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INSURANCE

2011 Annual Report

Pekin Life Insurance Company

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To Our Shareholders

In February 2011, the Company took the unprecedented step of exiting the individual major medical marketplace in Illinois. The Company continues to monitor this exit while also evaluating the sustainable profitability of this line in our other states. Through December 31, 2011, there is still significant policyholder benefit experience in this line of business while premium income decreased. Currently, the number of Illinois individual major medical policies has been reduced from 4,359 to 175. The impact of this run-off activity is reflected in our results for the year.

The Company continues to believe that the small group market is a strategic fit and in 2011 we completed numerous projects that will align our group products with this evolving market. These initiatives were carried out with a focus on increased profitability. Additionally, we created a new third party claims administration division, Group Plan Solutions, which is designed to capitalize on the promising employer-based health coverage segment. Plans are being executed to expand our financial and pre-need products into newly authorized states.

Growing our life insurance lines of business continues to be a strategic focus. In 2011, we received regulatory authorization to sell policies in seven new states, bringing the total number of states authorized to eighteen. During 2011, there was premium growth of 12.7 percent in the term and whole life insurance lines of business compared to 2010. Additionally, our credit life and credit accident & health premiums have increased by 10.1 percent and 16.1 percent, respectively, compared to last year. The ongoing transition out of the individual major medical line resulted in a decrease in this **line's premium income** during 2011 by \$20.9 million, or 55.2 percent, and offsets the increases in life premium. Total premium income for the year is \$224.4 million and reflects this change in the individual major medical line. This is a decrease of 8.7 percent from last year.

Net income for the year was \$3.1 million, or \$0.18 per share compared to net income of \$4.2 million, or \$0.24 per share last year. The net income before net realized capital gains was \$1.1 million compared to net income before realized capital gains of \$3.5 million last year.

The equity and fixed income investment markets played a significant role in creating improved realized capital gains for the year. During 2011, there were realized capital gains of \$2.0 million, or \$0.11 per share, compared to realized capital gains of \$707,000, or \$0.04 per share, in 2010. Investment income excluding capital gains increased to \$54.5 million in 2011, an increase of 5.0 percent over last year. This increase reflects premium dollars that have been invested in the growing bond portfolio. Additionally, our bond portfolio is comprised of high quality holdings of which over 99 percent are investment grade. At December 31, 2011, assets were \$1.1 billion, an increase of \$28.2 million or 2.6 percent from December 31, 2010.

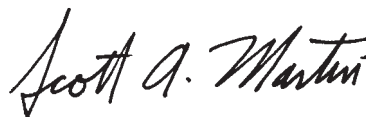
Book value increased during the year by \$5.0 million. Included in this increase is \$3.8 million of surplus attributable to a change in accounting during 2011. This change is mandated by regulators and requires new assumptions to be used in calculating the estimate for deferred tax assets. These new assumptions must be adopted by all insurance companies. Book value per share was \$6.91, an increase of 4.4 percent from year end 2010.

In these challenging economic and regulatory times, the Company remains dedicated to our mission of providing financial protection and peace of mind for our policyholders by offering quality insurance products through independent agents. In all we do, we are dedicated to going ***Beyond the expected.***[®]

We are sincerely thankful for the continued support of our shareholders, agents, and employees.



GORDON M. WALKER
Chairman of the Board
and Chief Executive Officer



SCOTT A. MARTIN
President

Pekin Life Insurance Company

Significant Figures

	2011	2010	CHANGE
Life Insurance in Force			
Ordinary	\$12,193,314,000	\$11,647,597,000	+4.7%
Credit	496,296,000	467,823,000	+6.1%
Group	393,249,000	389,243,000	+1.0%
Total Life Insurance in Force	13,082,859,000	12,504,663,000	+4.6%
Assets	1,124,163,739	1,095,893,479	+2.6%
Policy Reserves	825,217,321	774,088,541	+6.6%
Premium Income	224,413,850	245,817,623	-8.7%
Payments to Policyholders and Beneficiaries	175,600,843	178,243,117	-1.5%
Investment Income	54,530,060	51,949,226	+5.0%
Net Rate of Return on Investments	5.15%	5.67%	-9.2%
Net Income Before Realized Capital Gains	1,121,008	3,469,007	-67.7%
Net Income	3,086,606	4,176,011	-26.1%
Net Income Before Realized Capital Gains Per Share	.07	.20	-65.0%
Realized Capital Gains Per Share	.11	.04	+175.0%
Net Income Per Share	.18	.24	-25.0%
Book Value Per Share	6.91	6.62	+4.4%

Premium Income By Product Line

	2011		2010	
	Amount	% of Total	Amount	% of Total
Ordinary Life	\$ 52,684,314	23%	\$ 48,352,189	20%
Annuity	28,027,822	12%	34,388,541	14%
Pre-Need Life and Annuity	29,070,310	13%	28,666,496	11%
Group Life and Health	64,882,513	30%	66,202,122	27%
Group Annuity	3,092,560	1%	1,890,474	1%
Individual Health	36,172,427	16%	57,028,129	23%
Credit Life and Health	10,483,904	5%	9,289,672	4%
Total	\$224,413,850	100%	\$245,817,623	100%

Pekin Life Insurance Company

Financial Highlights

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
6.08	7.03	9.13	11.38	14.53	16.88	16.63	10.05	9.78	10.58	Market Price
11.13	12.71	11.08	11.12	11.70	12.28	12.39	14.38	14.40	13.15	Premium Income Per Share
2.08	2.22	2.33	2.41	2.52	2.55	2.72	2.87	3.04	3.19	Investment Income Per Share
.81	.86	.48	.59	.74	.19	.39	(.02)	.20	.07	(A)(C) Earnings Per Share
(1.39)	(.06)	.16	.07	.08	.14	(.32)	(.14)	.04	.11	(D) Realized Capital Gains (Losses) Per Share
(.58)	.80	.64	.66	.82	.33	.07	(.16)	.24	.18	(A)(B) Earnings Per Share
.1575	.1675	.1813	.1963	.2113	.2263	.2375	.2475	.2125	.1600	Dividends Declared Per Share
4.75	5.57	5.96	6.38	6.99	7.05	6.86	6.55	6.62	6.91	(A) Tangible Book Value Per Share
17,068	17,068	17,068	17,068	17,068	17,068	17,068	17,068	17,068	17,068	Common Shares Outstanding (000)
17,068	17,068	17,068	17,068	17,068	17,068	17,068	17,068	17,068	17,068	Weighted Average Shares Outstanding (000)
128	126	153	178	208	239	242	153	148	153	% Price to Book Value
-	9	14	17	18	51	238	-	41	59	Year End P/E Ratio
2.6	2.4	1.99	1.73	1.45	1.34	1.43	2.46	2.17	1.51	Year End Dividend Yield (%)
80,994	95,045	101,709	108,921	119,279	120,349	117,159	111,824	112,942	117,911	Net Worth (\$000)
-	11.3	7.8	7.2	8.7	1.4	-	-	0.5	0.3	% Profits Retained to Common Equity
-	21.0	28.1	29.8	25.7	69.5	330.4	-	86.9	88.5	% Cash Dividends to Net Profit

(A) The statutory basis of accounting applies (used for reporting to the respective Insurance Departments).

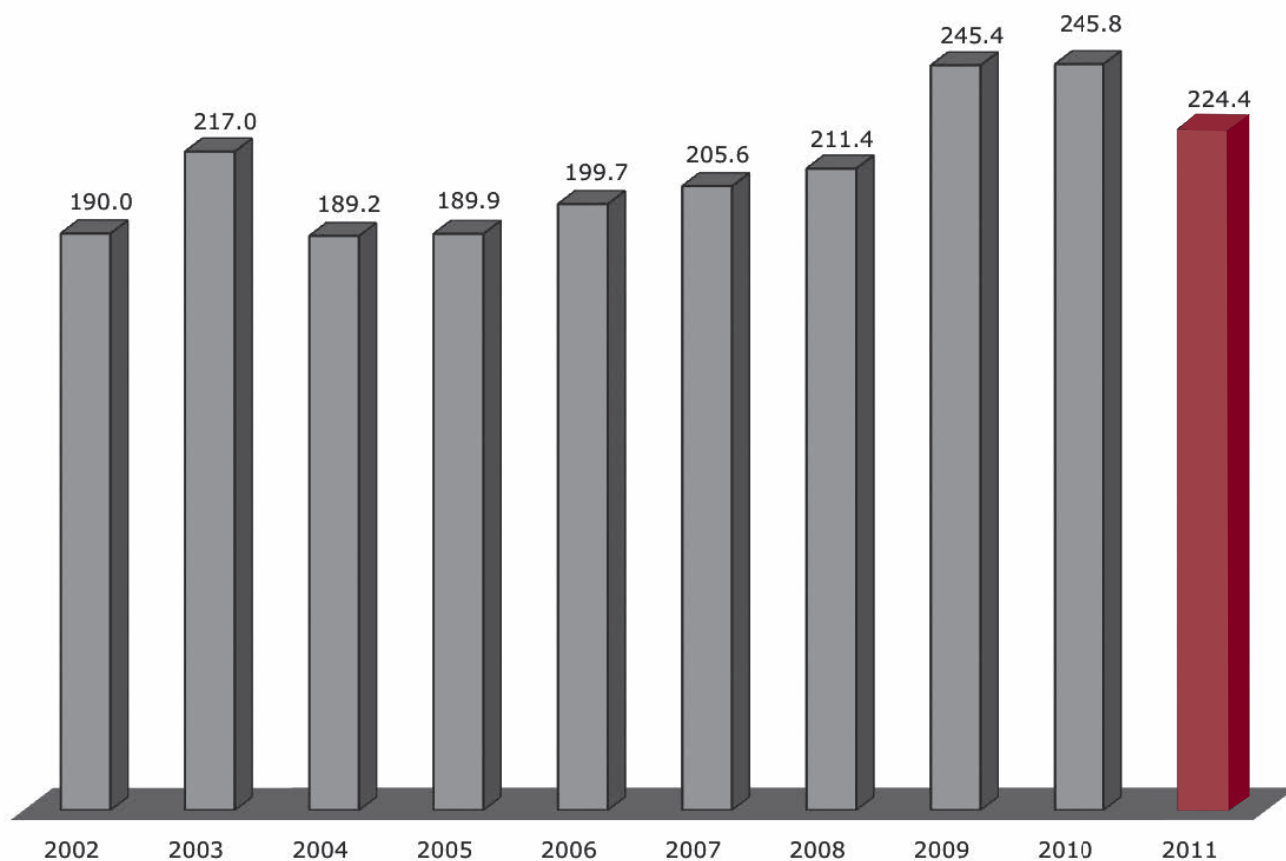
(B) Includes realized capital gains (losses).

