The Farmers Automobile Insurance Association

Report on Audits of Financial Statements - Statutory Basis

For the Years Ended December 31, 2017 and 2016

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 statutory financial statements of The Farmers Automobile Insurance Association (the Association), which are comprised of the statutory balance sheets as of December 31, 2017 and 2016, 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 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.

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 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, 2017 and 2016, 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, 2017 and 2016, 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 20, 2018

The Farmers Automobile Insurance Association

Statutory Balance Sheets
December 31, 2017 and 2016

	2017	2016
Admitted Assets:		
Bonds	$ 669,567,278	$ 690,788,598
Common Stocks:		
Affiliates	230,968,029	222,744,770
Other than Affiliates	50,866,230	41,297,857
Real Estate Occupied by the Association		
(Net of Accumulated Depreciation of $12,957,382 and $11,597,836)	19,710,350	19,228,823
Real Estate Held for Production of Income		
(Net of Accumulated Depreciation of $1,167,963 and $1,132,303)	1,086,667	1,590,324
Cash, Cash Equivalents, and Short-Term Investments	21,600,154	21,247,769
Receivable for Securities	43	1,010,631
Securities Lending Reinvested Collateral Assets	6,364,044	28,564,882
Notes Receivable from Affiliate	50,000	180,000
Other Invested Assets	149,539	200,909
Cash and Invested Assets	1,000,362,334	1,026,854,563
Investment Income Accrued	5,892,145	6,002,136
Uncollected Premiums	186,895,960	182,715,790
Current Federal Income Tax Recoverable	8,898,734	12,431,332
Net Deferred Tax Asset	19,444,279	31,089,285
EDP Equipment (Net of Accumulated Depreciation		
of $8,060,794 and $7,542,359)	1,180,197	746,909
Receivable from Affiliate and Subsidiary	387,795	2,236,635
Recoverable from Reinsurers	1,359,836	1,348,159
Post-Retirement Asset	2,189,441	3,489,329
Total Admitted Assets	$ 1,226,610,721	$ 1,266,914,138
Liabilities:		
Unpaid Losses, Net	$ 330,385,819	$ 321,631,228
Unpaid Loss Adjustment Expenses, Net	77,320,125	73,442,153
Unearned Premiums, Net	241,455,328	239,736,799
Commissions, Expenses, Fees, and Taxes	22,835,930	22,485,286
Drafts Outstanding	23,426,223	24,142,583
Remittances and Items Not Allocated	3,810,115	1,968,462
Advance Premiums	5,163,238	5,870,547
Payable for Securities Lending	6,364,044	28,564,882
Pension Benefit Obligations	10,236,709	12,185,822
Post-Retirement Benefit Obligations	9,501,850	9,688,065
Other Liabilities	15,400,833	12,640,181
Total Liabilities	745,900,214	752,356,008
Policyholders' Surplus:		
Special Surplus Fund	872,500	872,500
Unassigned Surplus	479,838,007	513,685,630
Total Policyholders' Surplus	480,710,507	514,558,130
Total Liabilities and Policyholders' Surplus	$ 1,226,610,721	$ 1,266,914,138

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, 2017 and 2016

	2017	2016
Underwriting Income:		
Premiums Earned:		
Net Premiums Written	$ 491,036,740	$ 491,235,406
Increase in Net Unearned Premiums	(1,718,530)	(4,664,483)
Net Premiums Earned	489,318,210	486,570,923
Losses and Expenses Incurred:		
Net Losses	309,253,255	324,882,872
Net Loss Adjustment Expenses	53,594,041	53,374,454
Underwriting Expenses	142,926,501	145,185,032
Net Losses and Expenses Incurred	505,773,797	523,442,358
Underwriting Loss	(16,455,587)	(36,871,435)
Net Investment Income	21,409,804	22,286,777
Net Realized Capital Gains	1,698,224	3,082,634
Other Income	3,065,574	3,230,142
Net Income (Loss) Before Federal Income Tax	9,718,015	(8,271,882)
Federal Income Tax Benefit	(4,214,087)	(6,521,579)
Net Income (Loss)	$ 13,932,102	$ (1,750,303)
Statement of Changes in Policyholders' Surplus:		
Policyholders' Surplus - Beginning of Year	$ 514,558,130	$ 519,120,705
Changes in Policyholders' Surplus:		
Net Income (Loss)	13,932,102	(1,750,303)
Net Unrealized Capital Gains:		
Affiliates	5,081,146	4,900,324
Other than Affiliates	8,557,995	44,305
Non-Admitted Assets	(55,719,923)	(17,863,280)
Provision for Reinsurance	512,621	(463,596)
Net Deferred Income Tax	(4,486,915)	1,696,027
Pension Benefit Obligations	(424,761)	5,384,619
Post-Retirement Benefit Obligations	(1,299,888)	3,489,329
Net Decrease	(33,847,623)	(4,562,575)
Policyholders' Surplus - End of Year	$ 480,710,507	$ 514,558,130

