

Pekin Insurance Company

**Report on Audits of Financial Statements -
Statutory Basis**

For the Years Ended December 31, 2018 and 2017

Pekin Insurance Company

Table of Contents

	Page(s)
Independent Auditor's Report on the Financial Statements	1-2
Financial Statements:	
Statutory Balance Sheets as of December 31, 2018 and 2017	3
Statutory Statements of Operations and Changes in Stockholder's Equity for the Years Ended December 31, 2018 and 2017.....	4
Statutory Statements of Cash Flows for the Years Ended December 31, 2018 and 2017	5
Notes to Financial Statements – Statutory Basis	6-26
Independent Auditor's Report on the Supplementary Information.....	27
Summary Investment Schedule	28
Investment Risks Interrogatories	29-32
Reinsurance Interrogatories	33-34

**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, 2018 and 2017, 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, 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 Company as of December 31, 2018 and 2017, 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 29, 2019

Pekin Insurance Company

Statutory Balance Sheets December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Admitted Assets:		
Bonds	\$ 272,958,452	\$ 267,592,836
Common Stocks:		
Affiliates	10,312,510	10,179,264
Other than Affiliates	17,712,767	17,364,633
Cash, Cash Equivalents, and Short-Term Investments	3,785,799	2,614,414
Receivable for Securities	-	500,000
Securities Lending Reinvested Collateral Assets	<u>4,249,356</u>	<u>1,395,336</u>
Cash and Invested Assets	309,018,884	299,646,483
Federal Income Tax Recoverable	-	437,520
Net Deferred Tax Asset	3,011,008	2,301,241
Investment Income Accrued	2,261,760	2,402,200
Receivable from Parent, Subsidiaries and Affiliates	-	70,217
Post-Retirement Benefit Plan Asset	<u>1,020,722</u>	<u>547,360</u>
Total Admitted Assets	<u>\$ 315,312,374</u>	<u>\$ 305,405,021</u>
Liabilities:		
Unpaid Losses, Net	\$ 81,667,188	\$ 82,596,455
Unpaid Loss Adjustment Expenses, Net	18,963,664	19,330,031
Unearned Premiums, Net	58,784,590	60,363,832
Commissions, Expenses, Fees and Taxes	4,047,364	3,815,945
Federal Income Tax	264,246	-
Payable to Parent, Subsidiaries and Affiliates	3,566,559	-
Payable for Securities Lending	4,249,356	1,395,336
Pension Benefit Plan Obligations	2,181,343	2,559,177
Post-Retirement Benefit Plan Obligations	2,430,059	2,375,463
Other Liabilities	<u>677,304</u>	<u>660,681</u>
Total Liabilities	<u>176,831,673</u>	<u>173,096,920</u>
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	<u>136,468,201</u>	<u>130,295,601</u>
Total Stockholder's Equity	<u>138,480,701</u>	<u>132,308,101</u>
Total Liabilities and Stockholder's Equity	<u>\$ 315,312,374</u>	<u>\$ 305,405,021</u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Underwriting Operations:		
Net Premiums Earned:		
Direct Premiums Written	\$ 400,622,235	\$ 408,535,379
Reinsurance Assumed	119,962,592	122,759,185
Reinsurance Ceded	<u>(400,622,235)</u>	<u>(408,535,379)</u>
Net Premiums Written	119,962,592	122,759,185
Change in Net Unearned Premiums	<u>1,579,243</u>	<u>(429,632)</u>
Total Net Premiums Earned	<u>121,541,835</u>	<u>122,329,553</u>
Losses and Expenses Incurred:		
Net Losses	\$ 73,064,679	\$ 77,313,314
Net Loss Adjustment Expenses	12,382,880	13,398,510
Net Underwriting Expenses	<u>38,046,920</u>	<u>35,732,370</u>
Net Losses and Expenses Incurred	<u>123,494,479</u>	<u>126,444,194</u>
Underwriting Loss	(1,952,644)	(4,114,641)
Net Investment Income	8,556,840	8,166,290
Net Realized Capital Gains	1,911,963	522,056
Other Income	<u>715,595</u>	<u>765,410</u>
Net Income Before Federal Income Tax	9,231,754	5,339,115
Federal Income Tax Expense	<u>1,223,482</u>	<u>923,535</u>
Net Income	<u>\$ 8,008,272</u>	<u>\$ 4,415,580</u>
Statement of Changes in Stockholder's Equity:		
Stockholder's Equity - Beginning of Year	<u>\$ 132,308,101</u>	<u>\$ 128,255,074</u>
Changes in Stockholder's Equity:		
Net Income	8,008,272	4,415,580
Net Unrealized Capital Gains (Losses):		
Affiliates	133,246	246,171
Other than Affiliates	(3,556,091)	2,780,943
Net Deferred Income Tax	579,406	(2,828,143)
Non-Admitted Assets	130,361	(130,361)
Pension Benefit Plan Obligations	404,043	(106,191)
Post-Retirement Benefit Plan Obligations	<u>473,363</u>	<u>(324,972)</u>
Net Increase	<u>6,172,600</u>	<u>4,053,027</u>
Stockholder's Equity - End of Year	<u>\$ 138,480,701</u>	<u>\$ 132,308,101</u>

