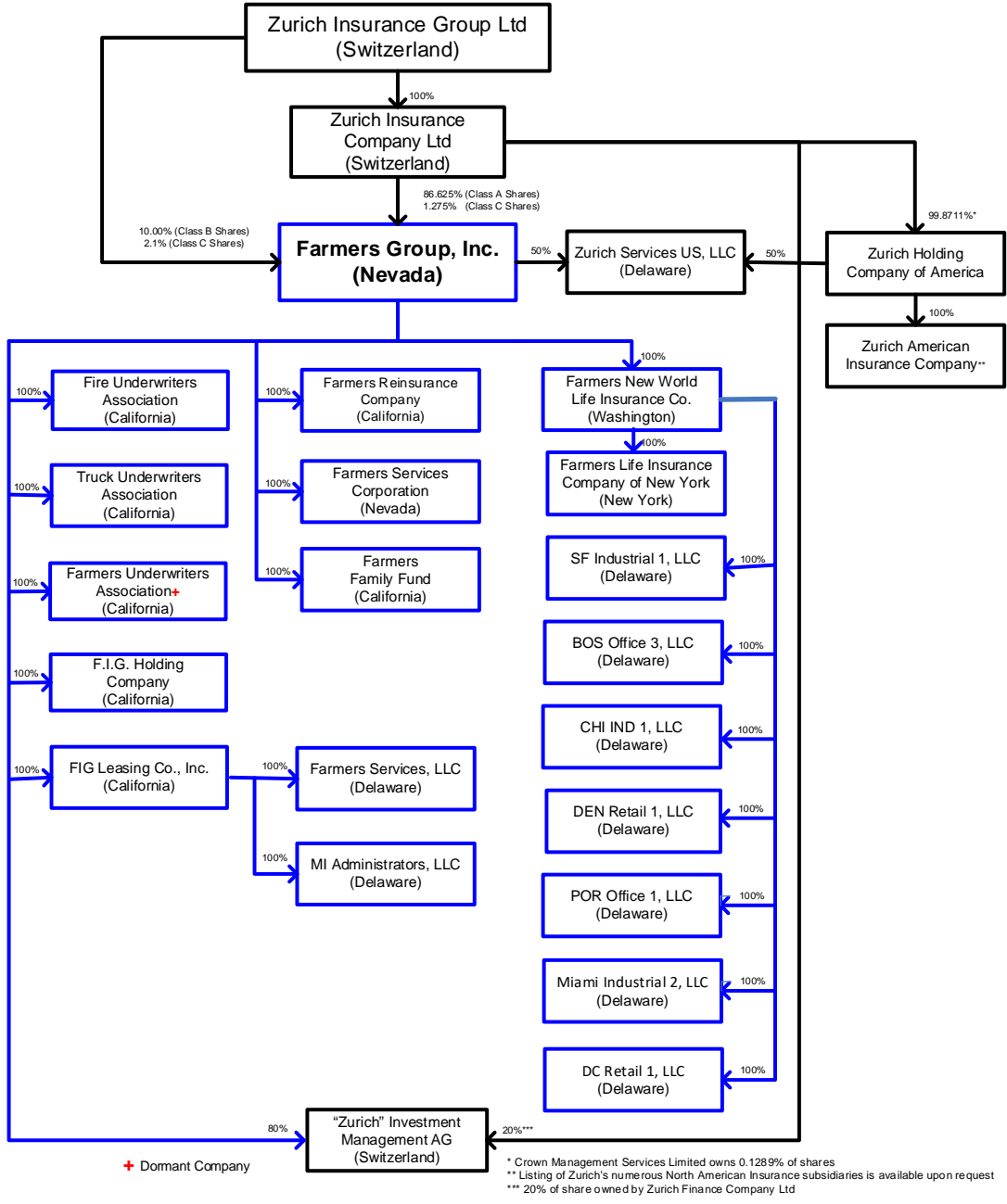
### Capitalization

The Company is authorized to issue 10,000 shares of common stock with a par value of \$300 per share. As of December 31, 2017, there were 10,000 shares issued and outstanding. In 2017, the Company's direct intermediate parent, 21<sup>st</sup> Century Insurance Group, paid-in contributed capital and surplus of \$36,500,000.

### MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The following organizational chart shows the interrelationship of the Company with its ultimate parents, along with its subsidiaries within the holding company system. All ownership is 100% unless denoted otherwise:

# ZURICH ORGANIZATION (NAIC GROUP CODE 0212)





FARMERS EXCHANGES ORGANIZATION  
(NAIC GROUP CODE 0069)

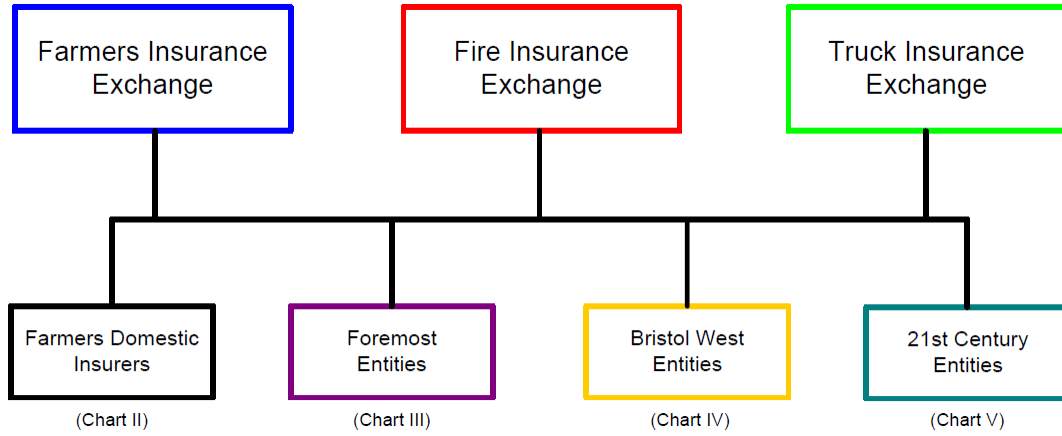