(C) Excludes realized capital gains (losses).

(D) Effective January 1, 2001, the statutory basis of accounting requires that unrealized capital losses on investments that are determined to be other than temporary declines in value must be reclassified to be realized capital losses. The reclassified unrealized capital losses as of January 1, 2001, were reflected as a change in accounting principle adjusting unassigned surplus, rather than as a charge to earnings. In 2009, 2008, 2006, 2003, 2002, and 2001, realized capital losses of \$(0.41), \$(0.34), \$(0.02), \$(0.16), \$(1.36), and \$(0.47) per share, respectively, are considered to be other than temporary declines in value and are charged to earnings.

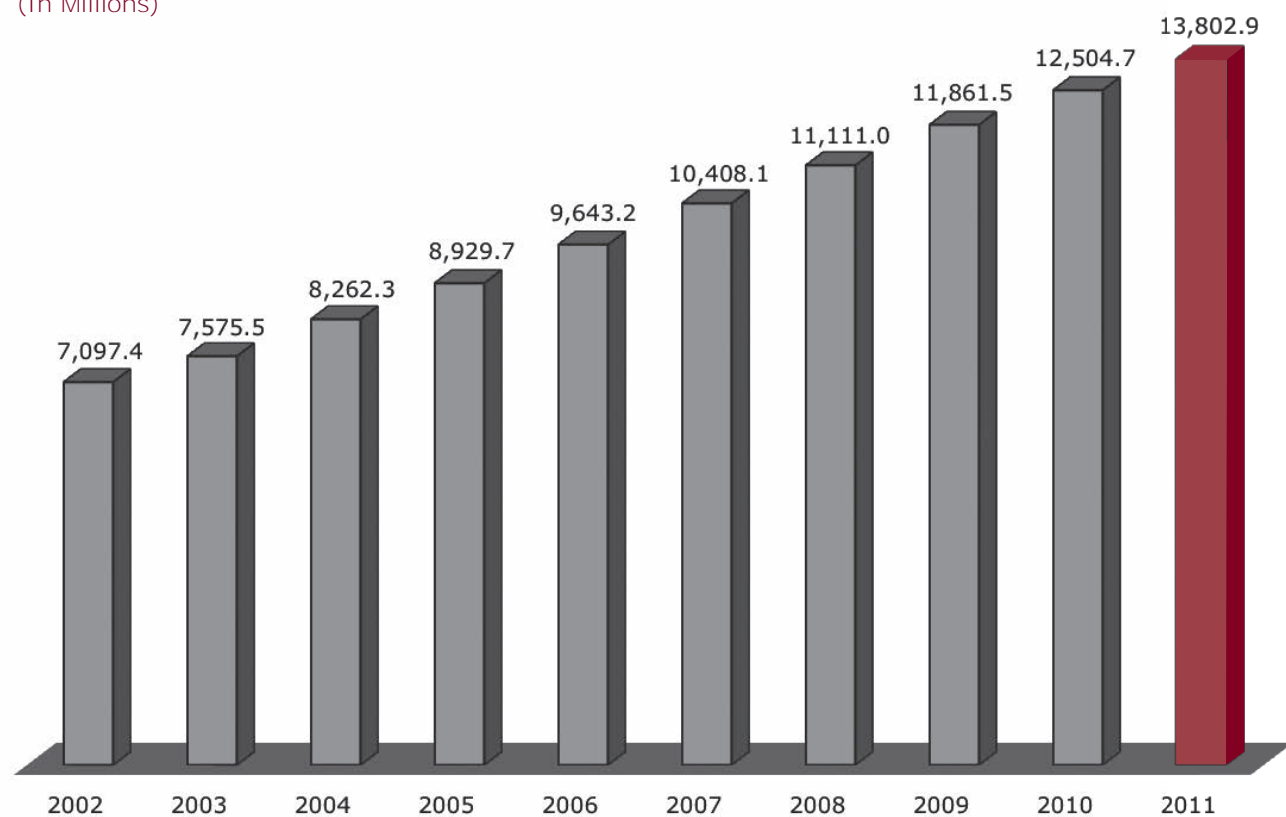
Premium Income

(In Millions)



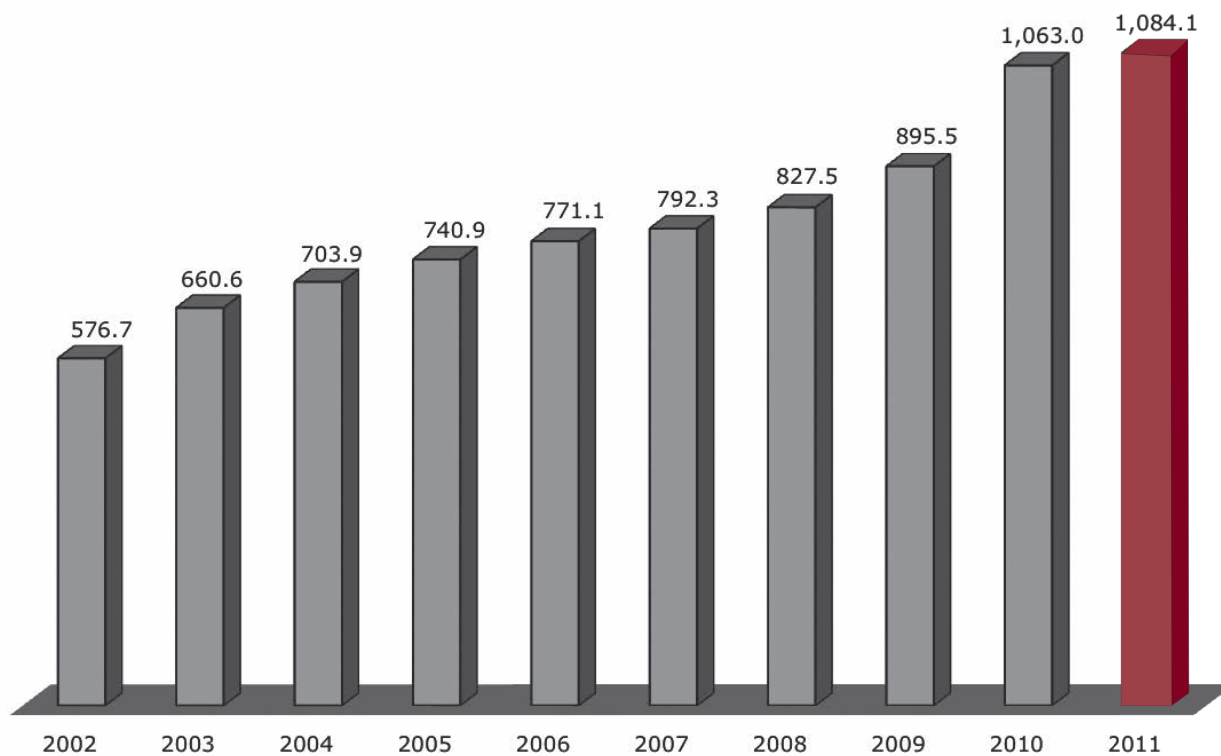
Life Insurance In Force

(In Millions)



