Pekin Insurance Company

Report on Audits of Financial Statements - Statutory Basis

For the Years Ended December 31, 2016 and 2015

Pekin Insurance Company

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Strohm Ballweg

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
Pekin Insurance Company
Pekin, Illinois

We have audited the accompanying financial statements of Pekin Insurance Company (the Company), 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 stockholder's equity, 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 Company'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 Company'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.

Strohm Ballweg

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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 Company 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 Company 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 Company as of December 31, 2016 and 2015, and the results of its operations and changes in stockholder’s equity, 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

Pekin Insurance Company

Statutory Balance Sheets
December 31, 2016 and 2015

	2016	2015
Admitted Assets:		
Bonds	$ 258,060,578	$ 248,710,141
Common Stocks:		
Affiliates	9,932,731	9,584,046
Other than Affiliates	14,108,993	13,308,423
Cash and Short-Term Investments	3,248,757	2,517,296
Receivable for Securities	750,000	30,984
Securities Lending Reinvested Collateral Assets	14,365,675	11,271,962
Cash and Invested Assets	300,466,734	285,422,852
Current Federal Income Tax Recoverable	3,169,741	802,561
Net Deferred Tax Asset	5,259,745	6,586,741
Investment Income Accrued	2,388,540	2,294,689
Receivables from Parent, Subsidiaries and Affiliates	-	807,054
Post-Retirement Asset	872,332	-
Total Admitted Assets	$ 312,157,092	$ 295,913,897
Liabilities:		
Unpaid Losses, Net	$ 80,407,806	$ 71,666,124
Unpaid Loss Adjustment Expenses, Net	18,360,538	16,537,740
Unearned Premiums, Net	59,934,200	58,768,079
Commissions, Expenses, Fees and Taxes	3,758,473	4,218,779
Payable to Parent, Subsidiaries and Affiliates	935,795	-
Payable for Securities Lending	14,365,675	11,271,962
Pension Benefit Obligations	3,046,455	4,512,340
Post-Retirement Benefit Obligations	2,422,016	2,580,263
Other Liabilities	671,060	699,456
Total Liabilities	183,902,018	170,254,743
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	126,242,574	123,646,654
Total Stockholder’s Equity	128,255,074	125,659,154
Total Liabilities and Stockholder’s Equity	$ 312,157,092	$ 295,913,897

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

Pekin Insurance Company

Statutory Statements of Operations and Changes in Stockholder's Equity
Years Ended December 31, 2016 and 2015

	2016	2015
Underwriting Income:		
Premiums Earned:		
Net Premiums Written	$ 122,808,852	$ 120,201,652
Increase in Net Unearned Premiums	(1,166,121)	(2,796,258)
Net Premiums Earned	121,642,731	117,405,394
Losses and Expenses Incurred:		
Net Losses	81,220,717	71,952,582
Net Loss Adjustment Expenses	13,343,613	12,015,338
Underwriting Expenses	36,296,259	35,373,308
Net Losses and Expenses Incurred	130,860,589	119,341,228
Underwriting Loss	(9,217,858)	(1,935,834)
Net Investment Income	7,837,750	7,876,274
Net Realized Capital Gains	714,624	2,026,536
Other Income	857,972	636,524
Net Income Before Federal Income Tax	192,488	8,603,500
Federal Income Tax Expense (Benefit)	(1,000,147)	3,110,680
Net Income	$ 1,192,635	$ 5,492,820
Statement of Changes in Stockholder's Equity:		
Stockholder's Equity - Beginning of Year	$ 125,659,154	$ 118,697,363
Changes in Stockholder's Equity:		
Net Income	1,192,635	5,492,820
Net Unrealized Capital Gains (Losses):		
Affiliates	348,684	(6,008)
Other than Affiliates	163,110	(677,301)
Net Deferred Income Tax	(1,326,996)	372,280
Pension Benefit Obligations	1,346,155	(354,783)
Post-Retirement Benefit Obligations	872,332	2,134,783
Net Increase	2,595,920	6,961,791
Stockholder's Equity - End of Year	$ 128,255,074	$ 125,659,154