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

Pekin Insurance Company

Statutory Statements of Cash Flows Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash from Operations:		
Premiums Collected, Net of Reinsurance	\$ 119,962,592	\$ 122,759,185
Net Investment Income	9,738,973	9,319,194
Miscellaneous Income	715,595	765,411
	<u>130,417,160</u>	<u>132,843,790</u>
Benefit and Loss Related Payments	73,993,946	75,124,666
Commissions, Expenses Paid, and Other Deductions	50,483,945	48,743,931
Federal Income Taxes Paid (Recovered)	1,042,207	(1,532,018)
	<u>125,520,098</u>	<u>122,336,579</u>
Net Cash from Operations	<u>4,897,062</u>	<u>10,507,211</u>
Cash from Investments:		
Proceeds from Investments Sold, Matured, or Repaid:		
Bonds	45,983,621	46,493,345
Stocks	11,720,763	5,296,352
Miscellaneous	500,000	13,220,342
	<u>58,204,384</u>	<u>65,010,039</u>
Cost of Investments Acquired:		
Bonds	52,265,718	56,808,481
Stocks	13,317,745	5,356,384
Miscellaneous	2,854,016	-
	<u>68,437,479</u>	<u>62,164,865</u>
Net Cash from Investments	<u>(10,233,095)</u>	<u>2,845,174</u>
Cash from Financing and Miscellaneous Sources:		
Other Cash Provided (Applied)	6,507,418	(13,986,728)
Net Cash from Financing and Miscellaneous Sources	<u>6,507,418</u>	<u>(13,986,728)</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments	1,171,385	(634,343)
Cash, Cash Equivalents, and Short-Term Investments at Beginning of Year	<u>2,614,414</u>	<u>3,248,757</u>
Cash, Cash Equivalents, and Short-Term Investments at End of Year	<u>\$ 3,785,799</u>	<u>\$ 2,614,414</u>

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

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

1. Nature of Operations and Summary of Significant Accounting Practices

Pekin Insurance Company (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 of the direct premium was written in the state of Illinois in 2018 and 2017, 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 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 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.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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 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, 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.

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 Company'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 ordinary deferred tax assets and liabilities are reported as changes in surplus, and state income taxes are not included in deferred tax calculations;

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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. 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, 2018 and 2017. 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, 2018, the Company had no amounts on deposit in a financial institution in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) limit.

G. Other

Commissions on reinsurance ceded are credited to income at the time the premium is ceded; under GAAP, commissions on ceded premium would be deferred and recognized as income over the periods covered by the policies.

Statutory financial statements are prepared in a form using language and groupings substantially the same as the annual statement filed with the NAIC and state regulatory authorities which differ from the presentation and disclosure of financial statements that would be presented under GAAP.

Necessary reclassifications are made in prior period financial statements, whenever appropriate, to conform to the current presentation.