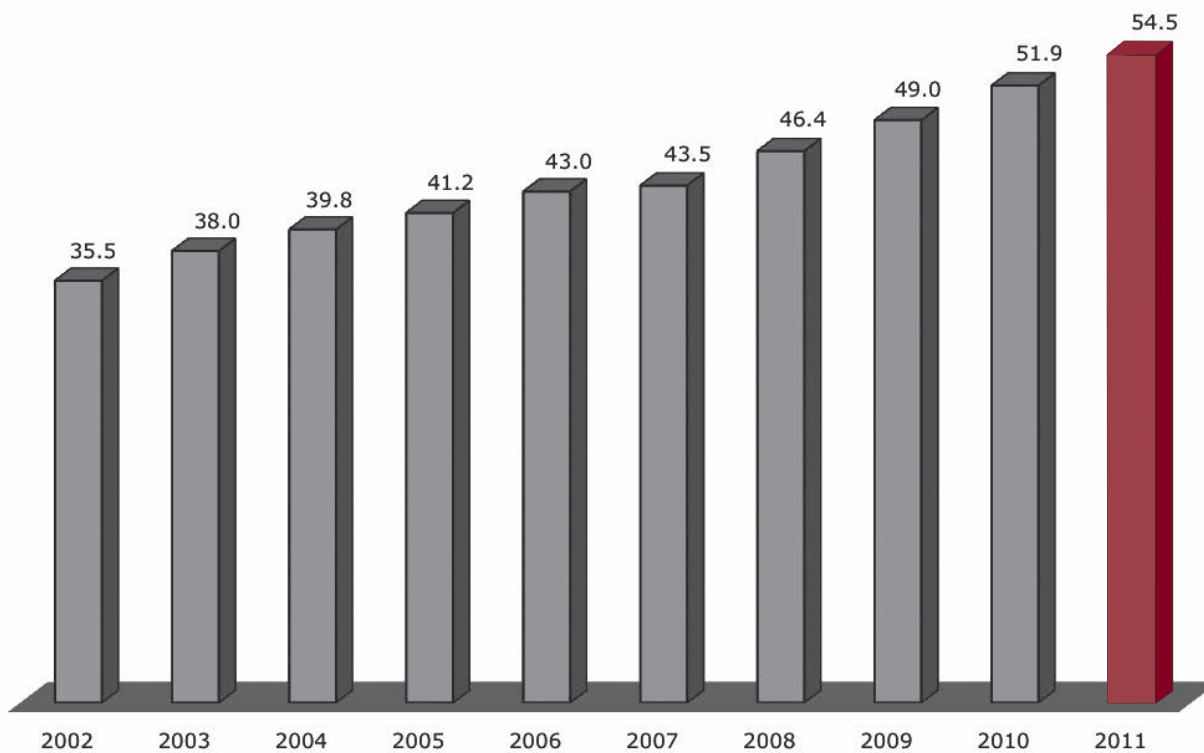
Cash and Invested Assets

(In Millions)



Investment Income

(In Millions)



Independent Auditor's Report on the Financial Statements

Board of Directors and Shareholders
Pekin Life Insurance Company
Pekin, Illinois

We have audited the accompanying statutory balance sheets of Pekin Life Insurance Company (the "Company") as of December 31, 2011 and 2010, and the related statutory statements of operations and changes in unassigned surplus and cash flow for the years then ended. These **financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.**

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Illinois Department of Insurance, which practices differ from U.S. generally accepted accounting principles. The effects on the statutory financial statements of the variances between the statutory basis of accounting and U.S. generally accepted accounting principles have not been determined, but are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the statutory financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2011 and 2010, or the results of its operations or its cash flow for the years then ended.

However, in our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of its operations, changes in unassigned surplus and cash flow for the years then ended, on the statutory basis of accounting described in Note 1.

Strohm Ballweg, LLP

Madison, Wisconsin
March 8, 2012

Pekin Life Insurance Company

Balance Sheets – Statutory Basis December 31, 2011 and 2010

	2011	2010
Admitted Assets:		
Bonds	\$ 978,617,910	\$ 927,662,253
Common Stocks	9,359,586	9,539,081
Real Estate Occupied by the Company, Net of Depreciation	819,996	955,784
Cash and Short-Term Investments	15,298,735	12,638,294
Contract Loans	15,971,474	15,454,395
Securities Lending Reinvested Collateral Assets	64,037,134	96,768,360
Total Cash and Invested Assets	1,084,104,835	1,063,018,167
Life and Health Premiums Due and Unpaid	1,731,414	2,476,863
Life Premiums Deferred	14,562,490	12,744,118
Investment Income Accrued	12,166,772	12,023,780
Amounts Recoverable from Reinsurers	418,330	688,152
Current Federal Income Tax Recoverable	1,398,834	1,248,443
Net Deferred Tax Asset	9,546,705	3,354,432
Other Assets	234,359	339,524
Total Admitted Assets	\$ 1,124,163,739	\$ 1,095,893,479
Liabilities:		
Aggregate Reserve for Contracts:		
Life	\$ 437,045,099	\$ 397,155,766
Annuity	367,556,232	352,766,468
Health	20,615,990	24,166,307
Total Aggregate Reserve for Contracts	825,217,321	774,088,541
Contract Claims:		
Life	9,297,068	6,608,987
Health	18,440,628	21,433,413
Total Contract Claims	27,737,696	28,042,400
Other Policy Liabilities:		
Premium and Annuity Considerations Received in Advance	1,285,187	1,376,542
Policyholders' Dividends	18,636	19,891
Deposit Administration Funds	41,808,109	40,508,746
Other Deposit-Type Contracts	8,398,362	8,080,021
Total Other Policy Liabilities	51,510,294	49,985,200
Interest Maintenance Reserve	4,468,816	2,200,529
Expenses and Taxes Accrued	8,552,582	7,591,851
Amounts Withheld or Retained	11,774,674	11,105,799
Asset Valuation Reserve	4,823,833	4,266,318
Due to Parent	190,396	622,961
Drafts Outstanding	5,829,180	6,351,103
Payable for Securities Lending	64,037,134	96,768,360
Other Liabilities	2,111,303	1,927,944
Total Liabilities	1,006,253,229	982,951,006
Capital and Surplus:		
Capital Stock, Par Value \$1.25; 22,000,000 Shares Authorized;		
Shares Issued - 17,600,000; and		
Shares Outstanding - 17,068,023	22,000,000	22,000,000
Paid-In Surplus	900,000	900,000
Application of Statement of Statutory Accounting Principle No. 10R	3,837,015	-
Unassigned Surplus	95,443,099	94,312,077
Treasury Stock, Shares at Cost, 531,977 in 2011 and 2010	(4,269,604)	(4,269,604)
Total Capital and Surplus	117,910,510	112,942,473
Total Liabilities, Capital and Surplus	\$ 1,124,163,739	\$ 1,095,893,479

The accompanying notes are an integral part of the financial statements.

Pekin Life Insurance Company

Statements of Operations and Changes in Unassigned Surplus – Statutory Basis Years Ended December 31, 2011 and 2010

	2011	2010
Income:		
Life Premiums	\$ 88,185,347	\$ 82,922,332
Annuity Considerations	32,654,591	37,732,630
Health Premiums	103,573,912	125,162,661
Net Investment Income	54,530,060	51,949,226
Total Income	278,943,910	297,766,849
Deductions:		
Benefits to Policyholders and Beneficiaries:		
Life	47,719,544	40,580,543
Annuity	33,944,631	29,072,050
Health	93,936,668	108,590,524
Total Benefits to Policyholders and Beneficiaries	175,600,843	178,243,117
Additions (Deletions) to (from) Policy Reserves:		
Life	39,889,333	38,383,952
Annuity	14,789,764	24,256,159
Health	(3,550,317)	(1,366,601)
Total Additions to Policy Reserves	51,128,780	61,273,510
Expenses:		
Commissions and Service Fees	19,540,172	21,346,461
General Insurance Expenses	27,467,163	27,763,367
Taxes, Licenses and Fees	3,480,600	2,650,619
Total Expenses	50,487,935	51,760,447
Total Deductions	277,217,558	291,277,074
Income Before Federal Income Tax Expense and Net Realized Capital Gains	1,726,352	6,489,775
Federal Income Tax Expense	605,344	3,020,768
Income Before Net Realized Capital Gains	1,121,008	3,469,007
Net Realized Capital Gains	1,965,598	707,004
Net Income	\$ 3,086,606	\$ 4,176,011
Net Income Before Net Realized Capital Gains Per Share	\$.07	\$.20
Net Realized Capital Gains, Net of Income Taxes Per Share	.11	.04
Net Income Per Share	\$.18	\$.24
Shares Outstanding	17,068,023	17,068,023
Statements of Changes in Unassigned Surplus		
Unassigned Surplus - Beginning of Year	\$ 94,312,077	\$ 93,193,531
Changes in Unassigned Surplus:		
Net Income	3,086,606	4,176,011
Net Unrealized Capital Gains (Losses)	(742,240)	1,024,598
Asset Valuation Reserve	(557,515)	(1,001,811)
Net Deferred Tax Asset	2,355,258	474,297
Non-Admitted Assets	(280,203)	72,407
Shareholder Dividends - Cash (\$0.16 and \$0.2125 per share)	(2,730,884)	(3,626,956)
Net Increase	1,131,022	1,118,546
Unassigned Surplus - End of Year	\$ 95,443,099	\$ 94,312,077

The accompanying notes are an integral part of the financial statements.

