The Farmers Automobile Insurance Association

Report on Audits of Financial Statements - Statutory Basis

For the Years Ended December 31, 2016 and 2015

The Farmers Automobile Insurance Association

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Strohm Ballweg

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
The Farmers Automobile Insurance Association
Pekin, Illinois

We have audited the accompanying financial statements of The Farmers Automobile Insurance Association (the Association), which are comprised of the statutory balance sheets as of December 31, 2016 and 2015, and the related statutory statements of operations and changes in policyholders' surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibilities for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, the financial statements are prepared by the Association in accordance with accounting practices prescribed or permitted by the Illinois Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the state of Illinois.

The effects on the statutory financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America have not been determined but are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Association as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2016 and 2015, and the results of its operations and changes in policyholders' surplus, and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance described in Note 1.

Strohm Ballweg, LLP

Madison, Wisconsin
April 8, 2017

The Farmers Automobile Insurance Association

Statutory Balance Sheets
December 31, 2016 and 2015

	2016	2015
Admitted Assets:		
Bonds	$ 690,788,598	$ 673,647,889
Common Stocks:		
Affiliates	222,744,770	215,463,013
Other than Affiliates	41,297,857	38,979,367
Real Estate Occupied by the Association		
(Net of Accumulated Depreciation of $11,597,836 and $10,395,142)	19,228,823	16,691,138
Real Estate Held for Production of Income		
(Net of Accumulated Depreciation of $1,132,303 and $1,082,145)	1,590,324	1,480,111
Cash and Short-Term Investments	21,247,769	35,929,968
Receivable for Securities	1,010,631	86,701
Securities Lending Reinvested Collateral Assets	28,564,882	28,196,450
Notes Receivable from Affiliate	180,000	480,000
Other Invested Assets	200,909	235,018
Cash and Invested Assets	1,026,854,563	1,011,189,655
Investment Income Accrued	6,002,136	5,918,770
Uncollected Premiums	182,715,790	176,032,465
Current Federal Income Tax Recoverable	12,431,332	3,077,899
Net Deferred Tax Asset	31,089,285	29,393,258
EDP Equipment (Net of Accumulated Depreciation		
of $7,542,359 and $7,069,161)	746,909	1,454,856
Receivable from Affiliate and Subsidiary	2,236,635	1,303,069
Recoverable from Reinsurers	1,348,159	249,761
Post-Retirement Asset	3,489,329	-
Total Admitted Assets	$ 1,266,914,138	$ 1,228,619,733
Liabilities:		
Unpaid Losses, Net	$ 321,631,228	$ 286,664,497
Unpaid Loss Adjustment Expenses, Net	73,442,153	66,150,961
Unearned Premiums, Net	239,736,799	235,072,315
Commissions, Expenses, Fees, and Taxes	22,485,286	24,473,556
Drafts Outstanding	24,142,583	20,666,667
Remittances and Items Not Allocated	1,968,462	1,439,411
Advance Premiums	5,870,547	5,606,500
Payable for Securities Lending	28,564,882	28,196,450
Pension Benefit Obligations	12,185,822	18,049,359
Post-Retirement Benefit Obligations	9,688,065	10,321,052
Other Liabilities	12,640,181	12,858,260
Total Liabilities	752,356,008	709,499,028
Policyholders' Surplus:		
Special Surplus Fund	872,500	872,500
Unassigned Surplus	513,685,630	518,248,205
Total Policyholders' Surplus	514,558,130	519,120,705
Total Liabilities and Policyholders' Surplus	$ 1,266,914,138	$ 1,228,619,733

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

The Farmers Automobile Insurance Association

Statutory Statements of Operations and Changes in Policyholders' Surplus
Years Ended December 31, 2016 and 2015

	2016	2015
Underwriting Income:		
Premiums Earned:		
Net Premiums Written	$ 491,235,406	$ 480,806,609
Increase in Net Unearned Premiums	(4,664,483)	(11,185,034)
Net Premiums Earned	486,570,923	469,621,575
Losses and Expenses Incurred:		
Net Losses	324,882,872	287,810,329
Net Loss Adjustment Expenses	53,374,454	48,061,354
Underwriting Expenses	145,185,032	141,493,234
Net Losses and Expenses Incurred	523,442,358	477,364,917
Underwriting Loss	(36,871,435)	(7,743,342)
Net Investment Income	22,286,777	22,799,564
Net Realized Capital Gains	3,082,634	7,800,781
Other Income	3,230,142	2,667,346
Net Income (Loss) Before Federal Income Tax	(8,271,882)	25,524,349
Federal Income Tax Expense (Benefit)	(6,521,579)	10,088,826
Net Income (Loss)	$ (1,750,303)	$ 15,435,523
Statement of Changes in Policyholders' Surplus:		
Policyholders' Surplus - Beginning of Year	$ 519,120,705	$ 491,161,926
Changes in Policyholders' Surplus:		
Net Income (Loss)	(1,750,303)	15,435,523
Net Unrealized Capital Gains (Losses):		
Affiliates	4,900,324	5,774,570
Other than Affiliates	44,305	(2,076,813)
Non-Admitted Assets	(17,863,280)	(669,560)
Provision for Reinsurance	(463,596)	(62,263)
Net Deferred Income Tax	1,696,027	2,437,324
Pension Benefit Obligations	5,384,619	(1,419,134)
Post-Retirement Benefit Obligations	3,489,329	8,539,132
Net Increase (Decrease)	(4,562,575)	27,958,779
Policyholders' Surplus - End of Year	$ 514,558,130	$ 519,120,705

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

The Farmers Automobile Insurance Association

Statutory Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash from Operations:		
Net Premiums Collected	$ 483,365,179	$ 469,216,044
Net Investment Income Received	26,235,462	26,231,708
Other Income Received	3,230,142	2,667,346
Total Cash Received	512,830,783	498,115,098
Benefits and Loss Related Payments	291,014,539	268,047,473
Commissions, Expenses Paid and Other Deductions	194,381,992	180,055,221
Federal Income Taxes Paid	4,511,182	13,557,774
Total Cash Disbursed	489,907,713	461,660,468
Net Cash from Operations	22,923,070	36,454,630
Cash from Investments:		
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	136,838,993	217,732,609
Stocks	20,867,405	22,499,840
Other Invested Assets	300,000	95,000
Miscellaneous	34,110	-
Total Investment Proceeds	158,040,508	240,327,449
Cost of Investments Acquired:		
Bonds	153,871,095	244,140,167
Stocks	23,648,867	25,438,415
Real Estate	3,900,750	3,675,749
Miscellaneous	1,292,362	1,714,059
Total Investments Acquired	182,713,074	274,968,390
Net Cash from Investments	(24,672,566)	(34,640,941)
Cash from Financing and Miscellaneous Sources:		
Other Cash Applied	(12,932,703)	(2,770,162)
Net Cash from Financing and Miscellaneous Sources	(12,932,703)	(2,770,162)
Net Change in Cash and Short-Term Investments	(14,682,199)	(956,473)
Cash and Short-Term Investments at Beginning of Year	35,929,968	36,886,441
Cash and Short-Term Investments at End of Year	$ 21,247,769	$ 35,929,968

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

Notes to Financial Statements – Statutory Basis

1. Nature of Operations and Summary of Significant Accounting Practices

The Farmers Automobile Insurance Association (the "Association") is a regional Midwest property and casualty insurance company domiciled in the State of Illinois. The Association 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 51 percent of the direct premium was written in the state of Illinois in 2016 and 2015.

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 those practices denoted in 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 Association 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, 3) the assumptions, including the discount rate, 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 future years.

Subsequent Events

Subsequent events were evaluated through April 8, 2017, 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 Association 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 the 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 and losses; under GAAP, the financial statements of wholly owned subsidiaries would be consolidated with those of the parent.

