

Pekin Insurance Company

**Report on Audits of Financial Statements -
Statutory Basis**

For the Years Ended December 31, 2010 and 2009

Pekin Insurance Company

Table of Contents

	Page(s)
Independent Auditor's Report on the Financial Statements	1
Financial Statements:	
Statutory Balance Sheets as of December 31, 2010 and 2009	2
Statutory Statements of Income and Changes in Stockholder's Equity for the years ended December 31, 2010 and 2009	3
Statutory Statements of Cash Flow for the years ended December 31, 2010 and 2009	4
Notes to Statutory Basis Financial Statements	5-18
Independent Auditor's Report on the Supplementary Information	19
Summary Investment Schedule	20
Investment Risks Interrogatories	21-24
Reinsurance Interrogatories	25-26



Independent Auditor's Report on the Financial Statements

Board of Directors
Pekin Insurance Company
Pekin, Illinois

We have audited the accompanying statutory balance sheets of Pekin Insurance Company (the "Company") as of December 31, 2010 and 2009, and the related statutory statements of income and changes in stockholder's equity 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, 2010 and 2009, or the results of its operations or its cash flow for the years then ended.

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, 2010 and 2009, and the results of its operations and its cash flow for the years then ended, on the statutory basis of accounting described in Note 1.

Strohm Ballweg, LLP

Madison, Wisconsin
May 11, 2011

Pekin Insurance Company

Statutory Balance Sheets As of December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Admitted Assets:		
Bonds	\$ 188,377,226	\$ 179,187,570
Common stocks:		
Affiliates	8,949,273	8,863,449
Other than affiliates	8,700,809	7,598,318
Cash and short-term investments	3,152,821	1,541,034
Receivable for securities	-	5,303
Securities lending reinvested collateral assets	<u>27,802,586</u>	<u>-</u>
Cash and invested assets	236,982,715	197,195,674
Net deferred tax asset	4,521,674	3,982,847
Investment income due and accrued	2,373,128	2,305,950
Receivables from parent, subsidiaries and affiliates	<u>1,975,190</u>	<u>-</u>
Total admitted assets	<u>\$ 245,852,707</u>	<u>\$ 203,484,471</u>
Liabilities:		
Unpaid losses	\$ 59,485,202	\$ 57,296,628
Unpaid loss adjustment expenses	14,148,531	13,804,201
Unearned premiums	40,642,879	33,698,354
Commissions, expenses, fees and taxes	4,366,515	3,544,783
Current federal income taxes	822,128	1,229,300
Payable to parent	-	827,749
Payable for securities lending	27,802,586	-
Other liabilities	<u>765,229</u>	<u>837,644</u>
Total liabilities	<u>148,033,070</u>	<u>111,238,659</u>
Stockholder's Equity:		
Common capital stock, \$28.75 par value, 70,000 shares authorized, issued and outstanding	2,012,500	2,012,500
Unassigned surplus	<u>95,807,137</u>	<u>90,233,312</u>
Total stockholder's equity	<u>97,819,637</u>	<u>92,245,812</u>
Total liabilities and stockholder's equity	<u>\$ 245,852,707</u>	<u>\$ 203,484,471</u>

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

Pekin Insurance Company

Statutory Statements of Income and Changes in Stockholder's Equity For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Underwriting income:		
Premiums written	\$ 90,461,722	\$ 81,762,127
Increase in unearned premiums	<u>(6,944,525)</u>	<u>(2,052,584)</u>
Premiums earned	<u>83,517,197</u>	<u>79,709,543</u>
Losses and expenses incurred:		
Losses	55,797,567	53,438,215
Loss adjustment expenses	7,582,878	5,990,750
Underwriting expenses	<u>25,139,899</u>	<u>22,886,408</u>
Total losses and expenses incurred	<u>88,520,344</u>	<u>82,315,373</u>
Underwriting loss	(5,003,147)	(2,605,830)
Net investment income earned	9,066,093	8,924,629
Realized capital gains (losses)	614,022	(202,016)
Other income	<u>465,965</u>	<u>451,108</u>
Net income before federal income tax	5,142,933	6,567,891
Federal income tax incurred	<u>1,165,827</u>	<u>2,099,489</u>
Net income	3,977,106	4,468,402
Other changes in stockholder's equity:		
Change in net unrealized capital gains (losses):		
Affiliates	85,824	(408,538)
Other than affiliates	972,068	3,127,463
Change in net deferred income taxes	<u>538,827</u>	<u>43,203</u>
Net change in stockholder's equity	5,573,825	7,230,530
Stockholder's equity, beginning of year	<u>92,245,812</u>	<u>85,015,282</u>
Stockholder's equity, end of year	<u>\$ 97,819,637</u>	<u>\$ 92,245,812</u>

