COMBINED
MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepared for the

Farmers Insurance Exchange

And its Affiliated Property and Casualty Insurers

2021

NAIC GROUP CODE: 0069 **NAIC COMPANY CODE: 21652**

MANAGEMENT'S DISCUSSION AND ANALYSIS – 2021

The accompanying MD&A consists of the following affiliated insurance companies,

Name of Company	NAIC code	State of Domicile
Farmers Insurance Exchange	21652	California
Fire Insurance Exchange	21660	California
Truck Insurance Exchange	21709	California
American Federation Insurance Company	10245	Texas
American Pacific Insurance Company, Inc.	10805	Hawaii
Bristol West Casualty Insurance Company	11034	Ohio
Bristol West Insurance Company	19658	Ohio
Bristol West Preferred Insurance Company	12774	Michigan
Civic Property And Casualty Company	10315	California
Coast National Insurance Company	25089	California
Exact Property And Casualty Company	10318	California
Farmers Insurance Company Of Arizona	21598	Arizona
Farmers Insurance Company Of Idaho	21601	Idaho
Farmers Insurance Company Of Oregon	21636	Oregon
Farmers Insurance Company Of Washington	21644	Washington
Farmers Insurance Company, Inc.	21628	Kansas
Farmers Insurance Hawaii, Inc.	28487	Hawaii
Farmers Insurance Of Columbus, Inc.	36889	Ohio
Farmers New Century Insurance Company	10806	Illinois
Farmers Reinsurance Company	10873	California
Farmers Specialty Insurance Company	43699	Michigan
Farmers Texas County Mutual Insurance Company	24392	Texas
Foremost County Mutual Insurance Company	29254	Texas
Foremost Insurance Company Grand Rapids, Michigan	11185	Michigan
Foremost Lloyds Of Texas	41688	Texas
Foremost Property And Casualty Insurance Company	11800	Michigan
Foremost Signature Insurance Company	41513	Michigan
Illinois Farmers Insurance Company	21679	Illinois
Mid-Century Insurance Company	21687	California
Mid-Century Insurance Company Of Texas	28673	Texas
Neighborhood Spirit Property And Casualty Company	10317	California
Security National Insurance Company	33120	Florida
Texas Farmers Insurance Company	21695	Texas
21St Century Advantage Insurance Company	25232	Minnesota
21St Century Assurance Company	44245	Delaware
21St Century Auto Insurance Company Of New Jersey	10184	New Jersey
21St Century Casualty Company	36404	California
21St Century Centennial Insurance Company	34789	Pennsylvania
21St Century Indemnity Insurance Company	43974	Pennsylvania
21St Century Insurance Company	12963	California
21St Century North America Insurance Company	32220	New York
21St Century Pacific Insurance Company	23795	Colorado
21St Century Pinnacle Insurance Company	10710	New Jersey
21St Century Premier Insurance Company	20796	Pennsylvania
Farmers Property and Casualty Insurance Company	26298	Rhode Island
Farmers Group Property and Casualty Insurance Company	34339	Rhode Island
Farmers Casualty Insurance Company	40169	Rhode Island
Farmers Direct Property and Casualty Insurance Company	25321	Rhode Island
Farmers Lloyds Insurance Company of Texas	13938	Texas
Economy Fire & Casualty Company	22926	Illinois
Economy Preferred Insurance Company	38067	Illinois
Economy Premier Assurance Company	40649	Illinois

FARMERS INSURANCE EXCHANGE
And its Affiliated Property and Casualty Insurers

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GENERAL INFORMATION

Basis of Combination and Corporate Structure
The accompanying Management's Discussion and Analysis ("MD&A") of Statutory Financial Condition and Results of Operations as of December 31, 2021 has been prepared on a combined basis for the Farmers Insurance Exchange ("FIE") and its Affiliated Property and Casualty Insurers (collectively, "Farmers") and consists of all the companies listed on Page 2 of the accompanying MD&A statement.

FIE and certain members of Farmers participate in an intercompany reinsurance agreement (the "Intercompany Program"), with FIE as the lead company, pursuant to which each participant assumes a proportionate share of Farmers' results from FIE based on their respective participation percentages (see also Note 26 of the annual statement). FIE is also a participant in various other reinsurance contracts with affiliates, which occur prior to the Intercompany Program. Since these insurers are part of a consolidated group that utilizes 100% intercompany reinsurance or pooling agreements, regulatory approval was obtained to prepare a combined MD&A. Accordingly, the combined results of Farmers have been analyzed in this MD&A.

OVERVIEW

Background – Farmers operates in all 50 states, with the states of California, Texas and Washington accounting for nearly 44.0% of Farmers' total direct premiums written. Farmers offers a variety of personal automobile, personal property, business insurance, and personal lines specialty products. The automobile insurance products include liability insurance, uninsured/underinsured motorists, no-fault or personal injury protection, collision and comprehensive coverages. Farmers' personal property business is primarily comprised of single-family homeowners' policies. In addition to homeowners' policies, a variety of other policies are offered including comprehensive personal liability, residential landlord, residential fire, condominium, and renters.

On April 7, 2021, Farmers Exchanges and Farmers Group, Inc. ("FGI") announced they have jointly completed the acquisition of MetLife's property and casualty business ("MetLife Auto & Home") subsequently renamed Farmers Workplace Solutions ("FWS"), for a purchase price of $3.94 billion, assuming responsibility for 2.4 million policies in force. The closure provides the Farmers brand significant opportunity to expand its customer reach with a truly national presence, grow its core property and casualty business and strengthen its position as one of the leading personal lines carriers in the United States. As part of the transaction, the Farmers Exchanges entered into a 10-year exclusive distribution agreement with MetLife to offer Farmers personal lines products on MetLife's U.S. Group Benefits platform, which reaches 3,800 employers and approximately 37 million eligible employees.