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 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 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. Unrealized capital losses on investments that are determined to be other than temporary declines in value must be recognized as realized capital losses. The Association 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 Association'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. There were no declines deemed other than temporary for the years ended December 31, 2016 and 2015.

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.

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. 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. These liabilities are reported net of anticipated salvage and subrogation receivable. Reinsurance recoverables related to unpaid losses and loss adjustment expenses 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 would be capitalized and amortized as premium is earned.

D. Income Taxes

Deferred income taxes are provided for differences between the financial statement and the tax bases of assets and liabilities and are 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. Additionally, under statutory accounting practices, limitations are placed on the admissibility of deferred tax assets. 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, there is no admissibility concept, state income taxes are included in deferred tax calculations, and changes in deferred tax assets and liabilities would be reported through operations and/or surplus depending on their characteristics.

E. Special Surplus Fund

The special surplus fund is an appropriation of unassigned surplus established to meet Wisconsin statutory requirements.

F. Non-Admitted Assets

Certain assets designated as non-admitted assets, aggregating $23,864,834 and $6,001,554 at December 31, 2016 and 2015, respectively, are not recognized by statutory accounting practices. The increase in non-admitted assets at December 31, 2016 is due primarily to the capitalization of $17,205,093 representing an investment in a new policy administration system currently under development. Non-admitted assets are excluded from the balance sheet, and the net change in such assets is charged or credited directly to unassigned surplus. Under GAAP, such assets would be included in the balance sheet net of accumulated depreciation.

G. 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 Association determined that a premium deficiency reserve was not necessary for the years ended December 31, 2016 and 2015. The Association does not anticipate investment income as a factor in the calculation of a potential premium deficiency reserve.

H. Cash and Short-Term Investments

For purposes of reporting cash flows, the Association 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.

On December 31, 2016, the Association held on deposit $14,450,149 in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) limit. The Association does not believe it is exposed to any significant credit risks on this account.

I. Other

Real estate consists of home office properties and properties held for the production of income. Depreciation of real estate and other admitted and non-admitted assets is computed using the straight-line method over the estimated useful or class life.

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.

The Association, at the approval of the Board of Directors, has a line of credit with The Northern Trust Company not to exceed $30 million. The Association did not borrow any amounts against this line of credit during 2016 or 2015.

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 that would be 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 Association and its wholly owned subsidiary, Pekin Insurance Company, owned 83.43 percent and 82.32 percent of Pekin Life Insurance Company (PLIC) at December 31, 2016 and 2015, respectively. Specifically, the Association owned 75.85 percent and 74.74 percent of PLIC as of these dates.

The Association and Pekin Insurance Company occupy the same building, and, along with PLIC, utilize many common facilities, management, administrative and office personnel, and services. Since 1966, the Association and Pekin Insurance Company have had a reinsurance pooling agreement under which underwriting income and expense and other administrative expenses are prorated to the Association (80%) and to Pekin Insurance Company (20%). The proration does not include provisions for federal income taxes or results of investment transactions. In addition, the Association and PLIC allocate related expenses to one another. 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 net expenses allocated to PLIC, and therefore not included in the accompanying statements of income, were $7,593,333 in 2016 and $7,756,893 in 2015.

In connection with structured settlements, the Association purchased 10 annuities from PLIC in 2016 and 23 annuities in 2015, of which the Association's claimant is the payee, but for which the Association is contingently liable. The single premium for these annuities totaled $777,099 and $1,731,199 in 2016 and 2015, respectively. The reserve carried by PLIC at December 31, 2016 and 2015, was $7,639,450 and $7,214,162, respectively.

Notes to Financial Statements – Statutory Basis

3. Investments

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2016, are as follows:

	2016			
Obligation	**Admitted Value**	**Unrealized Gain**	**Unrealized Loss**	**Market Value**
U.S. Government	$ 2,077,749	$ 747	$ 9,589	$ 2,068,907
Other Government	10,010,787	135,802	124,936	10,021,653
U.S. States, Territories and Possessions	17,671,517	574,506	151,158	18,094,865
U.S. Political Subdivisions of States and Territories	38,742,381	1,240,529	527,881	39,455,029
U.S. Special Revenue and Special Assessment	88,353,534	2,874,725	440,555	90,787,704
Industrial and Miscellaneous	330,470,507	7,950,534	4,985,063	333,435,978
Loan-Backed Securities	203,462,123	2,938,797	1,275,975	205,124,945
Total	$ 690,788,598	$ 15,715,640	$ 7,515,157	$ 698,989,081

The statement value of bonds is lower than cost by $1,075,000 at December 31, 2016 due to unrealized losses on an exchange traded Industrial and Miscellaneous bond rated three under the valuation methods prescribed by the NAIC.

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2015 are as follows:

	2015			
Obligation	**Admitted Value**	**Unrealized Gain**	**Unrealized Loss**	**Market Value**
U.S. Government	$ 2,212,907	$ 53	$ 13,257	$ 2,199,703
Other Government	8,487,873	24,727	586,259	7,926,341
U.S. States, Territories and Possessions	14,146,749	1,043,787	-	15,190,536
U.S. Political Subdivisions of States and Territories	28,146,336	1,846,983	17,869	29,975,450
U.S. Special Revenue and Special Assessment	93,230,713	5,561,228	81,097	98,710,844
Industrial and Miscellaneous	329,676,913	9,581,679	6,558,367	332,700,225
Loan-Backed Securities	197,746,398	3,714,149	943,794	200,516,753
Total	$ 673,647,889	$ 21,772,606	$ 8,200,643	$ 687,219,852

The admitted value of the loan-backed securities includes $736,996 and $915,219 of U.S. Government Guaranteed Securities for 2016 and 2015, respectively.

The admitted value and market value of bonds (including short term and certain money market mutual funds) at December 31, 2016, by contractual maturity, are shown below:

	Admitted Value	Market Value
Due in One Year or Less	$ 6,358,763	$ 6,360,129
Due After One Year Through Five Years	174,075,730	180,314,190
Due After Five Years Through Ten Years	251,989,522	252,531,446
Due After Ten Years	264,560,023	265,978,756
Total	$ 696,984,038	$ 705,184,521

The Association does not engage in direct subprime residential mortgage lending. The Association'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 Association did not have any of these investments as of December 31, 2016 or 2015.

The adjusted cost, unrealized gain and loss, and statement value of investments in common stock as of December 31, 2016 are as follows:

	2016			
Common Stocks	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Affiliates	$ 74,665,161	$ 148,079,609	$ -	$ 222,744,770
Other Than Affiliates	33,357,290	9,141,010	1,200,443	41,297,857
Total	$ 108,022,451	$ 157,220,619	$ 1,200,443	$ 264,042,627

The adjusted cost, unrealized gain and loss, and statement value of investments in common stock as of December 31, 2015 are as follows:

	2015			
Common Stocks	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Affiliates	$ 72,283,718	$ 143,179,295	$ -	$ 215,463,013
Other Than Affiliates	32,158,116	8,290,192	1,468,941	38,979,367
Total	$ 104,441,834	$ 151,469,487	$ 1,468,941	$ 254,442,380

Notes to Financial Statements – Statutory Basis

Securities with unrealized losses based on estimated market values as of December 31, 2016 are shown below:

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U. S. Government	$ 1,008,438	$ 5,258	$ 531,328	$ 4,331	$ 1,539,766	$ 9,589
Other Government	2,374,103	100,549	2,582,038	24,387	4,956,141	124,936
U.S. States, Territories and Possessions	5,462,540	151,158	-	-	5,462,540	151,158
U.S. Political Subdivisions of States and Territories	12,656,691	468,723	2,371,620	59,158	15,028,311	527,881
U.S. Special Revenue and Special Assessment	15,415,612	308,832	6,374,756	131,723	21,790,368	440,555
Industrial and Miscellaneous	64,864,335	2,554,363	97,977,757	2,430,700	162,842,092	4,985,063
Loan-Backed Securities	36,225,161	697,507	53,464,914	578,468	89,690,075	1,275,975
Subtotal Debt Securities	138,006,880	4,286,390	163,302,413	3,228,767	301,309,293	7,515,157
Common Stock - Unaffiliated	6,766,526	467,945	6,481,467	732,498	13,247,993	1,200,443
Total Securities With Unrealized Losses	$144,773,406	$ 4,754,335	$169,783,880	$ 3,961,265	$314,557,286	$ 8,715,600

Securities with unrealized losses based on estimated market values as of December 31, 2015 are shown below:

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U. S. Government	$ 1,560,549	$ 4,812	$ 537,500	$ 8,445	$ 2,098,049	$ 13,257
Other Government	7,926,341	586,259	-	-	7,926,341	586,259
U.S. Political Subdivisions of States and Territories	2,464,500	17,869	-	-	2,464,500	17,869
U.S. Special Revenue and Special Assessment	6,523,624	81,097	-	-	6,523,624	81,097
Industrial and Miscellaneous	111,829,934	3,965,296	59,100,748	2,593,071	170,930,682	6,558,367
Loan-Backed Securities	44,823,058	246,397	47,172,076	697,397	91,995,134	943,794
Subtotal Debt Securities	175,128,006	4,901,730	106,810,324	3,298,913	281,938,330	8,200,643
Common Stock - Unaffiliated	14,243,897	936,522	2,953,602	532,419	17,197,499	1,468,941
Total Securities With Unrealized Losses	$189,371,903	$ 5,838,252	$109,763,926	$ 3,831,332	$299,135,829	$ 9,669,584

Proceeds from sales of bonds, excluding calls and maturities, during 2016 and 2015 were $135,188,993 and $204,385,209, respectively. Gross gains of $4,638,391 and $7,359,975 and gross losses of $675,589 and $1,168,155 were realized on those sales, respectively.

Bonds carried at $2,077,749 and $2,111,304 at December 31, 2016 and 2015, respectively, were on deposit with the Illinois Department of Insurance as required by law. A certificate of deposit in the amount of $100,000 was on deposit with the Arizona Department of Insurance at December 31, 2016 and 2015 as required by law.

Securities Lending

The Association lends securities to agreed upon borrowers through an agreement with its custodian. The Association requires initial collateral from the borrower in an amount no less than 102 percent of the fair value of domestic securities and no less than 105 percent of the fair value of foreign securities loaned at the outset of the contract. 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, 2016 and 2015, the amount of securities loaned was $28,060,132 and $29,853,305, respectively, and the related collateral was $28,734,614 and $30,706,886. At December 31, 2016, collateral assets valued at $2,106,954 had maturity dates beyond one year.

The aggregate amount of cash collateral received as of December 31, 2016 and 2015 is shown below by maturity date:

	2016	2015
Maturity Date	**Fair Value**	**Fair Value**
Open	$ 11,845,538	$ 5,617,023
30 Days or Less	704,025	4,007,696
31 to 60 Days	4,441,756	4,695,175
61 to 90 Days	471,057	5,846,183
Greater Than 90 Days	8,138,528	5,874,829
Total Bond Collateral Received	$ 25,600,904	$ 26,040,906
Total Equity Collateral Received	3,133,710	4,665,980
Total Collateral Received	$ 28,734,614	$ 30,706,886

The Association participates in a liquid asset portfolio. At December 31, 2016 and 2015, the aggregate value of the reported reinvested collateral was $28,564,882 and $28,196,450, and their related fair value was $28,615,559 and $28,292,405.

As of December 31, 2016 and 2015, the Association had $57,171,887 and $55,111,194, respectively, in gross restricted assets related to securities lending agreements. This amount represents collateral that has been accepted from the borrower.

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 Association 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 Association'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 tables set forth by level, within the fair value hierarchy, the Association's financial instruments that are reported at fair value as of December 31, 2016 and 2015:

	2016			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Bonds -				
Industrial and Miscellaneous	$ 1,425,000	$ -	$ -	$ 1,425,000
Common Stock -				
Other Than Affiliates	$ 41,297,857	$ -	$ -	$ 41,297,857

	2015			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stock -				
Other Than Affiliates	$ 38,979,367	$ -	$ -	$ 38,979,367

There were no Level 3 assets at December 31, 2016 or 2015. The Association did not have any liabilities measured at fair value at December 31, 2016 and 2015. The Association did not have any transfers between levels at December 31, 2016 and 2015.

The aggregate fair value of all financial instruments as of December 31, 2016, is shown below.

	Aggregate Fair Value	**Admitted Assets**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Bonds	$ 698,989,081	$ 690,788,598	$ 2,068,907	$ 696,920,174	$ -
Common Stock:					
Affiliates	222,744,770	222,744,770	-	94,488,696 *	128,256,074 *
Other Than Affiliates	41,297,857	41,297,857	41,297,857	-	-
Short-Term Investments	6,295,441	6,295,441	6,195,441	100,000	-
Notes Receivable	180,000	180,000	-	180,000	-
Agency Loans Receivable	200,909	200,909	-	-	200,909

The aggregate fair value of all financial instruments as of December 31, 2015, is shown below.

	Aggregate Fair Value	**Admitted Assets**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Bonds	$ 687,219,852	$ 673,647,889	$ 2,199,703	$ 685,020,149	$ -
Common Stock:					
Affiliates	215,463,013	215,463,013	-	89,802,858 *	125,660,155 *
Other Than Affiliates	38,979,367	38,979,367	38,979,367	-	-
Short-Term Investments	8,922,662	8,922,662	8,822,662	100,000	-
Notes Receivable	480,000	480,000	-	480,000	-
Agency Loans Receivable	235,018	235,018	-	-	235,018

* Values are determined using the statutory equity method and are not stated at fair market value.

The type of security included within each hierarchy in the above table is as follows:

Level 1 Measurements

Bonds: Comprised of actively traded U.S. Treasury notes.

Common Stock: Comprised of actively traded exchange listed mutual funds and common stocks.

Short-Term Investments: Comprised of money market mutual funds.

Level 2 Measurements

Bonds: Comprised primarily of Political Subdivisions, Special Revenue, Industrial and Miscellaneous, and Loan-Backed securities.

Common Stock: Comprised of common stock of affiliate which is not actively traded and is recorded at the statutory equity method.

Short-Term Investments: Comprised of collateral loans.

Notes Receivable: Comprised of a note receivable from affiliate.

Level 3 Measurements

Common Stock: Comprised of common stock of affiliates recorded using the statutory equity method.

Agency Loans Receivable: Comprised of uncollateralized loans

5. Liability for Unpaid Losses and Loss Adjustment Expenses

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

	2016	2015
Balance at January 1	$ 384,791,254	$ 368,343,909
Less Reinsurance Recoverable	(31,975,796)	(39,198,161)
Net Balance at January 1	352,815,458	329,145,748
Incurred Related to:		
Current Year	367,579,935	338,342,600
Prior Years	10,677,391	(2,470,917)
Total Incurred	378,257,326	335,871,683
Paid Related to:		
Current Year	192,601,609	190,140,629
Prior Years	143,397,794	122,061,344
Total Paid	335,999,403	312,201,973
Net Balance at December 31	395,073,381	352,815,458
Plus Reinsurance Recoverable	34,256,864	31,975,796
Balance at December 31	$ 429,330,245	$ 384,791,254

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 increased by $10,677,391 and decreased by $2,470,917 in 2016 and 2015, respectively. The decrease in incurred losses and loss adjustment expenses in 2015 is primarily attributable to favorable development of Homeowners, Workers' Compensation, and Auto Physical Damage. The increase in incurred losses and loss adjustment expenses in 2016 is primarily attributable to unfavorable development of Personal Auto, Commercial Liability and Commercial Multi-Peril and were offset by favorable development in Homeowners, Workers' Compensation, and Auto Physical Damage.

