COMBINED
MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepared for the

Farmers Insurance Exchange

And its Affiliated Property and Casualty Insurers

2022

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

FARMERS INSURANCE

MANAGEMENT'S DISCUSSION AND ANALYSIS – 2022

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
Toggle Insurance Company	44245	Delaware
21St Century Casualty Company	36404	California
21St Century Centennial Insurance Company	34789	Pennsylvania
21St Century Insurance Company	12963	California
21St Century North America Insurance Company	32220	New York
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

MANAGEMENT'S DISCUSSION AND ANALYSIS – 2022

FARMERS INSURANCE EXCHANGE
And its Affiliated Property and Casualty Insurers

MANAGEMENT'S DISCUSSION AND ANALYSIS – 2022

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, 2022 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 Florida, accounting for over 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.

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. In addition, the Farmers' business insurance started offering commercial automobile insurance coverage for the cannabis industry.

Farmers' is a multi-channel (Exclusive, Independent Agents, and Direct 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. Farmers distribution also includes independent agents selling products not offered in our traditional brands, and direct sales through online, call centers, employer direct model, and our embedded partners. Famers' most notable strengths are: an extensive distribution system, 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. 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 2021 direct written premiums) in its core 29 operating states with a 4.4% market share. Gross written premiums were $26.5 billion in 2022 with approximately 15.2 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.

As a result of the highly competitive nature of the industry, Farmers' strong 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 over 2,600 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	2021	2020
AM Best Company	A (Excellent)	A (Excellent)
Standard & Poor's	A (Strong)	A (Strong)
Moody Investor Service	A3 (Good)	A2 (Good)

****Farmers' ratings for 2022 will be available later in 2023.***

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, first lien mortgage loans on real estate, 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. 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' Boards 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, first retains a specified amount of losses after satisfying a defined annual deductible. Coverage is in place up to a specified amount in all states. The specialty residential book in Florida has an additional coverage purchased from Florida Hurricane Catastrophe Fund. On an aggregate basis, Farmers has coverage up to a certain defined level, net of the 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, 18, 2022, the latest date for which information is available, Farmers' residential earthquake insurance market share was 12.56%, and its respective share of this contingent liability before external reinsurance was $208.8 million at December 31, 2022. 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 continues to participate in an All Lines Quota Share reinsurance agreement ("ALQS") with Farmers Re as well as other third party reinsurers, which has been amended over the years with the aggregate participation ratio at 31% effective December 31, 2022.

The ALQS agreement, effective December 31, 2022, has substantially the same terms as previous agreements but with several features added to certain sections of the treaty. In addition to these changes, the participation ratios of Farmers Re was increased by 6.75%, while those of Munich Re and Catlin Re, were reduced by 4.5% and 2.25%, respectively. Consequently, Catlin Re was removed as a participant to the treaty. The new treaty calls for Farmers Re to assume an additional 6.75% of the quota share results to 8.50%. The incremental 6.75% is on a funds withheld basis and therefore no additional net funds, refunds, or deposits were required as a result of its increased participation in the ALQS agreement.
Concurrent with this change in the ALQS participation ratios for some reinsurers, also effective December 31, 2022, Farmers Re retrocedes a portion of the risk it assumes from the Farmers Exchanges to Zurich Global Ltd ("ZGL"), a subsidiary of the Zurich Holding Company of America, Inc., through a quota share retrocession treaty, the All Lines Quota Share Retrocession reinsurance agreement ("All Lines Retrocession agreement".) The material terms of the All Lines Retrocession agreement mirror the terms of the ALQS agreement. ZGL is on a funds withheld basis and therefore no additional net funds, refunds, or deposits were required as a results of this All Lines Retrocession agreement.

Following are the participation reinsurers in the ALQS effective December 31, 2022, as discussed above. These ratios reflect overall net results after the retrocession of 6.75% of the quota share that Farmers Re assumed from Farmers to ZGL under a standalone separate agreement, also effective December 31, 2022:

Reinsurers	2022	2021	Change
Swiss Reinsurance Company Limited ("Swiss Zurich")	9.00%	9.00%	0.00%
Hannover Rück SE ("Hannover Re")	9.00%	9.00%	0.00%
Farmers Reinsurance Company ("Farmers Re")	8.50%	1.75%	6.75%
Farmers Re (Retrocession to ZGL)*	-6.75%	0.00%	-6.75%
Subtotal Farmers Re	**1.75%**	**1.75%**	**0.00%**
Munich Reinsurance America, Inc., ("Munich Re")	4.50%	9.00%	-4.50%
Catlin Reinsurance Switzerland Limited ("Catlin Re")	0.00%	2.25%	-2.25%
Zurich Global Limited (Assumed from Farmers Re)*	6.75%	0.00%	6.75%
Total	**31.00%**	**31.00%**	**0.00%**