Farmers' business insurance targets select markets for small and medium-sized commercial accounts, including automotive trades, artisans and service contractors, wholesale and distribution, habitational, restaurants, retail and service, commercial real estate, workers' compensation insurance for work-related injury, illness, or death, and commercial auto insurance protection for Uber and their independent contractor drivers while engaging in official company ridesharing activities. The uber-related ride sharing program was recently expanded to Arizona and Nevada, now covering drivers and couriers in a total of 16 states and the District of Columbia. In addition, the Farmers' business insurance started offering commercial automobile insurance coverage for the cannabis industry in December 2019.

The majority of Farmers' policies are marketed through a captive agency force, mainly in the western and mid-western United States. Independent agents are primarily used to distribute specialty, small business and FWS products. Farmers also markets mobile home and recreational vehicle products through the Foremost brand name using Farmers' exclusive agents, independent agents, and direct sales representatives throughout the country.

Collectively, Farmers' is a multi-line, multi-channel (Affinity, Direct, Exclusive and Independent agents), multi-product insurance provider, whose core business is Personal Lines. Distribution primarily runs through a vast network of trusted advisors who are exclusive agents, servicing customers through thousands of professional offices across America. Famers' most notable strengths are: an extensive distribution system (nearly 11,500 exclusive agents), size and scale, product portfolio depth and breadth, powerful and highly visible brands, common platforms and proven operating efficiency, along with a top-tier Claims organization of approximately 12,000 professionals. Farmers is a market leader, with significant scale and market share and is ranked nationally as the 6th largest Property and Casualty All lines organization (per AM Best, based on 2020 direct written premiums) in its core 29 operating states with a 4.2% market share. Gross written premiums were $24.2 billion in 2021 with approximately 15.7 million policies.

BUSINESS ENVIRONMENT

Competition – The business environment in the property and casualty insurance market is very competitive, involving several companies with diverse and competitive products which are offered across national and local markets. In spite of this broader industry's adverse trends, Farmers was able to increase surplus by $131.4 million in 2021.

As a result of the highly competitive nature of the industry, Farmers' claims paying ability and financial strength ratings have a significant impact on its ability to compete with other insurance companies to attract and retain policyholders. At any given time, there are nearly 2,500 P&C insurers in the U.S. P&C insurance market, but Farmers does not attempt to compete head to head with each of them nor in all market spaces. Farmers' major competitors are multiple-lines exclusive agency companies such as State Farm, Allstate, and American Family, but also include national carriers with similar models, such as Nationwide, Liberty Mutual, Berkshire Hathaway, and Progressive.

Ratings – Ratings are an important factor in establishing the competitive position of insurance companies. Rating agencies continue to review the financial performance and condition of all insurers, as well as reinsurance strategies, adequacy of loss reserving and their individual investment portfolios.

Each rating is subject to revision or withdrawal at any time by the assigning organization and should be evaluated independently of any other ratings.

The following table summarizes Farmers' ratings for the 2 most recent years available*:

Rating Agency	2020	2019
AM Best Company	A (Excellent)	A (Excellent)
Standard & Poor's	A (Strong)	A (Strong)
Moody Investor Service	A2 (Good)	A2 (Good)

****Farmers' ratings for 2021 will be available later in 2022.***

Investments - Farmers' investment policy is to maximize the total return of its investment portfolio while adhering to strict risk management guidelines protecting the interests of its policyholders, as well as safeguarding principal, and maintaining a highly liquid position to meet any funding requirements such as short-term obligations and unexpected developments that may occur. This investment strategy emphasizes long-term fundamental value in the selection of the investment mix. Diversification is achieved by maintaining a portfolio of high quality taxable and tax-exempt bonds (modified duration is around 3.8 years, average credit quality: Aa3), common stocks, non-redeemable preferred stocks, short-term investments, and real estate. Such portfolio management strategies include asset/liability matching, appropriate combination of fixed income and equity securities, a well-diversified portfolio, asset allocation, constant monitoring of the portfolio on a regular basis to ensure credit quality, diversification and duration parameters, and the use of professional investment advisors. In addition, $283.2 million in first lien mortgage loans on real estate were added to the portfolio through the acquisition of FWS. Farmers' cash flow is carefully monitored and its investment program is regularly and systematically reviewed to ensure funds are available to meet Farmers' obligations, while at the same time optimizing investment returns. Investment policy is directed by Farmers' Board of Governors.

Guaranty Associations and Assessments **-** Farmers receives periodic assessments from certain states to reimburse policyholders and claimants of insolvent carriers. Depending on the guidelines established by each state, these assessments are either expensed, recouped from policyholders, or utilized as credits against premium taxes. Premium tax credits are realized between 3 to 10 years depending on the guidelines established by each state.

Reinsurance **-** Farmers utilizes various reinsurance agreements to better control loss exposure, including the All Lines Quota Share agreements. Under the terms of these reinsurance agreements, the reinsurers are liable for all losses covered by such reinsurance agreements. However, the ceding insurer remains primarily liable for claims on policies issued whether or not the reinsurer meets its obligations.