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

Pekin Insurance Company

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

	2016	2015
Cash from Operations:		
Net Premiums Collected	$122,808,852	$120,201,652
Net Investment Income Received	8,936,182	8,578,179
Other Income Received	857,971	636,524
Total Cash Received	132,603,005	129,416,355
Benefits and Loss Related Payments	72,479,035	67,124,069
Commissions, Expenses Paid and Other Deductions	48,555,364	45,082,956
Federal Income Taxes Paid	1,753,643	3,702,220
Total Cash Disbursed	122,788,042	115,909,245
Net Cash from Operations	9,814,962	13,507,110
Cash from Investments:		
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	46,059,666	62,418,095
Stocks	7,083,172	7,601,874
Miscellaneous	-	170,131
Total Investment Proceeds	53,142,838	70,190,100
Cost of Investments Acquired:		
Bonds	55,991,119	82,717,036
Stocks	7,230,658	7,785,593
Miscellaneous	3,812,729	207,470
Total Investments Acquired	67,034,506	90,710,099
Net Cash from Investments	(13,891,668)	(20,519,999)
Cash from Financing and Miscellaneous Sources:		
Other Cash Provided	4,808,166	791,370
Net Cash from Financing and Miscellaneous Sources	4,808,166	791,370
Net Change in Cash and Short-Term Investments	731,461	(6,221,519)
Cash and Short-Term Investments at Beginning of Year	2,517,296	8,738,815
Cash and Short-Term Investments at End of Year	$ 3,248,757	$ 2,517,296

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

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 47 percent and 48 percent of the direct premium was written in the state of Illinois in 2016 and 2015, 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 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 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 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 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 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 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. 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.

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.

Notes to Financial Statements – Statutory Basis

E. 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, 2016 and 2015. The Company does not anticipate investment income as a factor in the calculation of a potential premium deficiency reserve.

F. 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.

On December 31, 2016, the Company did not hold on deposit in any one financial institution an amount in excess of the Federal Deposit Insurance Corporation (FDIC) limit.

G. Other

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 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 Company and its parent, The Farmers Automobile Insurance Association (the Association), owned 83.43 percent and 82.32 percent of the Pekin Life Insurance Company (PLIC) at December 31, 2016 and 2015, respectively. Specifically, the Company owned 7.58 percent of PLIC as of these dates.

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.

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	$ 4,376,610	$ 4,456	$ 10,566	4,370,500
Other Government	2,240,144	40,162	20,110	2,260,196
U.S. States, Territories and Possessions	9,338,467	320,359	54,582	9,604,244
U.S. Political Subdivisions of States and Territories	15,164,285	566,338	152,518	15,578,105
U.S. Special Revenue and Special Assessment	40,022,012	1,219,696	220,703	41,021,005
Industrial and Miscellaneous	109,299,633	2,909,380	1,326,501	110,882,512
Loan-Backed Securities	77,619,427	1,039,649	556,413	78,102,663
Total	$ 258,060,578	$ 6,100,040	$ 2,341,393	$ 261,819,225

The statement value of bonds is lower than cost by $215,000 at December 31, 2016 due to unrealized losses on 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	$ 4,530,466	$ 14,347	$ 19,110	$ 4,525,703
Other Government	1,732,203	8,288	107,738	1,632,753
U.S. States, Territories and Possessions	8,218,117	562,854	-	8,780,971
U.S. Political Subdivisions of States and Territories	12,430,199	866,803	8,934	13,288,068
U.S. Special Revenue and Special Assessment	36,208,068	2,043,853	4,339	38,247,582
Industrial and Miscellaneous	111,547,747	3,279,871	1,720,589	113,107,029
Loan-Backed Securities	74,043,341	1,356,399	312,094	75,087,646
Total	$ 248,710,141	$ 8,132,415	$ 2,172,804	$ 254,669,752

The admitted value of loan-backed securities includes $214,919 and $288,254 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	$ 8,784,433	$ 8,844,901
Due After One Year Through Five Years	74,612,388	77,154,337
Due After Five Years Through Ten Years	87,150,946	87,529,708
Due After Ten Years	90,632,642	91,410,110
Total	$ 261,180,409	$ 264,939,056

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

	2016			
Common Stocks	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Affiliates	$ 457,868	$ 9,474,863	$ -	$ 9,932,731
Other Than Affiliates	11,363,955	3,123,605	378,567	14,108,993
Total stocks	$ 11,821,823	$ 12,598,468	$ 378,567	$ 24,041,724