Estimates of anticipated salvage and subrogation recoveries on losses and loss adjustment expenses have been recorded as a reduction to the liabilities for unpaid loss and unpaid loss adjustment expenses amounting to $14,441,509 and $13,904,950 at December 31, 2016 and 2015, respectively.

6. Reinsurance

The Association has reinsurance treaties in place for its property and casualty insurance business to reduce exposure to large losses. Although reinsurance does not relieve the Association 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 Association periodically evaluates its retention levels correlated to specific types of property and casualty insurance policies. In 2016 and 2015, the Association ceded $35,772,270 and $37,791,859, respectively, of written premium to third parties.

The Association is also a party to an intercompany pooling agreement with Pekin Insurance Company. All direct business written by the Company is subject to the intercompany pool. Under this agreement, underwriting income and expenses and other administrative expenses are prorated to the Association (80%) and to Pekin Insurance Company (20%).

The Association had unsecured aggregate recoverable for reinsurance on paid and unpaid losses and unearned premium for Pekin Insurance Company ($158,702,545), Maiden Reinsurance Co ($19,878,059), and for Westport Insurance Corp ($12,895,410).

7. Pension Plan, Post-Retirement Benefits, 401(k) Savings Plan, and Deferred Compensation

Employee Pension Benefits

The Association and its affiliates participate in a trusteed non-contributory defined benefit pension plan for certain employees. Effective January 1, 2013, the Association adopted an amendment to freeze participation in the Plan for employees hired after January 1, 2013. The Association's funding policy is to contribute annually an amount that represents the current cost of the 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 percentage of the projected benefit obligation.

Post-Retirement Benefits

In addition to providing pension benefits, the Association and its affiliates provide certain health care and life insurance benefits (post-retirement benefits) for retired employees. Employees hired prior to 2013 may become eligible for these benefits if they reach retirement age while working for the Association.

Expected Cash Flows

The Association and its affiliates expect to contribute $6,000,000 to the Pension Plan and $2,000,000 to the Post-Retirement Benefit Plan in 2017.

The following benefit payments for the Association and its affiliates, which reflect expected cash flows for future service, as appropriate, are expected to be paid:

Year	Pension Benefits	Post-Retirement Benefits
2017	$ 7,030,000	$ 1,367,000
2018	7,857,000	1,475,000
2019	7,486,000	1,579,000
2020	7,839,000	1,694,000
2021	8,919,000	1,787,000
2022-2026	46,380,000	10,416,000

Assets, Obligations, and Assumptions

A summary of obligations and assumptions of the Pension and Post-Retirement Benefit Plans of the Association and its affiliates is as follows at December 31:

	Pension Benefits		Post-Retirement Benefits	
	2016	2015	2016	2015
Change in Benefit Obligation:				
Benefit Obligation at Beginning of Year	$ 102,308,574	$ 106,460,019	$ 43,959,445	$ 77,440,910
Service Cost	6,027,963	6,791,250	1,736,304	3,725,654
Interest Cost	4,368,011	4,280,603	2,100,663	3,435,297
Actuarial Loss (Gain)	11,168,376	(7,264,748)	(1,414,947)	(6,922,256)
Benefits Paid	(7,200,443)	(7,958,550)	(1,723,552)	(2,530,489)
Plan Amendment	-	-	-	(31,189,671)
Curtailment	(16,843,958)	-	-	-
Benefit Obligation at End of Year	$ 99,828,523	$ 102,308,574	$ 44,657,913	$ 43,959,445
Benefit Obligation Allocable to the Association	$ 80,260,188	$ 83,048,447	$ 35,949,518	$ 34,881,360
Accumulated Benefit Obligation	$ 85,442,394	$ 75,285,470	$ 44,657,913	$ 43,959,445

Effective December 21, 2016, the Association and its affiliates adopted Amendment No. 1 to freeze accrued benefits for all non-grandfathered participants. Non-grandfathered participants are participants who will not have attained age 50 on or before December 31, 2017 and whose age and credited years of service as of December 31, 2017 will not equal or exceed 75. Changes to the pension plan to freeze accrued benefits for all non-grandfathered participants resulted in a net reduction of $16,843,958 in the 2016 pension benefit obligation.

Additionally, Plan amendments in 2015 reduced the post-retirement obligation by $31,189,671. The post-retirement plan amendments include an employer group waiver plan (EGWP), deductibles, coinsurance percentages, co-pays, and out-of-pocket maximums.

Notes to Financial Statements – Statutory Basis

A summary of the plan assets and funded status of the Pension and Post-Retirement Benefit Plans for the Association and its affiliates is as follows for the years ended December 31:

	Pension Benefits		Post-Retirement Benefits	
	2016	2015	2016	2015
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Year	$ 67,044,084	$ 69,408,222	$ 23,384,381	$22,904,048
Actual Return on Plan Assets	7,946,299	(505,588)	708,972	734,068
Employer Contribution	10,100,000	6,100,000	3,366,330	2,033,130
Benefits Paid	(7,200,443)	(7,958,550)	(1,480,399)	(2,286,865)
Fair Value of Plan Assets at End of Year	$ 77,889,940	$ 67,044,084	$ 25,979,284	$23,384,381
Plan Assets Allocable to the Association	$ 62,621,995	$ 54,419,683	$ 20,913,324	$18,555,506
Funded Status:				
Recognized Liabilities				
Accrued Benefit Costs	$ 8,224,630	$ 10,248,051	$ 24,952,716	$27,189,395
Liability for Benefits	13,713,953	22,399,082	(6,274,087)	-
Total Liabilities Recognized	$ 21,938,583	$ 32,647,133	$ 18,678,629	$27,189,395
Unrecognized Liabilities	$ -	$ 2,617,357	$ -	$ -

For the years ended December 31, 2016 and 2015, the Association's portion of recognized liabilities was $14,110,554 and $20,809,126, respectively, for the Pension Plan. Of these amounts, $1,802,804 and $2,236,610 for 2016 and 2015, respectively, were included in unpaid loss adjustment expenses.

Additionally, for the years ended December 31, 2016 and 2015, the Association's portion of recognized liabilities was $15,518,284 and $16,988,606, respectively, for the Post-retirement Plan. Of these amounts, $5,460,884 and $9,688,065 for 2016 and 2015, respectively, were included in unpaid loss adjustment expenses. Additionally, the Association recognized a post-retirement asset in 2016 in the amount of $3,489,329.

A summary of the net periodic benefit cost of the Pension and Post-Retirement Plans for the Association and its affiliates is as follows for the years ended December 31:

	Pension Benefits		Post-Retirement Benefits	
	2016	2015	2016	2015
Components of Net Periodic Benefit Cost:				
Service Cost	$ 6,027,963	$ 6,791,250	$ 1,736,304	$ 3,725,654
Interest Cost	4,368,011	4,280,603	2,100,663	3,435,297
Expected (Return) on Plan Assets	(3,957,815)	(4,488,386)	(1,422,394)	(1,472,276)
Transition Obligation	113,917	113,917	-	-
Net Losses	1,120,346	1,226,240	472	194,665
Prior Service Cost	32,423	810,564	(1,042,241)	2,777,591
Curtailment	371,734	-	-	-
Total Net Periodic Benefit Cost	$ 8,076,579	$ 8,734,188	$ 1,372,804	$ 8,660,931
Net Periodic Benefit Cost Allocable to the Association	$ 4,678,307	$ 5,047,331	$ 871,456	$ 5,525,674

The net periodic benefit cost of the Pension and the Post-Retirement Benefit Plans 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.