Catastrophe Reinsurance **-** On an excess of loss basis, Farmers, excluding Farmers Reinsurance, retains the first $200.0 million of loss after satisfying a $100.0 million annual deductible. Coverage is in place up to $2.5 billion in all states. The Residential book in Florida has an additional coverage purchased from Florida Hurricane Catastrophe Fund, currently estimated as $173.0 million excess of a $70.6 million retention. On an aggregate basis, the companies have coverage of $700.0 million of limit excess of $1.5 billion retention net of the excess of loss reinsurance and $1.0 million per-event deductible. The FWS catastrophe reinsurance covers $175 million excess of $225 million. Hurricane losses in the Northeast are covered for additional $150.0 million excess of $400.0 million. The Florida Hurricane Catastrophe Fund reinsurance for FWS Home book in Florida is estimated as $25.9 million excess of $10.6 million retention. Additionally, Farmers purchased a $100 million treaty for hurricane losses in the Atlantic ocean (Maine – Georgia) that applied net of $400.0 million of Farmers and FWS combined losses net of their respective excess of loss reinsurance.

California Earthquake Authority ("CEA") **-** Farmers also participates in the 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 latest date for which information is available, Farmers' residential earthquake insurance market share was 13.78%, and its respective share of this contingent liability before external reinsurance was $229.2 million at December 31, 2021. Since the inception of the CEA, there has not been a significant earthquake in California. As such, the CEA has been able to build its capital and the continual increases in retained earnings and investment income lowers the possibility of additional assessments against the participating insurers.

All Lines Quota Share Agreement ("ALQS") **-** Farmers began participating in an All Lines Quota Share reinsurance agreement ("ALQS") with Farmers Re and Zurich in 2002, which has been amended over the years with the aggregate participation ratio at 33% effective April 1, 2021. Prior to this amendment, the prevailing 2020 participation ratio was 26%. (see also "Note 21C" of the 2020 Annual Statements.)

Following are the participating reinsurers in the ALQS for 2020 through 2022:

Reinsurers	2022	2021	2020
Swiss Reinsurance Company Limited ("Swiss Zurich")	9.00%	8.00%	7.00%
Hannover Rück SE ("Hannover Re")	9.00%	8.00%	7.00%
Munich Reinsurance America, Inc., ("Munich Re")	9.00%	8.00%	3.75%
Transatlantic Reinsurance Company ("Trans Re")	0.00%	3.50%	3.50%
Catlin Reinsurance Switzerland Limited ("Catlin Re")	2.25%	4.50%	4.50%
Farmers Reinsurance Company ("Farmers Re")	1.75%	1.00%	0.25%
Total	**31.00%**	**33.00%**	**26.00%**

Based on the results for 2021 and 2020, Farmers' share of recoveries were $4,907.1 million and $3,188.8 million, respectively. For the years ended December 31, 2021 and 2020, Farmers' share of ceded premiums earned were $6,959.9 million and $4,936.3 million, respectively, while the Farmers' share of the ceding commissions was $2,476.7 million and $1,585.0 million for 2021 and 2020, respectively.

Odyssey Homeowners and Specialty Line Quota Share Reinsurance Agreement ("Odyssey Agreement") - Effective December 31, 2021, Farmers entered into a one-year quota share reinsurance agreement with Odyssey Reinsurance Company ("Odyssey Re"), a third party reinsurer based in Stamford, Connecticut. This agreement provides for Farmers to cede 5.0% of homeowners business written or assumed by Farmers through the Farmers Brand Personal Lines and Farmers Workplace Solutions business units and 5.0% of the Foremost Specialty business, to Odyssey Re. The agreement includes a ceding commission and an aggregate limitation on catastrophe losses. Farmer's share of ceded premiums written and ceding commission for acquisition expenses were $278.1 million and $74.2 million, respectively.

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

Risk-Based Capital (RBC) and NAIC ratios - The NAIC utilizes a risk-based capital formula intended for regulatory monitoring of property/casualty insurers. The RBC formulas establish capital requirements for four categories of risk: asset risk, insurance risk, interest rate risk and business risk. For each risk category, the capital requirement is determined by applying factors to asset, premium and reserve items, with higher factors applied to items with greater underlying risk and vice-versa. The focus of the capital rules is a risk-based formula that applies prescribed factors to various risk elements in an insurer's business and investments to develop a minimum capital requirement designed to be proportional to the amount of risk assumed by the insurer. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending on the level of capital inadequacy. Farmers and each of its subsidiaries have capital levels that exceeded the minimum NAIC capital requirements and therefore no regulatory action under the risk-based capital rules is anticipated in both the current and near terms.

Additionally, the NAIC has established 13 financial ratios for property-casualty insurers to assist state insurance departments in their oversight of the financial condition of licensed U.S. insurance companies operating in their respective states. The NAIC's Insurance Regulatory Information System ("IRIS") calculates these ratios based on information submitted by insurers on an annual basis and shares the information with applicable state insurance departments. Each ratio has an established "usual range" of results and assists state insurance departments in executing their statutory mandate to oversee the financial condition of insurance companies. A ratio falling outside the usual range of IRIS ratios is not considered a failing result; rather unusual values are viewed as part of the regulatory early monitoring system. Generally, an insurance company will be subject to regulatory scrutiny and may be subject to regulatory action if four or more of the ratios fall outside the usual range. Out of the 52 Farmers' companies, two companies had five ratios and two companies had four ratios that were outside the usual range. These four companies are non-pooled entities with relatively small investment portfolios which normally triggers unusual values in the investment yield and related ratios. Overall, Farmers does not anticipate regulatory action for each of the companies with four values outside the usual range.