2. Affiliated Entity Transactions

The Company and its parent, The Farmers Automobile Insurance Association (the Association), owned 85.83 percent and 84.88 percent of the Pekin Life Insurance Company (PLIC) at December 31, 2018 and 2017, 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.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

3. Investments

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

Obligation	2018			
	Admitted Value	Unrealized Gain	Unrealized Loss	Market Value
U.S. Government	\$ 7,583,216	\$ 57,209	\$ 31,831	7,608,594
Other Government	1,871,512	9,689	20,495	1,860,706
U.S. States, Territories, and Possessions	3,949,965	98,937	19,941	4,028,961
U.S. Political Subdivisions	13,682,845	299,079	56,508	13,925,416
U.S. Special Revenue and Special Assessment	22,824,079	420,180	83,854	23,160,405
Industrial and Miscellaneous	129,495,920	1,265,101	4,137,671	126,623,350
Loan-Backed Securities	93,550,915	268,221	1,660,333	92,158,803
Total	<u>\$ 272,958,452</u>	<u>\$ 2,418,416</u>	<u>\$ 6,010,633</u>	<u>\$ 269,366,235</u>

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2017 are as follows:

Obligation	2017			
	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	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	<u>\$ 267,592,836</u>	<u>\$ 6,269,413</u>	<u>\$ 1,093,077</u>	<u>\$ 272,769,172</u>

The admitted value of loan-backed securities includes \$124,122 and \$158,418 of U.S. Government Guaranteed Securities for 2018 and 2017, respectively.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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	\$ 14,880,264	\$ 14,927,975
Due After One Year Through Five Years	87,954,956	88,130,165
Due After Five Years Through Ten Years	150,512,337	147,136,063
Due After Ten Years	19,610,895	19,172,032
Total	<u>\$ 272,958,452</u>	<u>\$ 269,366,235</u>

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

	2018			
Common Stocks	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Affiliates	\$ 457,868	\$ 9,854,642	\$ -	\$ 10,312,510
Other Than Affiliates	15,958,248	3,204,695	1,450,176	17,712,767
Total stocks	<u>\$ 16,416,116</u>	<u>\$ 13,059,337</u>	<u>\$ 1,450,176</u>	<u>\$ 28,025,277</u>

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	<u>\$ 12,511,889</u>	<u>\$ 15,199,264</u>	<u>\$ 167,256</u>	<u>\$ 27,543,897</u>

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

Securities with unrealized losses based on estimated market values as of December 31, 2018 are shown below:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Government	\$ 488,984	\$ 5,719	\$ 1,751,641	\$ 26,112	\$ 2,240,625	\$ 31,830
Other Government	1,102,259	20,495	-	-	\$ 1,102,259	20,495
U.S. States, Territories, and Possessions	-	-	1,166,700	19,941	1,166,700	19,941
U.S. Political Subdivisions	1,153,420	8,844	2,128,451	47,664	3,281,871	56,508
U.S. Special Revenue and Special Assessment	494,245	5,755	4,762,845	78,099	5,257,090	83,854
Industrial and Miscellaneous	65,050,527	2,433,845	31,360,175	1,703,826	96,410,702	4,137,671
Loan-Backed Securities	32,112,375	256,785	43,710,958	1,403,548	75,823,333	1,660,333
Subtotal Debt Securities	100,401,810	2,731,443	84,880,770	3,279,190	185,282,580	6,010,632
Common Stock - Unaffiliated	11,950,320	1,315,020	1,126,159	135,156	13,076,480	1,450,176
Total Securities With Unrealized Losses	<u>\$ 112,352,130</u>	<u>\$ 4,046,463</u>	<u>\$ 86,006,929</u>	<u>\$ 3,414,346</u>	<u>\$ 198,359,060</u>	<u>\$ 7,460,808</u>

Securities with unrealized losses based on estimated market values as of December 31, 2017 are shown below:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	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
U.S. States, Territories, and Possessions	-	-	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	<u>\$ 36,055,623</u>	<u>\$ 265,615</u>	<u>\$ 70,027,921</u>	<u>\$ 994,718</u>	<u>\$ 106,083,544</u>	<u>\$ 1,260,333</u>

The components of net realized capital gains are as follows:

	2018	2017
Gains on disposals	\$ 2,892,723	\$ 1,556,043
Losses on disposals	(460,269)	(757,319)
Total	\$ 2,432,454	\$ 798,724
Tax Expense	(520,491)	(276,668)
Net realized capital gains	<u>\$ 1,911,963</u>	<u>\$ 522,056</u>

