The Farmers Automobile Insurance Association

Report on Audits of Financial Statements - Statutory Basis

For the Years Ended December 31, 2018 and 2017

The Farmers Automobile Insurance Association

Table of Contents

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

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, 2018 and 2017, 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

CPAs • ADVISORS • CONSULTANTS

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, 2018 and 2017, 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, 2018 and 2017, 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 29, 2019

The Farmers Automobile Insurance Association

Statutory Balance Sheets
December 31, 2018 and 2017

	2018	2017
Admitted Assets:		
Bonds	$ 616,454,615	$ 669,567,278
Common Stocks:		
Affiliates	239,577,090	230,968,029
Other than Affiliates	54,232,399	50,866,230
Real Estate Occupied by the Association		
(Net of Accumulated Depreciation of $14,303,241 and $12,957,382)	22,535,334	19,710,350
Real Estate Held for Production of Income		
(Net of Accumulated Depreciation of $1,206,543 and $1,167,963)	1,076,587	1,086,667
Cash, Cash Equivalents, and Short-Term Investments	25,189,710	21,600,154
Securities Lending Reinvested Collateral Assets	6,920,514	6,364,044
Notes Receivable from Affiliate	50,000	50,000
Other Invested Assets	104,538	149,582
Cash and Invested Assets	966,140,787	1,000,362,334
Investment Income Accrued	5,368,796	5,892,145
Uncollected Premiums	191,253,315	186,895,960
Current Federal Income Tax Recoverable	12,136,031	8,898,734
Net Deferred Tax Asset	29,530,471	19,444,279
EDP Equipment		
(Net of Accumulated Depreciation of $8,724,226 and $8,060,794)	764,918	1,180,197
Receivable from Affiliate and Subsidiary	5,156,608	387,795
Recoverable from Reinsurers	1,253,675	1,359,836
Post-Retirement Benefit Plan Asset	4,082,904	2,189,441
Total Admitted Assets	$ 1,215,687,505	$ 1,226,610,721
Liabilities:		
Unpaid Losses, Net	$ 326,668,750	$ 330,385,819
Unpaid Loss Adjustment Expenses, Net	75,854,663	77,320,125
Unearned Premiums, Net	235,138,358	241,455,328
Commissions, Expenses, Fees, and Taxes	22,977,689	22,835,930
Drafts Outstanding	17,677,095	23,426,223
Remittances and Items Not Allocated	8,229,170	1,195,490
Advance Premiums	3,610,988	5,163,238
Payable for Securities Lending	6,920,514	6,364,044
Pension Benefit Plan Obligations	8,725,370	10,236,709
Post-Retirement Benefit Plan Obligations	9,720,235	9,501,850
Other Liabilities	19,760,480	18,015,458
Total Liabilities	735,283,312	745,900,214
Policyholders' Surplus:		
Special Surplus Fund	872,500	872,500
Unassigned Surplus	479,531,693	479,838,007
Total Policyholders' Surplus	480,404,193	480,710,507
Total Liabilities and Policyholders' Surplus	$ 1,215,687,505	$ 1,226,610,721

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, 2018 and 2017

	2018	2017
Underwriting Operations:		
Net Premiums Earned:		
Direct Premiums Written	$ 235,989,962	$ 239,851,502
Reinsurance Assumed	403,195,858	411,802,248
Reinsurance Ceded	(159,335,452)	(160,617,010)
Net Premiums Written	479,850,368	491,036,740
Change in Net Unearned Premiums	6,316,970	(1,718,530)
Total Net Premiums Earned	486,167,338	489,318,210
Losses and Expenses Incurred:		
Net Losses	$ 292,258,714	$ 309,253,255
Net Loss Adjustment Expenses	49,531,522	53,594,041
Net Underwriting Expenses	152,181,929	142,926,501
Net Losses and Expenses Incurred	493,972,165	505,773,797
Underwriting Loss	(7,804,827)	(16,455,587)
Net Investment Income	21,265,374	21,409,804
Net Realized Capital Gains	5,274,767	1,689,224
Other Income	3,167,626	3,065,574
Net Income Before Federal Income Tax	21,902,940	9,709,015
Federal Income Tax Benefit	(5,943,048)	(4,214,087)
Net Income	$ 27,845,988	$ 13,923,102
Statement of Changes in Policyholders' Surplus:		
Policyholders' Surplus - Beginning of Year	$ 480,710,507	$ 514,558,130
Changes in Policyholders' Surplus:		
Net Income	27,845,988	13,932,102
Net Unrealized Capital Gains (Losses):		
Affiliates	6,560,175	5,081,146
Other than Affiliates	(10,592,832)	8,557,995
Non-Admitted Assets	(30,570,617)	(55,719,923)
Provision for Reinsurance	13,237	512,621
Net Deferred Income Tax	2,928,101	(4,486,915)
Pension Benefit Plan Obligations	1,616,171	(424,761)
Post-Retirement Benefit Plan Obligations	1,893,463	(1,299,888)
Net Decrease	(306,314)	(33,847,623)
Policyholders' Surplus - End of Year	$ 480,404,193	$ 480,710,507