Farmers' management conducted an assessment of the effectiveness of internal controls over financial reporting as of December 31, 2021. No significant deficiencies or material weaknesses were identified upon the completion of management's assessments.

Litigation - Certain of Farmers' companies are defendants in lawsuits arising in the normal course of business, which are in various stages of development. Some of these matters seek punitive as well as compensatory damages. While it is not possible to predict the outcome of these matters with certainty, management believes that their ultimate disposition will not have a material effect on Farmers' financial position or results of operations. In addition, certain of Farmers' companies are, from time to time, involved as parties in various governmental and administrative proceedings.

Coronavirus Pandemic ("COVID-19") and Farmers Business Resumption Plan - In response to the COVID-19 pandemic some Farmers P&C Companies ("Farmers") reduced personal auto premiums to policyholders for the months of April and May, 2020, as well as providing credits to the Farmers Business Insurance customers in the restaurant, office, retail and service sectors across the country. Farmers reflected the $311.2 million in voluntary return of premium to policyholders in response to the COVID-19 pandemic as an adjustment to premiums in the accompanying Annual, 2020 financial statements. Farmers continues to monitor the impact of the ongoing COVID-19 pandemic on the global business and operating environment and to comply with state specific mandates. FIE does not anticipate a material impact on its capital or ability to service its customers.

There were no other COVID-19 related credits and refunds in 2021.

Agent Loan Relief Program - As part of the response to the COVID-19 pandemic, in April 2020, Farmers worked with the Farmers Insurance Group Federal Credit Union ("FIGFCU") to develop and offer a loan assistance program to qualifying Farmers agents. Under the terms of the program, Farmers will guarantee loans issued to certain of its agents, up to a maximum of $15 million. In addition, Farmers agreed to pay a maximum of $150 thousand servicing fee to FIGFCU. Management has established a provision, as appropriate, based on applicable accounting procedures.

FORWARD-LOOKING STATEMENTS

All statements, trend analysis and other information contained in this MD&A and elsewhere (such as press releases, presentations by Farmers, or its management or oral statements) relative to markets for Farmers' products and trends in Farmers' operations or financial results, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend" and other similar expressions, constitute forward-looking statements.

Forward-looking statements are based on Farmers' current expectations and assumptions regarding economic, competitive and legislative developments. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. They have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon Farmers. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those contemplated by the forward-looking statements.

There are several current key business initiatives at Farmers that support its business strategy, all of which are in their early stages, with focus primarily on customers, agents, products, claims, marketing, and technology, among others.

On agents and products, Farmers has undertaken numerous initiatives to increase market penetration in an effort to drive growth. One strategy is to raise the national awareness of Farmers' products and ongoing training of the Farmers' agents through advertising campaigns, particularly in new markets outside of the core 29 states, where Farmers has high potential for growth. Management recognizes that Farmers can only succeed if its agents succeed as well. Farmers provides their agents with training, business coaching and marketing assistance through numerous programs designed to help their agents succeed and grow their agencies.

With respect to products, Farmers continues to review the portfolio of its products relative to competitors and to incorporate added features to meet the needs of its diverse policyholders. Major products development and new initiatives anticipated to be launched in the current year include the continued expansion of Toggle products (explained below).

In the Farmers Personal Lines, the focus is on refining the managing of its various products plans to implement various rate change and non-rate underwriting actions aimed at addressing the most recent trends being experienced. No new states or jurisdictions are scheduled to be entered in 2022.

In Business Insurance Farmers has received approval for our rate filing for Commercial Multi-Peril book and continue to develop and plan to file new rating variables and underwriting guidelines where supported. Specific focus in 2022 on enhancing our Commercial Auto product through pricing segmentation.

Initiatives within 21st Century underwriting include monitoring reinstatements and mileage, restricting non-good drivers, and conducting segment level reviews to identify any segments that are performing at less than targeted profit levels. We are increasing the focus on the overall customer experience provided by licensed customer service representatives and online self-service portal which we expect will lead to improved retention.

Regarding Toggle, continuing expansion efforts occurred during 2021 including the launching one additional renters state bringing the total to 26 States. Additionally, Toggle rolled out its fully digital and customizable auto insurance product to four additional states for a total of five states Distribution of the Toggle auto product includes embedded insurance channels and relationships.

With respect to Foremost, Farmers Specialty area, the business plan focuses on continued moderate new business growth coupled with stable policy growth reflecting our focus in selected personal lines market niches. We expect to achieve targeted financial returns.

Bristol West offers private passenger auto insurance in 43 states and commercial auto in five states. Our commercial auto product is focused on a "light/local" niche of landscapers, artisans, etc. We plan to introduce our commercial auto product in two additional states in 2022. We monitor the trends closely in each of our states and take rate and underwriting actions as necessary to ensure profitable growth.

Regarding Farmers FWS segment, the projected business plan focuses on expansion and continues to be driving growth related to the group account business. As part of this process, plans are being established to move towards more sophisticated pricing/tiering process that requires FWS’s underwriting activity to focus on efficiency and accuracy of rating elements. The projected marketing plan will support this business strategy and focus on targeted employer marketing using direct mail, paid digital media, and email marketing. The FWS products have been well received by customers and agents as it provides additional product options.