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, 2017 and 2016

	2017	2016
Cash from Operations:		
Net Premiums Collected	$ 486,932,965	$ 483,365,179
Net Investment Income Received	25,725,957	26,235,462
Other Income Received	3,065,573	3,230,142
Total Cash Received	515,724,495	512,830,783
Benefits and Loss Related Payments	300,510,340	291,014,539
Commissions, Expenses Paid and Other Deductions	195,088,341	194,381,992
Federal Income Taxes Paid/(Recovered)	(6,840,972)	4,511,182
Total Cash Disbursed	488,757,709	489,907,713
Net Cash from Operations	26,966,786	22,923,070
Cash from Investments:		
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	141,387,910	136,838,993
Stocks	15,824,854	20,867,405
Other Invested Assets	180,000	300,000
Miscellaneous	23,262,796	34,110
Total Investment Proceeds	180,655,560	158,040,508
Cost of Investments Acquired:		
Bonds	121,175,103	153,871,095
Stocks	19,175,878	23,648,867
Real Estate	1,373,077	3,900,750
Other Invested Assets	50,000	-
Miscellaneous	-	1,292,362
Total Investments Acquired	141,774,058	182,713,074
Net Cash from Investments	38,881,502	(24,672,566)
Cash from Financing and Miscellaneous Sources:		
Other Cash Applied	(65,495,903)	(12,932,703)
Net Cash from Financing and Miscellaneous Sources	(65,495,903)	(12,932,703)
Net Change in Cash, Cash Equivalents, and Short-Term Investments	352,385	(14,682,199)
Cash, Cash Equivalents, and Short-Term Investments at Beginning of Year	21,247,769	35,929,968
Cash, Cash Equivalents, and Short-Term Investments at End of Year	$ 21,600,154	$ 21,247,769

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 52 and 51 percent of the direct premium was written in the state of Illinois in 2017 and 2016.

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 20, 2018, 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. Loan-backed securities with an initial NAIC designation of three are carried at the lower of amortized cost or fair value. 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, 2017 and 2016.

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

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act which significantly changes existing U.S. tax law, including a reduction in the corporate tax rate from 35 percent to 21 percent, as well as other changes, which will be effective for the 2018 tax year.

The Tax Cuts and Jobs Act of 2017 provides for a change in the methodology employed to calculate reserves for tax purposes. Beginning January 1, 2018, a higher interest rate assumption and longer payout patterns will be used to discount these reserves. In addition, companies will no longer be able to elect to use their own experience to discount reserves, but will instead be required to use the industry-based tables published by the IRS annually; however, the 2018 tables have yet to be released. Consequently, the Association cannot reasonably estimate the impact this would have on deferred taxes at December 31, 2017.

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 $79,584,757 and $23,864,834 at December 31, 2017 and 2016, respectively, are not recognized by statutory accounting practices. The increase in non-admitted assets of $55,719,923 is due primarily to an increase of $47,615,670 in the capitalization of 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, 2017 and 2016. The Association does not anticipate investment income as a factor in the calculation of a potential premium deficiency reserve.

H. Cash, Cash Equivalents, 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, cash equivalents, and short-term investments.

On December 31, 2017, the Association held on deposit $9,382,885 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 2017 or 2016.

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 84.88 percent and 83.43 percent of Pekin Life Insurance Company (PLIC) at December 31, 2017 and 2016, respectively. Specifically, the Association owned 77.30 percent and 75.85 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 percent) and to Pekin Insurance Company (20 percent). 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 $6,116,859 in 2017 and $7,593,333 in 2016.

In connection with structured settlements, the Association purchased 2 annuities from PLIC in 2017 and 10 annuities in 2016, of which the Association's claimant is the payee, but for which the Association is contingently liable. The single premium for these annuities totaled $280,270 and $777,099 in 2017 and 2016, respectively. The reserve carried by PLIC at December 31, 2017 and 2016, was $7,777,505 and $7,639,450, 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, 2017, are as follows:

	2017			
Obligation	Admitted Value	Unrealized Gain	Unrealized Loss	Market Value
U.S. Government	$ 2,053,919	$ -	$ 21,966	$ 2,031,953
Other Government	7,524,897	422,899	-	7,947,796
U.S. States, Territories and Possessions	13,866,415	394,699	2,821	14,258,293
U.S. Political Subdivisions of States and Territories	37,509,092	1,526,295	83,946	38,951,441
U.S. Special Revenue and Special Assessment	84,200,761	2,927,666	39,317	87,089,110
Industrial and Miscellaneous	323,337,121	9,901,087	1,489,784	331,748,424
Loan-Backed Securities	201,075,073	2,104,587	1,092,315	202,087,345
Total	$ 669,567,278	$ 17,277,233	$ 2,730,149	$ 684,114,362

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. In 2017, the bond was sold resulting in an unrealized gain at December 31, 2017 of $1,075,000.

The admitted value of the loan-backed securities includes $545,229 and $736,996 of U.S. Government Guaranteed Securities for 2017 and 2016, respectively.