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, 2018 and 2017

	2018	2017
Cash from Operations:		
Premiums Collected, Net of Reinsurance	$ 475,036,906	$ 486,932,965
Net Investment Income	25,560,202	25,725,957
Miscellaneous Income	3,167,626	3,065,573
Total Cash Received	503,764,734	515,724,495
Benefit and Loss Related Payments	295,869,623	300,510,340
Commissions, Expenses Paid, and Other Deductions	201,940,679	195,088,341
Federal Income Taxes Recovered	(1,265,089)	(6,840,972)
Total Cash Disbursed	496,545,213	488,757,709
Net Cash from Operations	7,219,521	26,966,786
Cash from Investments:		
Proceeds from Investments Sold, Matured, or Repaid:		
Bonds	128,219,084	141,387,910
Stocks	34,245,942	15,824,854
Other Invested Assets	-	180,000
Miscellaneous	45,043	23,262,796
Total Investment Proceeds	162,510,069	180,655,560
Cost of Investments Acquired:		
Bonds	77,522,351	121,175,103
Stocks	43,509,478	19,175,878
Real Estate	4,199,343	1,373,077
Other Invested Assets	-	50,000
Miscellaneous	556,470	-
Total Investments Acquired	125,787,642	141,774,058
Net Cash from Investments	36,722,427	38,881,502
Cash from Financing and Miscellaneous Sources:		
Other Cash Applied	(40,352,392)	(65,495,903)
Net Cash from Financing and Miscellaneous Sources	(40,352,392)	(65,495,903)
Net Change in Cash, Cash Equivalents, and Short-Term Investments	3,589,556	352,385
Cash, Cash Equivalents, and Short-Term Investments at Beginning of Year	21,600,154	21,247,769
Cash, Cash Equivalents, and Short-Term Investments at End of Year	$ 25,189,710	$ 21,600,154

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 (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 53 and 52 percent of the direct premium was written in the state of Illinois in 2018 and 2017.

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 other 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 29, 2019, 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 or higher 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. 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, 2018 and 2017.

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. Deferred Tax Assets

The 2017 Tax Cuts and Jobs Act changed the federal income tax rate for corporations to 21 percent beginning with tax year 2018. Pursuant to this change, the Association's 2017 and 2018 deferred income taxes were calculated using this 21 percent enacted tax rate.

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. All 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, changes in deferred tax assets and liabilities would be reported through operations and/or surplus depending on their characteristics, and state income taxes would be included in the deferred tax calculation.

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 $110,155,375 and $79,584,757 at December 31, 2018 and 2017, respectively, are not recognized by statutory accounting practices. The increase in non-admitted assets is primarily due to the capitalization of an investment in a new policy administration system. 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, 2018 and 2017. 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, 2018, the Association held on deposit $10,410,106 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.

Notes to Financial Statements – Statutory Basis

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 2018 or 2017.

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 85.83 percent and 84.88 percent of Pekin Life Insurance Company (PLIC) at December 31, 2018 and 2017, respectively. Specifically, the Association owned 78.25 percent and 77.30 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 $6,200,736 in 2018 and $6,116,859 in 2017.

In connection with structured settlements, the Association purchased 12 annuities from PLIC in 2018 and 2 annuities in 2017, of which the Association's claimant is the payee, but for which the Association is contingently liable. The single premium for these annuities totaled $1,274,688 and $280,270 in 2018 and 2017, respectively. The total reserve carried by PLIC at December 31, 2018 and 2017, was $8,825,373 and $7,777,505, respectively.

3. Investments

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2018, are as follows:

	2018			
Obligation	**Admitted Value**	**Unrealized Gain**	**Unrealized Loss**	**Market Value**
U.S. Government	$ 9,340,592	$ 67,521	$ 30,691	$ 9,377,422
Other Government	8,087,920	49,409	97,984	8,039,345
U.S. States, Territories, and Possessions	9,773,632	130,685	59,822	9,844,495
U.S. Political Subdivisions	32,731,589	1,103,619	224,920	33,610,288
U.S. Special Revenue and Special Assessment	52,524,678	1,061,634	116,924	53,469,388
Industrial and Miscellaneous	318,846,574	2,879,174	11,892,718	309,833,030
Loan-Backed Securities	185,149,630	679,124	3,312,332	182,516,422
Total	$ 616,454,615	$ 5,971,166	$ 15,735,391	$ 606,690,390

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	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 of the loan-backed securities includes $433,376 and $545,229 of U.S. Government Guaranteed Securities for 2018 and 2017, respectively.