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

Pekin Insurance Company

Statutory Statements of Cash Flow For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash from operations:		
Net premiums collected	\$ 90,461,722	\$ 81,762,127
Net investment income received	9,310,491	9,379,024
Other income received	465,964	451,108
	<u>100,238,177</u>	<u>91,592,259</u>
Benefits and loss related payments	53,608,992	55,432,267
Commissions, expenses paid and other deductions	31,556,710	28,229,263
Federal income taxes paid (recovered)	1,572,999	(514,645)
	<u>86,738,701</u>	<u>83,146,885</u>
Net cash from operations	<u>13,499,476</u>	<u>8,445,374</u>
Cash from investments:		
Proceeds from investments sold, matured or repaid:		
Bonds	24,630,741	52,719,455
Stocks	6,094,754	8,467,310
Miscellaneous	21,038	-
	<u>30,746,533</u>	<u>61,186,765</u>
Cost of investments acquired:		
Bonds	33,511,528	61,699,143
Stocks	6,231,605	8,284,112
Miscellaneous	-	5,103
	<u>39,743,133</u>	<u>69,988,358</u>
Net cash from investments	<u>(8,996,600)</u>	<u>(8,801,593)</u>
Cash from financing and miscellaneous sources:		
Other cash applied	<u>(2,891,089)</u>	<u>(186,924)</u>
Net change in cash and short-term investments	1,611,787	(543,143)
Cash and short-term investments at beginning of year	<u>1,541,034</u>	<u>2,084,177</u>
Cash and short-term investments at end of year	<u>\$ 3,152,821</u>	<u>\$ 1,541,034</u>

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

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

1. Nature of Operations and Summary of Significant Accounting Practices

Pekin Insurance Company (the “Company”) is a regional Midwest property and casualty insurance company domiciled in the State of Illinois. The Company sells insurance through independent agents. Insurance products primarily include private passenger and commercial automobile, homeowners, workers’ compensation, commercial multi-peril, general liability and business owners’ policies. Approximately 64% and 67% of the direct premium was written in the state of Illinois in 2010 and 2009, respectively.

The accompanying financial statements have been prepared principally for filing with regulatory agencies and, as such, are 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 unpaid losses and loss adjustment expenses, 2) the assumptions regarding the other than temporary impairment analysis of the investment portfolio, and 3) the discount rate and other assumptions used to determine the benefit obligations for the defined benefit pension plan and post-retirement benefit plan, and 4) the amount of deferred tax assets expected to be realized in the next fiscal year.

Subsequent Events

Subsequent events were evaluated through May 11, 2011, which is the date the financial statements were available to be issued.

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. Investment grade bonds (i.e., NAIC designation 1 or 2) not backed by other loans are stated at amortized cost using a scientific method. Below investment grade bonds (i.e., NAIC designation 3 or higher) not backed by other loans are stated at lesser of fair value or amortized cost with any change in the carrying value of the bond being treated as an unrealized gain/loss and credited/charged directly to surplus. Common stocks of non-affiliated companies are carried at market value and common stocks of insurance company affiliates are accounted for using the statutory equity method in which undistributed earnings are reported as unrealized gains

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

and losses; under GAAP, the financial statements of wholly owned subsidiaries are consolidated with those of the parent.

Loan-backed securities (mortgage-backed and asset-backed) 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 flows 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.

Investment income is recorded when earned. Realized gains and losses on sales 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 current income tax effect. Statutory 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. The amount of these declines deemed other than temporary was \$0 and \$1,837,727 for the years ended December 31, 2010 and 2009, respectively.

In 2010, the NAIC adopted revisions to *Statement of Statutory Accounting Principle No. 91R, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, which changed the way the Company records its securities lending program. Collateral received and reinvested on behalf of the Company under its securities lending contract is now required to be reported on the statutory balance sheet, and a corresponding liability is also established to record the obligation to return the collateral.

Under GAAP, equity securities that have readily determinable fair values and bonds 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 reported as a separate component of income. 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.

B. Unpaid Losses and Loss Adjustment Expenses

The liabilities for unpaid losses and loss adjustment expenses are based upon management's estimates of reported and unreported losses determined on the basis of claim evaluation and past statistical experience. The Company does not anticipate salvage and subrogation in the estimate of the liabilities for direct unpaid loss and loss adjustment expenses, which is required under GAAP. Reinsurance recoverables related to unpaid losses and loss adjustment expenses

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

are netted with the respective liabilities; under GAAP, these reinsurance recoverables would be shown on a separate gross basis.

C. Policy Acquisition Costs

The costs of acquiring premium income are immediately charged against operations, whereas premium income is deferred over the periods covered by the policies. Under GAAP, costs, which vary directly with the production of new and renewal business, are capitalized and amortized as premium is earned.