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

	2015			
Common Stocks	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Affiliates	$ 457,868	$ 9,126,178	$ -	$ 9,584,046
Other Than Affiliates	10,941,498	2,832,273	465,348	13,308,423
Total stocks	$ 11,399,366	$ 11,958,451	$ 465,348	$ 22,892,469

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	$ 756,328	$ 3,944	$ 2,192,297	$ 6,622	$ 2,948,625	$ 10,566
Other Government	474,821	20,110	-	-	474,821	20,110
U.S. Political Subdivisions of States and Territories	2,374,990	54,582	-	-	2,374,990	54,582
U.S. Political Subdivisions	3,487,831	122,939	1,185,810	29,579	4,673,641	152,518
U.S. Special Revenue and Special Assessment	8,722,459	211,305	1,138,500	9,398	9,860,959	220,703
Industrial and Miscellaneous	17,939,442	614,550	28,223,662	711,951	46,163,104	1,326,501
Loan-Backed Securities	16,088,834	347,993	22,554,878	208,420	38,643,712	556,413
Subtotal Debt Securities	49,844,705	1,375,423	55,295,147	965,970	105,139,852	2,341,393
Common Stock - Unaffiliated	2,407,937	169,540	2,174,117	209,027	4,582,054	378,567
Total Securities With Unrealized Losses	$ 52,252,642	$ 1,544,963	$ 57,469,264	$ 1,174,997	$109,721,906	$ 2,719,960

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	$ 537,500	$ 8,445	$ 1,682,750	$ 10,665	$ 2,220,250	$ 19,110
Other Government	1,126,771	107,738	-	-	1,126,771	107,738
U.S. Political Subdivisions of States and Territories	1,232,250	8,934	-	-	1,232,250	8,934
U.S. Special Revenue and Special Assessment	1,161,050	4,339	-	-	1,161,050	4,339
Industrial and Miscellaneous	30,134,708	936,761	20,720,546	783,828	50,855,254	1,720,589
Loan-Backed Securities	22,336,606	114,512	14,294,596	197,582	36,631,201	312,094
Subtotal Debt Securities	56,528,885	1,180,729	36,697,891	992,075	93,226,777	2,172,804
Common Stock - Unaffiliated	4,732,136	306,829	1,047,089	158,519	5,779,225	465,348
Total Securities With Unrealized Losses	$ 61,261,021	$ 1,487,558	$ 37,744,980	$ 1,150,594	$ 99,006,002	$ 2,638,152

Proceeds from sales of bonds, excluding calls and maturities, during 2016 and 2015 were $42,409,666 and $55,216,375, respectively. Gross gains of $1,085,144 and $1,927,762 and gross losses of $258,876 and $456,837 were realized on those sales, respectively.

Bonds carried at $2,333,984 and $2,360,432 at December 31, 2016 and 2015, respectively, were on deposit with the Illinois Department of Insurance as required by law. Assets in the amounts of $0 and $2,068,431 were on deposit with the Arizona Department of Insurance at December 31, 2016 and 2015, respectively, as required by law.

Securities Lending

The Company lends securities to agreed upon borrowers through an agreement with its custodian. The Company 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 $14,109,322 and $12,385,981, respectively, and the related collateral was $14,477,010 and $12,736,854. At December 31, 2016, collateral assets valued at $1,108,133 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	$ 6,230,050	$ 2,363,865
30 Days or Less	370,275	1,686,596
31 to 60 Days	2,336,100	1,975,915
61 to 90 Days	247,748	2,460,305
Greater Than 90 Days	4,280,382	2,472,360
Total Bond Collateral Received	$ 13,464,555	$ 10,959,041
Total Equity Collateral Received	1,012,455	1,777,813
Total Collateral Received	$ 14,477,010	$ 12,736,854

The Company participates in a liquid asset portfolio. At December 31, 2016 and 2015, the aggregate fair value of the reported reinvested collateral was $14,365,675 and 11,271,962, and their related fair value was $14,391,161 and $11,147,464.

As of December 31, 2016 and 2015, the Company had $24,163,450 and $22,467,235, 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 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.

