



6301 Owensmouth Ave
Woodland Hills, CA 91367
Bus. (818) 936-1608

www.farmersinsurance.com

February 25, 2019

**STATEMENT OF ACTUARIAL OPINION
REGARDING LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES
FARMERS INSURANCE EXCHANGE**

IDENTIFICATION

I, James L. Nutting, FCAS, MAAA, am employed by Farmers Group, Inc., in the capacity of Senior Vice President and Chief Actuary. I am a member of the American Academy of Actuaries and a Fellow of the Casualty Actuarial Society. I meet the Academy's Qualification Standard to render the following actuarial opinion. In my capacity as Chief Actuary, I render actuarial services at the request of and on behalf of a number of Property and Casualty insurers which at times use the trade name or logo of Farmers Insurance Group of Companies, or Farmers Insurance Group.

I was appointed by the Board of Governors of Farmers Insurance Exchange ("the Company"), effective December 7, 2000, to provide this actuarial opinion required in connection with the Annual Statement.

SCOPE

I have examined the actuarial assumptions and actuarial methods used in determining reserves listed in Exhibit A, shown in the Annual Statement of the Company, as prepared for filing with state regulatory officials, as of December 31, 2018, and reviewed information provided to me through February 25, 2019.

The reserve amounts shown in Exhibit A reflect the Loss Reserve Disclosure Items (8) through (14) in Exhibit B.

In forming my opinion on the loss and loss adjustment expense reserves and unearned premium reserves for long duration contracts, I relied upon data prepared by Ron Myhan, Vice President of Finance, an authorized officer of the Company. I evaluated that data for reasonableness and consistency. I also reconciled the data to Schedule P-Part 1 of the reporting entities' current Combined Annual Statement. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary.

OPINION

In my opinion, the amounts shown in Exhibit A on account of the items identified:

- (a) Meet the insurance laws of the state of California.
- (b) Are consistent with reserves computed in accordance with accepted actuarial standards and principles.
- (c) Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under terms of its policies and agreements.
- (d) Make a reasonable provision for the unearned premium reserves for long duration contracts of the Company under the terms of its policies and agreements.

The Company is part of an inter-company reinsurance agreement with other affiliates of the Farmers Insurance Group of Companies and participates in accordance with its named shares shown in the table below and in Note #26 (Notes to Financial Statements) to the Annual Statement. The analysis of the reserve items identified above was performed at the all companies combined level prior to application of these reinsurance arrangements. My opinion is, therefore, based on the reserves established for the combination of companies subject to the agreement. The application of the reinsurance arrangement to arrive at the Company reserves shown above was performed by responsible and authorized employees of the insuring entities and Farmers Group, Inc.

Table 1: Intercompany Program Participation

Participant	State of Domicile	Participation %
Farmers Insurance Exchange*	CA	51.75%
Fire Insurance Exchange	CA	7.50%
Mid-Century Insurance Company	CA	16.00%
Truck Insurance Exchange	CA	7.75%
Farmers New Century Insurance Company	IL	0.75%
Texas Farmers Insurance Company	TX	1.00%
Illinois Farmers Insurance Company	IL	0.75%
Farmers Insurance Company, Inc.	KS	0.75%

Participant	State of Domicile	Participation %
Farmers Insurance Company of Idaho	ID	0.75%
Farmers Insurance Company of Oregon	OR	7.00%
Farmers Insurance Company of Washington	WA	2.00%
Farmers Insurance of Columbus, Inc.	OH	1.00%
Civic Property and Casualty Company	CA	1.00%
Exact Property and Casualty Company	CA	1.00%
Neighborhood Property and Casualty Company	CA	1.00%
Total		100.00%

*Lead Company

RELEVANT COMMENT

The materiality standard used to assess the risk of material adverse deviation is \$409,634,428, evaluated as the lesser of 10% of the Company's loss and LAE reserves, 10% of statutory surplus, and the action/control level from the Risk-Based Capital position, all as of December 31, 2018. The principal risk factors that could result in a deviation from the Company's reserve levels are exposure to Asbestos liabilities, changes in claims department procedures, and unexpected changes in loss costs as the economy continues to expand. There exists a risk of material adverse deviation from Asbestos liabilities as the range of reasonable estimates for these liabilities is wide, and the sum of the carried reserves and the materiality standard falls within this range.