D. Pension Plan

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

E. Income Taxes

Current income taxes are determined based on taxable income at the statutory federal income tax rate. The Company records deferred income taxes on temporary differences between the financial reporting basis and the tax basis of assets and liabilities based upon enacted federal tax rates. However, limitations are placed on the admissibility of deferred tax assets and all changes in deferred tax assets and liabilities are reported as changes in surplus. Under GAAP, deferred income taxes would be provided for differences between the financial statement and the federal and state tax basis 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.

F. Premium Income Recognition

Premiums are earned over the terms of the related insurance policies and reinsurance contracts on a daily pro rata basis. Unearned premium reserves are established to cover the unexpired portion of premiums written and are computed on a pro rata basis. The Company determined that a premium deficiency reserve was not necessary for the years ended December 31, 2010 and 2009. The Company does not anticipate investment income as a factor in the calculation of a potential premium deficiency reserve.

G. Cash and Short-Term Investments

For purposes of reporting cash flows, the Company follows statutory accounting practices and considers cash in checking accounts, certain money market funds, and highly liquid debt instruments purchased with an original 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 these accounts.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

H. Other

Under statutory accounting practices, the Statements of Cash Flow reconcile cash and short-term investments with original maturities of one year or less. Under GAAP, the Statements of Cash Flow reconcile the corresponding captions of cash and cash equivalents with original maturity periods of three months or less.

Commissions on reinsurance ceded are credited to income at the time the premium is ceded; under GAAP, commissions on ceded premium would be deferred and recognized as income over the periods covered by the policies.

Statutory financial statements are presented in a form using language and groupings substantially the same as the annual statement of the Company 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.

2. Affiliated Entity Transactions

The Company and its parent, The Farmers Automobile Insurance Association (the Association), owned 74.38% and 71.81% of the Pekin Life Insurance Company (PLIC) at December 31, 2010 and 2009, respectively. Specifically, the Company owned 7.58% of PLIC at the end of December 31, 2010 and 2009.

The Company and the Association occupy the same building and, along with PLIC, utilize many common facilities, management, administrative and office personnel and services. Since 1966, the Company and the Association have had a reinsurance pooling agreement under which underwriting income and expense and other administrative expenses are prorated to the Association (80%) and to the Company (20%). Intercompany balances are paid periodically throughout the year based on estimates and settled within 45 days after year-end based on actual allocated expenses. The proration does not include provisions for federal income taxes or results of investment transactions.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

3. Bonds and Common Stocks

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	\$ 2,354,908	\$ 57,827	\$ -	\$ 2,412,735
Other Government	1,699,565	38,357	43,409	1,694,513
U.S. States, Territories and Possessions	8,035,670	605,485	-	8,641,155
U.S. Political Subdivisions of States and Territories	8,744,079	427,929	-	9,172,008
U.S. Special Revenue and Special Assessment	32,285,379	1,865,884	24,603	34,126,660
Industrial and Miscellaneous	95,968,336	6,293,202	314,153	101,947,385
Loan-Backed Securities	39,289,289	2,172,054	47,282	41,414,061
Total	<u>\$ 188,377,226</u>	<u>\$ 11,460,738</u>	<u>\$ 429,447</u>	<u>\$ 199,408,517</u>

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2009 are as follows:

Obligation	2009			
	Admitted Value	Unrealized Gain	Unrealized Loss	Market Value
U.S. Government	\$ 2,338,399	\$ 41,628	\$ 15,622	\$ 2,364,405
Other Government	373,792	760	2,092	372,460
U.S. States, Territories and Possessions	8,661,437	640,948	-	9,302,385
U.S. Political Subdivisions of States and Territories	10,795,839	688,287	-	11,484,126
U.S. Special Revenue and Special Assessment	35,440,798	1,851,065	14,322	37,277,541
Industrial and Miscellaneous	80,894,805	2,987,823	391,172	83,491,456
Loan-Backed Securities	40,682,500	1,855,356	34,839	42,503,017
Total	<u>\$ 179,187,570</u>	<u>\$ 8,065,867</u>	<u>\$ 458,047</u>	<u>\$ 186,795,390</u>

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

The admitted value and market value of bonds at December 31, 2010, by contractual maturity, are shown below.

	<u>Admitted Value</u>	<u>Market Value</u>
Due in one year or less	\$ 1,999,859	\$ 2,034,520
Due after one year through five years	33,568,194	35,414,000
Due after five years through ten years	95,006,936	101,077,556
Due after ten years	<u>18,512,948</u>	<u>19,468,380</u>
Total	149,087,937	157,994,456
Loan-backed securities	<u>39,289,289</u> *	<u>41,414,061</u>
Total	<u>\$ 188,377,226</u>	<u>\$ 199,408,517</u>

* The admitted value of loan-backed securities include \$1,401,109 and \$1,970,470 of U.S. Government Guaranteed Securities for 2010 and 2009, respectively.