Pekin Life Insurance Company

Statements of Cash Flow – Statutory Basis Years Ended December 31, 2011 and 2010

	2011	2010
Cash from Operations:		
Premiums Collected, Net of Reinsurance	\$ 224,358,759	\$ 244,176,704
Net Investment Income	53,914,484	51,698,211
Miscellaneous Income	1,233,020	1,029,466
Total Cash Received	<u>279,506,263</u>	<u>296,904,381</u>
Benefits and Loss Related Payments	175,215,045	176,033,027
Commissions, Expenses Paid, and Other Deductions	51,706,633	52,535,905
Dividends Paid to Policyholders	19,218	19,836
Federal Income Taxes Paid	755,736	2,604,253
Total Cash Disbursed	<u>227,696,632</u>	<u>231,193,021</u>
Net Cash from Operations	<u>51,809,631</u>	<u>65,711,360</u>
Cash from Investments:		
Proceeds from Investments Sold, Matured, or Repaid:		
Bonds	148,324,070	126,495,297
Stocks	7,720,665	6,675,879
Miscellaneous	-	25,923
Total Investment Proceeds	<u>156,044,735</u>	<u>133,197,099</u>
Cost of Investments Acquired:		
Bonds	194,873,483	198,608,099
Stocks	7,833,927	6,770,837
Miscellaneous	5,680	-
Total Investments Acquired	<u>202,713,090</u>	<u>205,378,936</u>
Net Increase in Contract Loans	517,079	844,636
Net Cash from Investments	<u>(47,185,434)</u>	<u>(73,026,473)</u>
Cash from Financing and Miscellaneous Sources:		
Dividends to Shareholders	(2,730,884)	(3,626,956)
Net Deposits on Deposit-Type Contracts	(854,203)	794,110
Other Cash Provided	1,621,331	6,013,315
Net Cash from Financing and Miscellaneous Sources	<u>(1,963,756)</u>	<u>3,180,469</u>
Net Change in Cash and Short-Term Investments	2,660,441	(4,134,644)
Cash and Short-Term Investments at Beginning of Year	<u>12,638,294</u>	<u>16,772,938</u>
Cash and Short-Term Investments at End of Year	<u>\$ 15,298,735</u>	<u>\$ 12,638,294</u>

The accompanying notes are an integral part of the financial statements.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

1. Nature of Operations and Summary of Significant Accounting Practices

Pekin Life Insurance Company (Company) is a regional Midwest life and accident and health insurance company domiciled in the State of Illinois. The Company sells insurance primarily through independent agents. Insurance products primarily include ordinary life, group health, credit life and health, annuities, and pre-need life.

The Company continually evaluates its health products to ensure ongoing alignment with corporate objectives. As a result of this evaluation process and in light of federal legislation enacted in 2010 which significantly impacted the private health insurance market, the Company decided to exit the Individual Major Medical market. In 2010, the Company stopped writing new Individual Major Medical policies; and in 2011, the Company is transitioning the Illinois book of business to another provider. In this **strategic process, the Company's primary concern remains** on the insured and on their continued coverage.

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Illinois Department of Insurance (statutory accounting practices).

Prescribed statutory accounting practices include the National Association of Insurance Commissioners' (NAIC) "*Accounting Practices and Procedures Manual*" as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed when such practices are approved by the insurance department of the insurer's state of domicile. **The Company does not use any permitted practices.**

Accounting Estimates

The preparation of statutory financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term relate to: 1) the estimated life, annuity, health and disability insurance contract reserves, 2) the assumptions regarding the other than temporary impairment analysis of the investment portfolio, 3) the assumptions, including the discount rate, used to determine the benefit obligations for the defined benefit pension plan and other post-retirement benefit plan, and 4) the amount of deferred tax assets expected to be realized in future years.

Summary of Significant Differences Between Statutory Accounting and GAAP

A description of the significant accounting practices used by the Company and significant variances from accounting principles generally accepted in the United States of America (GAAP) are as follows:

A. Investments

Bonds and stocks are valued in accordance with rules prescribed by the NAIC, whereby bonds eligible for amortization under such rules are stated at amortized cost. The Company uses a modified scientific method for amortizing bonds. Common stocks are carried at fair market value.

Loan-backed securities (mortgage-backed and asset-backed securities) are stated at amortized cost using a prospective basis. The prospective approach recognizes, through the recalculation of the effective yield to be applied to future periods, the effects of all cash flow whose amounts differ from those estimated earlier. Changes in amortization and amortized cost will occur in future periods. Assumptions for loan-backed securities are updated on a quarterly basis. Agency pass-through and collateralized mortgage obligations use the three-month generic prepayment speed assumption. Non-agency collateralized mortgage obligations and asset-backed securities are updated using projected principal payment windows.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

Investment income is recorded when earned. Realized gains and losses on sale or maturity of investments are determined on the basis of specific identification. Aggregate unrealized capital gains and losses are credited or charged directly to unassigned surplus without income tax effect. The statutory basis of accounting requires that unrealized capital losses on investments that are determined to be other than temporary declines in value must be recognized as realized capital losses. The Company reviews its investment portfolio on a periodic basis to determine other than temporary declines in value. In evaluating whether a decline in value is other than temporary, management considers several factors including, but not limited to: 1) the **Company's ability and intent to retain the security for a sufficient** amount of time for it to recover, 2) the extent and duration of the decline in value, 3) the probability of collecting all cash flows according to contractual terms in effect at acquisition or restructuring, 4) relevant industry conditions and trends, and 5) the financial condition and current and future business prospects of the issuer.

Under GAAP, equity securities that have readily determinable fair values and debt securities would be classified into three categories: held-to-maturity, trading, and available-for-sale. Held-to-maturity securities would be reported at amortized cost. Trading securities would be reported at fair value, with unrealized gains and losses included in earnings. Available-for-sale securities would be reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of unassigned surplus.

Contract loans are stated at the aggregate of unpaid loan balances, which approximate fair value. These stated values are not in excess of cash surrender values of related policies.

The investment in the Company's wholly owned subsidiary is accounted for using the statutory equity method in which undistributed earnings are reported as unrealized gains and losses; under GAAP, the financial statements of the subsidiary are consolidated with those of the Company.

The asset valuation reserve (AVR) is maintained as prescribed by the NAIC for the purpose of stabilizing surplus against fluctuations in the market values of invested assets. Changes in the AVR are charged or credited directly to unassigned surplus. The AVR is reported as a liability rather than as an appropriation of surplus. The AVR is not required under GAAP.

The interest maintenance reserve (IMR) is maintained as prescribed by the NAIC to defer realized capital gains and losses which result from changes in interest rates for all fixed income securities and to amortize these capital gains and losses into investment income over the remaining life of the investments sold, rather than reflecting the gains or losses in the year of sale. Under GAAP, realized capital gains and losses are not deferred, amortized, or combined with investment income. The IMR is reported as a liability and is net of income taxes.

An occupancy rental charge on home office real estate owned is recorded as investment income and as offsetting rental expense; under GAAP, no such rental charge would be recognized.

B. Non-Admitted Assets

Certain assets, designated as non-admitted assets, aggregating \$1,959,412 and \$1,679,716 at December 31, 2011 and 2010, respectively, are not recognized by statutory accounting practices. These assets are excluded from the balance sheet, and the net change in such assets is charged or credited directly to unassigned surplus. Non-admitted deferred tax assets are not included in the amounts above. The change in the non-admitted deferred tax asset is charged or credited directly to unassigned surplus. Under GAAP, such assets would be recognized at the lower of cost or net realizable value.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

C. Policy Reserves and Claim Reserves

Policy reserves on life insurance are based on statutory mortality and interest rate requirements and are computed using principally net level and modified preliminary term methods with interest rates ranging primarily from 2.25 percent to 6.0 percent. The use of a modified reserve basis partially offsets the effect of immediately expensing policy acquisition costs. Policy reserves on annuities are based on statutory mortality and interest requirements with interest rates ranging primarily from 3.50 percent to 9.25 percent. Under GAAP, reserves are based on mortality, lapse, withdrawal, and interest rate assumptions that are based on Company experience.

Liabilities for accident and health policies include unearned premiums and additional reserves. The liability for future policy benefits and claims on life and health insurance products includes estimated unpaid claims that have been reported to the Company and claims incurred but not yet reported. Changes in estimates are reflected in current operations.

D. Reinsurance

The Company has long-standing reinsurance treaties in place for its life and health insurance business to reduce exposure to large losses. Although reinsurance does not relieve the Company of its legal liability to its policyholders, it provides a measure of protection against catastrophic losses and provides a means of risk reduction on individual losses. In order to maintain an appropriate balance between the cost of reinsurance and surplus growth, the Company periodically evaluates its retention levels correlated to specific types of life and health insurance policies.

E. Premiums

Premiums deferred and uncollected represent modal premiums, either due and uncollected or not yet due, where policy reserves have been provided on the assumption that the full modal premium for the current policy year has been collected. Also, where policy reserves have been provided on a continuous premium assumption, premiums uncollected are similarly defined.

Premiums and annuity considerations are recognized as income over the premium paying period of the policies. Acquisition costs, such as commissions and other costs related to the new business, are expensed as incurred. Contracts that permit the insured to change the amount and timing of premium payments, such as universal life products, are recorded as revenue when received. Under GAAP, revenues include only policy charges for the cost of insurance, contract initiation and administration, surrender charges, and other fees that have been assessed against contract account values, and benefits represent the excess of benefits paid over the policy account value and interest credited to the account values. Additionally, acquisition costs under GAAP are capitalized and amortized over the policy period.