The admitted value and market value of bonds at December 31, 2018, by contractual maturity, are shown below:

	Admitted Value	Market Value
Due in One Year or Less	$ 15,691,970	$ 15,657,169
Due After One Year Through Five Years	193,042,994	193,268,790
Due After Five Years Through Ten Years	343,248,197	335,457,759
Due After Ten Years	64,471,454	62,306,672
Total	$ 616,454,615	$ 606,690,390

The adjusted cost, unrealized gain and loss, and statement value of investments in common stock as of December 31, 2018 are as follows:

	2018			
Common Stocks	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Affiliates	$ 79,856,184	$ 159,720,906	$ -	$ 239,577,090
Other Than Affiliates	49,401,642	9,492,133	4,661,376	54,232,399
Total	$ 129,257,826	$ 169,213,039	$ 4,661,376	$ 293,809,489

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

Notes to Financial Statements – Statutory Basis

Securities with unrealized losses based on estimated market values as of December 31, 2018 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	$ -	$ -	$ 1,999,141	$ 30,691	$ 1,999,141	$ 30,691
Other Government	3,504,631	97,984	-	-	3,504,631	97,984
U.S. States, Territories, and Possessions	-	-	3,500,100	59,822	3,500,100	59,822
U.S. Political Subdivisions	2,306,840	17,688	9,154,475	207,232	11,461,315	224,920
U.S. Special Revenue and Special Assessment	5,636,920	52,703	5,114,265	64,221	10,751,185	116,924
Industrial and Miscellaneous	158,232,062	7,288,066	86,262,736	4,604,652	244,494,798	11,892,718
Loan-Backed Securities	65,600,969	638,773	85,315,475	2,673,559	150,916,444	3,312,332
Subtotal Debt Securities	235,281,422	8,095,214	191,346,192	7,640,177	426,627,614	15,735,391
Common Stock - Unaffiliated	37,758,555	4,113,172	3,283,763	548,204	41,042,318	4,661,376
Total Securities With Unrealized Losses	$ 273,039,977	$ 12,208,386	$ 194,629,955	$ 8,188,381	$ 467,669,932	$ 20,396,767

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	-	-	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

The components of net realized capital gains are as follows:

	2018	2017
Gains on disposals	$ 8,726,613	$ 5,591,510
Losses on disposals	(2,011,183)	(2,987,573)
Total	$ 6,715,430	$ 2,603,937
Tax Expense	(1,440,663)	(905,713)
Net realized capital gains	$ 5,274,767	$ 1,698,224

Notes to Financial Statements – Statutory Basis

Bonds carried at $2,029,832 and $2,053,919 at December 31, 2018 and 2017, respectively, were on deposit with the Illinois Department of Insurance as required by law. Bonds carried at $304,793 and $0 were on deposit with the Nevada Department of Insurance at December 31, 2018 and 2017, respectively, 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, 2018 and 2017, the amount of securities loaned was $6,529,182 and $6,280,359, respectively, and the related collateral was $6,694,662 and $6,457,138. At December 31, 2018, collateral assets valued at $503,122 had maturity dates beyond one year.

The aggregate amount of cash collateral received as of December 31, 2018 and 2017 is shown below by maturity date:

	2018	2017
Maturity Date	**Fair Value**	**Fair Value**
Open	$ 2,928,318	$ 1,800,114
30 Days or Less	378,671	338,259
31 to 60 Days	402,604	257,843
61 to 90 Days	175,508	240,507
Greater Than 90 Days	1,433,311	1,052,034
Total Bond Collateral Received	$ 5,318,412	$ 3,688,757
Total Equity Collateral Received	1,376,250	2,768,381
Total Collateral Received	$ 6,694,662	$ 6,457,138

The Association participates in a liquid asset portfolio. At December 31, 2018 and 2017, the aggregate value of the reported reinvested collateral was $6,920,514 and $6,364,044, and the related fair value was $6,681,511 and $6,418,615, respectively.

As of December 31, 2018 and 2017, the Association had $7,343,893 and $13,941,179, 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 table sets forth by level, within the fair value hierarchy, the Association's financial instruments that are reported at fair value within the statutory balance sheet as of December 31, 2018 and 2017:

	2018			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stock -				
Other Than Affiliates	$ 54,232,399	$ -	$ -	$ 54,232,399

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

There were no Level 3 assets at December 31, 2018 or 2017. The Association did not have any liabilities measured at fair value at December 31, 2018 and 2017. The Association did not have any transfers between levels at December 31, 2018 and 2017.

The aggregate fair value of all financial instruments as of December 31, 2018, is shown below.

	Aggregate Fair Value	**Admitted Assets**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Bonds	$ 606,690,390	$ 616,454,615	$ 9,377,422	$ 597,312,968	$ -
Common Stock:					
Affiliates	239,577,090	239,577,090	-	101,095,389 *	138,481,701 *
Other Than Affiliates	54,232,399	54,232,399	54,232,399	-	-
Notes Receivable	50,000	50,000	-	50,000	-
Agency Loans Receivable	104,536	104,536	-	-	104,536

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

* 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:

	2018	2017
Balance at January 1	$ 455,078,842	$ 429,330,245
Less Reinsurance Recoverable	(47,372,898)	(34,256,864)
Net Balance at January 1	407,705,944	395,073,381
Incurred Related to:		
Current Year	366,994,694	380,992,267
Prior Years	(25,204,458)	(18,144,971)
Total Incurred	341,790,236	362,847,296
Paid Related to:		
Current Year	195,271,981	206,933,198
Prior Years	151,700,786	143,281,535
Total Paid	346,972,767	350,214,733
Net Balance at December 31	402,523,413	407,705,944
Plus Reinsurance Recoverable	43,232,426	47,372,898
Balance at December 31	$ 445,755,839	$ 455,078,842

The provision for incurred loss and loss adjustment expenses attributable to insured events in prior years decreased by $25,204,458 and $18,144,971 in 2018 and 2017, respectively. In both 2017 and 2018, incurred losses and loss adjustment expenses showed favorable development. The

Association conducts regular analyses of reserves and revises estimates accordingly to reflect changes in trends and development.