Following are components of net periodic benefit cost as they related to unassigned surplus for the Association and its affiliates at December 31:

	Pension Benefits		Post-Retirement Benefits	
	2016	2015	2016	2015
Amounts in Unassigned Surplus Recognized as Components of Net Periodic Benefit Cost:				
Items Not Yet Recognized from Prior Year	$25,016,439	$29,437,934	$ (6,614,331)	$ 33,731,644
Net Transition Obligation Recognized	(485,651)	(113,917)	-	-
Net Prior Service Cost Arising During the Period	-	-	-	(31,189,671)
Net Prior Service Cost Recognized	(32,423)	(810,564)	1,042,241	(2,777,591)
Net (Gain) Loss Arising During the Period	(9,664,066)	(2,270,774)	(701,525)	(6,184,048)
Net Loss Recognized	(1,120,346)	(1,226,240)	(472)	(194,665)
Items Not Yet Recognized Current Year	$13,713,953	$25,016,439	$ (6,274,087)	$ (6,614,331)
Amounts in Unassigned Surplus Expected to Be Recognized in the Next Fiscal Year as Components of Net Periodic Benefit Cost:				
Net Transition Obligation Recognized	$ 20,981	$ 113,917	$ -	$ -
Net Prior Service Cost	$ -	$ 32,423	$ (1,042,241)	$ (1,042,241)
Net Recognized Losses	$ 308,039	$ 1,120,346	$ -	$ 472
Amounts in Unassigned Surplus Not Yet Recognized as Components of Net Periodic Benefit Cost:				
Net Transition Obligation Recognized	$ 83,924	$ 569,575	$ -	$ -
Net Prior Service Cost	$ -	$ 32,423	$ (9,974,247)	$ (11,016,488)
Net Recognized (Gains) Losses	$13,630,029	$24,414,441	$ 3,700,160	$ 4,402,157

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

	Pension Benefits		Post-Retirement Benefits	
	2016	2015	2016	2015
Discount Rate	4.00%	4.39%	4.64%	4.86%
Rate of Compensation Increase	3.5% to 7.00%	3.5% to 7.00%	N/A	N/A

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

	Pension Benefits		Post-Retirement Benefits	
	2016	2015	2016	2015
Discount Rate	4.39%	4.09%	4.86%	4.49%
Rate of Compensation Increase	3.5% to 7.00%	3.5% to 7.00%	N/A	N/A
Expected Long-Term Rate of Return on Plan Assets	6.00%	6.50%	6.00%	6.50%

The health care portion of the post-retirement benefit plan is contributory, with participants' contributions adjusted annually as determined by the Association; the life insurance portion of the post-retirement benefit plan is non-contributory. The health care cost trend rate in 2016 was assumed to be 8.31 percent for one year, then 7.04 percent for one year, then graded to 4.50 percent by 2025. In 2015 the health care cost trend rate was 9.00 percent for one year, then graded to 7.60 percent for one year, then 4.50 percent by 2024.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care portion of the post-retirement benefit plan. A one-percentage-point change in assumed health care trend rates would have the following effects for the Association and its affiliates:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on Total of Service and Interest Cost Components	$ 906,372	$ (685,670)
Effect on Post-Retirement Benefit Obligation	$ 9,041,169	$ (6,984,807)

In accordance with statutory accounting guidance, the difference between the projected benefit obligation and the fair value of plan assets is required to be recorded on the statutory balance sheet. If the projected benefit obligation is greater than the fair value of plan assets, a liability is recorded. However, if the projected benefit obligation is less than the fair value of plan assets, a non-admitted asset is recorded. In addition, non-vested participants are to be included in calculations such as the projected benefit obligation and net periodic pension cost.

Although the Association and its affiliates elected to phase in the surplus impact over a period not to exceed ten years, the Association and its affiliates must continue to recognize a minimum amount of the transition liability that is at least equal to the amortization of the unrecognized items in effect at transition. At year-end 2016, the amount of the remaining surplus impact from the election of the transition deferral was fully recognized.

The recognized surplus impact and remaining transition liability for the Pension Plan for the Association and its affiliates is as follows for years ended December 31:

	2016	2015
Transition Liability at Beginning of Year	$ 2,617,357	$ 8,607,844
Writedown Recognized	(2,617,357)	(5,990,487)
Remaining Transition Liability at End of Year	$ -	$ 2,617,357

In accordance with statutory accounting guidance, a liability, equal to the accumulated post-retirement benefit obligation is required to be established for vested and non-vested employees. Although the Association and its affiliates elected to phase in the surplus impact over a period not to exceed ten years, the Association and its affiliates must continue to recognize a minimum amount of the transition liability that is at least equal to the amortization of the unrecognized items in effect at transition. The surplus impact from the election of the transition deferral was fully recognized as of December 31, 2015.

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 Pekin Life Insurance Company for pension benefits. The contract 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 contract included in plan assets of the Association and its affiliates was $31,288,299 and $27,570,088 as of December 31, 2016 and 2015, respectively, or 40 and 41 percent of total plan assets. Equity securities comprise the remaining plan assets. At December 31, 2016 and 2015, equity securities, cash and cash equivalents amounted to $46,602,848 and $39,544,302, respectively, or 60 and 59 percent of total plan assets.

The expected long-term rate of return on plan assets was selected based upon current market conditions, Association experience, and future Association 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 Association’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 flows 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 Association’s Retirement Plan maintains a contract to partially fund health benefits provided to certain retirees and eligible dependents through a deposit administration contract with Pekin Life Insurance Company. The permissible contract funding was determined in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice. At December 31, 2016 and 2015, the fair value of the contract was $25,979,284 and $23,384,380 respectively. Contributions of $3,366,330 and $2,033,130 were made in 2016 and 2015, respectively, into this deposit administration contract. The Association’s share of the contribution was $2,732,460 and $1,580,352, in 2016 and 2015, respectively.

The Company utilizes the following valuation techniques in determining the level, within the fair value hierarchy, of the Pension Plan and Post-Retirement Plan assets:

Level 1 – Quoted market prices reported on the active markets on which the individual stocks and money market funds are traded.

Level 3 – Principal valuation technique is discounted cash flows. Unobservable inputs are credit rate and payout date.

The following table sets forth by level, within the fair value hierarchy, the total assets of the Pension Plan and Post-Retirement Plan at fair value as of December 31, 2016, for the Association and its affiliates:

	Assets at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Pension Plan Assets:				
Equity Securities				
Consumer Discretionary	$ 3,318,168	$ -	$ -	$ 3,318,168
Consumer Staples	4,714,288	-	-	4,714,288
Energy	5,106,500	-	-	5,106,500
Financials	9,716,607	-	-	9,716,607
Health Care	3,158,835	-	-	3,158,835
Industrials	5,541,795	-	-	5,541,795
Information Technology	5,384,500	-	-	5,384,500
Materials	1,078,830	-	-	1,078,830
Telecommunications	1,384,400	-	-	1,384,400
Utilities	7,034,236	-	-	7,034,236
Total Equity Securities	$46,438,159	$ -	$ -	$ 46,438,159
Cash and Cash Equivalents	164,689	-	-	164,689
Deposit Administration Contract	-	-	31,288,299	31,288,299
Total Pension Plan Assets	$46,602,848	$ -	$ 31,288,299	$ 77,891,147
Post-Retirement Plan Assets:				
Deposit Administration Contract	-	-	$ 25,979,284	25,979,284
Total Post-Retirement Plan Assets	$ -	$ -	$ 25,979,284	$ 25,979,284

