Pekin Insurance Company

Report on Audits of Financial Statements - Statutory Basis

For the Years Ended December 31, 2017 and 2016

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 statutory financial statements of Pekin Insurance Company (the Company), 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 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 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.

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, 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 Company as of December 31, 2017 and 2016, 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 20, 2018

Pekin Insurance Company

Statutory Balance Sheets
December 31, 2017 and 2016

	2017	2016
Admitted Assets:		
Bonds	$ 267,592,836	$ 258,060,578
Common Stocks:		
Affiliates	10,179,264	9,932,731
Other than Affiliates	17,364,633	14,108,993
Cash, Cash Equivalents, and Short-Term Investments	2,614,414	3,248,757
Receivable for Securities	500,000	750,000
Securities Lending Reinvested Collateral Assets	1,395,336	14,365,675
Cash and Invested Assets	299,646,483	300,466,734
Current Federal Income Tax Recoverable	437,520	3,169,741
Net Deferred Tax Asset	2,301,241	5,259,745
Investment Income Accrued	2,402,200	2,388,540
Receivable from Parent, Subsidiaries and Affiliates	70,217	-
Post-Retirement Asset	547,360	872,332
Total Admitted Assets	$ 305,405,021	$ 312,157,092
Liabilities:		
Unpaid Losses, Net	$ 82,596,455	$ 80,407,806
Unpaid Loss Adjustment Expenses, Net	19,330,031	18,360,538
Unearned Premiums, Net	60,363,832	59,934,200
Commissions, Expenses, Fees and Taxes	3,815,945	3,758,473
Payable to Parent, Subsidiaries and Affiliates	-	935,795
Payable for Securities Lending	1,395,336	14,365,675
Pension Benefit Obligations	2,559,177	3,046,455
Post-Retirement Benefit Obligations	2,375,463	2,422,016
Other Liabilities	660,681	671,060
Total Liabilities	173,096,920	183,902,018
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	130,295,601	126,242,574
Total Stockholder's Equity	132,308,101	128,255,074
Total Liabilities and Stockholder's Equity	$ 305,405,021	$ 312,157,092

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, 2017 and 2016

	2017	2016
Underwriting Income:		
Premiums Earned:		
Net Premiums Written	$ 122,759,185	$ 122,808,852
Increase in Net Unearned Premiums	(429,632)	(1,166,121)
Net Premiums Earned	122,329,553	121,642,731
Losses and Expenses Incurred:		
Net Losses	77,313,314	81,220,717
Net Loss Adjustment Expenses	13,398,510	13,343,613
Underwriting Expenses	35,732,370	36,296,259
Net Losses and Expenses Incurred	126,444,194	130,860,589
Underwriting Loss	(4,114,641)	(9,217,858)
Net Investment Income	8,166,290	7,837,750
Net Realized Capital Gains	522,056	714,624
Other Income	765,410	857,972
Net Income Before Federal Income Tax	5,339,115	192,488
Federal Income Tax Expense (Benefit)	923,535	(1,000,147)
Net Income	$ 4,415,580	$ 1,192,635
Statement of Changes in Stockholder's Equity:		
Stockholder's Equity - Beginning of Year	$ 128,255,074	$ 125,659,154
Changes in Stockholder's Equity:		
Net Income	4,415,580	1,192,635
Net Unrealized Capital Gains (Losses):		
Affiliates	246,171	348,684
Other than Affiliates	2,780,943	163,110
Net Deferred Income Tax	(2,828,143)	(1,326,996)
Non-Admitted Assets	(130,361)	-
Pension Benefit Obligations	(106,191)	1,346,155
Post-Retirement Benefit Obligations	(324,972)	872,332
Net Increase	4,053,027	2,595,920
Stockholder's Equity - End of Year	$ 132,308,101	$ 128,255,074