The admitted value and market value of bonds (including short term and certain money market mutual funds) at December 31, 2017, by contractual maturity, are shown below:

	Admitted Value	Market Value
Due in One Year or Less	$ 3,033,246	$ 3,088,164
Due After One Year Through Five Years	161,557,982	165,357,841
Due After Five Years Through Ten Years	243,481,192	247,144,687
Due After Ten Years	261,494,858	268,523,670
Total	$ 669,567,278	$ 684,114,362

The adjusted cost, unrealized gain and loss, and statement value of investments in common stock as of December 31, 2017 are as follows:

	2017			
Common Stocks	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Affiliates	$ 77,807,299	$ 153,160,730	$ -	$ 230,968,029
Other Than Affiliates	35,441,673	15,999,031	574,474	50,866,230
Total	$ 113,248,972	$ 169,159,761	$ 574,474	$ 281,834,259

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

Notes to Financial Statements – Statutory Basis

Securities with unrealized losses based on estimated market values as of December 31, 2017 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	$ 513,828	$ 3,860	$ 1,518,125	$ 18,106	$ 2,031,953	$ 21,966
U.S. States, Territories and Possessions	-	-	3,627,600	2,821	3,627,600	2,821
U.S. Political Subdivisions of States and Territories	-	-	10,675,620	83,946	10,675,620	83,946
U.S. Special Revenue and Special Assessment	-	-	6,502,500	39,317	6,502,500	39,317
Industrial and Miscellaneous	17,441,901	235,992	87,978,528	1,253,792	105,420,429	1,489,784
Loan-Backed Securities	47,571,370	147,980	68,945,145	944,335	116,516,515	1,092,315
Subtotal Debt Securities	65,527,099	387,832	179,247,518	2,342,317	244,774,617	2,730,149
Common Stock - Unaffiliated	3,504,061	159,179	3,363,687	415,295	6,867,748	574,474
Total Securities With Unrealized Losses	$ 69,031,160	$ 547,011	$182,611,205	$ 2,757,612	$251,642,365	$ 3,304,623

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

The components of net realized capital gains (losses) are as follows:

	2017	2016
Gains on disposals	$ 5,591,510	$ 7,118,235
Losses on disposals	(2,987,573)	(2,356,274)
OTTI	-	-
Total	$ 2,603,937	$ 4,761,961
Tax Expense	(905,713)	(1,679,327)
Net realized capital gains (losses)	$ 1,698,224	$ 3,082,634

Bonds carried at $2,053,919 and $2,077,749 at December 31, 2017 and 2016, respectively, were on deposit with the Illinois Department of Insurance 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, 2017 and 2016, the amount of securities loaned was $6,280,359 and $28,060,132, respectively, and the related collateral was $6,457,138 and $28,734,614. At December 31, 2017, collateral assets valued at $374,778 had maturity dates beyond one year.

The aggregate amount of cash collateral received as of December 31, 2017 and 2016 is shown below by maturity date:

	2017	2016
Maturity Date	**Fair Value**	**Fair Value**
Open	$ 1,800,114	$ 11,845,538
30 Days or Less	338,259	704,025
31 to 60 Days	257,843	4,441,756
61 to 90 Days	240,507	471,057
Greater Than 90 Days	1,052,034	8,138,528
Total Bond Collateral Received	$ 3,688,757	$ 25,600,904
Total Equity Collateral Received	2,768,381	3,133,710
Total Collateral Received	$ 6,457,138	$ 28,734,614

The Association participates in a liquid asset portfolio. At December 31, 2017 and 2016, the aggregate value of the reported reinvested collateral was $6,364,044 and $28,564,882, and their related fair value was $6,418,615 and $28,615,559.

As of December 31, 2017 and 2016, the Association had $13,941,179 and $57,171,887, 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, 2017 and 2016:

	2017			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stock -				
Other Than Affiliates	$ 50,866,230	$ -	$ -	$ 50,866,230

	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

There were no Level 3 assets at December 31, 2017 or 2016. The Association did not have any liabilities measured at fair value at December 31, 2017 and 2016. The Association did not have any transfers between levels at December 31, 2017 and 2016.

The aggregate fair value of all financial instruments as of December 31, 2017, is shown below.

	Aggregate Fair Value	**Admitted Assets**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Bonds	$ 684,114,362	$ 669,567,278	$ 2,031,953	$ 682,082,409	$ -
Common Stock:					
Affiliates	230,968,029	230,968,029	-	98,658,929 *	132,309,100 *
Other Than Affiliates	50,866,230	50,866,230	50,866,230	-	-
Notes Receivable	50,000	50,000	-	50,000	-
Agency Loans Receivable	149,539	149,539	-	-	149,539

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	-	-
Notes Receivable	180,000	180,000	-	180,000	-
Agency Loans Receivable	200,909	200,909	-	-	200,909

* 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.

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.