CHART II: EXCHANGES/FARMERS ENTITIES ORGANIZATION

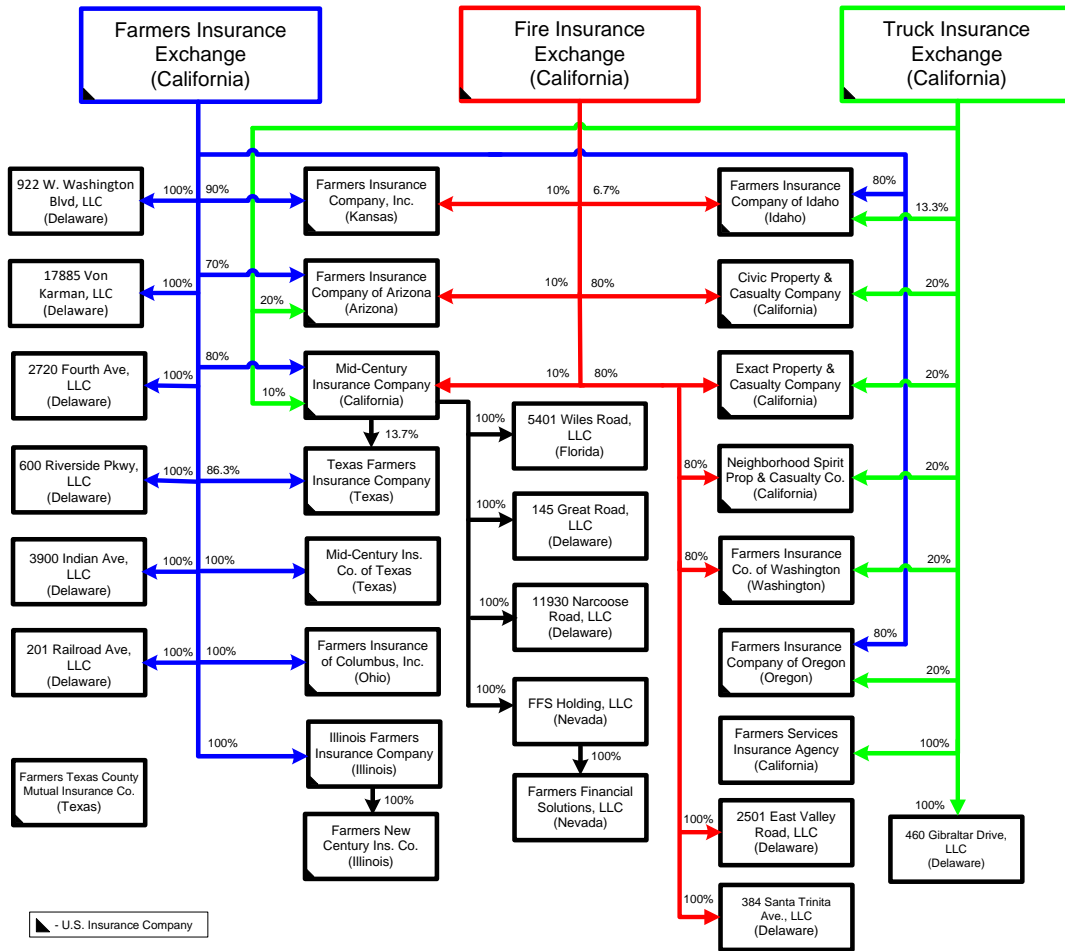
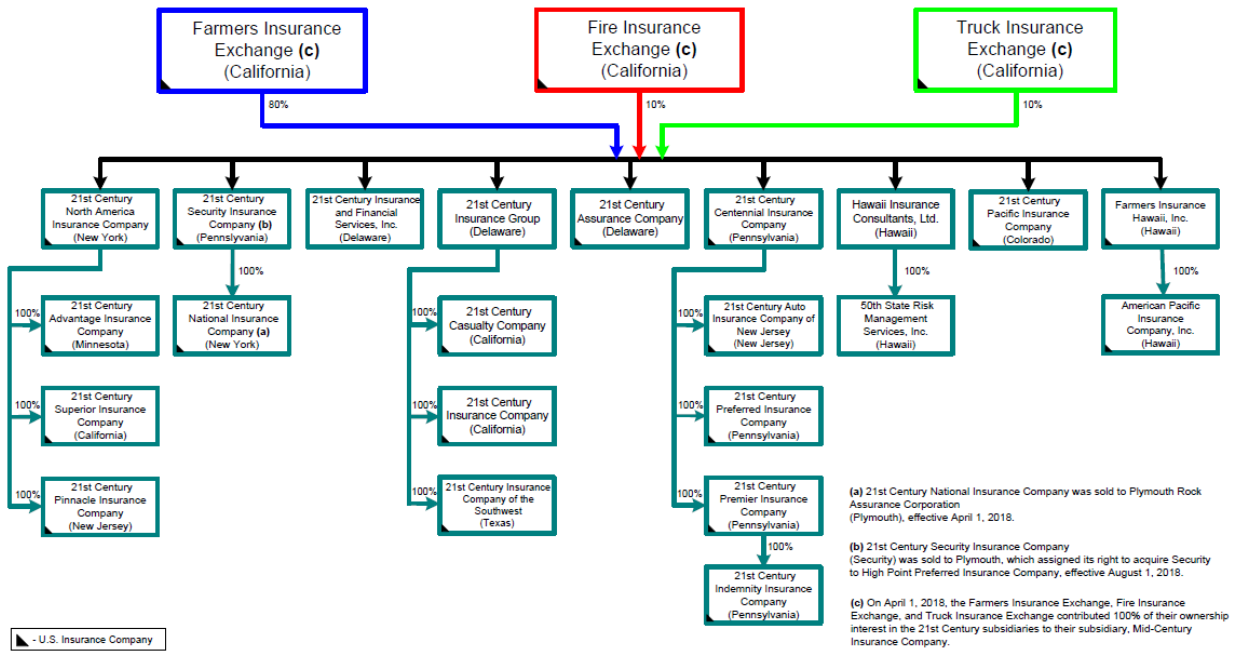


CHART V: EXCHANGES/21st CENTURY ORGANIZATION



Management of the Company is vested in a board of directors of not less than four, but not more than seven members, who are elected annually. Following are members of the board and principal officers of the Company serving at December 31, 2017:

Directors

Name and Location

Principal Business Affiliation

Richard M. Ferraro (a)  
Thousand Oaks, California

West Region Director  
Private Equity Consulting

Scott W. Hood (b)  
Leawood, Kansas

Senior Consultant  
Rockdale Group

Gail N. Jackson  
Playa del Rey, California

Physician

Sherman L. Lewis, III  
Pearland, Texas

President  
The Lewis Group

Gerald A. McElroy (c)  
La Quinta, California

Board Member  
Real Benefits Group

## Principal Officers

<u>Name</u>	<u>Title</u>
Glenn A. Pfeil <sup>(d)</sup>	President
Keith G. Daly <sup>(e)</sup>	Vice President
Ronald G. Myhan <sup>(f)</sup>	Vice President
James L. Nutting	Actuary
Theresa L. Harm	Treasurer
Maura C. Popp	Secretary
Jeffrey L. Pepper	Assistant Treasurer

- (a) Guy M. Hanson was elected to the board of directors, replacing Richard M. Ferraro, effective March 20, 2018.
- (b) Thomas S. Noh was elected to the board of directors, replacing Scott W. Hood, effective June 6, 2018. Mr. Noh was replaced on the board of directors by Timothy J. Murray, effective March 19, 2019.
- (c) Glenn A. Pfeil was elected to the board of directors, effective June 6, 2018, replacing Gerald A. McElroy who departed the board of directors on March 20, 2018 when the sole shareholder of the Company conducted an election of directors via unanimous written consent.
- (d) William D. Loucks, Jr. was elected to the board of directors and as President, replacing Glenn A. Pfeil, effective October 1, 2018.
- (e) Robert P. Howard was elected as Vice President, replacing Keith G. Daly, effective June 11, 2018.
- (f) Thomas S. Noh was elected as Vice President and Assistant Treasurer, replacing Ronald G. Myhan, effective June 1, 2019.

## Management Agreements

Investment Management Agreement: Farmers Group, Inc. (FGI), acting on behalf of the Exchanges (Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange, and the subsidiaries of these Exchanges), entered into an Investment Management Agreement with the following third-party advisor to act as the investment manager:

- DWS Investment Management Americas, Inc.: FGI entered into an Investment Management Agreement dated July 1, 1998, amended January 31, 2009, and April 12, 2011, with its affiliate, Scudder Kemper Investments Inc. (Scudder). In 2002, Scudder was acquired and replaced by

Deutsche Asset Management, and the name changed to Deutsche Investment Management Americas, Inc. In March of 2018, the name changed to DWS Investment Americas, Inc. (Deutsche). Deutsche, a non-affiliate, manages the fixed income and equity asset portfolios. Fees are based on a sliding scale percentage of the value of the portfolio being managed.

- Wells Capital Management, Inc.: FGI entered into an Investment Management Agreement, dated March 6, 2015, with Wells Capital Management, Inc., a non-affiliate, to manage the municipal and tax-exempt securities portfolio. Fees are based on a sliding scale percentage of the value of the portfolio being managed.

**Tax Sharing Agreement:** Effective September 1, 2013, the Company entered into a Tax Sharing Agreement with the Exchange, and its various insurance and non-insurance affiliates and subsidiaries. The Exchange 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 if separate returns were filed. Intercompany balances are settled monthly with the final settlement made within 30 days after the final filing date of the consolidated return. This agreement was approved by the California Department of Insurance (CDI) on February 18, 2014, pursuant to California Insurance Code (CIC) Section 1215.5(b)(4), as well as by the regulators of the domiciliary states of the Exchange's affiliates outside of California.

The Company's portion of the federal income taxes paid or (recovered) under the Tax Sharing Agreement for 2014, 2015, 2016, and 2017 was \$5,496,843, \$10,483,538, (\$4,066,851), and \$1,627,468, respectively.

**Revolving Credit Facility Framework Agreement:** Effective January 25, 2017, the Farmers Companies, all of whom are affiliate insurers within the Farmers Insurance Holding Company System, became signatories to a Revolving Credit Facility Framework Agreement (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 lender's admitted assets. Loans may be collateralized with a pledge of securities at the lender's option, and in any event, must be collateralized if the loan crosses from one calendar year to the next, such that the loan is secured and perfected as of December 31 of the year the loan was made.