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

Pekin Insurance Company

Statutory Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash from Operations:		
Net Premiums Collected	$122,759,185	$122,808,852
Net Investment Income Received	9,319,194	8,936,182
Other Income Received	765,411	857,971
Total Cash Received	132,843,790	132,603,005
Benefits and Loss Related Payments	75,124,666	72,479,035
Commissions, Expenses Paid and Other Deductions	48,743,931	48,555,364
Federal Income Taxes Paid/(Recovered)	(1,532,018)	1,753,643
Total Cash Disbursed	122,336,579	122,788,042
Net Cash from Operations	10,507,211	9,814,963
Cash from Investments:		
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	46,493,345	46,059,666
Stocks	5,296,352	7,083,172
Miscellaneous	13,220,342	-
Total Investment Proceeds	65,010,039	53,142,838
Cost of Investments Acquired:		
Bonds	56,808,481	55,991,119
Stocks	5,356,384	7,230,658
Miscellaneous	-	3,812,729
Total Investments Acquired	62,164,865	67,034,506
Net Cash from Investments	2,845,174	(13,891,668)
Cash from Financing and Miscellaneous Sources:		
Other Cash Provided (Applied)	(13,986,728)	4,808,166
Net Cash from Financing and Miscellaneous Sources	(13,986,728)	4,808,166
Net Change in Cash, Cash Equivalents, and Short-Term Investments	(634,343)	731,461
Cash, Cash Equivalents, and Short-Term Investments at Beginning of Year	3,248,757	2,517,296
Cash, Cash Equivalents, and Short-Term Investments at End of Year	$ 2,614,414	$ 3,248,757

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 46 percent and 47 percent of the direct premium was written in the state of Illinois in 2017 and 2016, 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 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 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. 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 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, 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.

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 Company 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. 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, 2017 and 2016. The Company does not anticipate investment income as a factor in the calculation of a potential premium deficiency reserve.

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

On December 31, 2017, the Company held on deposit $414,659 in a financial institution in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) limit. The Company does not believe it is exposed to any significant credit risks on this account.

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 84.88 percent and 83.43 percent of the Pekin Life Insurance Company (PLIC) at December 31, 2017 and 2016, 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 percent) and to the Company (20 percent). 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, 2017, are as follows:

	2017			
Obligation	**Admitted Value**	**Unrealized Gain**	**Unrealized Loss**	**Market Value**
U.S. Government	$ 2,597,539	$ 1,628	$ 20,511	2,578,656
Other Government	1,745,882	86,254	-	1,832,136
U.S. States, Territories and Possessions	7,712,114	269,703	940	7,980,877
U.S. Political Subdivisions of States and Territories	16,614,513	614,506	26,640	17,202,379
U.S. Special Revenue and Special Assessment	35,530,669	942,129	61,556	36,411,242
Industrial and Miscellaneous	116,433,243	3,575,033	458,806	119,549,470
Loan-Backed Securities	86,958,876	780,160	524,624	87,214,412
Total	$ 267,592,836	$ 6,269,413	$ 1,093,077	$ 272,769,172

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. In 2017, the bond was sold resulting in an unrealized gain at December 31, 2017 of $215,000.

The admitted value of loan-backed securities includes $158,418 and $214,919 of U.S. Government Guaranteed Securities for 2017 and 2016, respectively.

Notes to Financial Statements – Statutory Basis

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	$ 11,983,865	$ 12,080,357
Due After One Year Through Five Years	64,515,767	66,180,263
Due After Five Years Through Ten Years	87,652,466	88,837,978
Due After Ten Years	103,440,738	105,670,574
Total	$ 267,592,836	$ 272,769,172

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

	2017			
Common Stocks	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Affiliates	$ 457,868	$ 9,721,396	$ -	$ 10,179,264
Other Than Affiliates	12,054,021	5,477,868	167,256	17,364,633
Total stocks	$ 12,511,889	$ 15,199,264	$ 167,256	$ 27,543,897

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

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	$ -	$ -	$ 2,083,031	$ 20,511	$ 2,083,031	$ 20,511
Other Government	-	-	-	-	-	-
U.S. Political Subdivisions of States and Territories	-	-	1,209,200	940	1,209,200	940
U.S. Political Subdivisions	-	-	2,805,340	26,640	2,805,340	26,640
U.S. Special Revenue and Special Assessment	-	-	5,518,639	61,556	5,518,639	61,556
Industrial and Miscellaneous	10,009,085	109,214	26,612,434	349,592	36,621,519	458,806
Loan-Backed Securities	24,863,136	99,883	30,606,774	424,741	55,469,910	524,624
Subtotal Debt Securities	34,872,221	209,097	68,835,418	883,980	103,707,639	1,093,077
Common Stock - Unaffiliated	1,183,402	56,518	1,192,503	110,738	2,375,905	167,256
Total Securities With Unrealized Losses	$ 36,055,623	$ 265,615	$ 70,027,921	$ 994,718	$106,083,544	$ 1,260,333