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

<u>Description of Securities</u>	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Market Value</u>	<u>Unrealized Losses</u>	<u>Market Value</u>	<u>Unrealized Losses</u>	<u>Market Value</u>	<u>Unrealized Losses</u>
Other Government	\$ 948,760	\$ 43,409	\$ -	\$ -	\$ 948,760	\$ 43,409
U.S. Special Revenue and Special Assessment	2,180,770	23,532	1,108,790	1,071	3,289,560	24,603
Industrial and Miscellaneous	8,312,107	267,403	2,660,108	46,750	10,972,215	314,153
Loan-Backed Securities	4,509,896	47,282	-	-	4,509,896	47,282
Subtotal Debt Securities	<u>15,951,533</u>	<u>381,626</u>	<u>3,768,898</u>	<u>47,821</u>	<u>19,720,431</u>	<u>429,447</u>
Common Stock - Unaffiliated	<u>881,694</u>	<u>49,053</u>	<u>602,971</u>	<u>66,108</u>	<u>1,484,665</u>	<u>115,161</u>
Total Securities With Unrealized Losses	<u>\$ 16,833,227</u>	<u>\$ 430,679</u>	<u>\$ 4,371,869</u>	<u>\$ 113,929</u>	<u>\$ 21,205,096</u>	<u>\$ 544,608</u>

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

Securities with unrealized losses based on market values at December 31, 2009 are shown below:

<u>Description of Securities</u>	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Market Value</u>	<u>Unrealized Losses</u>	<u>Market Value</u>	<u>Unrealized Losses</u>	<u>Market Value</u>	<u>Unrealized Losses</u>
U.S. Government	\$ 538,595	\$ 15,622	\$ -	\$ -	\$ 538,595	\$ 15,622
Other Government	171,960	2,092	-	-	171,960	2,092
U.S. Special Revenue and Special Assessment	-	-	1,104,950	14,322	1,104,950	14,322
Industrial and Miscellaneous	16,845,425	218,521	3,759,660	172,651	20,605,085	391,172
Loan-Backed Securities	3,316,253	18,113	1,226,464	16,726	4,542,717	34,839
Subtotal Debt Securities	20,872,233	254,348	6,091,074	203,699	26,963,307	458,047
Common Stock - Unaffiliated	1,771,521	126,028	164,002	18,783	1,935,523	144,811
Total Securities With Unrealized Losses	<u>\$ 22,643,754</u>	<u>\$ 380,376</u>	<u>\$ 6,255,076</u>	<u>\$ 222,482</u>	<u>\$ 28,898,830</u>	<u>\$ 602,858</u>

Proceeds from sales of bonds, excluding calls and maturities, during 2010 and 2009 were \$8,930,342 and \$39,510,876 respectively. There were gross gains of \$594,412 and \$1,937,188 in 2010 and 2009 and gross losses of \$11,162 and \$240,735 were realized on those sales, respectively.

Bonds carried at \$2,354,909 and \$2,338,399 at December 31, 2010 and 2009, respectively, were on deposit with the Illinois Department of Insurance as required by law. Bonds in the amount of \$100,000 were on deposit with the Arizona Department of Insurance at December 31, 2010 as required by law.

The adjusted cost, unrealized gain and loss, and statement value of investments in stocks as of December 31, 2010 are as follows:

<u>Common Stocks</u>	<u>2010</u>			
	<u>Adjusted Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Statement Value</u>
Other Than Affiliates	\$ 7,221,754	\$ 1,594,216	\$ 115,161	\$ 8,700,809
Affiliates	457,868	8,491,405	-	8,949,273
Total Stocks	<u>\$ 7,679,622</u>	<u>\$ 10,085,621</u>	<u>\$ 115,161</u>	<u>\$ 17,650,082</u>

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

The adjusted cost, unrealized gain and loss, and statement value of investments in stocks as of December 31, 2009 are as follows:

Common Stocks	2009			
	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Other Than Affiliates	\$ 7,064,402	\$ 678,727	\$ 144,811	\$ 7,598,318
Affiliates	457,868	8,405,581	-	8,863,449
Total Stocks	<u>\$ 7,522,270</u>	<u>\$ 9,084,308</u>	<u>\$ 144,811</u>	<u>\$ 16,461,767</u>

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 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, 2010 and 2009, the amount of securities loaned was \$27,257,602 and \$20,416,135, respectively, and the related collateral was \$27,802,586 and \$21,000,354. At December 31, 2010, collateral assets valued at \$4,000,792 had maturity dates beyond one year. The aggregate amount of cash collateral received as of December 31, 2010 is shown below by maturity date.