Bonds carried at \$2,272,451 and \$2,295,168 at December 31, 2018 and 2017, respectively, were on deposit with the Illinois Department of Insurance as required by law. Bonds in the amount of \$304,798 and \$0 were on deposit with the Nevada Department of Insurance at December 31, 2018 and 2017, respectively, as required by law.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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, 2018 and 2017, the amount of securities loaned was \$4,013,605 and \$1,368,876, respectively, and the related collateral was \$4,111,231 and \$1,405,610. At December 31, 2018, collateral assets valued at \$338,083 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:

<u>Maturity Date</u>	<u>2018</u>	<u>2017</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Open	\$ 1,967,743	\$ 169,146
30 Days or Less	254,456	31,784
31 to 60 Days	270,538	24,228
61 to 90 Days	117,936	22,599
Greater Than 90 Days	963,143	98,853
Total Bond Collateral Received	<u>\$ 3,573,816</u>	<u>\$ 346,610</u>
Total Equity Collateral Received	<u>537,416</u>	<u>1,059,000</u>
Total Collateral Received	<u>\$ 4,111,231</u>	<u>\$ 1,405,610</u>

The Company participates in a liquid asset portfolio. At December 31, 2018 and 2017, the aggregate value of the reported reinvested collateral was \$4,249,356 and \$1,395,336, and the related fair value was \$4,102,603 and \$1,407,300, respectively.

As of December 31, 2018 and 2017, the Company had \$4,504,525 and \$1,986,540, 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.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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 Company's financial instruments that are reported at fair value within the statutory balance sheet as of December 31, 2018 and 2017:

Description	2018			Total
	Level 1	Level 2	Level 3	
Common Stock -				
Other Than Affiliates	\$ 17,712,767	\$ -	\$ -	\$ 17,712,767

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

There were no Level 3 assets at December 31, 2018 or 2017. The Company did not have any liabilities measured at fair value at December 31, 2018 and 2017. The Company 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	\$ 269,366,235	\$ 272,958,452	\$ 7,608,594	\$ 261,757,641	\$ -
Common Stock:					
Affiliates	10,312,510	10,312,510	-	9,793,380 *	519,130 *
Other Than Affiliates	17,712,767	17,712,767	17,712,767	-	-

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	-	-

*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.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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:

	<u>2018</u>	<u>2017</u>
Balance at January 1	\$ 113,769,711	\$ 107,332,560
Less Reinsurance Recoverable	<u>(11,843,225)</u>	<u>(8,564,216)</u>
Net Balance at January 1	<u>101,926,486</u>	<u>98,768,344</u>
Incurred Related to:		
Current Year	91,748,673	95,248,067
Prior Years	<u>(6,301,114)</u>	<u>(4,536,243)</u>
Total Incurred	<u>85,447,559</u>	<u>90,711,824</u>
Paid Related to:		
Current Year	48,817,995	51,733,300
Prior Years	<u>37,925,198</u>	<u>35,820,382</u>
Total Paid	<u>86,743,193</u>	<u>87,553,682</u>
Net Balance at December 31	100,630,852	101,926,486
Plus Reinsurance Recoverable	<u>10,808,106</u>	<u>11,843,225</u>
Balance at December 31	<u>\$ 111,438,958</u>	<u>\$ 113,769,711</u>

The provision for incurred loss and loss adjustment expenses attributable to insured events in prior years decreased by \$6,301,114 and \$4,536,243 in 2018 and 2017, respectively. In both 2017 and 2018, incurred losses and loss adjustment expenses showed favorable development. The Company 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 \$3,944,287 and \$3,638,743 at December 31, 2018 and 2017, respectively.

Pekin Insurance Company

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 (\$624,707,393).

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

Employee Pension Benefits

The Company, its parent (The Farmers Automobile Insurance Association), and its affiliate, participate in a trustee non-contributory defined benefit pension plan for certain employees. The Company and its affiliates adopted an amendment to freeze participation in the Plan for employees hired after January 1, 2013. The Company 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 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 2019.