Parties to this agreement will renegotiate the terms of this agreement at least once every three (3) years. This agreement was non-disapproved by the CDI on January 18, 2017, pursuant to CIC Section 1215.5(b)(1)(A), as well as by the state regulators of the Farmers Insurance Exchange's affiliates outside of California. The parties to this agreement are:

Revolving Credit Facility Framework Agreement Participants

21st Century Advantage Insurance Company	Farmers Insurance Company of Columbus, Inc.
21st Century Assurance Company	Farmers Insurance Company of Idaho
21st Century Casualty Company	Farmers Insurance Company of Oregon
21st Century Centennial Insurance Company	Farmers Insurance Company of Washington
21st Century Indemnity Insurance Company	Farmers Insurance Exchange
21st Century Insurance Company	Farmers Insurance Hawaii, Inc.
21st Century National Insurance Company	Farmers New Century Insurance Company
21st Century North America Insurance Company	Farmers Specialty Insurance Company
21st Century Pacific Insurance Company	Farmers Texas County Mutual Insurance Company
21st Century Pinnacle Insurance Company	Foremost County Mutual Insurance Company
21st Century Preferred Insurance Company	Foremost Insurance Company Grand Rapids, Michigan
21st Century Premier Insurance Company	Foremost Lloyds of Texas
21st Century Security Insurance Company	Foremost Property & Casualty Insurance Company
American Pacific Insurance Company	Foremost Signature Insurance Company
Bristol West Casualty Insurance Company	Fire Insurance Exchange
Bristol West Insurance Company	Illinois Farmers Insurance Company
Bristol West Preferred Insurance Company	Mid-Century Insurance Company
Civic Property and Casualty Company	Mid-Century Insurance Company of Texas
Coast National Insurance Company	Neighborhood Spirit Property and Casualty Company
Exact Property and Casualty Company	Security National Insurance Company
Farmers Insurance Company, Inc.	Texas Farmers Insurance Company
Farmers Insurance Company of Arizona	Truck Insurance Exchange

## TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance business in the District of Columbia and the following 42 states:

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

The Company writes private passenger automobile insurance business on a direct basis. In 2017, the Company wrote \$528.9 million of direct premiums. Most of these premiums, \$528.5 million (99.9%), were written in California, with the remainder being written in Alaska and Tennessee. The Company, along with the rest of the companies in the 21st Century Insurance Group, stopped offering new business outside of the states of California and Hawaii at the end of 2016, with the remaining book of business being moved to the Bristol West platforms and products, or it was non-renewed by the end of 2018.

## LOSS EXPERIENCE

The following schedule reflects the net underwriting and net investment results along with the net income and losses as reported by the Company in its financial statements for the years under examination, and through December 31, 2018:

<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>
2014	\$	\$ (1,625,170)	\$ 27,686,061	\$ 21,088,783
2015		1,360,918	31,893,934	24,270,441
2016		(785,284)	26,779,477	31,252,552
2017			24,412,415	24,018,401
Sub-totals	\$	\$ (1,049,536)	\$ 110,771,887	\$ 100,630,177
2018			32,488,433	27,450,155
Totals	\$	\$ (1,049,536)	\$ 143,260,320	\$ 128,080,332

Given the changes to the intercompany reinsurance and pooling arrangement in 2016 described in the “REINSURANCE” section, the Company’s 2017 and forward net underwriting losses will be zero. Moving forward, the Company’s only source of income or loss will be the result of investment-related activities.

## REINSURANCE

### Amended and Restated Intercompany Pooling Agreement

The Company is a party to the Amended and Restated Intercompany Pooling Agreement (Amended Agreement). In accordance with the terms of the Amended Agreement, 100% of the net business written by each of the participants is ceded to 21st Century North America Insurance Company (21st CNAIC), the lead company in the 21st Century Personal Lines Intercompany Pool (Pool).

Under the terms of the Amended Agreement, liabilities relating to losses with a date of loss prior to July 1, 2009, are ceded to the pool members by 21st CNAIC, based on each pool member’s fixed pooling participation percentage. Losses which have a date of loss on and after July 1, 2009 are ceded to Farmers Insurance Exchange (Exchange) by 21st CNAIC, under a 100% quota share reinsurance agreement. The Amended Agreement also provides for 21st CNAIC to assume the responsibility and expense to provide for the



management of the other members in the Pool, for which the Exchange will provide or arrange for these services.