Other programs are to improve policyholder retention and customer satisfaction by simplifying and improving the communication and service to existing customers and prospective customers. In addition, Farmers is replacing the personal lines policy administration system (“PLA”) with a new PLA system to improve product flexibility, increase speed of change, enable cross-sell capability, and lower operational costs. The new PLA system has been introduced to several states and all states are planned to be using the new PLA system by the end of 2023.

With respect to claims, the Farmers claims team is focused on improving processes and operating structures to better serve the needs of its customers. By implementing a culture of continuous improvement, the claims team is well positioned to meet the changing expectations of its customers. Claims training continues to develop high level training on customer service, technical excellence, and leadership. Claims focus on process and operating structures is delivering greater experience to both its customers and employees is management’s commitment to and retention of Farmers customers. Management believes that having engaged, fulfilled employees are the foundation of its strategy. Farmers measures employee engagement regularly and views it as a key factor in its ability to win in the marketplace.

Regarding climate-related risks, as an organization, Farmers recognizes climate change can have a potential financial impact on our insurance, financial, regulatory, operational, and reputational risks. This climate risk is being managed as part of the overall Farmers Enterprise Risk Management (“ERM”) framework. Farmers ERM is a process of coordinated risk management that encourages cooperation from all areas of the organization to manage the organization’s full range of risks as a whole and provides a consistent way to analyze all risks and their dependencies. These risks, including those relating to future climate volatility, are captured in our annual risk assessment process which is top-down for the enterprise and bottom-up for the various lines of business, claims and support functions. These risks are assessed based on their inherent risk to the organization. For those risks that have inherent risk above our risk boundary, mitigation actions are discussed and documented. On a quarterly basis, each business unit provides an update of their risk mitigation actions which are consolidated by the Farmers Risk Management function.

In the area of cyber-related risks and vulnerabilities, Farmers has a robust program to protect its customer and enterprise data. The key pillars for cyber risk protection are, applying patches in a timely manner, actively hunting for new cyber threats, scanning and monitoring on all endpoints, and firewall protection, continuously scanning for code vulnerabilities, ensuring identities and credentials are secured, and well documented and tested cyber incident response plans. For prevention, the focus is on security hygiene through vulnerability management, access controls and segmentation, as well as an in-depth security awareness program including annual trainings and frequent phishing exercises. For detection, the approach is to use advanced security tools and continuous monitoring and alerting, including threat modeling and indicator of compromise scanning. We have a follow-the-sun approach to allow for 24/7 continuous coverage of our environment to ensure all alerts and suspicious behaviors are immediately addressed. For response, we have a defined Security Incident Response playbook, outlining all the needed roles and responsibilities of all players across the organization, from IT to the business to senior leadership. We practice response scenarios in tabletop fashion to ensure agreement and alignment. Lastly for recovery, we currently utilize backup solutions in a separate data center, but we are implementing an immutable backup solution in 2022-2023 to ensure we can recover fully and quickly.

In general, Farmers strategy is built upon three main principles:

Easy customer experience: Industry-leading customer experience, with an emphasis on ease of doing business.

Expand distribution: Grow market share by engaging our agents and expanding our distribution efforts to reach more customers.

Drive operational effectiveness: Profitable, sustainable business through operational effectiveness.

In summary and looking ahead, in both the current year as well as in subsequent years, Farmers plans to continue to evolve toward a unified brand strategy and to provide customers with access to multiple distribution channels. This will allow Farmers to leverage financial, technology, and other resources more effectively, and provide more competitive products and services. Farmers marketing strategy includes direct sales online and through call centers responding to inbound calls, direct mail, internet and other third-party aggregators, as well as the recruitment and appointment of independent contractor insurance agents who sell insurance policies throughout the state. Farmers plans to measure its success with growth in its customer targeted segment with products and services that appeal to those customers and also increase the number of products sold per household.

FINANCIAL PERFORMANCE METRICS

Some of the common industry metrics that were used in the evaluation and presentation of Farmers' performance are defined as follows:

MATERIAL BALANCE SHEET CHANGES

ASSETS

Farmers' total net admitted assets increased $6,087.9 million to $32,212.1 million at December 31, 2021. The following is a summary of Farmers' net admitted assets at December 31, (in millions):

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	2021	2020
Bonds	$ 22,811.1	$ 18,092.6
Preferred stocks	28.5	
Common stocks	699.8	738.5
Real estate	595.9	596.0
Cash and short-term investments	443.4	880.0
Other invested assets	503.4	99.3
Total cash and invested assets	25,082.0	20,406.5
Premiums receivable	4,932.1	3,676.0
Reinsurance recoverable on paid losses and LAE	156.2	444.0
Federal income tax recoverable	700.7	638.1
Accrued interest and dividends	148.5	123.3
Other	1,192.6	836.3
Total assets	$ 32,212.1	$ 26,124.2

Farmers' invested asset mix at December 31, was as follows:

	2021	2020
Bonds	91.0%	88.7%
Preferred stocks	0.1%	0.0%
Common stocks	2.8%	3.6%
Real estate	2.4%	2.9%
Cash and short-term investments	1.8%	4.3%
Other invested assets	2.0%	0.5%

Bonds **-** Bonds increased by $4,718.4 million, principally driven by the purchase of FWS and a shift in the investment portfolio mix away from cash and common stocks into fixed securities.

Farmers invests in high quality and highly liquid bonds. At December 31, 2021, 97.9% of the bond portfolio was investment grade (NAIC Class 1 and 2), and approximately 87.8% of its bond holdings mature within the next ten years (see also "Schedule D - Part 1A" of the 2021 Combined Annual Statement). Management believes that the mix, quality, and maturity of Farmers' investment portfolio will be sufficient to meet current and future operational liquidity needs.