F. Pension

Under GAAP, net periodic pension expense would be based on the cost of incremental benefits for employee service during the period, interest on the projected benefit obligation, actual return on plan assets and amortization of actuarial gains and losses. Statutory accounting adopts a similar actuarial approach to estimate pension costs; however, costs related to non-vested participants are excluded.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

G. Cash and Short-Term Investments

For purposes of reporting cash flows, the Company follows statutory accounting practices and considers cash in checking accounts and certain money market funds and highly liquid debt instruments purchased with a remaining maturity of one year or less to be cash and short-term investments. The Company occasionally has on deposit in a financial institution a balance in excess of amounts insured by the Federal Deposit Insurance Corporation. The Company does not believe it is exposed to any significant credit risks on this account.

H. Subsequent Events

Subsequent events were evaluated through March 8, 2012, which is the date the financial statements were available to be issued.

I. Other

Treasury stock is recorded at cost and reported as a reduction of capital and surplus under both statutory accounting practices and GAAP.

Deferred income taxes are provided for differences between the financial statement and the tax bases of assets and liabilities. However, limitations are placed on the admissibility of deferred tax assets. All changes in deferred tax assets and liabilities are reported as changes in surplus, and state income taxes are not included in deferred tax calculations; under GAAP, deferred income taxes would be provided for differences between the financial statement and the tax bases of assets and liabilities and any deferred tax assets would be reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Changes in deferred tax assets and liabilities would be reported through operations and/or surplus depending on their characteristics and state income taxes would be included in the deferred tax calculation.

Statutory financial statements are prepared in a form using language and groupings substantially the same as the annual statement filed with the NAIC and state regulatory authorities which differ from the presentation and disclosure of financial statements presented under GAAP.

Necessary reclassifications are made in prior period financial statements, whenever appropriate, to conform to the current presentation.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

2. Pension Plan, Post-Retirement Benefits, and Deferred Compensation

Retirement Benefits

The Company, its parent (The Farmers Automobile Insurance Association), and its affiliates participate in a trustee non-contributory defined benefit pension plan. This plan covers full-time employees who have completed one year of service and have reached the age of 21. The Company's funding policy is to contribute annually an amount that represents the current cost of benefits expected to be earned in the current year offset by the expected asset return higher than the discount rate, but no more than the maximum amount that can be deducted for federal income tax purposes. Each affiliate is charged for its applicable share of such contributions based on a percent of projected benefit obligation.

Pursuant to a retirement plan for Directors elected prior to 2004, eligible Directors will receive a retirement benefit equal to the annual retainer in effect on the Directors' retirement date. The benefits paid were \$58,300 and \$66,300 in 2011 and 2010, respectively. The liability for the Directors' retirement benefit is \$547,425 and \$574,147 at December 31, 2011 and 2010, respectively.

401(k) Savings Plan

The Company and its affiliates participate in a voluntary 401(k) savings plan for eligible participants. The participation requirements are the same as the defined benefit plan mentioned above. The Company may elect, in its sole discretion, to contribute a matching contribution to the savings plan. The Company has elected to match 25 percent of the employee's contribution up to a maximum match of \$400 in 2011 and 2010. Employer contributions of \$40,936 and \$40,596, respectively, were made to this plan in 2011 and 2010.

Post-Retirement Benefits

In addition to providing pension benefits, the Company and its affiliates provide certain health care and life insurance benefits (post-retirement benefits) for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while working for the Company.

Net post-retirement benefit costs include the expected cost of such benefits for newly eligible or vested employees, interest cost, gains and losses arising from differences between actuarial assumptions and actual experience, and amortization of the transition obligation.

Deferred Compensation

The Company maintains a deferred compensation plan for the Directors. This plan allows for voluntary deferral of all or any part of the compensation to which a Director might otherwise be entitled to as Directors' fees, in accordance with the plan provisions. During 2011 and 2010, \$9,000 of Directors' fees were deferred. The liability for Directors' deferred compensation was \$112,092 and \$102,526 at December 31, 2011 and 2010, respectively.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

Expected Cash Flows

The Company expects to contribute \$1,045,000 to the Pension Plan and \$358,000 to the Post-Retirement Benefit Plan in 2012.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	Pension Benefits	Post-Retirement Benefits
2012	\$ 1,183,700	\$ 246,421
2013	1,241,944	264,141
2014	1,096,372	311,542
2015	1,405,975	367,913
2016	1,282,600	407,478
2017 to 2021	8,859,307	1,959,340

Assets, Obligations, and Assumptions

A summary of assets, obligations, and assumptions of the Pension and Post-Retirement Benefit Plans for the Company is as follows at December 31:

	Pension Benefits		Post-Retirement Benefits	
	2011	2010	2011	2010
Change in Benefit Obligation:				
Vested Benefit Obligation				
at Beginning of Year	\$ 15,921,084	\$ 17,082,622	\$ 5,919,531	\$ 5,332,329
Service Cost	917,711	825,721	1,031,423	414,345
Interest Cost	845,637	797,479	421,358	350,489
Amendments	-	164,418	-	-
Actuarial Loss (Gain)	2,292,156	(2,358,123)	(501,399)	110,171
Benefits Paid	(1,289,558)	(591,033)	(261,378)	(287,803)
Vested Benefit Obligation				
at End of Year	\$ 18,687,030	\$ 15,921,084	\$ 6,609,535	\$ 5,919,531
Change in Plan Assets:				
Fair Value of Plan Assets				
at Beginning of Year	\$ 10,245,043	\$ 13,282,191	\$ 2,671,487	\$ 3,036,899
Estimated Return on Plan Assets	334,249	(3,417,664)	141,488	(467,062)
Employer Contribution	1,060,000	971,550	360,000	316,650
Benefits Paid	(1,289,558)	(591,033)	(215,109)	(215,000)
Fair Value of Plan Assets at				
End of Year	\$ 10,349,734	\$ 10,245,043	\$ 2,957,866	\$ 2,671,487

A measurement date of September 30, 2011, was used to determine the plan assets and benefit obligations for the pension and post-retirement plan.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

The vested projected benefit obligation of the Company in relation to the total obligation of the Company and its affiliates (excluding inactive participants) is the basis for allocating the plan assets. The net periodic benefit cost of the Pension Plan is allocated to the Company based on the same method as the plan assets. The net periodic benefit cost of the Other Post-Retirement Benefit Plan is measured on a seriatim basis that projects future benefit costs participant by participant based on demographic characteristics. The projected costs are discounted to a present value. A summary of the funded status and net periodic benefit cost of the Pension and Post-Retirement Benefit Plans for the Company is as follows for the years ended December 31:

	Pension Benefits		Post-Retirement Benefits	
	2011	2010	2011	2010
Funded Status:				
Unamortized Prior Service Cost	\$ 10,105	\$ 15,122	\$ -	\$ -
Unrecognized Net Loss	\$ 7,070,456	\$ 4,697,813	\$ 238,406	\$ 820,482
Remaining Net Obligation at Initial Date of Application	\$ 368,406	\$ 398,774	\$ 13,265	\$ 17,687
Accrued Liabilities	\$ 1,042,256	\$ 700,377	\$ 3,425,730	\$ 2,409,875
Accumulated Benefit Obligation for Vested Employees	\$ 13,367,869	\$ 11,331,411	\$ 6,609,535	\$ 5,919,531
Benefit Obligation for Non-Vested Employees:				
Projected Benefit Obligation	\$ 88,731	\$ 105,691	\$ -	\$ -
Accumulated Benefit Obligation	\$ -	\$ -	\$ 7,013,433	\$ 6,986,367
Components of Net Periodic Benefit Cost:				
Service Cost	\$ 1,153,994	\$ 1,047,012	\$ 1,031,423	\$ 414,345
Interest Cost	1,063,363	1,011,201	400,820	350,490
Expected (Return) Loss on Plan Assets	(653,020)	(180,004)	(141,488)	467,062
Amortization of Unrecognized Transition Obligation	30,368	31,186	4,422	4,422
Amortization of Net Loss from Earlier Period	308,637	180,072	80,677	50,000
Amortization of Unrecognized Prior Service Cost	5,967	6,128	-	-
Net Asset (Loss) Deferred for Later Recognition	(154,449)	(637,132)	-	-
Total Net Periodic Benefit Cost	<u>\$ 1,754,860</u>	<u>\$ 1,458,462</u>	<u>\$ 1,375,854</u>	<u>\$ 1,286,319</u>

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

Weighted average assumptions used to determine the projected benefit obligation at December 31:

	<u>Pension Benefits</u>		<u>Post-Retirement Benefits</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Discount Rate	4.94%	5.66%	4.94%	5.66%
Rate of Compensation Increase	4.30%	6.01%	N/A	N/A

Weighted average assumptions used to determine the net periodic benefit cost for the years ended December 31:

	<u>Pension Benefits</u>		<u>Post-Retirement Benefits</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Discount Rate	5.66%	5.95%	5.66%	5.95%
Rate of Compensation Increase	4.30%	6.01%	N/A	N/A
Expected Long-Term Rate of Return on Plan Assets	6.50%	6.50%	6.50%	6.50%

The health care portion of the post-retirement benefit plan is contributory, with participants' contributions adjusted annually as determined by the Company; the life insurance portion of the post-retirement benefit plan is non-contributory. The health care cost trend rate in 2011 was assumed to be 7.0 percent for two years, then 6.0 percent for three years, then 5.5 percent thereafter. In 2010 the health care cost trend was assumed to be 7.0 percent for three years, then 6.0 percent for three years, then 5.0 percent thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care trend rates would have the following effects:

		<u>One Percentage Point Increase</u>	<u>One Percentage Point Decrease</u>
Effect on Total of Service and Interest Cost Components	\$	233,928	\$(191,340)
Effect on Post-Retirement Benefit Obligation	\$	894,284	\$(743,320)

The retirement plan assets are held in a deposit administration contract and equity securities. The Trustees of the Farmers Automobile Insurance Association Retirement Plan maintain a deposit administration contract with the Company for pension benefits. The fund is a group annuity contract consisting of employer contributions with guaranteed interest, less annuities purchased to provide benefit payments to retirees and lump sum benefits paid directly to participants. The fair value of the account included in plan assets of the Company and its affiliates was \$26,304,752 and \$26,481,222 as of December 31, 2011 and 2010, respectively, or 51 and 53 percent of total plan assets. Equity securities comprise the remaining plan assets. At December 31, 2011 and 2010, equity securities amounted to \$24,792,854 and \$23,138,935, respectively, or 49 and 47 percent of total plan assets.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

The expected long-term rate of return on plan assets was selected based upon current market conditions, company experience, and future company expectations.