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 $15,777,149 and $14,554,971 at December 31, 2018 and 2017, 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 2018 and 2017, the Association ceded $39,372,860 and $37,857,825, 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 in excess of three percent of policyholders' surplus for Pekin Insurance Company ($159,415,443) and Maiden Reinsurance Co ($25,697,745).

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. The Association and its affiliates adopted an amendment to freeze participation in the Plan for employees hired after January 1, 2013. The Association and its affiliates also adopted an amendment to freeze accrued benefits for all non-grandfathered participants. Non-grandfathered participants are participants who had not attained age 50 on or before December 31, 2017 and whose age and credited years of service as of December 31, 2017 did not exceed 75.

The funding policy is to contribute annually an amount that represents the current cost of 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 Company and its affiliates expect to contribute to the Pension Plan in 2019. The amount of the contribution is not known. The Company and its affiliates do not expect to contribute to the Post-Retirement Benefit Plan in 2019.

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
2019	$ 7,010,000	$ 1,400,000
2020	6,866,000	1,521,000
2021	8,308,000	1,640,000
2022	8,682,000	1,721,000
2023	8,906,000	1,807,000
2024-2028	41,056,000	10,639,000

Obligations, Assets, and Assumptions

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	
	2018	**2017**	**2018**	**2017**
Change in Benefit Obligation:				
Benefit Obligation at Beginning of Year	$ 103,430,531	$ 99,828,523	$ 46,850,706	$ 44,657,913
Service Cost	2,160,674	4,746,645	1,166,449	1,544,791
Interest Cost	3,093,356	3,853,918	1,651,489	2,040,771
Actuarial Loss (Gain)	(6,724,375)	5,537,661	(4,053,197)	263,724
Benefits Paid	(12,940,182)	(10,536,216)	(1,894,605)	(1,656,493)
Benefit Obligation at End of Year	$ 89,020,004	$ 103,430,531	$ 43,720,842	$ 46,850,706
Accumulated Benefit Obligation	$ 81,080,905	$ 93,779,885	$ 43,720,842	$ 46,850,706
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Year	$ 86,822,156	$ 77,889,940	$ 25,219,292	$ 25,979,284
Actual Return on Plan Assets	(1,852,616)	7,868,432	707,880	749,205
Employer Contribution	2,200,000	11,600,000	-	-
Benefits Paid	(12,940,182)	(10,536,216)	(1,728,415)	(1,509,197)
Fair Value of Plan Assets at End of Year	$ 74,229,358	$ 86,822,156	$ 24,198,757	$ 25,219,292
Funded Status:				
Recognized Liabilities				
Accrued Benefit Costs	$ 2,695,941	$ 2,423,812	$ 26,339,011	$ 25,765,571
Liability for Benefits (Prepaid Asset)	12,094,705	14,184,563	(6,816,926)	(4,134,157)
Total Liabilities Recognized	$ 14,790,646	$ 16,608,375	$ 19,522,085	$ 21,631,414
Unrecognized Liabilities	$ -	$ -	$ -	$ -
Components of Net Periodic Benefit Cost:				
Service Cost	$ 2,160,674	$ 4,746,645	$ 1,166,449	$ 1,544,791
Interest Cost	3,093,356	3,853,918	1,651,489	2,040,771
Expected Return on Plan Assets	(4,972,884)	(4,568,936)	(1,047,211)	(1,583,170)
Amortization of				
Transition Obligation	20,981	20,981	-	-
Net Losses	417,983	308,039	11,144	-
Prior Service Cost	-	-	(1,042,241)	(1,042,241)
Settlement/Curtailment	1,752,019	1,438,535	-	-
Total Net Periodic Benefit Cost	$ 2,472,129	$ 5,799,182	$ 739,630	$ 960,151

The net periodic benefit cost of the Pension and Other 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.

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	
	2018	2017	2018	2017	2018	2017	2018	2017
Benefit Obligation	$ 56,349,242	$ 67,273,336	$ 14,087,310	$ 16,818,334	$ 18,583,452	$ 19,338,861	$ 89,020,004	$ 103,430,531
Plan Assets	46,984,214	56,469,130	11,746,054	14,117,283	15,499,090	16,235,743	74,229,358	86,822,156
Underfunded	$ 9,365,028	$ 10,804,206	$ 2,341,256	$ 2,701,051	$ 3,084,362	$ 3,103,118	$ 14,790,646	$ 16,608,375
Accrued Benefit Costs	$ 1,568,940	$ 1,391,947	$ 392,234	$ 347,986	$ 734,767	$ 683,879	$ 2,695,941	$ 2,423,812
Liability for Benefits	7,796,088	9,412,259	1,949,022	2,353,065	2,349,595	2,419,239	12,094,705	14,184,563
	$ 9,365,028	$ 10,804,206	$ 2,341,256	$ 2,701,051	$ 3,084,362	$ 3,103,118	$ 14,790,646	$ 16,608,375
Net Periodic Benefit Cost	$ 1,484,135	$ 3,430,576	$ 371,033	$ 857,645	$ 616,961	$ 1,510,961	$ 2,472,129	$ 5,799,182