The following shows the bond quality distribution at December 31, (in millions):

NAIC Designation	2021 Statement Value	2021 % of Total	2020 Statement Value	2020 % of Total
Class 1	$ 18,434.1	80.8%	$ 14,840.2	82.0%
Class 2	3,898.6	17.1%	2,882.3	15.9%
Class 3	325.7	1.4%	295.3	1.6%
Class 4 - 6	152.7	0.7%	74.9	0.4%
Total	$ 22,811.1	100.0%	$ 18,092.6	100.0%

Preferred Stocks **-** Preferred Stocks increased by $28.5 million which is attributed to the FWS acquisition.

Common Stocks **-** Investments in non-affiliates common stocks decreased by $38.7 million mainly due to disposition of equity securities and acquiring fixed securities with the cash received in those dispositions. Farmers' stock investments include a portfolio of unaffiliated common stocks, affiliated common stocks, and non-redeemable preferred stocks. Management's criteria for unaffiliated stock selection consists of a core portfolio of institutional caliber equities that minimizes the risks associated with such instruments representing a mixture of both economically sensitive as well as growth-oriented companies.

Real Estate - Investments in real estate remained relatively unchanged with a slight decrease of $0.2 million.

Cash and Short-term Investments - Cash and short-term investments decreased $436.5 million (see discussion under Cash Flow and Liquidity.).

Other Invested Assets - Other invested assets increased $404.0 million mainly due to the acquisition of FWS which included mortgage loans on real estate of $283.2 million and an increase of $68.2 million in the investment and ownership interest in certain private equity funds, joint ventures, and partnerships.

Other Assets

Premiums Receivable **-** Premiums receivable increased $1,256.1 million primarily due to the acquisition of FWS and an overall increase in the number of policyholders on the Farmers installment payment plan due to economic and market conditions, along with modest premium growth in some core books, primarily in Specialty, Home, Personal umbrella, and Toggle. The Farmers installment payment plan, which offers flexible payment options, is designed to meet customer expectations in the evolving and changing operating environment.

Reinsurance Recoverable on Paid Losses and Loss Adjustment Expenses ("LAE") - Reinsurance recoverable on paid losses and LAE decreased by $287.9 million due to timing differences and reflects the recoverables on loss and loss adjustment expense related activities ceded to third parties under the terms of reinsurance agreements.

Federal income taxes recoverable - Federal income taxes recoverable increased by $62.6 million due to the lower receipt of income tax refunds and credits in 2021.

Other Assets **-** Other assets increased $356.3 million reflecting an increases in miscellaneous accounts receivable of $128.5 million, Premium tax recoverable of $71.9 million, Refund to policyholders receivable from MCCA $48.7 million, equities and deposits in pools and associations of $39.8 million and other miscellaneous assets of $67.3 million contributed to the remaining balance with certain assets increasing due to FWS.

LIABILITIES:

The following is a summary of Farmers' total liabilities at December 31, (in millions):

	2021	2020
Losses and loss adjustment expense reserves	$ 11,564.3	$ 9,336.0
Reinsurance payable on paid losses and loss adj. expenses	1.3	1.5
Unearned premiums	7,116.4	6,080.3
Ceded reinsurance premiums payable	460.7	120.7
Funds held under reinsurance treaties	5,321.4	3,485.5
Other liabilities	1,177.9	661.7
Total liabilities	25,642.1	19,685.6
Total policyholders' surplus	6,570.0	6,438.6
Total liabilities and policyholders' surplus	$ 32,212.1	$ 26,124.2

Loss and Loss Adjustment Expense ("LAE") Reserves **–** Losses and LAE reserves increased by $2,228.4 million mainly driven by reserve strengthening due to increasing severity trends in most books, particularly in the auto physical lines of business in line with the industry experience. Also contributing to the increase was the impact of the FWS acquisition, partially offset by the change in the ALQS participation rate to 33% in 2021 from 26% in 2020.

Reinsurance Payable on Paid Losses and Loss Adjustment Expenses **-** Reinsurance payable on paid losses and loss adjustment expenses decreased by $0.2 million due to relatively lower assumption of paid losses and loss adjustment expense activities by Farmers from third parties.

Unearned premium **-** Totaled $7,116.4 million in 2021 versus $6,080.3 million in 2020, an increase of $1,036.1 million. This increase was primarily due to the FWS acquisition, partially offset by the change in ALQS agreement from 26% % to 33% in 2021.

Ceded Reinsurance Premiums Payable **-** Ceded reinsurance premiums payable increased $340.0 million due to payables to third party reinsurers under terms of reinsurance agreements.

Funds Held by Company **-** Funds held by Farmers under reinsurance treaties increased $1,835.9 million principally due the change in the ALQS prevailing participation ratio in 2021.

Other Liabilities **-** Other liabilities increased $516.2 million driven primarily by accounts payable of $238.1 million along with increases in various other miscellaneous liabilities some driven the FWS acquisition.

POLICYHOLDERS' SURPLUS:

Net Premiums to Surplus Ratio – Farmers maintains a strong surplus position relative to the risks insured. Net premium written to surplus was 2.4 to 1 at December 31, 2021 with its surplus ratio at 41.2% through December 2021. Farmers' gross leverage ratio continues to be within industry average.

Change in Policyholders' Surplus – Farmers' surplus totaled $6.6 billion at December 31, 2021, reflecting an increase of $131.4 million.