Based on the results for the current and prior years, Farmer's share of the following were (in millions):

	2022	2021
Ceded Premiums Earned	$ 7,108.1	$ 6,959.9
Loss Recoveries	5,204.9	4,907.1
Ceding Commissions	2,047.1	2,476.7

Ride Share Services ("Uber Business") -Effective March 1, 2022, FIE amended its insurance program agreement with Raiser, LLC ("Uber") with the total of its Uber related operating territories remaining the same at sixteen states and District of Columbia ("DC"). This revised agreement, which has been amended several times since its inception, provides commercial auto insurance protection for Uber and their independent contractor drivers while engaging in official company ridesharing activities. Insurance coverage provided by FIE includes commercial automobile liability, commercial automobile physical damage and related coverages for Uber, its affiliates and independent contractors utilizing digital networks operated by Uber. The annual premium written for Uber totaled $684.2 million and $338.4 million for the years ended December 31, 2022 and December 2021, respectively. This agreement also provides for Uber to maintain a Notional Funds Withheld Account deposit with FIE.

Concurrent with this amended Uber insurance program agreement, also effective March 1, 2022, FIE amended the Quota Share agreement with Aleka Insurance, Inc. ("Aleka"), a subsidiary of Uber, to cede 30% of the underwritten policies issued to Uber. Under this amended agreement, a few and relatively small segments of the policies written within a defined period were ceded 100% to Uber. Ceding commission under this Uber business ceded to Aleka ranged from 6.75% to 13.76%, except Hawaii with a rate up to 21.46%.

Based on the results for the current and prior years, Farmer's share of the following were (in millions):

	2022	2021
Ceded Premiums Earned	$ 326.2	$ 99.5
Loss Recoveries	259.3	117.9
Ceding Commissions	36.5	14.2

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.

Based on the results for the current and prior years, Farmer's share of the following were (in millions):

	2022	2021
Ceded Premiums Earned	$ 496.2	$ -
Loss Recoveries	357.6	-
Ceding Commissions	164.8	74.2

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.

State Permitted Practices - On December 21, 2022, the California Department of Insurance ("CA DOI") granted a permitted accounting practice to FIE, Truck Insurance Exchange ("Truck") and Fire Insurance Exchange ("Fire") to immediately recognize the remaining unamortized negative goodwill of $172,255,749 associated with the acquisition of the Farmers Property and Casualty (formerly "Metropolitan Property and Casualty Company" – MetLife) Auto and Home block of business, effective April 8, 2021. Accordingly, this negative goodwill is fully recognized as a credit to surplus in the financial statement.

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 49 Farmers' companies, one company had five ratios and four companies had four ratios that were outside the usual range. Three of the five companies are non-pooled entities with relatively small investment portfolios which normally triggers unusual values in the investment yield and related ratios. One pooled company that had 5 unusual ratios which were right on the IRIS threshold and were related to decreases in both gross and net surplus. The decrease in surplus is mainly attributed to decreases in net income and unrealized loss in investments in affiliated common stock. The other pooled company had gross premium written to surplus above the threshold while its net premiums written to surplus was within the usual range. This increase in gross premiums written is primarily the result of 12 months of assumed premium written in 2022 versus 9 months in 2021 related to the FWS acquisition. Overall, Farmers does not anticipate regulatory action for each of the companies with four values outside the usual range.

Farmers' management regularly reviews its internal controls and develops and implements specific action plans to ensure the immediate remediation of all identified deficiencies and material issues in a timely manner.

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.

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 key business initiatives at Farmers to support its overall business strategy, all of which are essentially focused on improving profitability countrywide for all products through rate increases, better risk selection, and targeted growth across all books of business. This includes but not limited to refining and implementing various rate changes and non-rate underwriting actions aimed at addressing the most recent adverse underwriting trends being experienced in the operating environment, monitoring reinstatements and mileage driven, restricting non-good drivers. Others include the launching and the continued expansion of Toggle products and its digital and customizable auto insurance products into new states, continued moderate new business growth coupled with stable policy growth reflecting our focus in selected personal lines market niches. In addition, initiatives include commercial auto products enhancement through pricing segmentation with primary emphasis on the overall customer experience and improved retention.