Maturity Date	Fair Value
Open	\$ 6,583,652
30 Days or less	4,620,790
31 to 60 Days	4,832,089
61 to 90 Days	2,485,551
Greater than 90 days	<u>9,280,504</u>
Total Collateral Received	<u>\$ 27,802,586</u>

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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

	<u>Amortized Cost</u>	<u>Fair Value</u>
30 Days or less	\$ 10,613,573	\$ 10,613,523
31 to 60 Days	3,979,613	3,979,774
61 to 90 Days	1,451,683	1,451,665
91 to 120 Days	637,048	637,030
121 to 180 Days	724,729	724,706
181 to 365 Days	4,126,710	4,126,326
1 to 2 Years	3,062,342	3,062,347
2 to 3 Years	891,455	1,793,095
Greater than 3 years	<u>2,417,696</u>	<u>1,494,571</u>
Total Collateral Reinvested	<u>\$ 27,904,849</u>	<u>\$ 27,883,037</u>

4. 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 Company does not have any assets or liabilities measured at the Level Three hierarchy.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stock	\$ 8,073,480	\$ 627,329	\$ -	\$ 8,700,809

The Company did not have any liabilities measured at fair value at December 31, 2010. The Company did not have any transfers between levels in 2010.

5. Liability for Loss and Loss Adjustment Expense Reserves

Activity in the liability for loss and loss adjustment expense reserves is summarized as follows:

	<u>2010</u>	<u>2009</u>
Balance at January 1	\$ 73,888,461	\$ 76,547,958
Less reinsurance recoverable	(2,787,632)	(2,694,201)
Net balance at January 1	<u>71,100,829</u>	<u>73,853,757</u>
Incurred related to:		
Current year	72,055,911	68,370,371
Prior years	(8,675,466)	(8,941,406)
Total incurred	<u>63,380,445</u>	<u>59,428,965</u>
Paid related to:		
Current year	38,474,798	38,032,571
Prior years	22,372,743	24,149,322
Total paid	<u>60,847,541</u>	<u>62,181,893</u>
Net balance at December 31	73,633,733	71,100,829
Plus reinsurance recoverable	3,558,892	2,787,632
Balance at December 31	<u>\$ 77,192,625</u>	<u>\$ 73,888,461</u>

As a result of actual claim payments varying from previous estimates of insured events and subsequent reserve changes, the provision for loss and loss adjustment expenses decreased by \$8,675,466 and \$8,941,406 in 2010 and 2009, respectively. The decrease in incurred loss and loss adjustment expenses in 2010 and 2009 is primarily attributable to favorable development of automobile liability, general liability, and homeowners estimated loss and loss adjustment expense reserves.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

6. Reinsurance

The Company has reinsurance treaties in place for its property and casualty 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 property and casualty insurance policies.

The Company is also a party to an intercompany pooling agreement with the Association. All direct business written by the Company is ceded 100% to the intercompany pool. No direct business is ceded to third parties by the Company. Under this agreement, underwriting income and expenses and other administrative expenses are prorated to the Association (80%) and to the Company (20%).

	<u>Assumed Reinsurance</u>		<u>Ceded Reinsurance</u>		<u>Net</u>	
	<u>Premium Reserve</u>	<u>Commission Equity</u>	<u>Premium Reserve</u>	<u>Commission Equity</u>	<u>Premium Reserve</u>	<u>Commission Equity</u>
<u>At December 31, 2010</u>						
Intercompany pooling agreement	\$ 40,642,879	\$ 5,884,147	\$ 105,313,364	\$ 17,232,576	\$ (64,670,485)	\$ (11,348,429)
<u>At December 31, 2009</u>						
Intercompany pooling agreement	\$ 33,698,354	\$ 4,898,260	\$ 94,587,625	\$ 15,444,943	\$ (60,889,271)	\$ (10,546,683)

The direct unearned premium reserve was \$105,313,364 and \$94,587,625 at December 31, 2010 and 2009, respectively. Commission equity is computed as the maximum amount of return commission which would be due to the reinsurer if all reinsurance contracts were cancelled at year-end.

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

Retirement Benefits

The Company and its parent, The Farmers Automobile Insurance Association, and its affiliate, Pekin Life Insurance Company, participate in a trustee non-contributory defined benefit pension plan. The Company has no legal obligation for benefits under this plan. This plan covers full-time employees who have completed one year of service and have reached the age of 21. As described in Note 2, the Company and its parent maintain a reinsurance pooling agreement under which certain income and expenses are prorated to the Association (80%) and to the Company (20%). The Company's allocated pension cost based on the reinsurance pooling agreement amounted to \$668,497 in 2010 and \$499,974 in 2009.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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, at its sole discretion, to contribute a matching contribution to the savings plan. The Company elected to match 25 percent of each employee's contributions up to a maximum match of \$400 in 2010 and 2009. Employer contributions of \$28,911 and \$27,687 respectively, were made to this plan in 2010 and 2009. At December 31, 2010 and 2009, the fair value of plan assets was \$22,497,930 and \$18,439,510 respectively.