Risk Based Capital **-** Farmers' total adjusted capital for each member company continues to be above the risk-based capital requirements.

LOSS RESERVES

Farmers writes a variety of coverages whose risk factors expose Farmers' reserves to significant variability.

One such major risk factor that impacts the variability of the Farmers' reserves is changes in claims practices and technology. Farmers does not anticipate any significant adverse development on its reserves due to past or future changes.

Another potential risk factor is catastrophes, although on a standalone basis this factor does not constitute reserve variability because it is difficult to predict the occurrence of such events with certainty. Farmers has taken steps to reduce direct catastrophe exposures and has aggressively pursued a variety of loss mitigation alternatives such as implementing coverage restrictions and limiting writings in catastrophe-prone states/regions. Farmers has implemented a catastrophe management program which management believes is appropriate given Farmers' surplus position.

The potential for material adverse deviation from the stated loss reserves due to the risk factors identified above is not considered to be significant. The absence of other risk factors from this listing does not imply that additional factors will not be identified in the future as having been a significant influence on Farmers' reserves.

RESULTS OF OPERATIONS

Underwriting Results
Farmers' mix of business includes 40.0% of direct auto, 24.6% homeowners, 11.5% FWS from April to December, 9.9% business insurance and 14.0% of other specialty coverages.

Profitability and Growth

Underwriting results for 2021 produced a loss of $676.5 million compared to a loss of $352.0 million in 2020. The 2021 underwriting loss is primarily driven by higher than expected catastrophes, higher frequency and severity of auto claims, and higher material costs related to claims such as auto replacement parts and lumber for homeowner claims.

The following is a summary of Farmers' underwriting results for the years ended December 31, (amounts in millions):

	2021	2020
Net premiums written	$ 15,965.0	$ 14,307.9
Net premiums earned	$ 16,645.1	$ 14,246.1
Losses and loss adjustment expenses incurred	12,196.6	9,840.1
Other underwriting expenses incurred	5,125.0	4,757.9
Total underwrting expenses	17,321.6	14,598.1
Underwriting Loss	$ (676.5)	$ (352.0)
Combined ratio	105.4%	102.3%

Net Premiums Written – Farmers' net premiums written increased $1,657.1 million, or (11.6%). The increase was primarily attributable to the acquisition of FWS and growth in Farmers core books compared with the prior year that was negatively impacted by the COVID-19 pandemic. Offsetting this increase was an increase of ceded premiums as a result of a change in an All Lines Quota Share reinsurance treaty from 26% to 33%, effective April 1, 2021 and the Odyssey agreement.

Net Premiums Earned - Net premiums earned, which are a function of the premiums written in the current and prior periods, increased $ 2,399.0 million which is mainly driven by the results discussed in net premiums above.

Losses and Loss Adjustment Expenses Incurred – Farmers' incurred losses and loss adjustment expenses increased by 4.2 percentage points to 73.3% in 2021 compared to the 69.1% reported in 2020 driven primarily by continued catastrophe losses, higher frequency of auto claims, and higher prices of materials due the current supply change disruptions.

Other Underwriting Expenses Incurred – Farmers' underwriting expenses incurred increased by $367.1 million driven chiefly by the growth in premiums, resulting in a relative increase in agent related expenses. The expense ratio decreased from 33.3% in 2020 to a ratio of 32.1% in 2021, reflecting a 1.2 percentage points improvement over the prior year comparative due to the prior year's premiums credits attendant with the COVID-19 refunds in that year.

Underwriting Gain or (Loss) **-** In 2021, Farmers posted a net underwriting loss of $676.5 million compared to a prior year net underwriting loss of $352.0 million principally due to the items discussed above.

Combined Ratio **-** The year to date combined ratio of 105.4% was 3.1 percentage points higher than the prior year comparative of 102.3% principally due to the overall 2021 results.

Net Investment Income Earned – In 2021, Farmers generated net investment income of $474.9 million, reflecting an increase of $8.4 million primarily due to the FWS acquisition.

Farmers maintained its asset allocation discipline of investing 2.9% of the total portfolio mainly in unaffiliated common equities and retaining approximately 91.0% in fixed-income securities, and the remaining 6.1% in real estate, cash and short-term investments and other invested assets. In 2021, invested assets continued to generate investment income and Farmers kept its exposure to interest rate risk low and credit quality high in the fixed-income portfolio. In addition, with interest rates remaining relatively low in all fixed-income sectors, Farmers plans to maintain its strategy to hold short-duration, high-quality securities.

Capital Gains and Losses on Investments
Net realized capital gains and losses on sale or maturity of securities generated a net gain of $125.4 million in 2021 and reflects the gain on the disposition of certain invested assets in 2021.

Net Unrealized Capital Gains and Losses **-** Net unrealized capital gains were $96.5 million in 2021 versus gains of $88.1 million in 2020, and are reflective of the current economic environment, especially on certain investments that are marked to market.

Other Income or Expense **-** Net other income was ($122.2) million in 2021, a decrease of ($80.8) million versus the 2020 comparative principally due an increase in miscellaneous income. Partially offsetting this increase were an increase in net gain from agents' or premium balances charged off for $21.7 million and an increase in finance and service charges not included in premiums of $6.0 million.

Gross Premiums Written – In 2021, Farmers' core gross premiums written before the All Lines Quota Share were $ 25.1 billion compared to the $20.1 billion reported in 2020. The increase was mainly driven by the acquisition of FWS which increased gross premiums written by $3,674.5 million. In addition Farmers core books increased $1,345.4 million compared with the prior year that was negatively impacted by the COVID-19 pandemic .