Notes to Financial Statements – Statutory Basis

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 Company'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	$ 285,000	$ -	$ -	$ 285,000
Common Stock -				
Other Than Affiliates	$ 14,108,993	$ -	$ -	$ 14,108,993

	2015			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stock -				
Other Than Affiliates	$ 13,308,423	$ -	$ -	$ 13,308,423

There were no Level 3 assets at December 31, 2016 or 2015. The Company did not have any liabilities measured at fair value at December 31, 2016 and 2015. The Company 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	$261,819,225	$258,060,578	$4,370,500	$257,448,725	$ -
Common Stock					
Affiliates	9,932,731	9,931,731	-	9,442,119 *	490,612 *
Other Than Affiliates	14,108,993	14,108,993	14,108,993	-	-
Short-Term Investments	3,129,831	3,129,831	3,119,831	10,000	-

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	$254,669,752	$248,710,141	$4,525,703	$250,144,049	$ -
Common Stock					
Affiliates	9,584,046	9,584,046	-	9,108,054 *	475,992 *
Other Than Affiliates	13,308,423	13,308,423	13,308,423	-	-
Short-Term Investments	1,626,323	1,626,323	1,616,323	10,000	-

* 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.

Level 3 Measurements

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

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	$ 96,197,813	$ 92,085,977
Less Reinsurance Recoverable	(7,993,949)	(9,799,540)
Net Balance at January 1	88,203,864	82,286,437
Incurred Related to:		
Current Year	91,894,982	84,585,650
Prior Years	2,669,348	(617,730)
Total Incurred	94,564,330	83,967,920
Paid Related to:		
Current Year	48,150,402	47,535,157
Prior Years	35,849,448	30,515,336
Total Paid	83,999,850	78,050,493
Net Balance at December 31	98,768,344	88,203,864
Plus Reinsurance Recoverable	8,564,216	7,993,949
Balance at December 31	$ 107,332,560	$ 96,197,813

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 $2,669,348 and decreased by $617,730 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 $3,610,377 and $3,476,238 at December 31, 2016 and 2015, respectively.

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 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%).

The Company had unsecured aggregate recoverable for reinsurance on unpaid losses and unearned premium from The Farmers Automobile Insurance Association ($608,212,098).

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

Employee Pension Benefits

The Company and its parent, The Farmers Automobile Insurance Association, and its affiliate, Pekin Life Insurance Company, participate in a trusteed non-contributory defined benefit pension plan for certain employees. The Company has no legal obligation for benefits under this plan. Effective January 1, 2013, the Company adopted an amendment to freeze participation in the Plan for employees hired after January 1, 2013. Additionally, effective December 21, 2016, the Company 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 service as of December 31, 2017 will not equal or exceed 75.

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 $1,537,768 in 2016 and $889,767 in 2015.

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. Employees hired prior to 2013 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, 2016 and 2015, was $217,864 and $1,381,418, 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.

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 benefits paid were $52,300 in 2016 and 2015. The liability for the Directors' retirement benefit was $261,251 and $274,585 at December 31, 2016 and 2015, respectively.

401(k) Savings Plan

The Company 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 Company 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 Company elected to match 25 percent of the employee's contribution up to a maximum match of $400.

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

Employer contributions of $240,581 and $160,798 respectively, were made to this plan in 2016 and 2015.

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 2016 and 2015 Directors' fees of $30,000, were deferred. The liability for Directors' deferred compensation was $221,035 and $225,173 at December 31, 2016 and 2015, respectively.

8. Income Taxes

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

	2016	2015
Federal Income Tax, at Expected Rates	$ 202,684	$ 3,011,225
Tax Exempt Interest	(606,481)	(561,091)
Dividends Received Deduction	(40,829)	(44,216)
Adjustment for Prior Year (Over) Under Accrual	(8,870)	84,912
Unearned Premium	81,628	195,738
Loss Reserve Discounting	(47,593)	(83,030)
Pension Benefits	(114,971)	143,329
Post-Retirement Benefits	(152,370)	343,608
Other	73,265	20,205
Federal Income Tax Expense (Benefit)	$ (613,537)	$ 3,110,680
Capital gains tax subtracted from realized capital gains	386,610	-
Federal Income Tax Expense (Benefit) per Statutory Statements of Operations	$ (1,000,147)	$ 3,110,680

Notes to Financial Statements – Statutory Basis

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	$ 8,461,706	$ -	$ 8,461,706
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	8,461,706	-	8,461,706
Deferred Tax Assets Nonadmitted	-	-	-
Subtotal Net Admitted Deferred Tax Asset	8,461,706	-	8,461,706
Deferred Tax Liabilities	375,524	2,826,437	3,201,961
Net Admitted Deferred Tax Assets	$ 8,086,182	$ (2,826,437)	$ 5,259,745