Regarding asbestos and environmental impairment liability claim activity, the Company currently holds \$273,981,437 of net reserves and \$276,521,617 in gross reserves for losses and allocated loss adjustment expenses for asbestos liability. In addition the Company, currently holds \$45,349,608 of net reserves and \$45,487,483 in gross reserves for losses and allocated loss adjustment expenses for environmental impairment liability. These amounts appear in Financial Statement Note #33 to the Annual Statement and are intended to represent the Company's ultimate liability for these items. Estimation of ultimate liabilities for these claims is unusually difficult due to outstanding issues such as whether coverage exists, definition of an occurrence, determination of ultimate damages, and allocation of such damages to financially responsible parties. Therefore, any estimation of these liabilities is subject to significantly greater than normal variation and uncertainty.

Anticipated net salvage and subrogation is included as a reduction to loss reserves as stated in Exhibit B and as reported in Schedule P of the Annual Statement.

Loss reserves as stated in Exhibit B and as reported in Schedule P of the Annual Statement do not include any tabular discount.

The Company participates in a small number of involuntary pooling arrangements. The booked reserves and earned premiums for some pools reflect losses incurred and premiums earned by the pools through various dates prior to year-end. The Company practice is to record the loss and loss adjustment expense reserves reported to it by the pools. Reserve exposure with respect to pools is considered to be immaterial.

A reserve for the benefit of Farmers Insurance Exchange employees rendering services for the Company is carried as part of the reserve for loss adjustment expenses to be paid in the next year. This reserve is evaluated and established by responsible and authorized employees of the insuring entities and Farmers Group, Inc., and included in line 13 of Exhibit B.

It is my understanding that the Company has not entered into any retroactive reinsurance or financial reinsurance.

Regarding security of reinsured transactions, the Company's practice includes review of the reinsurer by an intermediary and by responsible and authorized employees. Ceded recoverables associated with reinsurers are compiled and displayed in Schedule F in accordance with statutory accounting requirements, and the majority of these recoverables are with affiliates and government entities. Uncollectable reinsurance after consideration of Schedule F penalties is not considered to be material relative to the reserve level and surplus level held by the Company.

The loss and loss adjustment expense reserves identified on Exhibit A did not create any exceptional values for IRIS tests #11, #12, or #13.

An actuarial report and any underlying actuarial workpapers supporting the findings expressed in this Statement of Actuarial Opinion will be retained for a period of seven years in the administrative offices of the Company and available for regulatory examination.



James L. Nutting, Senior Vice President and Chief Actuary
Member, American Academy of Actuaries
Fellow, Casualty Actuarial Society
Farmers Group, Inc.
6301 Owensmouth Ave
Woodland Hills, CA 91367
(818) 936-1608
james_nutting@farmersinsurance.com

February 25, 2019

Farmers Insurance Exchange

Statement of Actuarial Opinion

As of December 31, 2018

Page 6 of 7

Exhibit A: SCOPE

DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMATS

	<u>Amount</u>
<u>Loss and Loss Adjustment Expense Reserves</u>	
(1) Unpaid Losses (Liabilities, Surplus and Other Funds page, Col 1, Line 1)	<u>\$ 3,614,271,736</u>
(2) Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col 1, Line 3)	<u>\$ 1,059,029,772</u>
(3) Unpaid Losses – Direct and Assumed (Should equal Schedule P, Part 1, Totals from Cols. 13 and 15, Line 12 * 1000)	<u>\$ 5,748,863,773</u>
(4) Unpaid Loss Adjustment Expenses – Direct and Assumed (Should equal Schedule P, Part 1, Totals from Cols. 17, 19 and 21, Line 12 * 1000)	<u>\$ 1,205,943,930</u>
(5) The Page 3 write-in item reserve, "Retroactive Reinsurance Reserve Assumed"	<u>\$ 0</u>
(6) Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)	<u>NA</u>
<u>Premium Reserves</u>	
(7) Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	<u>\$ 86,403</u>
(8) Reserve for Net Unearned Premiums for Long Duration Contracts	<u>\$ 86,403</u>
(9) Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)	<u>\$ 0</u>