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:

<u>Year</u>	<u>Pension Benefits</u>	<u>Post-Retirement Benefits</u>
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

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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	<u>\$ 89,020,004</u>	<u>\$ 103,430,531</u>	<u>\$ 43,720,842</u>	<u>\$ 46,850,706</u>
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	<u>\$ 74,229,358</u>	<u>\$ 86,822,156</u>	<u>\$ 24,198,757</u>	<u>\$ 25,219,292</u>
Funded Status:				
Recognized Liabilities				
Accrued Benefit Costs	\$ 2,695,941	\$ 2,423,812	\$ 26,339,011	\$ 25,765,571
Liability for Benefits (Prepaid Assets)	12,094,705	14,184,563	(6,816,926)	(4,134,157)
Total Liabilities Recognized	<u>\$ 14,790,646</u>	<u>\$ 16,608,375</u>	<u>\$ 19,522,085</u>	<u>\$ 21,631,414</u>
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	<u>\$ 2,472,129</u>	<u>\$ 5,799,182</u>	<u>\$ 739,630</u>	<u>\$ 960,151</u>

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.

Pekin Insurance Company

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	
	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

Pekin Insurance Company

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:

	<u>Pension Benefits</u>		<u>Post-Retirement Benefits</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
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	<u>(2,170,002)</u>	<u>(1,746,574)</u>	<u>(11,144)</u>	<u>-</u>
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:

	<u>Pension Benefits</u>		<u>Post-Retirement Benefits</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
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:

	<u>Pension Benefits</u>		<u>Post-Retirement Benefits</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
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 Company; 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.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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:

	<u>One Percentage Point Increase</u>	<u>One Percentage Point Decrease</u>
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 Company 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, 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 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 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, 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.

Pekin Insurance Company

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, 2018, for the Company and its affiliates:

	Assets at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Pension Benefit 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 Benefit Plan Assets	<u>\$50,986,203</u>	<u>\$ -</u>	<u>\$23,243,155</u>	<u>\$ 74,229,358</u>
Post-Retirement Benefit Plan Assets:				
Deposit Administration Contract	\$ -	\$ -	\$24,198,757	\$ 24,198,757
Total Post-Retirement Benefit Plan Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$24,198,757</u>	<u>\$ 24,198,757</u>

Pekin Insurance Company

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, 2017, for the Company and its affiliates:

	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Pension Benefit 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 Benefit Plan Assets	\$53,616,156	\$ -	\$ 33,206,000	\$ 86,822,156
Post-Retirement Benefit Plan Assets:				
Deposit Administration Contract	\$ -	\$ -	\$ 25,219,292	\$ 25,219,292
Total Post-Retirement Benefit 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 benefits paid were \$63,300 and \$52,300 in 2018 and 2017, respectively. The liability for the Directors' retirement benefit was \$237,529 and \$258,887 at December 31, 2018 and 2017, 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. Employer contributions of \$598,970 and \$315,962 respectively, were made to this plan for all participants in 2018 and 2017.

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 2018 and 2017 Directors' fees of \$33,000, were deferred. The liability for Directors' deferred compensation was \$233,350 and \$216,725 at December 31, 2018 and 2017, respectively.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

8. Income Taxes

The Company 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:

	<u>2018</u>	<u>2017</u>
Computed Expected Federal Income Expense	\$ 2,047,971	\$ 1,965,526
Increase (Decrease) in Taxes Resulting from:		
Tax Exempt Interest	(239,850)	(596,732)
Dividends Received Deduction	(20,560)	(35,777)
Adjustment for Prior Year (Over) Under Accrual	(106,664)	220,260
Unearned Premium	(66,328)	30,074
Loss Reserve Discounting	905	(120,223)
Pension Benefits	9,292	(326,472)
Post-Retirement Benefits	5,085	86,758
All Other	114,122	(23,211)
Federal Income Tax Expense	<u>\$ 1,743,973</u>	<u>\$ 1,200,203</u>
Tax on Capital Gains	520,491	276,668
Taxes Incurred	<u>\$ 1,223,482</u>	<u>\$ 923,535</u>