The specific goal of the investment portfolio is to maintain a fully funded plan over time to ensure the benefit for the plan participants. New contributions are invested in equity securities until the amount in equities exceeds **45 percent of the plan's total assets**. Additional amounts will be paid into the deposit administration fund, unless the equity portfolio falls under 45 percent. If the equity portfolio exceeds **60 percent of the plan's assets, part of the equity portfolio will be liquidated and proceeds moved into the deposit administration fund within a reasonable time frame**. There are three return objectives. The primary benchmark is the **projected annual rate of return used by the plan's actuary**. The average annualized investment performance of the invested assets, net of investment related expenses, should be equal to or in excess of this benchmark. The secondary (equity) benchmark is the percent total rate of return of a **balanced portfolio comprised of a 70 percent weighting of the Standard & Poor's 500 Index and a 30 percent weighting of the Barclay's Government Corporate Index**. The secondary (fixed income) benchmark is the **weighted average rate of return of the Company's mortgage-backed securities portfolio less 0.75 percent for expenses (0.25 percent) and spread (0.50 percent)**. All plan assets, in excess of those funds targeted for short-term cash flow needs, should be invested in a manner consistent with the basic principles of prudent long-term portfolio management. Derivatives, private placement securities, and commodity contracts are prohibited investment vehicles. The Trustees of the plan recognize the **long-term nature of the majority of the plan's assets**.

The Farmers Automobile Insurance Association Retirement Plan maintains an account to partially fund health benefits provided to certain retirees and eligible dependents through a deposit administration contract with the Company. The permissible account funding was determined in accordance with generally recognized and accepted actuarial principles and practices, which are consistent with the Actuarial Standards of Practice. As of December 31, 2011 and 2010, the fair value of the account was \$15,503,357 and \$14,027,524, respectively. Contributions of \$1,666,666 and \$1,500,000 were made in 2011 and 2010, respectively, into this deposit **administration fund**. The **Company's share of the contribution was \$360,000 and \$316,650 in 2011 and 2010, respectively**.

3. Affiliated Entity Transactions

The Farmers Automobile Insurance Association (Association) and its wholly owned subsidiary, Pekin Insurance Company, owned 76.02 percent and 74.38 percent of the Company at December 31, 2011 and 2010, respectively. The Company and the Association utilize many common facilities, management, administrative and office personnel, and services. The Association incurs such expenses and allocates the related cost to the Company on a specific identification basis. Intercompany balances are paid periodically throughout the year based on estimates and settled within 45 days after year end based on actual allocated expenses. Such expenses allocated to the Company were \$5,483,669 in 2011 and \$5,601,717 in 2010.

The Company owns 100 percent of the common stock of Pekin Financial Life Insurance Company, a stock life insurance company. The carrying value of the subsidiary was \$36,513 and \$41,841, respectively, as of December 31, 2011 and 2010. Notes receivable include demand notes and a surplus note due from Pekin Financial Life Insurance Company totaling \$515,000 as of December 31, 2011 and 2010.

The Company's home office building has a book value of \$819,996 and was constructed on land leased from the Association for a term expiring on December 31, 2026, with a year-to-year extension of the lease thereafter. Automatic termination would occur with change of control of the Company. The Association has an irrevocable option to purchase the building at any time during the lease or in the event the lease is canceled. The purchase price of the building shall be the fair market value as of the closing date. The annual lease payment is \$1,000.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

In connection with structured settlements, the Association purchased 35 annuities from the Company in 2011 and 21 annuities in 2010. The single premium for these annuities totaled \$1,241,196 and \$1,132,612 in 2011 and 2010, respectively. The reserve carried by the Company at December 31, 2011 and 2010, is \$4,568,830 and \$3,580,356, respectively. The Association's claimant is the payee.

4. Bonds and Common Stocks

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2011, are as follows:

Obligation	2011			
	Admitted Value	Unrealized Gain	Unrealized Loss	Market Value
U.S. Government	\$ 7,545,433	\$ 2,204,452	\$ -	\$ 9,749,885
Other Government	8,115,421	865,680	-	8,981,101
U.S. States, Territories and Possessions	5,999,920	389,940	-	6,389,860
U.S. Political Subdivisions	16,644,512	1,345,638	-	17,990,150
U.S. Special Revenue and Special Assessment	78,797,507	10,772,396	74,620	89,495,283
Industrial and Miscellaneous	600,891,011	90,833,733	2,706,851	689,017,893
Hybrid Securities	1,008,186	-	80,686	927,500
Loan-Backed Securities	259,615,920	16,069,539	81,395	275,604,064
Total	<u>\$ 978,617,910</u>	<u>\$ 122,481,378</u>	<u>\$ 2,943,552</u>	<u>\$ 1,098,155,736</u>

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2010, are as follows:

Obligation	2010			
	Admitted Value	Unrealized Gain	Unrealized Loss	Market Value
U.S. Government	\$ 14,709,312	\$ 1,860,973	\$ -	\$ 16,570,285
Other Government	8,797,985	456,104	130,226	9,123,863
U.S. Political Subdivisions of States and Territories	14,339,606	845,712	65,481	15,119,837
U.S. Special Revenue and Special Assessment	83,259,931	1,784,053	1,756,223	83,287,761
Industrial and Miscellaneous	573,173,271	44,684,640	2,815,849	615,042,062
Hybrid Securities	1,009,496	3,004	-	1,012,500
Loan-Backed Securities	232,372,652	12,742,267	509,835	244,605,084
Total	<u>\$ 927,662,253</u>	<u>\$ 62,376,753</u>	<u>\$ 5,277,614</u>	<u>\$ 984,761,392</u>

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

The adjusted cost and market value of investments in common stock as of December 31 are as follows:

Common Stock	2011		2010	
	Adjusted Cost	Market Value	Adjusted Cost	Market Value
Common Stock	\$ 8,459,418	\$ 9,359,586	\$ 7,901,999	\$ 9,539,081
Gross Unrealized Gains		\$ 1,310,063		\$ 1,759,580
Gross Unrealized Losses		\$ 409,895		\$ 122,498

The admitted value and market value of bonds at December 31, 2011, by contractual maturity, are shown below:

	Admitted Value	Market Value
Due in One Year or Less	\$ 3,044,770	\$ 3,072,901
Due After One Year Through Five Years	61,466,021	66,533,116
Due After Five Years Through Ten Years	274,113,546	300,089,429
Due After Ten Years	380,377,653	452,856,226
Total	719,001,990	822,551,672
Loan-Backed Securities	259,615,920 *	275,604,064
Total	\$ 978,617,910	\$ 1,098,155,736

*The admitted value of mortgage-backed securities includes \$6,519,138 and \$9,696,583 of U.S. Government Guaranteed Securities for 2011 and 2010, respectively.

The Company does not engage in direct subprime residential mortgage lending. The Company's minimal exposure to subprime lending is limited to investments within the fixed maturity investment portfolio which contain securities collateralized by mortgages that have characteristics of subprime lending such as adjustable rate mortgages and alternative documentation mortgages. These investments are in the form of asset-backed securities collateralized by subprime mortgages and collateralized mortgage obligations backed by alternative documentation mortgages. The total carrying value of these investments is \$1,556,546 and \$3,438,731 at December 31, 2011 and 2010, respectively, comprising 0.20 percent and 0.40 percent of the Company's total fixed maturity portfolio.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

Securities with unrealized losses based on estimated market values as of December 31, 2011, are shown below:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Special Revenue and Special Assessment	\$ -	\$ -	\$ 1,925,380	\$ 74,620	\$ 1,925,380	\$ 74,620
Industrial and Miscellaneous	23,642,553	1,167,013	18,769,817	1,539,838	42,412,370	2,706,851
Hybrid Securities	927,500	80,686	-	-	927,500	80,686
Loan-Backed Securities	44,501	300	1,480,184	81,095	1,524,685	81,395
Subtotal Debt Securities	24,614,554	1,247,999	22,175,381	1,695,553	46,789,935	2,943,552
Common Stocks	2,878,229	322,392	732,679	87,503	3,610,908	409,895
Total Securities with Unrealized Losses	<u>\$ 27,492,783</u>	<u>\$ 1,570,391</u>	<u>\$ 22,908,060</u>	<u>\$ 1,783,056</u>	<u>\$ 50,400,843</u>	<u>\$ 3,353,447</u>