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 Farmers engaged workforce is the foundation of its strategy and a key factor in winning in the marketplace. 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 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 testing 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 country. 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:

	2022	2021
Bonds	$ 22,530.9	$ 22,811.1
Preferred stocks	16.5	28.5
Common stocks	550.5	699.8
Mortgage loans on real estate: First liens	586.0	283.2
Real estate	576.7	595.9
Cash and short-term investments	1,508.8	443.4
Other invested assets	198.3	220.1
Total cash and invested assets	25,967.7	25,082.0
Premiums receivable	5,337.1	4,932.1
Reinsurance recoverable on paid losses and LAE	207.5	156.2
Federal income tax recoverable	715.7	700.7
Accrued interest and dividends	160.7	148.5
Other	965.7	1,192.6
Total assets	$ 33,354.4	$ 32,212.1

MATERIAL BALANCE SHEET CHANGES

ASSETS

Farmers' total net admitted assets increased $1,142.3 million to $33,354.4 million at December 31, 2022. The following is a summary of Farmers' net admitted assets at December 31, (in millions):

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

	2022	2021
Bonds	86.8%	91.0%
Preferred stocks	0.1%	0.1%
Common stocks	2.1%	2.8%
Mortgage loans on real estate: First liens	2.3%	1.1%
Real estate	2.2%	2.4%
Cash and short-term investments	5.8%	1.8%
Other invested assets	0.8%	0.8%

***Bonds* -** Bonds decreased by $280.2 million, principally driven by the shift in the investment portfolio mix away from bonds and into mortgage loans on real estate: first liens and cash and short-term investments.

Farmers invests in high quality and highly liquid bonds. At December 31, 2022, 98.2% of the bond portfolio was investment grade (NAIC Class 1 and 2), and approximately 86.5% of its bond holdings mature within the next ten years (see also "Schedule D - Part 1A" of the 2022 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):

	2022		2021	
NAIC Designation	**Statement Value**	**% of Total**	**Statement Value**	**% of Total**
Class 1	$ 18,319.1	81.3%	$ 18,434.1	80.8%
Class 2	3,798.1	16.9%	3,898.6	17.1%
Class 3	220.7	1.0%	325.7	1.4%
Class 4 - 6	193.0	0.8%	152.7	0.7%
Total	$ 22,530.9	100.0%	$ 22,811.1	100.0%

***Preferred Stocks* -** Preferred Stocks decreased by $12.0 million.

***Common Stocks* -** Investments in non-affiliates common stocks decreased by $149.3 million mainly due to disposition of equity securities and acquiring mortgage loans on real estate: first liens, and cash and short-term investments 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.

Mortgage loans on real estate: First liens - Investments in real Mortgage loans on real estate: First liens increased $302.8 million, or 106.9% primarily due to acquisitions in the current year.

Real Estate - Investments in real estate decreased $19.2 million, or 3.2% mainly as a result of the relative higher disposition of invested properties in 2022.

***Cash and Short-term Investments* –** Cash and short-term investments increased $1,065.4 million (see discussion under Cash Flow and Liquidity.).

***Other Invested Assets* -** Other invested assets decreased $21.9 million mainly due to a decrease of receivables for securities. Partially offsetting this decrease was the additional investment and ownership interest in certain private equity funds, joint ventures, and partnerships.

Other Assets

Premiums Receivable - Premiums receivable increased $405.0 million primarily due an overall increase in the number of policyholders on the Farmers installment payment plan due to economic and market conditions, along with premium growth in some core books, primarily in Home, Uber, FWS, and Specialty. 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 $51.3 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 $15.0 million due to the lower receipt of income tax refunds and credits in 2022.

Other Assets - Other assets decreased $226.9 million chiefly reflecting decreases in accounts receivable, insurance-company owned life insurance-cash value, refund from MCCA to policyholders, and business-owned life insurance – cash value. These decreases were partly offset by increases in equities and deposits in pools and associations and guaranty funds receivable or on deposit.