Pekin Insurance Company

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	\$ 5,733,444	\$ -	\$ 5,733,444
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	5,733,444	-	5,733,444
Deferred Tax Assets Nonadmitted	-	-	-
Subtotal Net Admitted Deferred Tax Asset	5,733,444	-	5,733,444
Deferred Tax Liabilities	1,148,181	1,574,255	2,722,436
Net Admitted Deferred Tax Assets	<u>\$ 4,585,263</u>	<u>\$ (1,574,255)</u>	<u>\$ 3,011,008</u>
	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	<u>\$ 4,584,596</u>	<u>\$ (2,283,355)</u>	<u>\$ 2,301,241</u>
	Change		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 862,625	\$ -	\$ 862,625
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	862,625	-	862,625
Deferred Tax Assets Nonadmitted	(130,361)	-	(130,361)
Subtotal Net Admitted Deferred Tax Asset	992,986	-	992,986
Deferred Tax Liabilities	992,319	(709,100)	283,219
Net Admitted Deferred Tax Assets	<u>\$ 667</u>	<u>\$ 709,100</u>	<u>\$ 709,767</u>

Pekin Insurance Company

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	\$ 2,806,070	\$ -	\$ 2,806,070
11b. Expected to be Realized, After Application of Threshold Limitations	1,422,930	-	1,422,930
11c. Offset of Deferred Tax Liabilities	1,504,444	-	1,504,444
Total Admitted Deferred Tax Assets	<u>\$ 5,733,444</u>	<u>\$ -</u>	<u>\$ 5,733,444</u>
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	<u>\$ 4,740,458</u>	<u>\$ -</u>	<u>\$ 4,740,458</u>
Change			
	Ordinary	Capital	Total
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	\$ 1,830,540	\$ -	\$ 1,830,540
11b. Expected to be Realized, After Application of Threshold Limitations	97,219	-	97,219
11c. Offset of Deferred Tax Liabilities	(934,773)	-	(934,773)
Total Admitted Deferred Tax Assets	<u>\$ 992,986</u>	<u>\$ -</u>	<u>\$ 992,986</u>
2018			
2017			
Ratio Used to Determine Recovery Period and Threshold Limitation Amount Under Paragraph 11b	1,286%		1,496%
Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation Under Paragraph 11b	\$136,146,059		\$130,006,860

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Current Income Tax			
Federal	\$ 1,850,637	\$ 979,943	\$ 870,694
Prior Year Under (Over) Accrual of Tax Reserves	(106,664)	220,260	(326,924)
Federal Income Tax Expense (Benefit)	<u>\$ 1,743,973</u>	<u>\$ 1,200,203</u>	<u>\$ 543,770</u>
Deferred Tax Assets:			
Ordinary:			
Discounting of Unpaid Losses	\$ 1,691,370	\$ 685,152	\$ 1,006,218
Unearned Premium Reserve	2,468,953	2,535,281	(66,328)
Advanced Premium	30,332	43,511	(13,179)
Compensation and Benefits Accrual	154,703	153,223	1,480
Pension Accrual	82,369	73,077	9,292
Liability for Pension Benefits	409,295	494,144	(84,849)
Other	896,422	886,431	9,991
Total Ordinary Deferred Tax Assets	5,733,444	4,870,819	862,625
Non-admitted	-	130,361	(130,361)
Admitted Ordinary Deferred Tax Assets	<u>5,733,444</u>	<u>4,740,458</u>	<u>992,986</u>
Admitted Capital Deferred Tax Assets	-	-	-
Admitted Deferred Tax Assets	<u>\$ 5,733,444</u>	<u>\$ 4,740,458</u>	<u>\$ 992,986</u>
Deferred Tax Liabilities:			
Ordinary:			
Other	\$ 1,148,181	\$ 155,862	\$ 992,319
Total Ordinary Deferred Tax Liabilities	<u>1,148,181</u>	<u>155,862</u>	<u>992,319</u>
Capital:			
Unrealized Capital Gains	\$ 1,574,255	\$ 2,283,355	\$ (709,100)
Total Capital Deferred Tax Liabilities	<u>1,574,255</u>	<u>2,283,355</u>	<u>(709,100)</u>
Total Deferred Tax Liabilities	<u>\$ 2,722,436</u>	<u>\$ 2,439,217</u>	<u>\$ 283,219</u>
Net Deferred Tax Assets	<u>\$ 3,011,008</u>	<u>\$ 2,301,241</u>	<u>\$ 709,767</u>

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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

As of December 31, 2018 and 2017, the Company 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 Company and its affiliates file a unitary tax return with the state of Illinois. A state income tax benefit of \$71,068 and a state income tax expense of \$202,727 in 2018 and 2017, respectively, is included in underwriting expenses.