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 cost for the years ended December 31, 2010 and 2009, was \$724,775 and \$580,974, respectively, and includes the expected cost of such benefits for newly-eligible or vested employees, interest cost, and 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 its Directors. This plan allows for voluntary deferral of all or any part of compensation to which a Director might otherwise be entitled to as Directors' fees, in accordance with the plan provisions. During 2010 and 2009 Directors' fees of \$9,000 were deferred. The liability for Directors' deferred compensation was \$175,347 and \$169,220 at December 31, 2010 and 2009, respectively.

Medicare Act

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduced a prescription drug benefit under Medicare in 2006, as well as a federal subsidy to qualifying sponsors of retiree healthcare benefit plans. The assumption for the December 31, 2010 post-retirement valuation is that no Medicare reimbursement is expected. Subsequently, the net post-retirement benefit cost included in these financial statements reflects an expected Medicare reimbursement of \$0 and \$81,454, respectively, in 2010 and 2009. Additionally, the Company's accumulated post-retirement benefit obligation at December 31, 2010 has not been affected by the Act and was increased in 2009 by \$393,920 as a result of the impact of changes in the federal subsidy.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

8. Income Taxes

The components of the net deferred tax asset at December 31 are as follows:

	<u>2010</u>	<u>2009</u>
Deferred tax assets (gross)	\$ 9,506,154	\$ 8,215,082
Deferred tax liabilities	(2,009,255)	(1,907,826)
Deferred tax assets nonadmitted	<u>(2,975,225)</u>	<u>(2,324,409)</u>
Net deferred tax asset	<u>\$ 4,521,674</u>	<u>\$ 3,982,847</u>
Increase (decrease) in deferred tax assets nonadmitted	<u>\$ 650,816</u>	<u>\$ (4,174,206)</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>Change</u>
Deferred tax assets:			
Unpaid losses and loss adjustment expenses	\$ 1,852,514	\$ 1,826,910	\$ 25,604
Unearned premium	2,763,716	2,291,488	472,228
Accrued salvage and subrogation	1,210,601	1,135,529	75,072
Capital loss carryforward	3,031,799	-	3,031,799
Accrual of discount on bonds	-	1,903,334	(1,903,334)
Other items	<u>647,524</u>	<u>1,057,821</u>	<u>(410,297)</u>
Gross deferred tax assets	9,506,154	8,215,082	1,291,072
Nonadmitted deferred tax assets	<u>(2,975,225)</u>	<u>(2,324,409)</u>	<u>(650,816)</u>
Admitted deferred tax assets	<u>6,530,929</u>	<u>5,890,673</u>	<u>640,256</u>
Deferred tax liabilities:			
Unrealized capital gain - Pekin Life Insurance Company	1,515,210	1,488,343	26,867
Unrealized capital gains - common stock	430,123	58,297	371,826
Other items	<u>63,922</u>	<u>361,186</u>	<u>(297,264)</u>
Total deferred tax liabilities	<u>2,009,255</u>	<u>1,907,826</u>	<u>101,429</u>
Net admitted deferred tax asset	<u>\$ 4,521,674</u>	<u>\$ 3,982,847</u>	<u>\$ 538,827</u>

The Company did not elect to admit additional deferred tax assets under the provisions of Paragraph 10.e. of NAIC *Statement of Statutory Accounting Principles No. 10R* in either 2010 or 2009.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

Current law governing the taxation of property and casualty insurance companies requires substantial adjustments to statutory net income in arriving at taxable income. The effective tax rate differs from the federal income tax rate of 34 percent in 2010 and 35 percent in 2009 due to the following differences between statutory and tax valuations of assets and liabilities:

	<u>2010</u>	<u>2009</u>
Federal income tax	\$ 1,779,422	\$ 2,298,763
Tax exempt interest	(593,991)	(859,465)
Capital gains (losses)	(212,448)	70,706
Dividends received deduction	(82,087)	(96,269)
Conditional reserve	220,521	186,445
Adjustment for prior year under/(over) accrual	(700,045)	504,018
Unearned premium	480,552	143,681
Loss reserve discounting	51,553	(99,680)
Salvage and subrogation	83,038	84,000
Pension benefits	45,175	98,178
Alternative minimum tax credit carryforward utilized	-	(339,970)
All others	94,137	109,082
Federal income tax expense	<u>\$ 1,165,827</u>	<u>\$ 2,099,489</u>

Federal income tax incurred of \$1,165,827 includes tax of \$0 on realized capital assets. Federal income taxes which would be available for recoupment in the event of future tax losses are \$1,645,351 and \$1,684,313 for 2010 and 2009, respectively. At December 31, 2010, the Company had net taxable income of \$4,755,436. There are capital losses of \$9,379,824 available to be carried forward to offset future capital gains.