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

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

	2017	2016
Gains on disposals	$ 1,556,043	$ 1,921,020
Losses on disposals	(757,319)	(819,786)
OTTI	-	-
Total	$ 798,724	$ 1,101,234
Tax Expense	(276,668)	(386,610)
Net realized capital gains (losses)	$ 522,056	$ 714,624

Bonds carried at $2,295,168 and $2,333,984 at December 31, 2017 and 2016, respectively, were on deposit with the Illinois Department of Insurance as required by law. Assets in the amounts of $0 were on deposit with the Arizona Department of Insurance at December 31, 2017 and 2016, 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, 2017 and 2016, the amount of securities loaned was $1,368,876 and $14,109,322, respectively, and the related collateral was $1,405,610 and $14,477,010. At December 31, 2017, collateral assets valued at $35,216 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	$ 169,146	$ 6,230,050
30 Days or Less	31,784	370,275
31 to 60 Days	24,228	2,336,100
61 to 90 Days	22,599	247,748
Greater Than 90 Days	98,853	4,280,382
Total Bond Collateral Received	$ 346,610	$ 13,464,555
Total Equity Collateral Received	1,059,000	1,012,455
Total Collateral Received	$ 1,405,610	$ 14,477,010

The Company participates in a liquid asset portfolio. At December 31, 2017 and 2016, the aggregate value of the reported reinvested collateral was $1,395,336 and $14,365,675, and their related fair value was $1,407,300 and $14,391,161.

As of December 31, 2017 and 2016, the Company had $1,986,540 and $24,163,450, 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.

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, 2017 and 2016:

	2017			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stock -				
Other Than Affiliates	$ 17,364,633	$ -	$ -	$ 17,364,633

	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

There were no Level 3 assets at December 31, 2017 or 2016. The Company did not have any liabilities measured at fair value at December 31, 2017 and 2016. The Company 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	$272,769,172	$267,592,836	$2,578,656	$270,190,516	$ -
Common Stock					
Affiliates	10,179,264	10,179,264	-	9,674,132 *	505,132 *
Other Than Affiliates	17,364,633	17,364,633	17,364,633	-	-

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	-	-

* 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.

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:

	2017	2016
Balance at January 1	$ 107,332,560	$ 96,197,813
Less Reinsurance Recoverable	(8,564,216)	(7,993,949)
Net Balance at January 1	98,768,344	88,203,864
Incurred Related to:		
Current Year	95,248,067	91,894,982
Prior Years	(4,536,243)	2,669,348
Total Incurred	90,711,824	94,564,330
Paid Related to:		
Current Year	51,733,300	48,150,402
Prior Years	35,820,382	35,849,448
Total Paid	87,553,682	83,999,850
Net Balance at December 31	101,926,486	98,768,344
Plus Reinsurance Recoverable	11,843,225	8,564,216
Balance at December 31	$ 113,769,711	$ 107,332,560

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 $4,536,243 and increased by $2,669,348 in 2017 and 2016, respectively. The decrease in incurred losses and loss adjustment expenses in 2017 is primarily attributable to the result of ongoing analysis of recent loss development trends. 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 $3,638,743 and $3,610,377 at December 31, 2017 and 2016, respectively.

Notes to Financial Statements – Statutory Basis

6. Reinsurance

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

The Company is party to an intercompany pooling agreement with the Association. All direct business written by the Company is ceded 100 percent 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 percent) and to the Company (20 percent).

The Company had unsecured aggregate recoverable for reinsurance on unpaid losses and unearned premium from The Farmers Automobile Insurance Association ($631,699,872).

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. Effective January 1, 2013, the Company adopted an amendment to freeze participation in the Plan for employees hired after January 1, 2013. The Company'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 to 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 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.

Expected Cash Flows

The Company 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 Company 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 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 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.

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.

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

Notes to Financial Statements – Statutory Basis

Following are components of net periodic benefit cost as they related to unassigned surplus for the Company 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	3.50% to 8.25%	3.50% 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	3.50% to 7.00%	3.50% 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 Company; the life insurance portion of the post-retirement benefit plan is non-contributory. The health care cost trend rate in 2017 was 8.71 percent, graded to 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 Company 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, company experience, and future company expectations.