	2015		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	$ 9,244,054	$ -	$ 9,244,054
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	9,244,054	-	9,244,054
Deferred Tax Assets Nonadmitted	-	-	-
Subtotal Net Admitted Deferred Tax Asset	9,244,054	-	9,244,054
Deferred Tax Liabilities	76,977	2,580,336	2,657,313
Net Admitted Deferred Tax Assets	$ 9,167,077	$ (2,580,336)	$ 6,586,741

	Change		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	$ (782,348)	$ -	$ (782,348)
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	(782,348)	-	(782,348)
Deferred Tax Assets Nonadmitted	-	-	-
Subtotal Net Admitted Deferred Tax Asset	(782,348)	-	(782,348)
Deferred Tax Liabilities	298,547	246,101	544,648
Net Admitted Deferred Tax Assets	$ (1,080,895)	$ (246,101)	$ (1,326,996)

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	$ 3,066,197	$ -	$ 3,066,197
11b. Expected to be Realized, After Application of Threshold Limitations	3,491,616	-	3,491,616
11c. Offset of Deferred Tax Liabilities	1,903,893	-	1,903,893
Total Admitted Deferred Tax Assets	$ 8,461,706	$ -	$ 8,461,706

	2015		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ 4,586,538	$ -	$ 4,586,538
11b. Expected to be Realized, After Application of Threshold Limitations	2,444,978	-	2,444,978
11c. Offset of Deferred Tax Liabilities	2,212,538	-	2,212,538
Total Admitted Deferred Tax Assets	$ 9,244,054	$ -	$ 9,244,054

	Change		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ (1,520,341)	$ -	$ (1,520,341)
11b. Expected to be Realized, After Application of Threshold Limitations	1,046,638	-	1,046,638
11c. Offset of Deferred Tax Liabilities	(308,645)	-	(308,645)
Total Admitted Deferred Tax Assets	$ (782,348)	$ -	$ (782,348)

	2016	**2015**
Ratio used to determine recovery period and threshold limitation amount under paragraph 11b	1034%	1062%
Amount of Adjusted Capital and Surplus used to determine recovery period and threshold limitation under paragraph 11b	123,581,315	119,703,887

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 and Foreign	$ (604,667)	$ 3,025,768	$(3,630,435)
Prior Year Under (Over) Accrual of Tax Reserves	(8,870)	84,912	(93,782)
Federal Income Tax Expense (Benefit)	$ (613,537)	$ 3,110,680	$(3,724,217)
Deferred Tax Assets:			
Ordinary			
Discounting of unpaid losses	$ 1,262,213	$ 1,310,424	$ (48,211)
Unearned premium reserve	4,195,394	4,113,766	81,628
Compensation and benefits accrual	242,296	174,916	67,380
Pension Accrual	448,267	563,238	(114,971)
Post-retirement/health care accrual	-	1,486,503	(1,486,503)
Liability for Pension Benefits	786,406	1,257,560	(471,154)
Other	1,527,130	337,647	1,189,483
Total Ordinary Deferred Tax Assets	8,461,706	9,244,054	(782,348)
Statutory Valuation Allowance Adjustment	-	-	-
Non-admitted	-	-	-
Admitted Ordinary Deferred Tax Assets	8,461,706	9,244,054	(782,348)
Capital:			
Net capital loss carry-forward	$ -	$ -	$ -
Total Capital Deferred Tax Assets	-	-	-
Statutory Valuation Allowance Adjustment	-	-	-
Non-admitted	-	-	-
Admitted Capital Deferred Tax Assets	-	-	-
Admitted Deferred Tax Assets	$ 8,461,706	$ 9,244,054	$ (782,348)
Deferred Tax Liabilities:			
Ordinary			
Other	$ 375,524	$ 76,977	$ 298,547
Total Ordinary Deferred Tax Liabilities	375,524	76,977	298,547
Capital			
Unrealized Capital Gains	$ 2,826,437	$ 2,580,336	$ 246,101
Total Capital Deferred Tax Liabilities	2,826,437	2,580,336	246,101
Total Deferred Tax Liabilities	$ 3,201,961	$ 2,657,313	$ 544,648
Net Deferred Tax Assets	$ 5,259,745	$ 6,586,741	$(1,326,996)

The Company 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 $3,066,197 for 2016 and 2015 respectively. At December 31, 2016 and 2015 the Company had no net operating loss carryforwards. 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 Company and its affiliates file a unitary tax return with the state of Illinois. A state income tax benefit of $426 and a state income tax expense of $434,010 in 2016 and 2015, respectively, is included in underwriting expenses.