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, 2010 the Company has accrued \$980,521 for potential tax contingencies as an income tax liability on the statutory balance sheet and \$74,076 is recognized as income taxes incurred on the statutory statement of income. State income tax incurred of \$470,706 and \$490,471 in 2010 and 2009, respectively, are included in underwriting expenses.

9. Structured Settlements

The Company has purchased annuities of which the claimant is payee, but for which the Company is contingently liable. The aggregate amount of annuities from all life insurers was \$1,449,917 and \$1,235,470 at December 31, 2010 and 2009, respectively.

SUPPLEMENTAL FINANCIAL INFORMATION

The logo for Strohm Ballweg features a stylized, overlapping 'S' and 'B' in a light gray color. The 'S' is positioned above and to the left of the 'B', with their right and bottom edges overlapping.

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

Independent Auditor's Report on the Supplementary Information

Board of Directors
Pekin Insurance Company
Pekin, Illinois

Our audits were made for the purpose of forming an opinion on the statutory financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the statutory financial statements. This information is presented in a format consistent with the Annual Statement filed by the Company with the regulatory authorities. Such information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory financial statements taken as a whole.

Strohm Ballweg, LLP

Madison, Wisconsin
May 11, 2011

Pekin Insurance Company

Summary Investment Schedule December 31, 2010

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
1. Bonds:				
1.1 U.S. treasury securities	\$ 2,354,909	1.0	\$ 2,354,909	1.0
1.2 U.S. government agency obligations:				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies				
1.3 Foreign government	1,699,566	0.7	1,699,566	0.7
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	8,035,671	3.4	8,035,671	3.4
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	8,744,080	3.7	8,744,080	3.7
1.43 Revenue and assessment obligations	32,285,377	13.6	32,285,377	13.6
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	1,401,109	0.6	1,401,109	0.6
1.512 Issued or guaranteed by FNMA and FHLMC	24,121,928	10.2	24,121,928	10.2
1.513 All Other				
1.52 CMO's and REMIC's				
1.521 Issued by GNMA, FNMA, FHLMC or VA	3,989,237	1.7	3,989,237	1.7
1.522 Issued by non-US Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523 All Other	9,777,007	4.1	9,777,007	4.1
2. Other debt and other fixed income securities (excluding short-term)				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	75,943,862	32.0	75,943,862	32.0
2.2 Unaffiliated foreign securities	20,024,480	8.5	20,024,480	8.5
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds				
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	8,078,659	3.4	8,078,659	3.4
3.4 Other equity securities:				
3.41 Affiliated	8,949,273	3.8	8,949,273	3.8
3.42 Unaffiliated	622,150	0.3	622,150	0.3
4. Mortgage loans: None				
5. Real estate investments: None				
6. Contract loans: None				
7. Receivables for securities	-	0.0	-	0.0
8. Cash, cash equivalents and short-term investments	3,152,821	1.3	3,152,822	1.3
9. Securities lending reinvested collateral assets	27,802,586	11.7	27,802,585	11.7
10. Total invested assets	<u>\$ 236,982,715</u>	<u>100.0</u>	<u>\$ 236,982,715</u>	<u>100.0</u>

See Independent Auditor's Report on the Supplementary Information.

Pekin Insurance Company

Investment Risks Interrogatories December 31, 2010

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$ 245,852,707

2. Ten largest exposures to a single issuer/borrower/investment.

1	2	3	4
<u>Issuer</u>	<u>Description of Exposure</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
2.01 Fannie Mae	Bond	\$ 18,940,247	7.7 %
2.02 Freddie Mac	Bond	9,170,917	3.7 %
2.03 Pekin Life Insurance Company	Affiliated Common Stock	8,561,175	3.5 %
2.04 Massachusetts St Health & EDL	Bond	2,152,639	0.9 %
2.05 Contra Costa Cnty Calif Pensio	Bond	2,041,916	0.8 %
2.06 Cintas Corporation No. 2	Bond	1,975,138	0.8 %
2.07 Ohio St TPK Common TPK Rev	Bond	1,972,616	0.8 %
2.08 Kansas St Dept Transn Hwy Rev	Bond	1,949,211	0.8 %
2.09 Virginia St Pub Sch Auth	Bond	1,842,898	0.7 %
2.10 New York St Dorm Auth St Per	Bond	1,714,705	0.7 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

<u>Bonds</u>		<u>1</u>	<u>2</u>	<u>Preferred Stocks</u>		<u>3</u>	<u>4</u>
3.01	NAIC-1	\$ 167,481,791	68.1 %	3.07	P/RP-1	\$	%
3.02	NAIC-2	\$ 23,723,773	9.6 %	3.08	P/RP-2	\$	%
3.03	NAIC-3	\$ -	0.0 %	3.09	P/RP-3	\$	%
3.04	NAIC-4	\$ -	0.0 %	3.10	P/RP-4	\$	%
3.05	NAIC-5	\$ -	0.0 %	3.11	P/RP-5	\$	%
3.06	NAIC-6	\$ -	0.0 %	3.12	P/RP-6	\$	%

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	\$	8.5 %	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
4.02	Total admitted assets held in foreign investments	\$ 20,878,343	8.5 %	
4.03	Foreign-currency-denominated investments	\$		
4.04	Insurance liabilities denominated in that same foreign currency	\$		

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

See Independent Auditor's Report on the Supplementary Information.