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:

	2017	2016
Balance at January 1	$ 429,330,245	$ 384,791,254
Less Reinsurance Recoverable	(34,256,864)	(31,975,796)
Net Balance at January 1	395,073,381	352,815,458
Incurred Related to:		
Current Year	380,992,267	367,579,935
Prior Years	(18,144,971)	10,677,391
Total Incurred	362,847,296	378,257,326
Paid Related to:		
Current Year	206,933,198	192,601,609
Prior Years	143,281,535	143,397,794
Total Paid	350,214,733	335,999,403
Net Balance at December 31	407,705,944	395,073,381
Plus Reinsurance Recoverable	47,372,898	34,256,864
Balance at December 31	$ 455,078,842	$ 429,330,245

As a result of actual claim payments varying from previous estimates of insured events and subsequent reserve changes, the provision for loss and loss adjustment expenses decreased by $18,144,971 and increased by $10,677,391 in 2017 and 2016, respectively. 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. The decrease in incurred losses and loss adjustment expenses in 2017 is generally the result of ongoing analysis of recent loss development trends.

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 $14,554,971 and $14,441,509 at December 31, 2017 and 2016, 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 2017 and 2016, the Association ceded $37,857,825 and $35,772,270, 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 percent) and to Pekin Insurance Company (20 percent).

The Association had unsecured aggregate recoverable for reinsurance on paid and unpaid losses and unearned premium for Pekin Insurance Company ($162,290,318), Maiden Reinsurance Co ($21,471,617), and for Westport Insurance Corp ($11,720,741).

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

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 do not expect to contribute to the Pension Plan and the Post-Retirement Benefit Plan in 2018.

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
2018	$ 7,933,000	$ 1,284,000
2019	8,585,000	1,396,000
2020	8,229,000	1,519,000
2021	9,576,000	1,615,000
2022	9,434,000	1,699,000
2023-2027	44,557,000	9,958,000

Obligations, Assets, and Assumptions

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.

Notes to Financial Statements – Statutory Basis

A summary, on an aggregate basis, of obligations, assets, and net periodic benefit costs 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	
	2017	**2016**	**2017**	**2016**
Change in Benefit Obligation:				
Benefit Obligation at Beginning of Year	$ 99,828,523	$ 102,308,574	$ 44,657,913	$ 43,959,445
Service Cost	4,746,645	6,027,963	1,544,791	1,736,304
Interest Cost	3,853,918	4,368,011	2,040,771	2,100,663
Actuarial Loss (Gain)	5,537,661	11,168,376	263,724	(1,414,947)
Benefits Paid	(10,536,216)	(7,200,443)	(1,656,493)	(1,723,552)
Curtailment	-	(16,843,958)	-	-
Benefit Obligation at End of Year	$ 103,430,531	$ 99,828,523	$ 46,850,706	$ 44,657,913
Accumulated Benefit Obligation	$ 93,779,885	$ 85,442,394	$ 46,850,706	$ 44,657,913
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Year	$ 77,889,940	$ 67,044,084	$ 25,979,284	$ 23,384,381
Actual Return on Plan Assets	7,868,432	7,946,299	749,205	708,972
Employer Contribution	11,600,000	10,100,000	-	3,366,330
Benefits Paid	(10,536,216)	(7,200,443)	(1,509,197)	(1,480,399)
Fair Value of Plan Assets at End of Year	$ 86,822,156	$ 77,889,940	$ 25,219,292	$ 25,979,284
Funded Status:				
Recognized Liabilities				
Accrued Benefit Costs	$ 2,423,812	$ 8,224,630	$ 25,765,571	$ 24,952,716
Liability for Benefits	14,184,563	13,713,953	(4,134,157)	(6,274,087)
Total Liabilities Recognized	$ 16,608,375	$ 21,938,583	$ 21,631,414	$ 18,678,629
Unrecognized Liabilities	$ -	$ -	$ -	$ -
Components of Net Periodic Benefit Cost:				
Service Cost	$ 4,746,645	$ 6,027,963	$ 1,544,791	$ 1,736,304
Interest Cost	3,853,918	4,368,011	2,040,771	2,100,663
Expected Return on Plan Assets	(4,568,936)	(3,957,815)	(1,583,170)	(1,422,394)
Transition Obligation	20,981	113,917	-	-
Net Losses	308,039	1,120,346	-	472
Prior Service Cost	-	32,423	(1,042,241)	(1,042,241)
Settlement/Curtailment	1,438,535	371,734	-	-
Total Net Periodic Benefit Cost	$ 5,799,182	$ 8,076,579	$ 960,151	$ 1,372,804

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.