Securities with unrealized losses based on estimated market values as of December 31, 2010, are shown below:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Other Government	\$ 2,846,280	\$ 130,226	\$ -	\$ -	\$ 2,846,280	\$ 130,226
U.S. Political Subdivisions	-	-	584,519	65,481	584,519	65,481
U.S. Special Revenue and Special Assessment	24,691,318	1,058,602	19,364,916	697,621	44,056,234	1,756,223
Industrial and Miscellaneous	36,262,129	1,072,760	42,437,151	1,743,089	78,699,280	2,815,849
Loan-Backed Securities	20,332,021	409,650	3,338,547	100,185	23,670,568	509,835
Subtotal Debt Securities	84,131,748	2,671,238	65,725,133	2,606,376	149,856,881	5,277,614
Common Stocks	802,401	55,066	544,459	67,432	1,346,860	122,498
Total Securities with Unrealized Losses	<u>\$ 84,934,149</u>	<u>\$ 2,726,304</u>	<u>\$ 66,269,592</u>	<u>\$ 2,673,808</u>	<u>\$ 151,203,741</u>	<u>\$ 5,400,112</u>

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

Proceeds from sales of investments in debt securities, excluding calls and maturities, during 2011 and 2010 were \$135,384,535 and \$114,372,148, respectively. Gross gains of \$4,828,402 and \$2,253,090 and gross losses of \$407,855 and \$549,458 were realized on those sales, respectively. Net gains in the amount of \$2,899,117 and \$1,116,268 were deferred to the IMR in 2011 and 2010, respectively.

In 2011 and 2010, there were no unrealized capital losses on investments that were determined to be other than temporary declines in value and were recognized as realized capital losses.

Bonds carried at \$1,542,527 and \$1,555,452 at December 31, 2011 and 2010, respectively, are on deposit with the Illinois Department of Insurance as required by law.

Securities Lending

The Company lends securities to agreed upon borrowers through an agreement with its custodian. **The Company's policy is to require** initial collateral from the borrower in an amount that is not less than 102 percent and 105 percent of the fair value of the domestic and foreign securities loaned at the outset of the contract as collateral. All collateral so received is held either in the physical custody of the custodian or for the account of the custodian by their agent or a central bank. The offsetting collateral liability is included in Payable for Securities Lending. At December 31, 2011 and 2010, respectively, the amount of securities loaned was \$62,503,487 and \$94,902,544, and the related collateral was \$63,951,345 and \$96,768,360. At December 31, 2011, collateral assets valued at \$20,087,117 had maturity dates beyond one year. The aggregate amount of cash collateral received as of December 31, 2011 and 2010, is shown below by maturity date:

<u>Maturity Date</u>	<u>2011</u>		<u>2010</u>	
	<u>Fair Value</u>		<u>Fair Value</u>	
Open	\$	19,345,282	\$	22,914,748
30 Days or Less		6,452,691		16,082,901
31 to 60 Days		9,599,097		16,818,341
61 to 90 Days		7,303,244		8,651,091
Greater Than 90 Days		21,251,031		32,301,279
Total Collateral Received	\$	<u>63,951,345</u>	\$	<u>96,768,360</u>

The aggregate amount of cash collateral reinvested as of December 31, 2011 and 2010, is shown below by maturity date:

	<u>2011</u>		<u>2010</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
30 Days or Less	\$20,861,354	\$20,861,467	\$43,944,732	\$43,944,569
31 to 60 Days	7,794,598	7,795,065	8,859,342	8,859,906
61 to 90 Days	3,063,389	3,063,542	3,597,021	3,596,950
91 to 120 Days	1,863,717	1,864,063	2,218,006	2,217,945
121 to 180 Days	4,447,959	4,446,887	2,523,285	2,523,207
181 to 365 Days	7,890,917	7,893,960	14,367,941	14,366,599
1 to 2 Years	6,030,187	6,034,935	10,662,129	10,662,149
2 to 3 Years	736,175	735,984	3,103,772	3,101,042
Greater Than 3 Years	11,348,838	11,307,304	7,886,487	7,807,780
Total Collateral Reinvested	<u>\$64,037,134</u>	<u>\$64,003,207</u>	<u>\$97,162,716</u>	<u>\$97,080,146</u>

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

5. Fair Value Measurement

Statutory Accounting Practices establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level one measurements) and the lowest priority to unobservable inputs (level three measurements). The three levels of the fair value hierarchy under statutory accounting are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

The fair values of the Level 2 securities are obtained from independent pricing services or from **the Company's investment manager and are determined using quoted market prices from an orderly market at the reporting date for those or similar investments.**

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2011:

Description	2011			Total
	Level 1	Level 2	Level 3	
Common Stock	\$ 8,559,272	\$ 769,447	\$ 30,867	\$ 9,359,586

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2010:

Description	2010			Total
	Level 1	Level 2	Level 3	
Common Stock	\$ 8,825,764	\$ 713,315	\$ -	\$ 9,539,079

The Company does not have any liabilities measured at fair value at December 31, 2011 and 2010. The Company does not have any transfers between levels in 2011 and 2010. Shown below are the fair value measurements in Level 3 of the fair value hierarchy as of December 31, 2011:

Description	Amount
Common Stock:	
Monster Beverage Corporation	
Beginning Balance 1/1/2011	\$ -
Transfers into Level 3	-
Transfers out of Level 3	-
Total Gains (Losses) Included in Net Income	-
Total Gains (Losses) Included in Surplus	-
Purchases, Issuance, Sales, and Settlements	30,867
Ending Balance 12/31/2011	<u>\$30,867</u>

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

6. Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics

Annuity actuarial reserves and deposit liabilities, by withdrawal characteristics, as of December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Subject to Discretionary Withdrawal - With Adjustment:		
With Market Value Adjustment	\$ 171,660,040	\$ 156,663,333
With Fair Value Adjustment and Surrender Charge of 5% or More	44,243,414	53,771,971
At Book Value Less Surrender Charge of 5% or More	21,173,376	15,893,958
At Market Value	209,455	203,896
Subtotal	<u>237,286,285</u>	<u>226,533,158</u>
Subject to Discretionary Withdrawal - Without Adjustment:		
At Book Value (Minimal or No Charge or Adjustment)	120,706,319	116,439,127
Not Subject to Discretionary Withdrawal Provision	<u>59,822,463</u>	<u>58,433,924</u>
Total Annuity Actuarial Reserves and Deposit Liabilities	417,815,067	401,406,209
Less Reinsurance	<u>(52,364)</u>	<u>(50,974)</u>
Total Annuity Actuarial Reserves and Deposit Liabilities	<u>\$ 417,762,703</u>	<u>\$ 401,355,235</u>

Included in the annuity actuarial reserves and deposit liabilities, \$41,808,109 and \$40,508,746 for 2011 and 2010, respectively, relates to the deposit administration contract for the Farmers Automobile Insurance Association Retirement Plan, of which the Company is a participant.

Reconciliations of total annuity actuarial reserves and deposit liabilities as of December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Annuities, Net	\$ 367,556,232	\$ 352,766,468
Deposit-Type Contracts	<u>50,206,471</u>	<u>48,588,767</u>
Total Annuity Actuarial Reserves and Deposit Fund Liabilities	<u>\$ 417,762,703</u>	<u>\$ 401,355,235</u>

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

7. Life and Health Reserves

A. Life Contracts and Deposit-Type Contracts

The Company waives deduction of deferred fractional premiums upon death of an insured and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. Policies subject to an extra premium because the insured is placed in a special rating class are valued as follows:

Premium-Paying Policies

Extra premiums are charged for all substandard lives plus the gross premium for the insured's age. Mean reserves are determined by computing the regular mean reserve for the plan at the insured's age holding in addition one-half (1/2) of the extra premium charge for the year.

Paid-Up Policies

For whole life policies that are known to have been based on a substandard mortality table, the reserves are those based on the same substandard table. As of December 31, 2011 and 2010, the Company had \$233,557,712 and \$282,067,712, respectively, insurance in force for which the gross premiums are less than the net premiums according to the standard valuation set by the State of Illinois. Deficiency reserves to cover the difference between gross and net premiums totaled \$1,273,448 and \$1,553,486 at December 31, 2011 and 2010, respectively. The insurance amount does not include insurance on policies for which deficiency reserves are either exempted or calculated to be zero on a seriatim basis.

Tabular interest, tabular less actual reserve released, and tabular cost have been determined by formulas used in accordance with the Statutory Accounting Practices. Tabular interest on deposit funds not involving life contingencies are computed based on the interest rate actually credited to the funds using interest rates as approved by the Board of Directors.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

B. Liability for Health Policy Claim Reserves

Activity in the claim reserves is summarized as follows:

	<u>2011</u>	<u>2010</u>
Balance at January 1	\$ 26,275,808	\$ 25,607,685
Less Reinsurance Recoverables	197,273	175,955
Net Balance at January 1	<u>26,078,535</u>	<u>25,431,730</u>
Incurred Related to:		
Current Year	94,999,425	111,526,125
Prior Years	(1,529,587)	(3,305,575)
Total Incurred	<u>93,469,838</u>	<u>108,220,550</u>
Paid Related to:		
Current Year	75,179,147	88,542,768
Prior Years	21,710,122	19,030,977
Total Paid	<u>96,889,269</u>	<u>107,573,745</u>
Net Balance at December 31	22,659,104	26,078,535
Plus Reinsurance Recoverables	929,402	197,273
Balance at December 31	<u>\$ 23,588,506</u>	<u>\$ 26,275,808</u>

Health policy reserves of \$4,218,476 and \$4,645,122 and health contract claims of \$18,440,628 and \$21,433,413 as of December 31, 2011 and 2010, respectively, are included in the previous table and their respective liabilities in the balance sheet.