The following table sets forth by level, within the fair value hierarchy, the total assets of the Pension Plan and Post-Retirement Plan at fair value as of December 31, 2015, for the Association and its affiliates:

	Assets at Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Pension Plan Assets:				
Equity Securities				
Consumer Discretionary	$ 3,236,635	$ -	$ -	$ 3,236,635
Consumer Staples	4,180,128	-	-	4,180,128
Energy	3,466,615	-	-	3,466,615
Financials	7,218,278	-	-	7,218,278
Health Care	3,022,590	-	-	3,022,590
Industrials	4,984,570	-	-	4,984,570
Information Technology	4,299,612	-	-	4,299,612
Materials	968,060	-	-	968,060
Telecommunications	954,730	-	-	954,730
Utilities	6,887,894	-	-	6,887,894
Total Equity Securities	$39,219,112	$ -	$ -	$ 39,219,112
Cash and Cash Equivalents	325,190	-	-	325,190
Deposit Administration Contract	-	-	27,570,088	27,570,088
Total Pension Plan Assets	$39,544,302	$ -	$ 27,570,088	$ 67,114,390
Post-Retirement Plan Assets:				
Deposit Administration Contract	-	-	23,384,380	23,384,380
Total Post-Retirement Plan Assets	$ -	$ -	$ 23,384,380	$ 23,384,380

The table below sets forth a summary of changes in the fair value of the Pension Plan and Post Retirement Plan's Level 3 assets for the years ended December 31:

	Level 3 Assets			
	Pension Benefits		Post-Retirement Benefits	
	2016	2015	2016	2015
Balance, Beginning of Year	$ 27,570,088	$ 28,529,899	$ 23,384,381	$ 22,904,048
Interest Income	818,654	898,739	708,972	734,068
Purchases	10,100,000	6,100,000	3,366,330	2,033,130
Withdrawals	(7,200,443)	(7,958,550)	(1,480,399)	(2,286,865)
Balance, End of Year	$ 31,288,299	$ 27,570,088	$ 25,979,284	$ 23,384,381

Director Retirement Plan

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 Association's benefits paid were $37,250 in 2016 and 2015, respectively. The Association's liability for the Directors' retirement benefit was $1,045,005 and $1,098,340 at December 31, 2016 and 2015, respectively.

401(k) Savings Plan

The Association and its affiliates participate in a voluntary 401(k) savings plan for eligible participants. Participation requires that an employee be at least 18 years of age and not a temporary employee. The Association may elect, at the discretion of the Trustees, to contribute a matching percentage of the participants' contributions to the participants' accounts. In 2016 and 2015, the Association elected to match 25 percent of each employee's contribution up to a maximum match of $400 to employees hired prior to January 1, 2013.

Employees hired after January 1, 2013, may receive, at the discretion of the Association, a contribution from the Association based on a percentage of eligible earnings and an Association match of the employee's percentage of contribution. For 2016 and 2015, the Association contributed 3.5 percent of employees' eligible earnings and a 75.0 percent match of the employees' percentage of contribution not to exceed 6.0 percent.

Employer contributions of $962,323 and $643,194 respectively, were made to this plan in 2016 and 2015.

Deferred Compensation

The Association maintains a deferred compensation plan for the 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 2016 and 2015, $61,500 of Directors' fees were deferred. The liability for Directors' deferred compensation was $440,658 and $435,524 at December 31, 2016 and 2015, respectively.

Notes to Financial Statements – Statutory Basis

8. Income Taxes

Property and casualty insurance companies are required to make certain adjustments to statutory net income in arriving at taxable income. The effective tax rate differs from the federal income tax rate of 35 percent in 2016 and 2015 due to the following differences between statutory and tax valuations of assets and liabilities:

	2016	2015
Federal Income Tax, at Expected Rates	$ (2,307,394)	$ 8,933,522
Tax Exempt Interest	(1,355,730)	(1,511,725)
Dividends Received Deduction	(150,081)	(226,766)
Adjustment for Prior Year (Over) Under Accrual	(276,017)	228,677
Unearned Premium	326,514	782,952
Pension Benefits	(459,883)	573,315
Post-Retirement Benefits	(609,479)	1,374,431
Loss Reserve Discounting	(190,371)	(332,121)
Salvage and Subrogation	30,650	8,987
Bonus Depreciation	115,650	199,020
Other	33,889	58,534
Federal Income Tax Expense (Benefit)	$ (4,842,252)	$10,088,826
Capital gains tax subtracted from realized capital gains	1,679,327	-
Federal Income Tax Expense (Benefit) per Statutory Statements of Operations	$ (6,521,579)	$10,088,826

The components of the net deferred tax asset at December 31, 2016 and 2015 are as follows:

	2016		
	Ordinary	**Capital**	**Total**
Gross Deferred Tax Assets	$42,121,025	$ -	$ 42,121,025
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	42,121,025	-	42,121,025
Deferred Tax Assets Non-Admitted	5,033,618	-	5,033,618
Subtotal Net Admitted Deferred Tax Asset	37,087,407	-	37,087,407
Deferred Tax Liabilities	1,596,856	4,401,266	5,998,122
Net Admitted Deferred Tax Assets	$35,490,551	$ (4,401,266)	$ 31,089,285

	2015		
	Ordinary	**Capital**	**Total**
Gross Deferred Tax Assets	$38,996,964	$ -	$ 38,996,964
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	38,996,964	-	38,996,964
Deferred Tax Assets Non-Admitted	5,945,180	-	5,945,180
Subtotal Net Admitted Deferred Tax Asset	33,051,784	-	33,051,784
Deferred Tax Liabilities	424,395	3,234,131	3,658,526
Net Admitted Deferred Tax Assets	$32,627,389	$ (3,234,131)	$ 29,393,258

	Change		
	Ordinary	**Capital**	**Total**
Gross Deferred Tax Assets	$ 3,124,061	$ -	$ 3,124,061
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	3,124,061	-	3,124,061
Deferred Tax Assets Non-Admitted	(911,562)	-	(911,562)
Subtotal Net Admitted Deferred Tax Asset	4,035,623	-	4,035,623
Deferred Tax Liabilities	1,172,461	1,167,135	2,339,596
Net Admitted Deferred Tax Assets	$ 2,863,162	$ (1,167,135)	$ 1,696,027

Notes to Financial Statements – Statutory Basis

The net admitted deferred tax asset was determined using the guidance related to admissibility provided in the following paragraphs of NAIC *Statement of Statutory Accounting Principles No. 101 (SSAP 101).*

	2016		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ 9,881,350	$ -	$ 9,881,350
11b. Expected to be Realized, After Application of Threshold Limitations	21,207,935	-	21,207,935
11c. Offset of Deferred Tax Liabilities	5,998,122	-	5,998,122
Total Admitted Deferred Tax Assets	$37,087,407	$ -	$ 37,087,407

	2015		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$15,094,707	$ -	$ 15,094,707
11b. Expected to be Realized, After Application of Threshold Limitations	14,298,551	-	14,298,551
11c. Offset of Deferred Tax Liabilities	3,658,526	-	3,658,526
Total Admitted Deferred Tax Assets	$33,051,784	$ -	$ 33,051,784

	Change		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ (5,213,357)	$ -	$ (5,213,357)
11b. Expected to be Realized, After Application of Threshold Limitations	$ 6,909,384	$ -	$ 6,909,384
11c. Offset of Deferred Tax Liabilities	$ 2,339,596	$ -	$ 2,339,596
Total Admitted Deferred Tax Assets	$ 4,035,623	$ -	$ 4,035,623