The Farmers Automobile Insurance Association

Notes to Financial Statements – Statutory Basis

Below is a summary, on a Company basis, of obligations, assets, and net periodic benefit costs of the Pension Benefit Plan at December 31:

	Farmers Automobile Insurance Association		Pekin Insurance Company		Pekin Life Insurance Company		Combined Companies	
	2017	2016	2017	2016	2017	2016	2017	2016
Benefit Obligation	$67,273,336	$64,208,150	$16,818,334	$16,052,038	$19,338,861	$19,568,335	$103,430,531	$ 99,828,523
Plan Assets	56,469,130	50,097,596	14,117,283	12,524,399	16,235,743	15,267,945	86,822,156	77,889,940
Underfunded	$10,804,206	$14,110,554	$ 2,701,051	$ 3,527,639	$ 3,103,118	$ 4,300,390	$ 16,608,375	$ 21,938,583
Accrued Benefit Costs	$ 1,391,947	$ 5,123,056	$ 347,986	$ 1,280,765	$ 683,879	$ 1,820,809	$ 2,423,812	$ 8,224,630
Liability for Benefits	9,412,259	8,987,498	2,353,065	2,246,874	2,419,239	2,479,581	14,184,563	13,713,953
	$10,804,206	$14,110,554	$ 2,701,051	$ 3,527,639	$ 3,103,118	$ 4,300,390	$ 16,608,375	$ 21,938,583
Net Periodic Benefit Cost	$ 3,430,576	$ 4,678,307	$ 857,645	$ 1,169,577	$ 1,510,961	$ 2,228,695	$ 5,799,182	$ 8,076,579

Below is a summary, on a Company basis, of obligations, assets, and net periodic benefit costs of the Post-Retirement Benefit Plan at December 31:

	Farmers Automobile Insurance Association		Pekin Insurance Company		Pekin Life Insurance Company		Combined Companies	
	2017	2016	2017	2016	2017	2016	2017	2016
Benefit Obligation	$30,003,286	$28,759,614	$ 7,500,822	$ 7,189,904	$ 9,346,598	$ 8,708,395	$ 46,850,706	$ 44,657,913
Plan Assets	16,150,435	16,730,659	4,037,608	4,182,665	5,031,249	5,065,960	25,219,292	25,979,284
Underfunded	$13,852,851	$12,028,955	$ 3,463,214	$ 3,007,239	$ 4,315,349	$ 3,642,435	$ 21,631,414	$ 18,678,629
Accrued Benefit Costs	$16,042,292	$15,518,284	$ 4,010,574	$ 3,879,571	$ 5,712,705	$ 5,554,861	$ 25,765,571	$ 24,952,716
(Prepaid Asset)	(2,189,441)	(3,489,329)	(547,360)	(872,332)	(1,397,356)	(1,912,426)	(4,134,157)	(6,274,087)
	$13,852,851	$12,028,955	$ 3,463,214	$ 3,007,239	$ 4,315,349	$ 3,642,435	$ 21,631,414	$ 18,678,629
Net Periodic Benefit Cost	$ 618,338	$ 871,456	$ 154,584	$ 217,864	$ 187,229	$ 283,484	$ 960,151	$ 1,372,804

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	
	2017	2016	2017	2016
Amounts in Unassigned Surplus Recognized as Components of Net Periodic Benefit Cost:				
Items Not Yet Recognized from Prior Year	$13,713,953	$25,016,439	$ (6,274,087)	$ (6,614,331)
Net Transition Obligation Recognized	(20,981)	(485,651)	-	-
Net Prior Service Cost Arising During the Period	-	-	-	-
Net Prior Service Cost Recognized	-	(32,423)	1,042,241	1,042,241
Net (Gain) Loss Arising During the Period	2,238,165	(9,664,066)	1,097,689	(701,525)
Net Loss Recognized	(1,746,574)	(1,120,346)	-	(472)
Items Not Yet Recognized Current Year	$14,184,563	$13,713,953	$ (4,134,157)	$ (6,274,087)
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	$ 20,981	$ -	$ -
Net Prior Service Cost	$ -	$ -	$ (1,042,241)	$ (1,042,241)
Net Recognized Losses	$ 417,983	$ 308,039	$ 11,144	$ -
Amounts in Unassigned Surplus Not Yet Recognized as Components of Net Periodic Benefit Cost:				
Net Transition Obligation Recognized	$ 62,943	$ 83,924	$ -	$ -
Net Prior Service Cost	$ -	$ -	$ (8,932,006)	$ (9,974,247)
Net Recognized (Gains) Losses	$14,121,620	$13,630,029	$ 4,797,849	$ 3,700,160

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

	Pension Benefits		Post-Retirement Benefits	
	2017	2016	2017	2016
Discount Rate	3.53%	4.00%	3.89%	4.64%
Rate of Compensation Increase	3.5% to 8.25%	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	
	2017	2016	2017	2016
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
Expected Long-Term Rate of Return on Plan Assets	6.00%	6.00%	6.00%	6.00%

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 2017 was assumed to be 8.71 percent for one year, then 7.70 percent for one year, then graded to

4.50 percent by 2026. In 2016 the health care cost trend rate was 8.31 percent for one year, then graded to 7.04 percent for one year, then 4.50 percent by 2025.

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	$ 873,000	$ (656,532)
Effect on Post-Retirement Benefit Obligation	$ 9,069,785	$ (7,080,118)

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 $33,206,000 and $31,288,299 as of December 31, 2017 and 2016, respectively, or 38 and 40 percent of total plan assets. Equity securities comprise the remaining plan assets. At December 31, 2017 and 2016, equity securities, cash and cash equivalents amounted to $53,616,156 and $46,602,848, respectively, or 62 and 60 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 Farmers Automobile Insurance Association 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 account 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, 2017 and 2016, the fair value of the contract was $25,219,292 and $25,979,284 respectively.