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	
	2018	2017	2018	2017	2018	2017	2018	2017
Benefit Obligation	$ 27,610,097	$ 30,003,286	$ 6,902,524	$ 7,500,822	$ 9,208,221	$ 9,346,598	$ 43,720,842	$ 46,850,706
Plan Assets	15,282,000	16,150,435	3,820,499	4,037,608	5,096,258	5,031,249	24,198,757	25,219,292
Underfunded	$ 12,328,097	$ 13,852,851	$ 3,082,025	$ 3,463,214	$ 4,111,963	$ 4,315,349	$ 19,522,085	$ 21,631,414
Accrued Benefit Costs	$ 16,411,001	$ 16,042,294	$ 4,102,749	$ 4,010,572	$ 5,825,261	$ 5,712,705	$ 26,339,011	$ 25,765,571
(Prepaid Asset)	(4,082,904)	(2,189,441)	(1,020,723)	(547,360)	(1,713,299)	(1,397,355)	(6,816,926)	(4,134,156)
	$ 12,328,097	$ 13,852,853	$ 3,082,026	$ 3,463,212	$ 4,111,962	$ 4,315,350	$ 19,522,085	$ 21,631,415
Net Periodic Benefit Cost	$ 473,659	$ 618,338	$ 118,415	$ 154,584	$ 147,556	$ 187,229	$ 739,630	$ 960,151

Notes to Financial Statements – Statutory Basis

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 2018	Pension Benefits 2017	Post-Retirement Benefits 2018	Post-Retirement Benefits 2017
Amounts in Unassigned Surplus Recognized as				
Components of Net Periodic Benefit Cost:				
Items Not Yet Recognized from Prior Year	$ 14,184,563	$ 13,713,953	$ (4,134,157)	$ (6,274,087)
Net Transition Obligation Recognized	(20,981)	(20,981)	-	-
Net Prior Service Cost Recognized	-	-	1,042,241	1,042,241
Net (Gain) Loss Arising During the Period	101,125	2,238,165	(3,713,866)	1,097,689
Net Loss Recognized	(2,170,002)	(1,746,574)	(11,144)	-
Items Not Yet Recognized Current Year	$ 12,094,705	$ 14,184,563	$ (6,816,926)	$ (4,134,157)
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	$ 350,862	$ 417,983	$ -	$ 11,144
Amounts in Unassigned Surplus Not Yet				
Recognized as Components of				
Net Periodic Benefit Cost:				
Net Transition Obligation Recognized	$ 41,962	$ 62,943	$ -	$ -
Net Prior Service Cost	$ -	$ -	$ (7,889,765)	$ (8,932,006)
Net Recognized Losses	$ 12,052,743	$ 14,121,620	$ 1,072,839	$ 4,797,849

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

	Pension Benefits 2018	Pension Benefits 2017	Post-Retirement Benefits 2018	Post-Retirement Benefits 2017
Discount Rate	4.20%	3.53%	4.59%	3.89%
Rate of Compensation Increase	3.50% to 8.25%	3.50% to 8.25%	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 2018	Pension Benefits 2017	Post-Retirement Benefits 2018	Post-Retirement Benefits 2017
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
Expected Long-Term Rate of Return on Plan Assets	6.00%	6.00%	4.25%	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 2018 was 7.61 percent, graded to 7.10 percent for one year, then graded to 4.50 percent by 2026. In 2017 the health care cost trend rate was 8.71 percent, graded to 7.70 percent for one year, then graded to 4.50 percent by 2026.

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	$ 691,899	$ (522,556)
Effect on Post-Retirement Benefit Obligation	$ 7,866,906	$ (6,221,678)

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 $23,243,155 and $33,206,000 as of December 31, 2018 and 2017, respectively, or 31 and 38 percent of total plan assets. Equity securities comprise the remaining plan assets. At December 31, 2018 and 2017, equity securities, cash and cash equivalents amounted to $50,986,203 and $53,616,156, respectively, or 69 and 62 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 contract, 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 contract 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 Pekin Life Insurance Company's bond portfolio, excluding mortgage-backed securities, 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 an account 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, 2018 and 2017, the fair value of the contract was $24,198,757 and $25,219,292, respectively. No contributions were made in 2018 and 2017 into the deposit administration contract.