CASH FLOW AND LIQUIDITY

Cash Flow
In 2021 and 2020, Farmers generated a net change in cash and short-term investments outflow of $436.5 million and inflow of $279.7 million, respectively. The principal sources of funds for the Farmers are premiums, investment income, and proceeds from the sale and/or maturity of investments. The principal uses of funds include the payment of claims and claim

adjustment expenses, commissions and other acquisition costs, operating expenses, and the purchase of investments. The following table summarizes the net change (in millions):

	2021	2020
Net Cash Flows Provided By (Used In):		
Operating activities	$ 2,386.1	$ 556.0
Investing activities	(1,864.6)	(634.3)
Financing activities	(958.0)	358.0
Net change in cash and short-term investments	$ (436.5)	$ 279.7

A discussion related to the significant changes in Farmers' cash flows between 2021 and 2020 is set forth below:

Operating Activities **–** Cash proceeds from operating activities increased by $1,820.7 million from the $556.0 million reported in 2020 to $2,386.1 million in 2021, principally due to an increase in premiums collected as a result of the FWS acquisition.

Investing Activities - Cash outflows used in investing activities were $1,864.6 million in 2021 versus $634.3 million in 2020. The 2021 activity mainly reflects the purchase of FWS.

Financing Activities **–** Cash outflows used by financing activities were $958.0 million and cash inflows provided by $358.0 million for the years ended December 31, 2021 and 2020, respectively. For the year ended December 31, 2021, financing activities generated an decrease in cash of $1,305.1 million. This decrease was principally due to FWS settling a short-term borrowing of 700.0 million with the Federal Home Loan Bank in 2021 and a $315.0 million redemption by FWS in preferred stock owned by MetLife Credit Corp.

Liquidity
Surplus Loan Note Facility - Effective June 28, 2019, FIE renewed its $500 million contingent surplus note facility with a range of bank and non-bank lenders. The facility, which was initially developed in 2007, provides FIE with 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. This transaction aligns with the FIE focus on preserving their long-term capital strength, even after a major catastrophic event. FIE has not borrowed against the current or prior lines of credit on this facility. The majority of the fees associated with this program are typically front ended at the beginning of each renewal period, and as a result, the fees paid by FIE for the right to access this facility were $3.3 million and $10.0 million at December 31, 2020 and 2019, respectively. The fees paid through June 28, 2021 were $1.6 million.

This agreement expires on June 28, 2021 and was not renewed.

SUMMARY

Management believes that Farmers has the ability to meet all future cash requirements as they become due. As mentioned previously, Farmers invests much of its cash from operations in high quality fixed income securities. An investment mix heavily weighted toward bonds assures stable valuations. Additionally, the maturities on these investments are laddered to approximate expected payments of losses and other obligations. Farmers offers a broad product suite to consumers, including Auto, Home, Renters, Umbrella, Life, Motorcycle, Boat, and Business Insurance. Farmers sells these products in all the operating territories throughout the country, primarily through an exclusive agency network in the country. Farmers has a strong brand awareness in its core 29 states and plans to further expand the brand and Farmers' products to states in the Eastern third of the country. Farmers also has strong governance and a robust risk identification and management process. Farmers overall vision is to achieve market leadership by driving innovation and operational excellence to provide the best value and experience for every customer it has the privilege to serve. In pursuit of this vision, Farmers continues to adapt its strategy around its customer's needs, with goals that include but are not limited to: being the best U.S. multi-line insurance provider, and growing profitability to attract, develop, and retain top talent. Management firmly believes that these strategic goals and initiatives will continue to contribute toward Farmers overall profitability and organic surplus growth in both the short term and the long run

SUBSEQUENT EVENTS

Subsequent events have been considered through March 25th, 2022 for this MD&A, which were issued on March 30th, 2022.

Michigan Catastrophic Claims Association ("MCCA") Refund of Surplus to its Members for return to Policyholders - On February 2, 2022, the Michigan Catastrophic Claims Association ("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. All refunds to policyholders are required to be in the form of check or ACH deposit. Farmers's share of this type 1 subsequent event disclosure is $48.7 million and is reflected in the aggregate write-in sections of the assets and liabilities pages of Farmers financial statement.

The following summarizes the NAIC subsequent events Type II related transactions and events that occurred subsequent to the year-end 2021 reporting:

On January 3, 2022, Mid-Century Insurance Company, a subsidiary of the Exchanges, sold 100% of its ownership interest in 21st Century Pacific Insurance Company to Everspan Insurance Company, an Arizona domiciled company, with an effective date of January 1, 2022, for approximately $11.5M. The sale was approved by the Colorado Department of Insurance.

On January 3, 2022, 21st Century Centennial Insurance Company, a wholly owned subsidiary of Mid-Century Insurance Company, sold 100% of its ownership interest in 21st Century Auto Insurance Company New Jersey to Everspan Insurance Company, an Arizona domiciled company, with an effective date of January 1, 2022, for approximately $6.8M. The sale was approved by the New Jersey Department of Insurance.

On January 3, 2022, 21st Century Premier Insurance Company, a wholly owned subsidiary of 21st Century Centennial Insurance Company, sold 100% of its ownership interest in 21st Century Indemnity Insurance Company to Everspan

Insurance Company, an Arizona domiciled company, with an effective date of January 1, 2022, for approximately $11.6M. The sale was approved by the Pennsylvania Department of Insurance.