Notes to Financial Statements – Statutory Basis

Contributions of $0 and $3,366,330 were made in 2017 and 2016, respectively, into this deposit administration contract. The Association's share of the contribution was $0 and $2,732,460, in 2017 and 2016, 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, 2017, for the Association and its affiliates:

	Assets at Fair Value as of December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Pension Plan Assets:				
Equity Securities				
Consumer Discretionary	$ 2,799,890	$ -	$ -	$ 2,799,890
Consumer Staples	5,500,600	-	-	5,500,600
Energy	6,275,724	-	-	6,275,724
Financials	11,061,769	-	-	11,061,769
Health Care	4,577,320	-	-	4,577,320
Industrials	5,337,380	-	-	5,337,380
Information Technology	7,215,170	-	-	7,215,170
Materials	1,148,740	-	-	1,148,740
Telecommunications	1,412,760	-	-	1,412,760
Utilities	7,387,785	-	-	7,387,785
Total Equity Securities	$52,717,138	$ -	$ -	$52,717,138
Cash and Cash Equivalents	899,018	-	-	899,018
Deposit Administration Contract	-	-	33,206,000	33,206,000
Total Pension Plan Assets	$53,616,156	$ -	$33,206,000	$86,822,156
Post-Retirement Plan Assets:				
Deposit Administration Contract	-	-	$25,219,292	25,219,292
Total Post-Retirement Plan Assets	$ -	$ -	$25,219,292	$25,219,292

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 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**	
	2017	**2016**	**2017**	**2016**
Balance, Beginning of Year	$ 31,288,299	$ 27,570,088	$ 25,979,284	$ 23,384,381
Interest Income	853,917	818,654	749,205	708,972
Purchases	11,600,000	10,100,000	-	3,366,330
Withdrawals	(10,536,216)	(7,200,443)	(1,509,197)	(1,480,399)
Balance, End of Year	$ 33,206,000	$ 31,288,299	$ 25,219,292	$ 25,979,284

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 2017 and 2016, respectively. The Association's liability for the Directors' retirement benefit was $1,035,547 and $1,045,005 at December 31, 2017 and 2016, 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 2017 and 2016, 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 2017 and 2016, 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 $1,263,850 and $962,323 respectively, were made to this plan in 2017 and 2016.

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 2017 and 2016, $56,000 of Directors' fees were deferred. The liability for Directors' deferred compensation was $433,278 and $440,658 at December 31, 2017 and 2016, 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 effective tax rate differs from the federal income tax rate of 35 percent in 2017 and 2016 due to the following:

	2017	2016
Federal Income Tax, at Expected Rates	$ 3,718,314	$ (2,307,394)
Tax Exempt Interest	(1,281,992)	(1,355,730)
Dividends Received Deduction	(106,414)	(150,081)
Adjustment for Prior Year (Over) Under Accrual	562,532	(276,017)
Unearned Premium	120,297	326,514
Pension Benefits	(1,305,889)	(459,883)
Post-Retirement Benefits	347,033	(609,479)
Loss Reserve Discounting	(480,891)	(190,371)
Salvage and Subrogation	11,856	30,650
Bonus Depreciation	48,429	115,650
Accelerated deduction of software amortization	(5,250,000)	-
Other	308,351	33,889
Federal Income Tax Benefit	$ (3,308,374)	$ (4,842,252)
Capital gains tax subtracted from realized capital gains	905,713	1,679,327
Federal Income Tax Benefit per Statutory Statements of Operations	$ (4,214,087)	$ (6,521,579)

The components of the net deferred tax asset at December 31, 2017 and 2016 are as follows:

	2017		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	$ 34,902,876	$ -	$ 34,902,876
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	34,902,876	-	34,902,876
Deferred Tax Assets Non-Admitted	7,158,091	-	7,158,091
Subtotal Net Admitted Deferred Tax Asset	27,744,785	-	27,744,785
Deferred Tax Liabilities	3,872,208	4,428,298	8,300,506
Net Admitted Deferred Tax Assets	$ 23,872,577	$ (4,428,298)	$ 19,444,279

	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

	Change		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	$ (7,218,149)	$ -	$ (7,218,149)
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	(7,218,149)	-	(7,218,149)
Deferred Tax Assets Non-Admitted	2,124,473	-	2,124,473
Subtotal Net Admitted Deferred Tax Asset	(9,342,622)	-	(9,342,622)
Deferred Tax Liabilities	2,275,352	27,032	2,302,384
Net Admitted Deferred Tax Assets	$ (11,617,974)	$ (27,032)	$ (11,645,006)

U.S. Tax Reform Impact

The reduction of the federal income tax rate of 35 percent effective in 2017, to 21 percent effective in 2018, reduced the net deferred tax asset by $12,962,853 during 2017.