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

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

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 $2,090,750 and $2,019,238 at December 31, 2016 and 2015, respectively.

10. Capital and Surplus

The Company is required to maintain minimum capital and surplus as established by the Department. The Company 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 Company's surplus exceeded the minimum levels required by the Department and RBC standards.

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

	2016	2015
Net Unrealized Capital Gains	$ 12,220,261	$ 11,493,104

SUPPLEMENTAL FINANCIAL INFORMATION

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. 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 Company 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

Pekin Insurance Company

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	$ 4,376,610	1.5	$ 4,376,610	$ -	$ 4,376,610	1.5
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)	2,240,144	0.7	2,240,144	-	2,240,144	0.7
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	9,338,467	3.1	9,338,467	-	9,338,467	3.1
1.42 Political Subdivisions of U.S. States, Territories and Possessions and Political Subdivisions General Obligations	15,164,285	5.0	15,164,285	-	15,164,285	5.0
1.43 Revenue and Assessment Obligations	40,022,012	13.3	40,022,012	-	40,022,012	13.3
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	214,919	0.1	214,919	-	214,919	0.1
1.512 Issued or Guaranteed by FNMA and FHLMC	45,800,422	15.2	45,800,422	-	45,800,422	15.2
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	67,969	0.0	67,969	-	67,969	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	14,797,131	4.9	14,797,131	-	14,797,131	4.9
2. Other Debt Securities (Excluding Short Term):						
2.1 Unaffiliated Domestic Securities (Includes Credit Tenant Loans and Hybrid Securities)	108,083,039	36.0	108,083,039	-	108,083,039	36.0
2.2 Unaffiliated Foreign Securities (Including Canada)	17,955,580	6.0	17,955,580	-	17,955,580	6.0
2.3 Affiliated Securities	-	0.0	-	-	-	0.0
3. Equity Interests:						
3.1 Investments in Mutual Funds	-	0.0	-	-	-	0.0
3.2 Preferred Stocks	-	0.0	-	-	-	0.0
3.3 Publicly Traded Equity Securities (Excl. Preferred Stocks):						
3.31 Affiliated	13,123,302	4.4	13,123,302	-	13,123,302	4.4
3.32 Unaffiliated	9,932,731	3.3	9,932,731	-	9,932,731	3.3
3.4 Other Equity Securities						
3.41 Affiliated	-	0.0	-	-	-	0.0
3.42 Unaffiliated	985,691	0.3	985,691	-	985,691	0.3
3.5 Tangible Personal Property Under Lease						
4. Mortgage Loans	-	0.0	-	-	-	0.0
5. Real Estate Investments						
6. Contract Loans	-	0.0	-	-	-	0.0
7. Derivatives	-	0.0	-	-	-	0.0
8. Receivable for Securities	750,000	0.3	750,000	-	750,000	0.3
9. Securities Lending Reinvested Collateral Assets	14,365,675	4.8	14,365,675	-	-	0.0
10. Cash and Short-Term Investments	3,248,757	1.1	3,248,757	14,365,675	17,614,432	5.9
11. Other Invested Assets	-	-	-	-	-	-
12. Total Cash and Invested Assets	$300,466,734	100.0	$300,466,734	$ 14,365,675	$300,466,734	100.0

See Independent Auditor’s Report on the Supplementary Information.