The Association 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, 2018, for the Association and its affiliates:

	Assets at Fair Value as of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Pension Plan Assets:				
Equity Securities:				
Consumer Discretionary	$ 2,378,617	$ -	$ -	$ 2,378,617
Consumer Staples	2,115,920	-	-	2,115,920
Energy	4,550,733	-	-	4,550,733
Financials	5,052,613	-	-	5,052,613
Health Care	9,255,590	-	-	9,255,590
Industrials	5,749,595	-	-	5,749,595
Information Technology	4,836,846	-	-	4,836,846
Materials	6,661,825	-	-	6,661,825
Telecommunications	1,173,060	-	-	1,173,060
Utilities	9,069,870	-	-	9,069,870
Total Equity Securities	$50,844,669	$ -	$ -	$ 50,844,669
Cash and Cash Equivalents	141,534	-	-	141,534
Deposit Administration Contract	-	-	23,243,155	23,243,155
Total Pension Plan Assets	$50,986,203	$ -	$ 23,243,155	$ 74,229,358
Post-Retirement Plan Assets:				
Deposit Administration Contract	$ -	$ -	$ 24,198,757	$ 24,198,757
Total Post-Retirement Plan Assets	$ -	$ -	$ 24,198,757	$ 24,198,757

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 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

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 dates. The Association's benefits paid were $48,750 and $37,250 in 2018 and 2017, respectively. The Association's liability for the Directors' retirement benefit was $950,118 and $1,035,547 at December 31, 2018 and 2017, 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. Employer contributions of $2,395,879 and $1,263,850 respectively, were made to this plan for all participants in 2018 and 2017.

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 2018 and 2017, $56,000 of Directors' fees were deferred. The liability for Directors' deferred compensation was $464,355 and $433,278 at December 31, 2018 and 2017, respectively.

Notes to Financial Statements – Statutory Basis

8. Income Taxes

The Association is taxed as an insurance company under Section 831 of the Internal Revenue Code. Federal income tax expense differs from the amount obtained by applying the federal income tax rate of 21 percent and 34 percent to pretax income for the years ended December 31, 2018 and 2017, respectively, due to the following:

	2018	2017
Computed Expected Federal Income Tax Expense	$ 4,902,157	$ 3,718,314
Increase (Decrease) in Taxes Resulting from:	(528,516)	(1,281,992)
Dividends Received Deduction	(101,182)	(106,414)
Adjustment for Prior Year (Over) Under Accrual	(4,488,278)	562,532
Unearned Premium	(265,313)	120,297
Pension Benefits	37,169	(1,305,889)
Post-Retirement Benefits	20,342	347,033
Loss Reserve Discounting	3,622	(480,891)
Salvage and Subrogation	(13,735)	11,856
Bonus Depreciation	18,209	48,429
Accelerated Deduction of Software Amortization	1,651,682	(5,250,000)
TCJA Reserve Adjustment	491,503	-
§847 Recoverable	(996,866)	-
Federal Net Operating Loss Carryforward Used	(4,171,552)	-
AMT Credit Applied	(631,795)	-
All Others	(429,832)	308,351
Federal Income Tax Benefit	$ (4,502,385)	$ (3,308,374)
Tax on Capital Gains	1,440,663	905,713
Tax Benefit	$ (5,943,048)	$ (4,214,087)

Notes to Financial Statements – Statutory Basis

The components of the net deferred tax asset as of December 31, 2018 and 2017 are as follows:

	2018		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	$ 46,022,538	$ -	$ 46,022,538
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	46,022,538	-	46,022,538
Deferred Tax Assets Non-Admitted	-	-	-
Subtotal Net Admitted Deferred Tax Asset	46,022,538	-	46,022,538
Deferred Tax Liabilities	14,141,079	2,350,988	16,492,067
Net Admitted Deferred Tax Assets	$ 31,881,459	$ (2,350,988)	$ 29,530,471

	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

	Change		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	$ 11,119,662	$ -	$ 11,119,662
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	11,119,662	-	11,119,662
Deferred Tax Assets Non-Admitted	(7,158,091)	-	(7,158,091)
Subtotal Net Admitted Deferred Tax Asset	18,277,753	-	18,277,753
Deferred Tax Liabilities	10,268,871	(2,077,310)	8,191,561
Net Admitted Deferred Tax Assets	$ 8,008,882	$ 2,077,310	$ 10,086,192

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).*

	2018		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ 962,519	$ -	$ 962,519
11b. Expected to be Realized, After Application of Threshold Limitations	30,072,863	-	30,072,863
11c. Offset of Deferred Tax Liabilities	14,987,156	-	14,987,156
Total Admitted Deferred Tax Assets	$ 46,022,538	$ -	$ 46,022,538

	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

	Change		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ 962,519	$ -	$ 962,519
11b. Expected to be Realized, After Application of Threshold Limitations	10,628,584	-	10,628,584
11c. Offset of Deferred Tax Liabilities	6,686,650	-	6,686,650
Total Admitted Deferred Tax Assets	$ 18,277,753	$ -	$ 18,277,753

	2018	**2017**
Ratio Used to Determine Recovery Period and Threshold Limitation Amount Under Paragraph 11b	754%	844%
Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation Under Paragraph 11b	$ 457,833,171	$ 468,265,677

The major components of current income taxes incurred and net deferred tax assets as of December 31, 2018 and 2017, are as follows:

	2018	2017	Change
Current Income Tax			
Federal	$ (14,107)	$ (3,870,906)	$ 3,856,799
Prior Year Under (Over) Accrual of Tax Reserves	(4,488,278)	562,532	(5,050,810)
Federal Income Tax Benefit	$ (4,502,385)	$ (3,308,374)	$ (1,194,011)
Deferred Tax Assets:			
Ordinary:			
Discounting of Unpaid Losses	$ 6,765,478	$ 2,740,608	$ 4,024,870
Unearned Premium Reserve	9,875,811	10,141,124	(265,313)
Advance Premium	121,329	174,045	(52,716)
Compensation and Benefits Accrual	557,241	563,591	(6,350)
Pension Accrual	329,477	292,309	37,168
Post-Hetirement/Health Care Accrual	3,446,310	3,368,881	77,429
Transition Liability for Pension Benefits	1,637,178	1,976,574	(339,396)
Nonadmitted Assets	22,392,047	14,709,516	7,682,531
Other	897,667	936,228	(38,561)
Total Ordinary Deferred Tax Assets	46,022,538	34,902,876	11,119,662
Non-Admitted	-	7,158,091	(7,158,091)
Admitted Ordinary Deferred Tax Assets	46,022,538	27,744,785	18,277,753
Admitted Capital Deferred Tax Assets	-	-	-
Admitted Deferred Tax Assets	$46,022,538	$ 27,744,785	$ 18,277,753
Deferred Tax Liabilities:			
Ordinary:			
Salvage and Subrogation	$ 171,490	$ 68,531	$ 102,959
TCJA Reserve Adjustment	3,440,521	-	3,440,521
Fixed Assets Bonus Depreciation	88,033	106,242	(18,209)
Postretirement Benefit Reserve	857,410	459,783	397,627
Accelerated Deduction of Software Amortization	9,480,463	3,150,000	6,330,463
Other	103,162	87,652	15,510
Total Ordinary Deferred Tax Liabilities	14,141,079	3,872,208	10,268,871
Capital:			
Unrealized Gains	$ 2,350,988	$ 4,428,298	$ (2,077,310)
Total Capital Deferred Tax Liabilities	2,350,988	4,428,298	(2,077,310)
Total Deferred Tax Liabilities	$16,492,067	$ 8,300,506	$ 8,191,561
Net Deferred Tax Assets	$29,530,471	$ 19,444,279	$ 10,086,192

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

Federal income taxes which would be available for recoupment in the event of future tax losses were $1,594,000 in 2018.

As of December 31, 2018 and 2017, the Association had no operating loss carryforwards. There are no capital loss carryforwards on December 31, 2018 and 2017.

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 expense of $284,274 and tax benefit of $260,277 in 2018 and 2017, respectively, is included in underwriting expenses.

As of December 31, 2018, 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 2015-2018.

9. Structured Settlements

The Association has purchased annuities of which the claimant is payee, but for which the Association is contingently liable. The aggregate amount of annuities from all life insurers was $8,983,721 and $9,416,939 at December 31, 2018 and 2017, 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 Illinois Department of Insurance (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, 2018, 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, 2018 and 2017, respectively:

	2018	2017
Net Unrealized Capital Gains	$ 164,551,660	$ 168,584,291
Non-Admitted Assets	(110,155,375)	(79,584,757)
Provision for Reinsurance	-	(13,237)

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 audit was 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 29, 2019

The Farmers Automobile Insurance Association

Summary Investment Schedule
December 31, 2018

	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	$ 9,340,592	1.0	$ 9,340,592	$ -	$ 9,340,592	1.0
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)	8,087,920	0.8	8,087,920	-	8,087,920	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	9,773,632	1.0	9,773,632	-	9,773,632	1.0
1.42 Political Subdivisions of U.S. States, Territories			-			
and Possessions and Political Subdivisions						
General Obligations	32,731,589	3.4	32,731,589	-	32,731,589	3.4
1.43 Revenue and Assessment Obligations	52,524,678	5.4	52,524,678	-	52,524,678	5.4
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	433,376	0.0	433,376	-	433,376	0.0
1.512 Issued or Guaranteed by FNMA and FHLMC	101,462,932	10.5	101,462,932	-	101,462,932	10.5
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	5,245,700	0.5	5,245,700	-	5,245,700	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	38,875,452	4.0	38,875,452	-	38,875,452	4.0
2. Other Debt Securities (Excluding Short Term):			-			
2.1 Unaffiliated Domestic Securities			-			
(Includes Credit Tenant Loans and Hybrid Securities)	310,471,425	32.1	310,471,425	-	310,471,425	32.1
2.2 Unaffiliated Foreign Securities (Including Canada)	47,507,319	4.9	47,507,319	-	47,507,319	4.9
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	53,142,842	5.5	53,142,842	-	53,142,842	5.5
3.4 Other Equity Securities			-			
3.41 Affiliated	239,577,090	24.8	239,577,090	-	239,577,090	24.8
3.42 Unaffiliated	1,089,557	0.1	1,089,557	-	1,089,557	0.1
3.5 Tangible Personal Property Under Lease			-			
4. Mortgage Loans	-	0.0	-	-	-	0.0
5. Real Estate Investments			-			
5.1 Property Occupied by Company	22,535,334	2.3	22,535,334	-	22,535,334	2.3
5.2 Property Held for Production of Income	1,076,587	0.2	1,076,587	-	1,076,587	0.2
5.3 Property Held for Sale	-	0.0	-	-	-	0.0
6. Contract Loans	-	0.0	-	-	-	0.0
7. Derivatives	-	0.0	-	-	-	0.0
8. Securities Lending Reinvested Collateral Assets	6,920,514	0.8	6,920,514	6,920,514	6,920,514	0.8
9. Cash, Cash Equivalents, and Short-Term Investments	25,189,710	2.7	25,189,710	-	25,189,710	2.7
10. Other Invested Assets	154,538	0.0	154,538	-	154,538	0.0
11. Total Cash and Invested Assets	$ 966,140,787	100.0	$ 966,140,787	$ 6,920,514	$ 966,140,787	100.0