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).*

	2017		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ -	$ -	$ -
11b. Expected to be Realized, After Application of Threshold Limitations	19,444,279	-	19,444,279
11c. Offset of Deferred Tax Liabilities	8,300,506	-	8,300,506
Total Admitted Deferred Tax Assets	$27,744,785	$ -	$ 27,744,785

	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

	Change		
	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	(1,763,656)	-	(1,763,656)
11c. Offset of Deferred Tax Liabilities	2,302,384	-	2,302,384
Total Admitted Deferred Tax Assets	$ (9,342,622)	$ -	$ (9,342,622)

	2017	**2016**
Ratio used to determine recovery period and threshold limitation amount under paragraph 11b	844%	737%
Amount of Adjusted Capital and Surplus used to determine recovery period and threshold limitation under paragraph 11b	$ 468,265,677	$ 489,320,989

The major components of current income taxes incurred and net deferred tax assets as of December 31, 2017 and 2016, are as follows:

	2017	2016	Change
Current Income Tax			
Federal & Foreign	$ (3,870,906)	$ (4,566,235)	$ 695,329
Prior Year Under (Over) Accrual of Tax Reserves	562,532	(276,017)	838,549
Federal Income Tax Benefit	$ (3,308,374)	$ (4,842,252)	$ 1,533,878
Deferred Tax Assets:			
Ordinary			
Discounting of unpaid losses	$ 2,740,608	$ 5,048,851	$ (2,308,243)
Unearned premium reserve	10,141,124	16,781,576	(6,640,452)
Advance Premium	174,045	329,685	(155,640)
Compensation and benefits accrual	563,591	890,692	(327,101)
Pension accrual	292,309	1,793,070	(1,500,761)
Post-retirement/health care accrual	3,368,881	5,431,399	(2,062,518)
Transition liability for pension benefits	1,976,574	3,145,624	(1,169,050)
Nonadmitted assets	14,709,516	7,682,222	7,027,294
Other	936,228	1,017,906	(81,678)
Total Ordinary Deferred Tax Assets	34,902,876	42,121,025	(7,218,149)
Non-admitted	7,158,091	5,033,618	2,124,473
Admitted Ordinary Deferred Tax Assets	27,744,785	37,087,407	(9,342,622)
Admitted Capital Deferred Tax Assets	-	-	-
Admitted Deferred Tax Assets	$27,744,785	$ 37,087,407	$ (9,342,622)
Deferred Tax Liabilities:			
Ordinary			
Salvage and Subrogation	$ 68,531	$ 126,075	$ (57,544)
Fixed assets bonus depreciation	106,242	109,850	(3,608)
Postretirement benefit reserve	459,783	1,221,265	(761,482)
Accelerated deduction of software amortization	3,150,000	-	3,150,000
Other	87,652	139,666	(52,014)
Total Ordinary Deferred Tax Liabilities	3,872,208	1,596,856	2,275,352
Capital			
Unrealized Gains	$ 4,428,298	$ 4,401,266	$ 27,032
Total Capital Deferred Tax Liabilities	4,428,298	4,401,266	27,032
Total Deferred Tax Liabilities	$ 8,300,506	$ 5,998,122	$ 2,302,384
Net Deferred Tax Assets	$19,444,279	$ 31,089,285	$ (11,645,006)

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

In 2017 and 2016 there are no federal income taxes which would be available for recoupment in the event of future tax losses. 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 $260,277 and $370,752 in 2017 and 2016, respectively, is included in underwriting expenses.

As of December 31, 2017, 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 2014-2017.

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 $9,416,939 and $8,363,000 at December 31, 2017 and 2016, 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, 2017, 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, 2017 and 2016, respectively:

	2017	2016
Net Unrealized Capital Gains	$ 168,584,291	$ 156,020,175
Non-Admitted Assets	(79,584,757)	(23,864,834)
Provision for Reinsurance	(13,237)	(525,858)