LIABILITIES:

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

	2022	2021
Losses and loss adjustment expense reserves	$ 12,061.1	$ 11,564.3
Reinsurance payable on paid losses and loss adj. expenses	1.2	1.3
Unearned premiums	7,576.8	7,116.4
Ceded reinsurance premiums payable	223.5	460.7
Funds held under reinsurance treaties	6,522.9	5,321.4
Other liabilities	809.0	1,178.0
Total liabilities	27,194.5	25,642.1
Total policyholders' surplus	6,159.9	6,570.0
Total liabilities and policyholders' surplus	$ 33,354.4	$ 32,212.1

Loss and Loss Adjustment Expense ("LAE") Reserves – Losses and LAE reserves increased by $496.8 million mainly driven by reserve increases due to severity trends in most books, particularly in the FWS and Auto Books in line with the industry experience.

Reinsurance Payable on Paid Losses and Loss Adjustment Expenses - Reinsurance payable on paid losses and loss adjustment expenses decreased by $0.1 million due to relatively lower assumption of paid losses and loss adjustment expense activities by Farmers from third parties.

Unearned premium - Totaled $7,576.8 million in 2022 versus $7,116.4 million in 2021, an increase of $460.4 million. This increase was primarily due to premium growth in some core books, primarily in Home, Uber, FWS, and Specialty. Partially offsetting the premium growth were decreases mainly in the Bristol West and Auto books.

Ceded Reinsurance Premiums Payable - Ceded reinsurance premiums payable decreased $237.2 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 $1,201.5 million principally due to the 6.75% cession of the all lines quota share business by Farmers Re to ZGL on funds withheld basis, along with prior participants business still in run off.

Other Liabilities - Other liabilities decreased $369.0 million driven primarily by accounts payable, claims payments made after the data-processing close, refund from MCCA due to policyholders, commissions payable, and Deferred agent/DM compensation liability.

POLICYHOLDERS' SURPLUS:

Net Premiums to Surplus Ratio – Farmers maintains a strong surplus position relative to the risks insured. Net premium written to surplus was 2.8 to 1 at December 31, 2022 with its surplus ratio at 35.2% through December 2022. Farmers' gross leverage ratio continues to be within industry average.

Change in Policyholders' Surplus – Farmers' surplus totaled $6.2 billion at December 31, 2022, reflecting an decrease of $410.1 million. Included in this decrease was the redemption of the $100 million 10-year no call five-year note issued by Farmers New World Life Insurance ("FNWL"). The repayment of principal and payment of interest was approved by the California Insurance Commissioner.

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 gross premiums written by books of business includes 45.5% of auto, 29.1% homeowners, 13.0% Specialty, 10.9% business insurance and 1.5% of other specialty coverages.

Profitability and Growth
Underwriting results for 2022 produced a loss of $1,196.9 million compared to a loss of $676.5 million in 2021. The 2022 underwriting loss is primarily driven by most books of business, except business insurance.

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

	2022	2021
Net premiums written	$ 17,498.4	$ 15,965.0
Net premiums earned	$ 17,037.9	$ 16,645.1
Losses and loss adjustment expenses incurred	12,777.5	12,196.6
Other underwriting expenses incurred	5,457.3	5,125.0
Total underwrting expenses	18,234.8	17,321.6
Underwriting Loss	$ (1,196.9)	$ (676.5)
Combined ratio	106.2%	105.4%

Net Premiums Written – Farmers' net premiums written increased $1,533.4 million, or (9.6%). The increase was primarily attributable to the acquisition of the Met P&C business and the growth coming out of the pandemic. Offsetting the increase was ceded premiums on the all lines quota share reinsurance treaty.

Net Premiums Earned - Net premiums earned, which are a function of the premiums written in the current and prior periods, increased $392.8 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 1.7 percentage points to 75.0% in 2022 compared to the 73.3% reported in 2021 driven primarily by most books of business, except business insurance. The auto book was impacted by higher severity due to inflation, supply chain disruptions, labor shortages and driving habits, while the home and specialty books were impacted by higher severity due to increasing costs and rising frequency.

Other Underwriting Expenses Incurred – Farmers' underwriting expenses incurred increased by $332.3 million driven chiefly by the growth in premiums, resulting in a relative increase in agent related expenses along with increases in salaries and EDP equipment and software. The 2022 expense ratio came in at 31.2%, reflecting a 0.9 percentage points improvement over the prior year comparative due to lower advertising, folio and agent/agent/incentive commissions, partially offset by high billing fees.

Underwriting Gain or (Loss) - In 2022, Farmers posted a net underwriting loss of $1,196.9 million compared to a prior year net underwriting loss of $676.5 million principally due to the items discussed above.