As a result of actual claim payments varying from previous estimates of insured events and subsequent reserve changes, the provision for claim benefits decreased by \$1,529,587 and \$3,305,575 in 2011 and 2010, respectively.

C. Premium and Annuity Considerations Deferred

Deferred life insurance premiums and annuity considerations as of December 31 are as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Gross</u>	<u>Net of Loading</u>	<u>Gross</u>	<u>Net of Loading</u>
Ordinary New Business	\$ 1,160,012	\$ 676,654	\$ 1,103,536	\$ 677,762
Ordinary Renewal	8,320,018	12,819,611	7,641,663	11,209,053
Group Life	851,316	1,066,225	868,582	857,303
Total	<u>\$ 10,331,346</u>	<u>\$ 14,562,490</u>	<u>\$ 9,613,781</u>	<u>\$ 12,744,118</u>

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

8. Federal Income Taxes

The Company is taxed as a life insurance company on the basis of combined net investment income, capital gains, and underwriting income. Federal income tax expense differs from the amount obtained by applying the federal income tax rate of 34 percent to pretax income for the years ended December 31, 2011 and 2010, due to the following:

	<u>2011</u>	<u>2010</u>
Computed Expected Federal Income Tax Expense	\$ 586,960	\$ 2,206,523
Increase (Decrease) in Taxes Resulting from:		
Statutory Reserves Exceeding Tax Reserves	296,380	543,672
Investment Income	(190,352)	(198,327)
Deferred Acquisition Costs	128,499	318,720
All Others	(216,143)	150,180
Federal Income Tax Expense	<u>\$ 605,344</u>	<u>\$ 3,020,768</u>

The components of the net deferred tax asset as of December 31, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Deferred Tax Assets:		
Statutory vs Tax Reserves	\$ 7,280,000	\$ 6,825,000
Deferred Acquisition Costs	5,059,250	4,830,000
Post-Retirement Accrual	1,199,100	843,500
Compensation and Benefits Accrual	253,610	256,550
Non-Admitted Assets	686,000	588,000
Capital Loss Carry-Forward	10,070,900	11,934,300
Other	91,000	139,300
Total Deferred Tax Assets	<u>24,639,860</u>	<u>25,416,650</u>
Deferred Tax Liabilities:		
Accrual of Discount	370,650	398,300
Unrealized Capital Gains - Common Stock	286,300	526,050
Other	424,297	293,047
Total Deferred Tax Liabilities	<u>1,081,247</u>	<u>1,217,397</u>
Net Deferred Tax Assets, Admitted and Non-Admitted	23,558,613	24,199,253
Less Non-Admitted Deferred Tax Assets	<u>14,011,908</u>	<u>20,844,821</u>
Net Deferred Tax Asset, Admitted	<u>\$ 9,546,705</u>	<u>\$ 3,354,432</u>

As of December 31, 2011, the Company adopted *Statement of Statutory Accounting Principle No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10*, which allows companies to elect to use an alternative methodology for calculating the admissible amount of deferred tax if certain minimum surplus requirements are met.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

The net admitted deferred tax asset was determined using the guidance related to admissibility in the following paragraphs of NAIC *Statement of Statutory Accounting Principles No. 10R*:

	<u>2011</u>	<u>2010</u>
Admissible Under Paragraph:		
10.a. Ability to Recover Taxes Paid in Prior Years	\$ 3,784,122	\$ 3,354,432
10.b. Ability to Realize in One Year, up to 10 Percent of Adjusted Surplus	1,925,568	-
10.c. Offset of Deferred Tax Liabilities	1,081,247	1,217,397
	<u>6,790,937</u>	<u>4,571,829</u>
10.e.i. Ability to Recover Taxes Paid in Prior Years	-	-
10.e.ii. Ability to Realize in Three Years, up to 15 Percent of Adjusted Surplus	3,837,015	-
	<u>3,837,015</u>	<u>-</u>
Total Admitted Deferred Tax Assets	10,627,952	4,571,829
Total Deferred Tax Liabilities	1,081,247	1,217,397
Net Admitted Deferred Tax Asset	<u>\$ 9,546,705</u>	<u>\$ 3,354,432</u>

The Company is subject to Risk-Based Capital requirements and met the minimum surplus thresholds required by Paragraph 10.d. of NAIC Statement of Statutory Accounting Principles No. 10R. As a result, the Company elected to admit additional amounts under Paragraph 10.e.

As of December 31, 2011 and 2010, the Company had no operating loss carry-forwards. Capital loss carry-forwards available at December 31, 2011 and 2010, were \$28,774,000 and \$34,098,000, respectively.

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

2011	\$ 617,177
2010	\$ 2,715,803
2009	\$ 451,142

Federal income tax returns of the Company have been examined by the Internal Revenue Service for all years through 2001. In the opinion of management, the liability for federal income taxes is sufficient to cover computed taxes for the current and prior years that are currently payable. As of December 31, 2011, the Company has not identified any material loss contingencies arising from uncertain tax positions.

Pekin Life Insurance Company

Notes to Financial Statements – Statutory Basis

9. Capital and Surplus and Dividends

The Company is required to maintain minimum surplus established by the Department of Insurance. The Company is also subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the Department. The RBC standards establish minimum surplus requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. At December 31, 2011, the Company's surplus exceeded the minimum levels required by the Department and RBC standards.

The Company's unassigned surplus was increased (reduced) by the following cumulative amounts at December 31, 2011 and 2010, respectively:

	<u>2011</u>	<u>2010</u>
Net Unrealized Gains	\$ 836,689	\$ 1,578,922
Non-Admitted Assets	\$ (1,959,412)	\$ (1,679,716)
Asset Valuation Reserve	\$ (4,823,833)	\$ (4,266,318)
Provision for Reinsurance	\$ (1,432)	\$ (927)

Non-cumulative dividends are paid quarterly as determined by the Board of Directors. The maximum amount of dividends which can be paid by a State of Illinois domiciled insurance company to shareholders without prior approval of the Director of Insurance is limited to the greater of 10 percent of statutory surplus or the net income of the company for the preceding year. Statutory surplus at December 31, 2011, was \$117,910,510. The maximum dividend payout which may be made without prior approval in 2012 is \$11,791,051.

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TOP PRODUCERS FOR 2011:

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Northwoods Insurance
Services, LLC
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Steve Anderson

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Loves Park, Illinois

Gary Ashley

Harmon and Harmon Insurance
Agency, Inc.
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Insurance Solutions Network, LLC
Villa Park, Illinois

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Biglow-Grove Insurance Agency
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Platteville, Wisconsin

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Dick Butler & Associates, Inc.
Mattoon, Illinois

Greg Cannedy

Prairie State Insurance Agency, Inc.
Springfield, Illinois

Nicole Casazza

Broadmoor Agency, Inc.
Rockford, Illinois

Jeff Clements

Downing Przykopanski Clements
& May Insurance Agency, Inc.
Mount Pulaski, Illinois

Natalie Cole

Ramsey Financial Services, Inc.
Bowen, Illinois

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Herscher, Illinois

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Andrew Drewes

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Kinmundy, Illinois

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Eccher & Associates Insurance
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Michael Edwards

Hugh F. Miller Insurance Agency, Inc.
Rock Falls, Illinois

Robert Ellinger

Ellinger Riggs Insurance, Inc.
Noblesville, Indiana

Joseph Feldbruegge

Feldbruegge Insurance Agency, LLC
Abbotsford, Wisconsin

Randell Ferguson

Randy Ferguson Insurance
Greenfield, Illinois

Robert Fortner

Fortner Insurance Agency, Inc./
A Division of Lyle R. Jager Agency, Inc.
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Chaney & Karch Insurance Group, Inc.
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Brian Van De Hey Insurance &
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Individual & Business Needs**
Funeral Preplanning
**Self-Funded Employee
Benefit Plan Administration**

Pekin Life Insurance Company, headquartered in Pekin, Illinois, became an integral member of the Pekin Insurance® group of companies in April 1965. Joining together with our property/casualty companies, The Farmers Automobile Insurance Association; Pekin Insurance Company; and PAC, Inc., we are committed to providing quality insurance service to our policyholders spanning a six-state marketing area. Our property/casualty products deliver coverage to protect homes, autos, businesses, and a wide range of other insurance needs. The Company's life and health products listed on the left offer a diverse portfolio of coverages to help families and businesses achieve secure financial futures. Whether for property/casualty, life, annuity, or health insurance, we are committed to going the extra mile to provide the products and services necessary for your peace of mind. Now, more than ever, it is important that policyholders have complete trust in their insurance company. Pekin Insurance ... going *Beyond the expected*® to meet your insurance needs.

Pekin Life Insurance Company
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