The specific goal of the investment portfolio is to maintain a fully funded plan over time to ensure the benefit for the plan participants. New contributions are invested in equity securities until the amount in equities exceeds 45 percent of the plan's total assets. Additional amounts will be paid into the deposit administration fund, unless the equity portfolio falls under 45 percent. If the equity portfolio exceeds 60 percent of the plan's assets, part of the equity portfolio will be liquidated and proceeds moved into the deposit administration fund within a reasonable time frame. There are three return objectives. The primary benchmark is the projected annual rate of return used by the plan's actuary. The average annualized investment performance of the invested assets, net of investment related expenses, should be equal to or in excess of this benchmark. The secondary (equity) benchmark is the percent total rate of return of a balanced portfolio comprised of a 70 percent weighting of the Standard & Poor's 500 Index and a 30 percent weighting of the Barclay's Government Corporate Index. The secondary (fixed income) benchmark is the weighted average rate of return of the Association's mortgage-backed securities portfolio less 0.75 percent which includes 0.25 percent for expenses and 0.50 percent for spread. 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 contract funding was determined in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice. At December 31, 2017 and 2016, the fair value of the contract was $25,219,292 and $25,979,284 respectively. Contributions of $0 and $3,366,330 were made in 2017 and 2016, respectively, into this deposit administration contract. The Company's share of the contribution was $0 and $2,732,460, in 2017 and 2016, respectively.

Notes to Financial Statements – Statutory Basis

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 assets of the Pension Plan and Post-Retirement Plan at fair value as of December 31, 2017, for the Company 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

Notes to Financial Statements – Statutory Basis

The following table sets forth by level, within the fair value hierarchy, the assets of the Pension Plan and Post-Retirement Plan at fair value as of December 31, 2016, for the Company 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 benefits paid were $52,300 in 2017 and 2016. The liability for the Directors' retirement benefit was $258,887 and $261,251 at December 31, 2017 and 2016, 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 2017 and 2016, 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 2017 and 2016, 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 $315,962 and $240,581 respectively, were made to this plan in 2017 and 2016.

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 2017 and 2016 Directors' fees of $33,000, were deferred. The liability for Directors' deferred compensation was $216,725 and $221,035 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 statutory federal income tax rate is 35 percent in 2017 and 2016.

The effective tax rate differs from the statutory federal income tax rate due to the following:

	2017	2016
Federal Income Tax, at Expected Rates	$ 1,965,526	$ 202,684
Tax Exempt Interest	(596,732)	(606,481)
Dividends Received Deduction	(35,777)	(40,829)
Adjustment for Prior Year (Over) Under Accrual	220,260	(8,870)
Unearned Premium	30,074	81,628
Loss Reserve Discounting	(120,223)	(47,593)
Pension Benefits	(326,472)	(114,971)
Post-Retirement Benefits	86,758	(152,370)
Other	(23,211)	73,265
Federal Income Tax Expense (Benefit)	$ 1,200,203	$ (613,537)
Capital gains tax subtracted from realized capital gains	276,668	386,610
Federal Income Tax Expense (Benefit) per Statutory Statements of Operations	$ 923,535	$ (1,000,147)

Notes to Financial Statements – Statutory Basis

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	$ 4,870,819	$ -	$ 4,870,819
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	4,870,819	-	4,870,819
Deferred Tax Assets Nonadmitted	130,361	-	130,361
Subtotal Net Admitted Deferred Tax Asset	4,740,458	-	4,740,458
Deferred Tax Liabilities	155,862	2,283,355	2,439,217
Net Admitted Deferred Tax Assets	$ 4,584,596	$ (2,283,355)	$ 2,301,241

	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

	Change		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	$ (3,590,887)	$ -	$ (3,590,887)
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	(3,590,887)	-	(3,590,887)
Deferred Tax Assets Nonadmitted	130,361	-	130,361
Subtotal Net Admitted Deferred Tax Asset	(3,721,248)	-	(3,721,248)
Deferred Tax Liabilities	(219,662)	(543,082)	(762,744)
Net Admitted Deferred Tax Assets	$ (3,501,586)	$ 543,082	$ (2,958,504)

U.S. Tax Reform Impact

The reduction of the federal income tax rate from 35 percent effective in 2017, to 21 percent effective in 2018, reduced the net deferred tax asset by $883,807 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	$ 975,530	$ -	$ 975,530
11b. Expected to be Realized, After Application of Threshold Limitations	1,325,711	-	1,325,711
11c. Offset of Deferred Tax Liabilities	2,439,217	-	2,439,217
Total Admitted Deferred Tax Assets	$ 4,740,458	$ -	$ 4,740,458