As of December 31, 2018, 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 2015-2018.

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 \$2,245,930 and \$2,354,235 at December 31, 2018 and 2017, 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 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 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, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Net Unrealized Capital Gains	\$ 11,609,161	\$ 15,247,368

SUPPLEMENTAL FINANCIAL INFORMATION

Independent Auditor's Report on the Supplementary Information

Board of Directors
Pekin Insurance Company
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 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 29, 2019

Pekin Insurance Company

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	\$ 7,583,216	2.5	\$ 7,583,216	\$ -	\$ 7,583,216	2.5
1.2 U.S. Government Agency Obligations:						
1.21 Issued by U.S. Government Agencies	-	-	-	-	-	-
1.22 Issued by U.S. Government Sponsored Agencies	-	-	-	-	-	-
1.3 Foreign Government (Including Canada, Excluding MBS)	1,871,512	0.6	1,871,512	-	1,871,512	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	3,949,965	1.3	3,949,965	-	3,949,965	1.3
1.42 Political Subdivisions of U.S. States, Territories and Possessions and Political Subdivisions General Obligations	13,682,847	4.4	13,682,847	-	13,682,847	4.4
1.43 Revenue and Assessment Obligations	22,824,079	7.4	22,824,079	-	22,824,079	7.4
1.44 Industrial Development and Similar Obligations	-	-	-	-	-	-
1.5 Mortgage-Backed Securities (Includes Residential and Commercial MBS):						
1.51 Pass-Through Securities:						
1.511 Issued or Guaranteed by GNMA	124,122	0.0	124,122	-	124,122	0.0
1.512 Issued or Guaranteed by FNMA and FHLMC	55,705,633	18.0	55,705,633	-	55,705,633	18.0
1.513 All Other	-	-	-	-	-	-
1.52 CMO's and REMIC's						
1.521 Issued by GNMA, FNMA and FHLMC or VA	2,848,865	0.9	2,848,865	-	2,848,865	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	-	-	-	-	-	-
1.523 All Other	13,348,446	4.3	13,348,446	-	13,348,446	4.3
2. Other Debt Securities (Excluding Short Term):						
2.1 Unaffiliated Domestic Securities (Includes Credit Tenant Loans and Hybrid Securities)	130,765,661	42.4	130,765,661	-	130,765,661	42.3
2.2 Unaffiliated Foreign Securities (Including Canada)	20,254,106	6.6	20,254,106	-	20,254,106	6.6
2.3 Affiliated Securities	-	-	-	-	-	-
3. Equity Interests:						
3.1 Investments in Mutual Funds	-	-	-	-	-	-
3.2 Preferred Stocks	-	-	-	-	-	-
3.3 Publicly Traded Equity Securities (Excl. Preferred Stocks):						
3.31 Affiliated	10,312,510	3.3	10,312,510	-	10,312,510	3.3
3.32 Unaffiliated	17,320,589	5.6	17,320,589	-	17,320,589	5.6
3.4 Other Equity Securities						
3.41 Affiliated	-	-	-	-	-	-
3.42 Unaffiliated	392,178	0.1	392,178	-	392,178	0.1
3.5 Tangible Personal Property Under Lease	-	-	-	-	-	-
4. Mortgage Loans	-	-	-	-	-	-
5. Real Estate Investments	-	-	-	-	-	-
6. Contract Loans	-	-	-	-	-	-
7. Derivatives	-	-	-	-	-	-
8. Receivable for Securities	-	-	-	-	-	-
9. Securities Lending Reinvested Collateral Assets	4,249,356	1.4	4,249,356	4,249,356	4,249,356	1.4
10. Cash and Short-Term Investments	3,785,799	1.2	3,785,799	-	3,785,799	1.2
11. Other Invested Assets	-	-	-	-	-	-
12. Total Cash and Invested Assets	\$ 309,018,884	100.0	\$ 309,018,884	\$ 4,249,356	\$ 309,018,884	100.0

See Independent Auditor's Report on the Supplementary Information.