Pursuant to Amendment No. 1 of the Amended Agreement (Amendment No. 1), effective June 1, 2016, 21st Century Auto Insurance Company of New Jersey, 21st Century Superior Insurance Company, and 21st Century Insurance Company of the Southwest (collectively referred to as Novated Companies) were removed as pool participants; however, each has:

- Assigned, transferred and conveyed to 21st CNAIC, and 21st CNAIC accepted and assumed from each of these companies:
  1. Each of these companies' rights, title, and interest in the pooling agreement;
  2. Each of the insurance policies to which each of these companies is a party to, and all of their duties, obligations, and liabilities under the pooling agreement and each insurance policy to which these companies are a party to; and
  3. The parties agreed that 21st CNAIC would replace these companies under the pooling agreement, such that these companies would no longer be a party to the pooling agreement.

The assignment and transfer by these Novated Companies to 21st CNAIC are also subject to three separate companion Assignment, Transfer, and Assumption and Novation Agreements (Novation Agreements) for each of these Novated Companies. The Company signed each of these Novation Agreements as a consenting party.

In addition, Amendment No. 1 removed Article IV: "Cessions to Pool Members from the Amended and Restated Pooling Agreement," the effect of which shall be to cease all pre-Effective Date retrocessions from 21st CNAIC to the pool participants.

The following is a list of remaining member companies in the Pool subject to this Amended Agreement as of December 31, 2017:

<b>Pool Participant</b>	<b>Pool Share (%)</b>
21st Century North America Insurance Company (Lead Company)	100.00
21st Century Casualty Company	0.00
21st Century Insurance Company	0.00
21st Century Pacific Insurance Company	0.00
21st Century Assurance Company	0.00
American Pacific Insurance Company, Inc.	0.00
Farmers Insurance Hawaii, Inc.	0.00
21st Century Advantage Insurance Company	0.00
21st Century Pinnacle Insurance Company	0.00
21st Century National Insurance Company	0.00
21st Century Centennial Insurance Company	0.00
21st Century Indemnity Insurance Company	0.00
21st Century Preferred Insurance Company	0.00
21st Century Premier Insurance Company	0.00
21st Century Security Insurance Company	0.00
Total	<u>100.00</u>

Amendment No.1 and the separate Novation Agreements were non-disapproved by the New York Department of Financial Services (NYDFS) on January 11, 2017. The California Department of Insurance (CDI) accepted NYDFS's approval of Amendment No. 1, since it is the regulator of 21st CNAIC, the lead company in the Pool, and since these agreements were required to include CDI's specific regulatory requirements before they were non-disapproved by the NYDFS. The CDI also separately approved the Novation agreement for 21st Century Superior Insurance Company, under California Insurance Code Section 1011(c). Each of the other respective regulators of the domiciliary states of the Pool members have also approved these agreements.

Assumed

Other than a participation in the aforementioned Amended Agreement, the Company has no reinsurance assumed.

Ceded

Other than a participation in the aforementioned Amended Agreement, the Company has no reinsurance ceded.

## ACCOUNTS AND RECORDS

California Insurance Code (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 Company. It is recommended that the Company 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.

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance, and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments to the amounts reported in the annual statements 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, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2013 through December 31, 2017

Statement of Financial Condition  
as of December 31, 2017

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 954,873,390	\$ 954,873,390	
Cash, cash equivalents and short-term investments	22,532,523	22,532,523	
Other invested assets	13,150,734	13,150,734	
Aggregate write-ins for invested assets	523,447	523,447	
Investment income due and accrued	6,019,577	6,019,577	
Net deferred tax asset	<u>752,463</u>	<u>752,463</u>	(1)
Total assets	<u>\$ 997,852,134</u>	<u>\$ 997,852,134</u>	
 <u>Liabilities, Surplus and Other Funds</u>			
Losses and loss adjustment expenses		\$ 0	(2)
Reinsurance payable on paid loss and loss adjust. expenses		0	
Payable to parent, subsidiaries and affiliates		<u>1,716,725</u>	
Total liabilities		1,716,725	
Common capital stock	3,000,000		
Gross paid in and contributed surplus	487,322,625		
Unassigned funds (surplus)	<u>505,812,784</u>		
Surplus as regards policyholders		<u>996,135,409</u>	
Total liabilities, surplus and other funds		<u>\$ 997,852,134</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses incurred	\$	0	
Loss adjustment expenses incurred		0	
Other underwriting expenses incurred		0	
Aggregate write-ins for underwriting deductions		<u>0</u>	
Total underwriting deductions			<u>0</u>
Net underwriting gain or loss			0