Combined Ratio - The year to date combined ratio of 106.2% was 0.8 percentage points higher than the prior year comparative of 105.4% driven primarily by the relatively higher non-catastrophe losses.

Net Investment Income Earned – In 2022, Farmers generated net investment income of $517.2 million, reflecting an increase of $42.2 million principally driven by a larger average invested asset base, which yielded slightly better returns and higher interest rates.

Farmers maintained its asset allocation discipline of investing 2.1% of the total portfolio mainly in unaffiliated common equities and retaining approximately 86.8% in fixed-income securities, and the remaining 2.3% in mortgage loans on real estate: First liens, 2.2% in real estate, 5.8% in cash and short-term investments 0.1% in preferred stocks and 0.8% in other invested assets.

Capital Gains and Losses on Investments
Net realized capital gains and losses on sale or maturity of securities generated a net gain of $375.2 million in 2022. primarily due to the gains from the disposal of real estate properties during the year.

Net Unrealized Capital Gains and Losses - Net unrealized capital losses were $197.9 million in 2022 versus gains of $96.5 million in 2021, 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 ($111.4) million in 2022, an increase of $10.7 million versus the 2021 comparative principally due an increase in finance and service charges not included in premiums of $24.0 million. Partially offsetting this increase were decreases in net gain from agents' or premium balances charged off for $3.0 million and aggregate write-ins for miscellaneous income of $10.1 million.

Gross Premiums Written – In 2022, Farmers' core gross premiums written before the All Lines Quota Share were $ 26.5 billion compared to the $25.1 billion reported in 2021. The primary factor for the slight increase in the 2022 results over the prior's was primarily due to the acquisition of the Met P&C auto and home block of business in April 2021. Also contributing to this increase were premiums growth in the home, specialty, and commercial business insurance segments fueled by the resurgence from the COVID-19 pandemic. Partiality offsetting these increases were declines in the Farmers Auto and Bristol West auto books, in particular.

CASH FLOW AND LIQUIDITY

Cash Flow

In 2022 and 2021, Farmers generated a net change in cash and short-term investments inflow of $1,508.8 million and $443.4 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):

	2022	2021
Net Cash Flows Provided By (Used In):		
Operating activities	$ (724.7)	$ 2,386.1
Investing activities	501.1	(1,864.6)
Financing activities	1,288.9	(958.0)
Net change in cash and short-term investments	$ 1,065.3	$ (436.5)

A discussion related to the significant changes in Farmers' cash flows between 2022 and 2021 is set forth below:

Operating Activities – Net cash outflow from operations totaled $724.7 million in 2022 mainly due to non-catastrophe losses incurred in 2022. Also contributing to the cash outflows were relatively higher other underwriting expenses paid. Partially offsetting these cash outflows were cash inflows from premiums collected and investment income.

Investing Activities - Cash inflows used in investing activities were $501.1 million in 2022, mainly due to the gain from the sale of real estate and greater proceeds from fixed income securities. Offsetting these cash inflows were relatively higher acquisitions of mortgage loans and other invested assets.

Financing Activities – Cash flows provided by financing activities were $1,288.9 million chiefly due to the relatively higher amount of funds held by Farmers under ALQS reinsurance agreement in 2022. This was partially offset by the redemption of the FNWL surplus notes.

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. 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.

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 24th, 2023 for this MD&A, which were issued on March 30th, 2023.

21st Century Advantage Insurance Company Dividend Policyholders - On January 12, 2023, the Minnesota Department of Commerce approved an extraordinary dividend of $10.2 million from the 21st Century Advantage Insurance Company to its parent, 21st Century North America Insurance Company. The dividend was paid on January 31, 2023.

Coronavirus Pandemic ("COVID-19) and Farmers Business Resumption Plan - In mid-December 2022 the California Department of Insurance requested that Coast National Insurance Company, Farmers Insurance Exchange, Truck Insurance Exchange, and Mid-Century Insurance Company refund additional premium to private passenger auto policyholders due to changes in driving behaviors during the pandemic. The companies disputed the Department's authority to request refunds and the amount of the refunds. Coast National Insurance Company negotiated with the Department and agreed to refund an additional $2,959,715 on January 27, 2023. At no time until just before this agreement was reached was the refund probable or estimable. The other companies continue to discuss the request with the California Department of Insurance.