	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

	Change		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ (2,090,667)	$ -	$ (2,090,667)
11b. Expected to be Realized, After Application of Threshold Limitations	(2,165,905)	-	(2,165,905)
11c. Offset of Deferred Tax Liabilities	535,324	-	535,324
Total Admitted Deferred Tax Assets	$ (3,721,248)	$ -	$ (3,721,248)

	2017	**2016**
Ratio used to determine recovery period and threshold limitation amount under paragraph 11b	1496%	1034%
Amount of Adjusted Capital and Surplus used to determine recovery period and threshold limitation under paragraph 11b	130,006,860	123,581,315

Notes to Financial Statements – Statutory Basis

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 and Foreign	$ 979,943	$ (604,667)	$ 1,584,610
Prior Year Under (Over) Accrual of Tax Reserves	220,260	(8,870)	229,130
Federal Income Tax Expense (Benefit)	$ 1,200,203	$ (613,537)	$ 1,813,740
Deferred Tax Assets:			
Ordinary			
Discounting of unpaid losses	$ 685,152	$ 1,262,213	$ (577,061)
Unearned premium reserve	2,535,281	4,195,394	(1,660,113)
Advanced Premium	43,511	-	43,511
Compensation and benefits accrual	153,223	242,296	(89,073)
Pension Accrual	73,077	448,267	(375,190)
Liability for Pension Benefits	494,144	786,406	(292,262)
Other	886,431	1,527,130	(640,699)
Total Ordinary Deferred Tax Assets	4,870,819	8,461,706	(3,590,887)
Statutory Valuation Allowance Adjustment	-	-	-
Non-admitted	130,361	-	130,361
Admitted Ordinary Deferred Tax Assets	4,740,458	8,461,706	(3,721,248)
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	$ 4,740,458	$ 8,461,706	$(3,721,248)
Deferred Tax Liabilities:			
Ordinary			
Other	$ 155,862	$ 375,524	$ (219,662)
Total Ordinary Deferred Tax Liabilities	155,862	375,524	(219,662)
Capital			
Unrealized Capital Gains	$ 2,283,355	$ 2,826,437	$ (543,082)
Total Capital Deferred Tax Liabilities	2,283,355	2,826,437	(543,082)
Total Deferred Tax Liabilities	$ 2,439,217	$ 3,201,961	$ (762,744)
Net Deferred Tax Assets	$ 2,301,241	$ 5,259,745	$(2,958,504)

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 for 2017 and 2016 respectively. At December 31, 2017 and 2016 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 expense of $202,727 and a state income tax benefit of $426 in 2017 and 2016, respectively, is included in underwriting expenses.

As of December 31, 2017, 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 2014-2017.

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 $2,354,235 and $2,090,750 at December 31, 2017 and 2016, 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, 2017, 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, 2017 and 2016, respectively:

	2017	**2016**
Net Unrealized Capital Gains	$ 15,247,368	$ 12,220,261

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 20, 2018

Pekin Insurance Company

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	$ 2,597,539	0.9	$ 2,597,539	$ -	$ 2,597,539	0.9
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)	1,745,882	0.6	1,745,882	-	1,745,882	0.6
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	7,712,114	2.6	7,712,114	-	7,712,114	2.6
1.42 Political Subdivisions of U.S. States, Territories and Possessions and Political Subdivisions General Obligations	16,614,513	5.5	16,614,513	-	16,614,513	5.5
1.43 Revenue and Assessment Obligations	35,530,669	11.9	35,530,669	-	35,530,669	11.9
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	158,418	0.0	158,418	-	158,418	0.0
1.512 Issued or Guaranteed by FNMA and FHLMC	55,804,602	18.6	55,804,602	-	55,804,602	18.6
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	2,856,880	0.9	2,856,880	-	2,856,880	0.9
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	15,486,284	5.2	15,486,284	-	15,486,284	5.2
2. Other Debt Securities (Excluding Short Term):						
2.1 Unaffiliated Domestic Securities (Includes Credit Tenant Loans and Hybrid Securities)	111,026,559	37.1	111,026,559	-	111,026,559	37.1
2.2 Unaffiliated Foreign Securities (Including Canada)	18,059,376	6.0	18,059,376	-	18,059,376	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	10,179,264	3.4	10,179,264	-	10,179,264	3.4
3.32 Unaffiliated	16,056,536	5.4	16,056,536	-	16,056,536	5.4
3.4 Other Equity Securities						
3.41 Affiliated	-	0.0	-	-	-	0.0
3.42 Unaffiliated	1,308,097	0.4	1,308,097	-	1,308,097	0.4
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	500,000	0.2	500,000	-	500,000	0.2
9. Securities Lending Reinvested Collateral Assets	1,395,336	0.5	1,395,336	-	-	0.0
10. Cash and Short-Term Investments	2,614,414	0.8	2,614,414	1,395,336	4,009,750	1.3
11. Other Invested Assets	-	-	-	-	-	-
12. Total Cash and Invested Assets	$299,646,483	100.0	$299,646,483	$ 1,395,336	$299,646,483	100.0

See Independent Auditor's Report on the Supplementary Information.