	2016	**2015**
Ratio used to determine recovery period and threshold limitation amount under paragraph 11b	737%	793%
Amount of Adjusted Capital and Surplus used to determine recovery period and threshold limitation under paragraph 11b	$ 489,320,989	$ 495,934,167

Notes to Financial Statements – Statutory Basis

The major components of current income taxes incurred and net deferred tax assets as of December 31, 2016 and 2015, are as follows:

	2016	2015	Change
Current Income Tax			
Federal & Foreign	$ (4,566,235)	$ 9,860,150	$ (14,426,385)
Prior Year Under (Over) Accrual of Tax Reserves	(276,017)	228,676	(504,693)
Alternative Minimum Tax	-	-	-
Federal Income Tax Expense (Benefit)	$ (4,842,252)	$ 10,088,826	$ (14,931,078)
Deferred Tax Assets:			
Ordinary			
Discounting of unpaid losses	$ 5,048,851	$ 5,241,696	$ (192,845)
Unearned premium reserve	16,781,576	16,455,062	326,514
Advance Premium	329,685	314,856	14,829
Compensation and benefits accrual	890,692	619,868	270,824
Pension accrual	1,793,070	2,252,953	(459,883)
Post-retirement/health care accrual	5,431,399	5,946,012	(514,613)
Transition liability for pension benefits	3,145,624	5,030,241	(1,884,617)
Nonadmitted assets	7,682,222	1,741,318	5,940,904
Other	1,017,906	1,394,958	(377,052)
Total Ordinary Deferred Tax Assets	42,121,025	38,996,964	3,124,061
Non-admitted	5,033,618	5,945,180	(911,562)
Admitted Ordinary Deferred Tax Assets	37,087,407	33,051,784	4,035,623
Admitted Capital Deferred Tax Assets	-	-	-
Admitted Deferred Tax Assets	$37,087,407	$ 33,051,784	$ 4,035,623
Deferred Tax Liabilities:			
Ordinary			
Salvage and Subrogation	$ 126,075	$ 156,725	$ (30,650)
Fixed assets bonus depreciation	109,850	142,129	(32,279)
Postretirement benefit reserve	1,221,265	-	1,221,265
Other	139,666	125,541	14,125
Total Ordinary Deferred Tax Liabilities	1,596,856	424,395	1,172,461
Capital			
Unrealized Gains	$ 4,401,266	$ 3,234,131	$ 1,167,135
Total Capital Deferred Tax Liabilities	4,401,266	3,234,131	1,167,135
Total Deferred Tax Liabilities	$ 5,998,122	$ 3,658,526	$ 2,339,596
Net Deferred Tax Assets	$31,089,285	$ 29,393,258	$ 1,696,027

The Association has no tax-planning strategies that had a material impact on adjusted gross and net admitted deferred tax assets.

Federal income taxes which would be available for recoupment in the event of future tax losses are $0 and $9,881,350 for 2016 and 2015, respectively. There are no capital losses available to be carried forward to offset future capital gains.

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. The Association and its affiliates file a unitary tax return with the state of Illinois. A state income tax benefit of $370,752 and a state income tax expense of $1,246,562 in 2016 and 2015, respectively, is included in underwriting expenses.

As of December 31, 2016, the Association has not identified any material loss contingencies arising from uncertain tax positions.

Federal income tax returns of the Association are open to examination by the Internal Revenue Service for the years 2013-2016.

9. Structured Settlements

The Association has purchased annuities of which the claimant is payee, but for which the Association is contingently liable. The aggregate amount of annuities from all life insurers was $8,363,000 and $8,076,950 at December 31, 2016 and 2015, respectively.

10. Capital and Surplus

The Association is required to maintain minimum capital and surplus as established by the Department. The Association is also subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the Department. The RBC standards establish uniform minimum capital 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, 2016, the Association's surplus exceeded the minimum levels required by the Department and RBC standards.

The Association's unassigned surplus was increased (reduced) by the following cumulative amounts at December 31, 2016 and 2015, respectively:

	2016	2015
Net Unrealized Capital Gains	$ 156,020,175	$ 150,000,546
Non-Admitted Assets	(23,864,834)	(6,001,554)
Provision for Reinsurance	(525,858)	(62,263)

SUPPLEMENTAL FINANCIAL INFORMATION

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
The Farmers Automobile Insurance Association
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. The supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. This information is presented in a format consistent with the Annual Statement filed by the Association with the regulatory authorities. Such information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

Strohm Ballweg, LLP

Madison, Wisconsin
April 8, 2017

The Farmers Automobile Insurance Association

Summary Investment Schedule
December 31, 2016

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	Amount	%	Amount	Securities Lending Reinvested Collateral Amount	Total Amount	%
1. Bonds:						
1.1 U.S. Treasury Securities	$ 2,077,749	0.2	$ 2,077,749	$ -	$ 2,077,749	0.2
1.2 U.S. Government Agency Obligations:			-			
1.21 Issued by U.S. Government Agencies	-	0.0	-	-	-	0.0
1.22 Issued by U.S. Government Sponsored Agencies	-	0.0	-	-	-	0.0
1.3 Foreign Government (Including Canada, Excluding MBS)	10,010,787	1.0	10,010,787	-	10,010,787	1.0
1.4 Securities Issued by States, Territories, and Possessions			-			
and Political Subdivisions in the U.S.:			-			
1.41 U.S. States and Territories and Possessions General Obligations	17,671,517	1.7	17,671,517	-	17,671,517	1.7
1.42 Political Subdivisions of U.S. States, Territories			-			
and Possessions and Political Subdivisions General Obligations	38,742,381	3.8	38,742,381	-	38,742,381	3.8
1.43 Revenue and Assessment Obligations	88,353,534	8.6	88,353,534	-	88,353,534	8.6
1.44 Industrial Development and Similar Obligations	-	0.0	-	-	-	0.0
1.5 Mortgage-Backed Securities (Includes Residential			-			
and Commercial MBS):			-			
1.51 Pass-Through Securities:			-			
1.511 Issued or Guaranteed by GNMA	736,996	0.1	736,996	-	736,996	0.1
1.512 Issued or Guaranteed by FNMA and FHLMC	116,563,824	11.3	116,563,824	-	116,563,824	11.3
1.513 All Other	-	0.0	-	-	-	0.0
1.52 CMO's and REMIC's	-		-			
1.521 Issued by GNMA, FNMA and FHLMC or VA	90,626	0.0	90,626	-	90,626	0.0
1.522 Issued by Non-U.S. Government Issuers			-			
and Collateralized by Mortgage-Backed			-			
Securities Issued or Guaranteed by Agencies Shown in Line 1.521	-	0.0	-	-	-	0.0
1.523 All Other	43,229,919	4.2	43,229,919	-	43,229,919	4.2
2. Other Debt Securities (Excluding Short Term):			-			
2.1 Unaffiliated Domestic Securities			-			
(Includes Credit Tenant Loans and Hybrid Securities)	325,401,668	31.7	325,401,668	-	325,401,668	31.7
2.2 Unaffiliated Foreign Securities (Including Canada)	47,909,597	4.7	47,909,597	-	47,909,597	4.7
2.3 Affiliated Securities	-	0.0	-	-	-	0.0
3. Equity Interests:			-			
3.1 Investments in Mutual Funds	-	0.0	-	-	-	
3.2 Preferred Stocks	-	0.0	-	-	-	0.0
3.3 Publicly Traded Equity Securities (Excl. Preferred Stocks):			-			
3.31 Affiliated	-	0.0	-	-	-	0.0
3.32 Unaffiliated	38,562,659	3.7	38,562,659	-	38,562,659	3.7
3.4 Other Equity Securities			-			
3.41 Affiliated	222,744,770	21.7	222,744,770	-	222,744,770	21.7
3.42 Unaffiliated	2,735,198	0.3	2,735,198	-	2,735,198	0.3
3.5 Tangible Personal Property Under Lease			-			
4. Mortgage Loans	-	0.0	-	-	-	0.0
5. Real Estate Investments			-			
5.1 Property Occupied by Company	19,228,823	1.9	19,228,823	-	19,228,823	1.9
5.2 Property Held for Production of Income	1,590,324	0.1	1,590,324	-	1,590,324	0.1
5.3 Property Held for Sale	-	0.0	-	-	-	0.0
6. Contract Loans	-	0.0	-	-	-	0.0
7. Derivatives	-	0.0	-	-	-	0.0
8. Receivable for Securities	1,010,631	0.1	1,010,631	-	1,010,631	0.1
9. Securities Lending Reinvested Collateral Assets	28,564,882	2.8	28,564,882	-	-	0.0
10. Cash and Short-Term Investments	21,247,769	2.1	21,247,769	28,564,882	49,812,651	4.9
11. Other Invested Assets	380,909	0.0	380,909	-	380,909	0.0
12. Total Cash and Invested Assets	$ 1,026,854,563	100.0	$ 1,026,854,563	$ 28,564,882	$ 1,026,854,563	100.0