Pekin Insurance Company

Investment Risks Interrogatories
December 31, 2016

1. State the reporting entity's total admitted assets as reported on Page 2 of the annual statement. $ 312,157,092

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	Fannie Mae	Bond	$ 32,166,615	10.3%
2.02	Freddie Mac	Bond	$ 13,701,779	4.4%
2.03	Pekin Life Insurance Company	Affiliated Common Stock	$ 9,442,119	3.0%
2.04	Massachusetts St Hlth & Eductn	Bond	$ 2,034,088	0.7%
2.05	Ohio St Turnpike Commission	Bond	$ 1,847,071	0.6%
2.06	Kansas St Dept of Transportation	Bond	$ 1,827,357	0.6%
2.07	Virginia St Public School Authority	Bond	$ 1,765,093	0.6%
2.08	New York St Thruway Auth	Bond	$ 1,701,620	0.5%
2.09	American Water Capital C	Bond	$ 1,697,697	0.5%
2.10	New York St Dorm Auth St Perso	Bond	$ 1,611,329	0.5%

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

	Bonds	**1**	**2**		**Preferred Stocks**	**3**	**4**
3.01	NAIC-1	$ 231,549,413	74.2%	3.07	P/RP-1	$ -	0.0%
3.02	NAIC-2	$ 29,345,996	9.4%	3.08	P/RP-2	$ -	0.0%
3.03	NAIC-3	$ -	0.0%	3.09	P/RP-3	$ -	0.0%
3.04	NAIC-4	$ 285,000	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	$ 21,482,886		6.9%

5. Aggregate foreign investment exposure by NAIC sovereign designation:

		1	2
5.01	Countries designated NAIC-1	$ 18,687,324	6.0%
5.02	Countries designated NAIC-2	$ 2,795,561	0.9%
5.03	Countries designated NAIC-3 or below	$ -	0.0%

Pekin Insurance Company

Investment Risks Interrogatories
December 31, 2016

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

		1	2
Countries designated NAIC-1:			
6.01	Country: United Kingdom	$ 4,326,410	1.4%
6.02	Country: Netherlands	$ 2,666,628	0.9%
Countries designated NAIC-2			
6.03	Country: Mexico	$ 1,496,719	0.5%
6.04	Country: Peru	$ 750,885	0.2%
Countries designated NAIC-3			
6.05	Country:	$ -	0.0%
6.06	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 foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

   Countries designated NAIC-1: None

   Countries designated NAIC-2: None

   Countries designated 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	Statoil ASA-Spon ADR	1FE	$ 1,026,588	0.3%
10.02	HSBC Holdings Plc	1FE	$ 1,002,114	0.3%
10.03	TSMC Global Ltd	1FE	$ 1,000,728	0.3%
10.04	Heineken NV	2FE	$ 1,000,690	0.3%
10.05	Macquarie Bank Ltd	1FE	$ 999,885	0.3%
10.06	Lloyds Bank Plc	1FE	$ 999,586	0.3%
10.07	ING Bank NV	1FE	$ 999,483	0.3%
10.08	BNP Paribas	1FE	$ 998,999	0.3%
10.09	America Movil SAB DE CV	1FE	$ 998,619	0.3%
10.10	BP Capital Markets PLC	1FE	$ 995,741	0.3%

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 aggregate 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 [ ]

Pekin Insurance Company

Investment Risks Interrogatories
December 31, 2016

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

13.01 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 Life Insurance Company	$ 9,442,119	3.0%
13.03	PAC Inc	$ 490,612	0.2%
13.04	Apple Inc	$ 316,189	0.1%
13.05	Alphabet Inc	$ 301,784	0.1%
13.06	UnitedHealth Group Inc	$ 225,656	0.1%
13.07	Amazon.com Inc	$ 199,465	0.1%
13.08	Visa Inc	$ 187,248	0.1%
13.09	Microsoft Corp	$ 168,710	0.1%
13.10	Church & Dwight Co Inc	$ 156,344	0.1%
13.11	Eli Lilly & Co	$ 154,455	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. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

    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		(Unaudited) 1st Qtr	At End of Each Quarter (Unaudited) 2nd Qtr	(Unaudited) 3rd Qtr
		1	2	3	4	5
20.01	Securities lending (do not include assets held as collateral for such transactions)	$ 14,109,322	4.5%	$ 11,375,911	$ 15,724,655	$ 11,281,193

Pekin Insurance Company

Investment Risks Interrogatories
December 31, 2016

21. State the 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. State the amounts and percentages of the reporting entity's total admitted assets 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 of the reporting entity's total admitted assets of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for futures contracts: None

Pekin Insurance Company

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, accumulting 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 unaffiliatied 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]

See Independent Auditor’s Report on the Supplementary Information.

Pekin Insurance Company

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 prosective 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]

See Independent Auditor’s Report on the Supplementary Information.