Farmers Insurance Exchange

Statement of Actuarial Opinion

As of December 31, 2018

Page 7 of 7

Exhibit B: DISCLOSURES

DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMATS

Note: Exhibit B should be completed for Net dollar amounts included in the SCOPE. If an answer would be different for Direct and Assumed amounts, identify and discuss the difference within RELEVANT COMMENTS.

	Last Nutting	First James	Mid Leslie
(1) Name of the Appointed Actuary			
(2) The Appointed Actuary's Relationship to the Company. Enter E or C.			E
(3) The Appointed Actuary is a Qualified Actuary based upon what qualification? Enter F, A, M, or O.			F
(4) Type of Opinion, as identified in the OPINION paragraph. Enter R, I, E, Q, or N.			R
(5) Materiality Standard expressed in US dollars (Used to Answer Question #6)	\$ 409,634,428		
(6) Is there a Significant Risk of Material Adverse Deviation?	Yes [X]	No []	N/A []
(7) Statutory Surplus (Liabilities, Surplus, and Other Funds page, Col 1, Line 37)	\$ 4,096,344,283		
(8) Anticipated Net Salvage and Subrogation included as a reduction to loss reserves (Schedule P – Part 1 Summary, Column 23, Line 12*1000)	\$ 258,493,352		
(9) Discount included as a reduction to loss reserves and loss adjustment expense reserves as reported in Schedule P:			
9.1 Nontabular Discount [Notes, Line 32B23, (Amounts 1, 2, 3 & 4)], Electronic Filing Col 1, 2, 3 & 4	\$ 0		
9.2 Tabular Discount [Notes, Line 32A23, (Amounts 1 & 2)], Electronic Filing Col 1 & 2	\$ 0		
(10) The net reserves for losses and loss adjustment expenses for the Company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and loss adjustment expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.	\$ 29,173,388		
(11) The net reserves for losses and loss adjustment expenses that the Company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expense lines.*			
11.1 Asbestos, as disclosed in the Notes to Financial Statements (Notes, Line 33A03D, ending net asbestos reserves for current year), Electronic Filing Col 5	\$ 273,981,437		
11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 33D03, ending net environmental reserves for current year), Electronic Filing Col 5	\$ 45,349,608		
(12) Net claims-made extended loss and loss adjustment expense, and unearned premium reserves (Greater than or equal to Schedule P Interrogatories)			
12.1 amount reported as loss and loss adjustment expense reserves	\$ 0		
12.2 amount reported as unearned premium reserves	\$ 0		
(13) The net reserves for the A&H Long Duration Contracts that the Company carries on the following lines on the Liabilities, Surplus, and Other Funds page:			
13.1 Losses	\$ 0		
13.2 Loss Adjustment Expenses	\$ 0		
13.3 Unearned Premium	\$ 0		
13.4 Write-in [list separately, adding additional lines as needed, and identify (e.g. "Premium Deficiency Reserves", "Contract Reserves other than Premium Deficiency Reserves" or "AG 51 Reserves")]	\$ 0		
(14) Other items on which the Appointed Actuary is providing Relevant Comment (list separately, adding additional lines as needed)			
(a) Reserves for Exchange Employee Benefits	\$ 131,740,694		

* The reserves disclosed in item 11 above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor's Pollution Liability, Consultant's Environmental Liability and Pollution and Remediation Legal Liability.