Pekin Insurance Company

Investment Risks Interrogatories
December 31, 2017

1. State the reporting entity's total admitted assets as reported on Page 2 of the annual statement. $ 305,405,021

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	Fannie Mae	Bond	$ 38,551,018	12.6%
2.02	Freddie Mac	Bond	$ 20,110,465	6.6%
2.03	Pekin Life Insurance Company	Affiliated Common Stock	$ 9,674,132	3.2%
2.04	Estee Lauder Co Inc	Bond	$ 2,998,064	1.0%
2.05	Massachusetts St Hlth & Eductn	Bond	$ 2,011,578	0.7%
2.06	Ohio St Turnpike Commission	Bond	$ 1,822,988	0.6%
2.07	Kansas St Dept of Transportation	Bond	$ 1,803,966	0.6%
2.08	Virginia St Public School Authority	Bond	$ 1,750,088	0.6%
2.09	American Water Capital C	Bond	$ 1,697,923	0.6%
2.10	New York St Thruway Auth	Bond	$ 1,660,713	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	$ 235,915,200	77.2%	3.07	P/RP-1	$ -	0.0%
3.02	NAIC-2	$ 31,677,637	10.4%	3.08	P/RP-2	$ -	0.0%
3.03	NAIC-3	$ -	0.0%	3.09	P/RP-3	$ -	0.0%
3.04	NAIC-4	$ -	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	$ 22,174,225		7.3%

5. Aggregate foreign investment exposure by NAIC sovereign designation:

		1	2
5.01	Countries designated NAIC-1	$ 19,383,728	6.3%
5.02	Countries designated NAIC-2	$ 2,790,497	0.9%
5.03	Countries designated NAIC-3 or below	$ -	0.0%

Pekin Insurance Company

Investment Risks Interrogatories
December 31, 2017

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	$ 5,017,606	1.6%
6.02	Country: Australia	$ 3,060,151	1.0%
Countries designated NAIC-2			
6.03	Country: Mexico	$ 1,497,380	0.5%
6.04	Country: Peru	$ 750,575	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	Anglo American Capital	2FE	$ 1,074,570	0.4%
10.02	Statoil ASA	L, 1FE	$ 1,031,478	0.3%
10.03	HSBC Holdings Plc	1FE	$ 1,001,921	0.3%
10.04	TSMC Global Ltd	1FE	$ 1,000,149	0.3%
10.05	Macquarie Bank Ltd	1FE	$ 999,931	0.3%
10.06	Lloyds Bank Plc	1FE	$ 999,696	0.3%
10.07	ING Bank NV	1FE	$ 999,620	0.3%
10.08	BNP Paribas	1FE	$ 999,286	0.3%
10.09	Westpac Banking Group	1FE	$ 999,211	0.3%
10.10	America Movil SAB DE CV	1FE	$ 998,851	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, 2017

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	$ 9,674,132	3.2%
13.03	PAC Inc	$ 505,132	0.2%
13.04	Apple Inc	$ 474,521	0.2%
13.05	UnitedHealth Group Inc	$ 368,830	0.1%
13.06	Microsoft Corp	$ 343,785	0.1%
13.07	Amazon.com Inc	$ 316,926	0.1%
13.08	Alphabet Inc	$ 286,525	0.1%
13.09	Visa Inc	$ 278,437	0.1%
13.10	JPMorgan Chase & Co	$ 272,162	0.1%
13.11	Dow DuPont Inc	$ 249,911	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. 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		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)	$ 1,368,876	0.4%	$ 3,282,501	$ 2,226,947	$ 1,472,452

See Independent Auditor's Report on the Supplementary Information

Investment Risks Interrogatories
December 31, 2017

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, 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, 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]

Pekin Insurance Company

Reinsurance Interrogatories
December 31, 2017

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]