See Independent Auditor's Report on the Supplementary Information

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2016

1. State the reporting entity's total admitted assets as reported on Page 2 of the annual statement. $ 1,266,914,138

2. State the 10 largest exposures to a single issuer/borrower/investment, excluding U.S. government, U.S. government agency securities, and those U.S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the company and policy loans:

	1	2	3	4
	Issuer	**Description of Exposure**	**Amount**	**Percentage of Total Admitted Assets**
2.01	Pekin Insurance Company	Affiliated Common Stock	$ 128,255,074	10.1%
2.02	Pekin Life Insurance Company	Affiliated Common Stock	$ 94,488,696	7.5%
2.03	Fannie Mae	Bond	$ 79,708,243	6.3%
2.04	Freddie Mac	Bond	$ 36,946,204	2.9%
2.05	CCCIT 2014-A5- A5	Bond	$ 5,320,000	0.4%
2.06	Austin TX Revenue	Bond	$ 4,126,321	0.3%
2.07	Cleveland OH	Bond	$ 4,100,355	0.3%
2.08	California St	Bond	$ 4,047,444	0.3%
2.09	Apple Inc	Bond/Stock	$ 3,934,207	0.3%
2.10	Pfizer Inc	Bond/Stock	$ 3,776,215	0.3%

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

	Bonds	**1**	**2**		**Preferred Stocks**	**3**	**4**
3.01	NAIC-1	$ 612,042,568	48.3%	3.07	P/RP-1	$ -	0.0%
3.02	NAIC-2	$ 83,516,471	6.6%	3.08	P/RP-2	$ -	0.0%
3.03	NAIC-3	$ -	0.0%	3.09	P/RP-3	$ -	0.0%
3.04	NAIC-4	$ 1,425,000	0.1%	3.10	P/RP-4	$ -	0.0%
3.05	NAIC-5	$ -	0.0%	3.11	P/RP-5	$ -	0.0%
3.06	NAIC-6	$ -	0.0%	3.12	P/RP-6	$ -	0.0%

4. Assets held in foreign investments:

		1		**2**
4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?		Yes [ ]	No [X]
4.02	Total admitted assets held in foreign investments	$ 60,699,037		4.8%

5. Aggregate foreign investment exposure by NAIC sovereign rating:

		1	**2**
5.01	Countries rated NAIC-1	$ 54,513,737	4.3%
5.02	Countries rated NAIC-2	$ 6,185,300	0.5%
5.03	Countries rated NAIC-3 or below	$ -	0.0%

See Independent Auditor's Report on the Supplementary Information

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2016

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

	1	2
Countries rated NAIC-1:		
6.01 Country: United Kingdom	$ 12,564,873	1.0%
6.02 Country: Australia	$ 8,121,260	0.6%
Countries rated NAIC-2		
6.03 Country: Mexico	$ 2,551,614	0.2%
6.04 Country: Peru	$ 2,001,015	0.2%
Countries rated NAIC-3		
6.01 Country:	$ -	0.0%
6.02 Country:	$ -	0.0%

7. Aggregate unhedged foreign currency exposure: None

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

9. Two largest unhedged currency exposures to a single county, categorized by NAIC sovereign rating:

   Countries rated NAIC-1: None

   Countries rated NAIC-2: None

   Countries rated NAIC-3 or below: None

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

	1 Issuer	2 NAIC Rating	3	4
10.01	HSBC Holdings PLC	1FE	$ 3,006,341	0.2%
10.02	Macquarie Bankd Ltd	1FE	$ 2,999,643	0.2%
10.03	BNP Paribas	1FE	$ 2,997,005	0.2%
10.04	BP Capital Markets PLC	1FE	$ 2,987,222	0.2%
10.05	Petroleos Mexicanos	2FE	$ 2,551,614	0.2%
10.06	Actavis Funding SCS	2FE	$ 2,542,226	0.2%
10.07	Schlumberger Investment	1FE	$ 2,506,425	0.2%
10.08	BAT Intl Finance PLC	1FE	$ 2,499,582	0.2%
10.09	UBS Group Funding	1FE	$ 2,498,593	0.2%
10.10	Scentre Group Trust 1/2	1FE	$ 2,494,691	0.2%

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

    11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

	1	2
11.02 Total admitted assets held in Canadian investments	$ -	0.0%

12. State the agregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days):

    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 [X] No [ ]

See Independent Auditor's Report on the Supplementary Information

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2016

13. Assets held in equity interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 13: Yes [ ] No [X]

	1 Issuer	2	3
13.02	Pekin Insurance Company	$ 128,255,074	10.1%
13.03	Pekin Life Insurance Company	$ 94,488,696	7.5%
13.04	Apple Inc	$ 931,540	0.1%
13.05	Alphabet Inc - CL A	$ 887,043	0.1%
13.06	UnitedHealth Group Inc	$ 711,698	0.1%
13.07	Amazon.com Inc	$ 584,899	0.0%
13.08	Visa Inc	$ 544,736	0.0%
13.09	Microsoft Corp	$ 512,841	0.0%
13.10	Eli Lilly & Co	$ 483,003	0.0%
13.11	Church & Dwight Co Inc	$ 451,445	0.0%

14. State the amounts and percentages of the entity's total admitted assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under Securities Exchange Commission (SEC) Rule 144a or SEC Rule 144 without volume restrictions:

    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 [X] No [ ]

15. State the aggregate amounts and percentages of the entity's total admitted assets held in general partnership interests (included in other equity securities):

    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 [X] No [ ]

16. With respect to mortgage loans reported in Schedule B, state the amounts and percentages of the reporting entity's total admitted assets held:

    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 [X] 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

18. Are assets held in investments held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

19. Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

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

		At Year-End 1	2	(Unaudited) 1st Qtr 3	At End of Each Quarter (Unaudited) 2nd Qtr 4	(Unaudited) 3rd Qtr 5
20.01	Securities lending (do not include assets held as collateral for such transactions)	$ 28,060,132	2.2%	$ 28,630,700	$ 39,319,815	$ 27,094,700

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2016

21. State the amounts and percentages indicated below for warrants not attached to other financial instruments, options, caps, and floors: None

22. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for collars, swaps, and forwards: None

23. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for futures contracts: None

The Farmers Automobile Insurance Association

Reinsurance Interrogatories
December 31, 2016

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 [X]

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 [X]

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 [X]

The Farmers Automobile Insurance Association

Reinsurance Interrogatories
December 31, 2016

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.

9.4 Except for transactions meeting the requirements of paragraph 32 of SSAP No. 62R, 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 [X]