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 20, 2018

The Farmers Automobile Insurance Association

Summary Investment Schedule
December 31, 2017

	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	$ 2,053,919	0.2	$ 2,053,919	$ -	$ 2,053,919	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)	7,524,897	0.8	7,524,897	-	7,524,897	0.8
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	13,866,415	1.4	13,866,415	-	13,866,415	1.4
1.42 Political Subdivisions of U.S. States, Territories			-			
and Possessions and Political Subdivisions						
General Obligations	37,509,092	3.7	37,509,092	-	37,509,092	3.7
1.43 Revenue and Assessment Obligations	84,200,761	8.4	84,200,761	-	84,200,761	8.4
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	545,229	0.0	545,229	-	545,229	0.0
1.512 Issued or Guaranteed by FNMA and FHLMC	121,394,017	12.1	121,394,017	-	121,394,017	12.1
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	5,260,497	0.5	5,260,497	-	5,260,497	0.5
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	40,024,290	4.0	40,024,290	-	40,024,290	4.0
2. Other Debt Securities (Excluding Short Term):			-			
2.1 Unaffiliated Domestic Securities			-			
(Includes Credit Tenant Loans and Hybrid Securities)	314,172,037	31.4	314,172,037	-	314,172,037	31.4
2.2 Unaffiliated Foreign Securities (Including Canada)	43,016,124	4.3	43,016,124	-	43,016,124	4.3
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	47,232,733	4.7	47,232,733	-	47,232,733	4.7
3.4 Other Equity Securities			-			
3.41 Affiliated	230,968,029	23.1	230,968,029	-	230,968,029	23.1
3.42 Unaffiliated	3,633,497	0.4	3,633,497	-	3,633,497	0.4
3.5 Tangible Personal Property Under Lease			-			
4. Mortgage Loans	-	0.0	-	-	-	0.0
5. Real Estate Investments			-			
5.1 Property Occupied by Company	19,710,350	2.0	19,710,350	-	19,710,350	2.0
5.2 Property Held for Production of Income	1,086,667	0.1	1,086,667	-	1,086,667	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	43	0.0	43	-	43	0.0
9. Securities Lending Reinvested Collateral Assets	6,364,044	0.6	6,364,044	-	-	0.0
10. Cash and Short-Term Investments	21,600,154	2.3	21,600,154	6,364,044	27,964,198	2.9
11. Other Invested Assets	199,539	0.0	199,539	-	199,539	0.0
12. Total Cash and Invested Assets	$ 1,000,362,334	100.0	$ 1,000,362,334	$ 6,364,044	$ 1,000,362,334	100.0

See Independent Auditor’s Report on the Supplementary Information

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2017

1. State the reporting entity's total admitted assets as reported on Page 2 of the annual statement. $ 1,226,610,721

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 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	Pekin Insurance Company	Affiliated Common Stock	$ 132,308,101	10.8%
2.02	Pekin Life Insurance Company	Affiliated Common Stock	$ 98,658,929	8.0%
2.03	Fannie Mae	Bond	$ 79,669,335	6.5%
2.04	Freddie Mac	Bond	$ 46,985,182	3.8%
2.05	CCCIT 2014	Bond	$ 5,320,000	0.4%
2.06	Apple Inc	Bond/Stock	$ 4,401,296	0.4%
2.07	Austin TX Revenue	Bond	$ 4,090,691	0.3%
2.08	Microsoft Corp	Bond/Stock	$ 3,994,817	0.3%
2.09	California St	Bond	$ 3,986,979	0.3%
2.10	Visa Inc	Bond/Stock	$ 3,808,107	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	$ 576,460,073	47.0%	3.07	P/RP-1	$ -	0.0%
3.02	NAIC-2	$ 93,107,205	7.6%	3.08	P/RP-2	$ -	0.0%
3.03	NAIC-3	$ -	0.0%	3.09	P/RP-3	$ -	0.0%
3.04	NAIC-4	$ -	0.0%	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	$ 56,706,561		4.6%

5. Aggregate foreign investment exposure by NAIC sovereign rating:

		1	2
5.01	Countries rated NAIC-1	$ 51,550,026	4.2%
5.02	Countries rated NAIC-2	$ 5,156,535	0.4%
5.03	Countries rated NAIC-3 or below	$ -	0.0%

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2017

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	$ 10,913,320	0.9%
6.02 Country: Australia	$ 10,159,654	0.8%
Countries rated NAIC-2		
6.03 Country: Mexico	$ 2,539,605	0.2%
6.04 Country: Indonesia	$ 1,501,880	0.1%
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	$ 3,005,762	0.2%
10.02	Macquarie Bankd Ltd	1FE	$ 2,999,784	0.2%
10.03	BNP Paribas	1FE	$ 2,997,863	0.2%
10.04	BP Capital Markets PLC	1FE	$ 2,989,274	0.2%
10.05	Schlumberger Investment	1FE	$ 2,505,054	0.2%
10.06	UBS Group Funding	1FE	$ 2,498,853	0.2%
10.07	Scentre Group Trust 1/2	1FE	$ 2,495,219	0.2%
10.08	Transurban Finance Co	2FE	$ 2,492,387	0.2%
10.09	Doosan Heavy Industries	1FE	$ 2,488,600	0.2%
10.10	Sinopec Grp Oversea	1FE	$ 2,484,491	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, 2017

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	$ 132,308,101	10.8%
13.03	Pekin Life Insurance Company	$ 98,658,929	8.0%
13.04	Apple Inc	$ 1,399,024	0.1%
13.05	Alphabet Inc - CL C	$ 1,255,971	0.1%
13.06	UnitedHealth Group Inc	$ 1,126,771	0.1%
13.07	Microsoft Corp	$ 1,017,755	0.1%
13.08	Amazon.com Inc	$ 929,729	0.1%
13.09	JPMorgan Chase & Co	$ 842,046	0.1%
13.10	Visa Inc	$ 810,340	0.1%
13.11	Dow DuPont Inc	$ 764,903	0.1%

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			At End of Each Quarter	
				(Unaudited) 1st Qtr	(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)	$ 6,280,359	0.5%	$ 13,714,478	$ 9,549,723	$ 8,494,582

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2017

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, 2017

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
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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]