Pekin Insurance Company

Investment Risks Interrogatories December 31, 2010

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:		<u>1</u>	<u>2</u>
5.01	Countries rated NAIC-1	\$ 17,349,189	70.6 %
5.02	Countries rated NAIC-2	3,517,182	1.4 %
5.03	Countries rated NAIC-3 or below	11,972	0.0 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:		<u>1</u>	<u>2</u>
Countries rated NAIC-1:			
6.01	Country 1: Australia	\$ 5,194,521	2.1 %
6.02	Country 2: United Kingdom	4,429,172	1.8 %
Countries rated NAIC-2:			
6.03	Country 1: Mexico	2,384,401	1.0 %
6.04	Country 2: Ireland	1,052,092	0.4 %
Countries rated NAIC-3 or below:			
6.05	Country 1: Argentina	11,972	0.0 %
6.06	Country 2:	-	0.0 %

7. Aggregate unhedged foreign currency exposure: None.

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating: None.

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating: None.

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

1	2	3	4	
<u>Issuer</u>	<u>NAIC Rating</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>	
10.01	BHP Billiton Fin USA Ltd	1FE	\$ 1,496,358	0.6 %
10.02	America Movil SAB DE CV	1FE	1,389,613	0.6 %
10.03	Svenska Handelsbanken AB	1FE	999,289	0.4 %
10.04	Westpac Banking Corp	1FE	999,208	0.4 %
10.05	Deutsche Bank AG London	1FE	998,512	0.4 %
10.06	Novartis Secs Invest Ltd	1FE	998,491	0.4 %
10.07	Shell International Fin	1FE	996,903	0.4 %
10.08	Iberdrola Fin Ireland	1FE	996,128	0.4 %
10.09	Korea Gas Corp	1FE	992,169	0.4 %
10.10	Abbey Natl Treasury Serv	1FE	824,850	0.3 %

See Independent Auditor's Report on the Supplementary Information.

Pekin Insurance Company

Investment Risks Interrogatories December 31, 2010

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 11. Yes [] No []

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01 Assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 12. Yes [] No []

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes [] No []

	1	2	3
	Name of Issuer	Amount	Percentage of Total Admitted Assets
13.02	Pekin Life Insurance Company	\$ 8,561,175	3.5 %
13.03	PAC, Inc	388,098	0.2 %
13.04	Apple Inc	176,763	0.1 %
13.05	Cognizant Tech Solutions - A	106,417	0.0 %
13.06	Hasbro Inc	92,897	0.0 %
13.07	Cit Group Inc	86,900	0.0 %
13.08	Johnson Controls Inc	80,678	0.0 %
13.09	US Bancorp	80,505	0.0 %
13.10	Proctor & Gamble Co	77,389	0.0 %
13.11	Albemarle Corp	76,976	0.0 %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 14. Yes [] No []

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 15. Yes [] No []

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 16 and 17. Yes [] No []

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date: None.

See Independent Auditor's Report on the Supplementary Information.

Pekin Insurance Company

Investment Risks Interrogatories December 31, 2010

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 18. Yes [X] No []

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 19. Yes [X] No []

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-End		(Unaudited) 1st Qtr	At End of Each Quarter (Unaudited) 2nd Qtr	(Unaudited) 3rd Qtr
	1	2	3	4	5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$ 27,257,602	11.1 %	\$ 28,788,406	\$ 23,698,373	\$ 26,459,894
20.02 Repurchase agreements	\$	%	\$	\$	\$
20.03 Reverse repurchase agreements	\$	%	\$	\$	\$
20.04 Dollar repurchase agreements	\$	%	\$	\$	\$
20.05 Dollar reverse repurchase agreements	\$	%	\$	\$	\$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors: None.

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards: None.

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts: None.

Pekin Insurance Company

Reinsurance Interrogatories December 31, 2010

7.1 Has this reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss ratio cap, an aggregate limit or any similar provisions)?
Yes [] No []

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

- a. A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
- b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
- c. Aggregate stop loss reinsurance coverage;
- d. A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
- e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
- f. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.
Yes [] No []

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

- a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
- b. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.
Yes [] No []

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:

- a. The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
- b. A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
- c. A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

Pekin Insurance Company

Reinsurance Interrogatories December 31, 2010

9.4 Except for transactions meeting the requirements of paragraph 32 of SSAP No. 62, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
- b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? Yes [] No []