Investment Income

Net investment income earned	\$	28,161,616	
Net realized capital gains		<u>(3,749,201)</u>	
Net investment gain			<u>24,412,415</u>
Net income before federal and foreign income taxes			24,412,415
Federal and foreign income taxes incurred			<u>394,014</u>
Net income			<u>\$ 24,018,401</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		\$	934,867,623
Net income	\$	24,018,401	
Change in net unrealized capital gains less capital gains tax		2,763,387	
Change in net deferred income tax		(6,737,298)	
Change in nonadmitted assets		4,723,296	
Surplus paid in		<u>36,500,000</u>	
Change in surplus as regards policyholders for the year			<u>61,267,786</u>
Surplus as regards policyholders, December 31, 2017			<u>\$ 996,135,409</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2013 through December 31, 2017

Surplus as regards policyholders, December 31, 2013 per Examination			\$ 861,657,310
	Gain in Surplus	Loss in Surplus	
Net Income	\$ 100,630,177	\$	
Change in net unrealized capital gains less capital gains tax	796,998		
Change in net deferred income tax		25,108,551	
Change in nonadmitted assets	21,659,475		
Surplus Paid-in	36,500,000		
Total gains and losses	\$ 159,586,650	\$ 25,108,551	
Net increase in surplus as regards policyholders			134,478,099
Surplus as regards policyholders, December 31, 2017, per Examination			\$ 996,135,409

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Net Deferred Tax Assets

The Tax Cuts and Jobs Act (H.R.1) was enacted into law on December 22, 2017. The Company re-valued the deferred tax assets and liabilities from a 35% corporate tax rate to the enacted 21% corporate tax rate at December 31, 2017. The re-valuation resulted in an immaterial decrease in net admitted deferred tax assets and is reflected as a direct charge to surplus in the appropriate categories in the accompanying financial statements.

### (2) Losses and Loss Adjustment Expenses

Since the business of the Farmers Insurance Group was pooled, it was necessary to review the losses and loss adjustment expenses on a group-wide basis. Based on an analysis by a Senior Casualty Actuary from the California Department of Insurance, the Farmers Insurance Group's losses and loss adjustment expense reserves as of December 31, 2017 were found to be reasonably stated, and have been accepted for purposes of this examination.

## SUBSEQUENT EVENTS

On April 1, 2018, the Farmers Insurance Exchange, Fire Insurance Exchange, and Truck Insurance Exchange contributed 100% of their ownership interest in the 21st Century subsidiaries to their subsidiary, Mid-Century Insurance Company. This non-cash transaction was accounted for as a reorganization and change in ownership interest in all of the 21st Century subsidiaries.

The restructuring transaction qualified for an exemption to the Form A requirements under California Insurance Code Section 1215.2(g), and the exemption was granted by the California Department of Insurance on February 27, 2018.

The following is a summary of the transfer/cost of the acquired equity for each of the acquired entities:

<b>Acquired Entity</b>	<b>Transfer/Cost of Acquired Equity</b>
21st Century North America Insurance Company and its subsidiaries	\$ 364,934,606
21st Century Assurance Company	49,764,837
21st Century Pacific Insurance Company	33,846,757
21st Centennial Insurance Company and its subsidiaries	303,797,480
Farmers Insurance of Hawaii, Inc. and its subsidiaries	61,674,560
21st Century Insurance Group and its subsidiaries	<u>771,815,822</u>
<b>Totals</b>	<u>\$ 1,585,834,062</u>

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Accounts and Records (Page 16): It is recommended that the Company adhere to California Insurance Code (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.

### Previous Report of Examination

Accounts and Records (Page 10): It was recommended that the Company continue to address the recommendations made regarding its information systems controls. The Company continues to address these recommendations.



## ACKNOWLEDGEMENT

Acknowledgment is made of the assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

/S/

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/S/

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