See Independent Auditor’s Report on the Supplementary Information

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2018

1. State the reporting entity's total admitted assets as reported on Page 2 of the annual statement. $ 1,215,687,505

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 CO	Affiliated Common Stock	$ 138,480,701	11.4%
2.02	PEKIN LIFE INSURANCE CO	Affiliated Common Stock	$ 101,095,389	8.3%
2.03	FANNIE MAE	Bond	$ 66,737,773	5.5%
2.04	FREDDIE MAC	Bond	$ 39,970,858	3.3%
2.05	CCCIT 2014-A1 A1	Bond	$ 5,320,000	0.4%
2.06	ALPHABET INC-CL C	Bond/Stock	$ 4,333,229	0.4%
2.07	MICROSOFT CORP	Bond/Stock	$ 4,143,705	0.3%
2.08	APPLE INC	Bond/Stock	$ 4,078,128	0.3%
2.09	AUSTIN TX REVENUE	Bond	$ 4,053,538	0.3%
2.10	CALIFORNIA ST	Bond	$ 3,924,784	0.3%

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	$ 515,125,385	42.4%	3.07	P/RP-1	$ -	0.0%
3.02	NAIC-2	$ 101,329,230	8.3%	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	$ 59,950,656		4.9%

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

		1	2
5.01	Countries rated NAIC-1	$ 54,348,333	4.4%
5.02	Countries rated NAIC-2	$ 5,602,323	0.5%
5.03	Countries rated NAIC-3 or below	$ -	0.0%

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2018

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	$ 12,004,687	1.0%
6.02	Country: Australia	$ 9,170,003	0.8%
Countries designated NAIC-2			
6.03	Country: Mexico	$ 3,101,872	0.3%
6.04	Country: Indonesia	$ 1,501,436	0.1%
Countries designated 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 designation: None

9. Largest unhedged foreign currency exposures by county, categorized by the countries' 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	HSBC HOLDINGS PLC	1FE	$ 3,005,158	0.2%
10.02	BNP PARIBAS	1FE	$ 2,998,743	0.2%
10.03	BP CAPITAL MARKETS PLC	1FE	$ 2,991,380	0.2%
10.04	SCHLUMBERGER INVESTMENT	1FE	$ 2,503,639	0.2%
10.05	UBS GROUP FUNDING SWITZE	1FE	$ 2,499,123	0.2%
10.06	SCENTRE GROUP TRUST 1/2	1FE	$ 2,495,764	0.2%
10.07	DOOSAN HEAVY INDUSTRIES	1FE	$ 2,493,434	0.2%
10.08	TRANSURBAN FINANCE CO	2FE	$ 2,493,131	0.2%
10.09	SINOPEC GRP OVERSEA 2015	1FE	$ 2,484,272	0.2%
10.10	CREDIT SUISSE GROUP AG	2FE	$ 2,001,219	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 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 [ ]

See Independent Auditor's Report on the Supplementary Information

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2018

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 CO	$ 138,480,701	11.4%
13.03	PEKIN LIFE INSURANCE CO	$ 101,095,389	8.3%
13.04	COCA-COLA CO/THE	$ 2,025,964	0.2%
13.05	CISCO SYSTEMS INC	$ 1,569,109	0.1%
13.06	MEDTRONIC PLC	$ 1,540,680	0.1%
13.07	ANALOG DEVICES INC	$ 1,393,450	0.1%
13.08	ALPHABET INC-CL A	$ 1,271,716	0.1%
13.09	MICROSOFT CORP	$ 1,165,820	0.1%
13.10	APPLE INC	$ 1,076,260	0.1%
13.11	UNITEDHEALTH GROUP INC	$ 1,070,220	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		(Unaudited) 1st Qtr	At End of Each Quarter (Unaudited) 2nd Qtr	(Unaudited) 3rd Qtr
		1	2	3	4	5
20.01	Securities lending (do not include assets held as collateral for such transactions)	$ 6,920,514	0.5%	$ 5,976,651	$ 4,344,664	$ 2,416,291

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2018

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, 2018

7.1 Has this reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss ratio cap, an aggregate limit or any similar provisions)?

Yes [ ] No [X]

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

a. A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

c. Aggregate stop loss reinsurance coverage;

d. A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

f. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes [ ] No [X]

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

a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

b. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Yes [ ] No [X]

The Farmers Automobile Insurance Association

Reinsurance Interrogatories
December 31, 2018

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]