Pekin Insurance Company

Investment Risks Interrogatories December 31, 2018

1. State the reporting entity's total admitted assets as reported on Page 2 of the annual statement. \$ 315,312,374

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

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	FANNIE MAE	Bond	\$ 38,507,587	12.2%
2.02	FREDDIE MAC	Bond	\$ 20,046,910	6.4%
2.03	PEKIN LIFE INSURANCE CO	Affiliated Common Stock	\$ 9,793,380	3.1%
2.04	ESTEE LAUDER CO INC	Bond	\$ 2,998,248	1.0%
2.05	BACCT 2018	Bond	\$ 2,244,732	0.7%
2.06	VIRGINIA ST PUBLIC SCH AUTH	Bond	\$ 1,734,432	0.6%
2.07	AMERICAN WATER CAPITAL C	Bond/Stock	\$ 1,698,151	0.5%
2.08	NEW YORK ST THRUWAY AUTH	Bond	\$ 1,619,100	0.5%
2.09	CISCO SYSTEMS INC	Bond/Stock	\$ 1,592,944	0.5%
2.10	GFORT 2017/2018-1 A1	Bond	\$ 1,579,965	0.5%

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

	Bonds		1	2	Preferred Stocks		3	4
3.01	NAIC-1	\$ 231,764,733	73.5%	3.07	P/RP-1	\$ -	-	0.0%
3.02	NAIC-2	\$ 41,193,719	13.1%	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	\$ 23,754,194 7.5%

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

	1	2
5.01	Countries designated NAIC-1	\$ 20,880,342 6.6%
5.02	Countries designated NAIC-2	\$ 2,873,852 0.9%
5.03	Countries designated NAIC-3 or below	\$ - 0.0%

See Independent Auditor's Report on the Supplementary Information

Pekin Insurance Company

Investment Risks Interrogatories December 31, 2018

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

	<u>1</u>	<u>2</u>
Countries designated NAIC-1:		
6.01 Country: United Kingdom	\$ 5,706,651	1.8%
6.02 Country: Australia	\$ 3,063,592	1.0%
Countries designated NAIC-2		
6.03 Country: Mexico	\$ 1,623,016	0.5%
6.04 Country: Peru	\$ 750,248	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 designation: None

9. Largest unhedged foreign currency exposure 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:

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	Issuer	NAIC Rating		
10.01	ANGLO AMERICAN CAPITAL	2FE	\$ 1,074,607	0.3%
10.02	HSBC HOLDINGS PLC	1FE	\$ 1,001,719	0.3%
10.03	CREDIT SUISSE GROUP AG	2FE	\$ 1,000,625	0.3%
10.04	MACQUARIE GROUP LTD	1FE	\$ 1,000,000	0.3%
10.05	ROYAL BK SCOTLND GRP PLC	2FE	\$ 1,000,000	0.3%
10.06	LLOYDS BANK PLC	1FE	\$ 999,809	0.3%
10.07	ING BANK NV	1FE	\$ 999,762	0.3%
10.08	BNP PARIBAS	1FE	\$ 999,580	0.3%
10.09	EQUINOR ASA	1FE	\$ 999,471	0.3%
10.10	WESTPAC BANKING CORP	1FE	\$ 999,286	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 []

11.02 Total admitted assets held in Canadian investments \$ 1 - 2 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, 2018

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 [X] No []

	1	2	3
	Issuer		
13.02	PEKIN LIFE INSURANCE CO	\$ 9,793,380	3.1%
13.03	COCA-COLA CO/THE	\$ 745,857	0.2%
13.04	MEDTRONIC PLC	\$ 576,050	0.2%
13.05	CISCO SYSTEMS INC	\$ 549,684	0.2%
13.06	ANALOG DEVICES INC	\$ 526,567	0.2%
13.07	PAC INC	\$ 519,130	0.2%
13.08	ALPHABET INC-CL A	\$ 458,737	0.1%
13.09	MICROSOFT CORP	\$ 355,597	0.1%
13.10	APPLE INC	\$ 338,510	0.1%
13.11	UNITEDHEALTH GROUP INC	\$ 320,867	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		
	1	2	(Unaudited) 1st Qtr 3	(Unaudited) 2nd Qtr 4	(Unaudited) 3rd Qtr 5
20.01 Securities lending (do not include assets held as collateral for such transactions)	\$ 4,013,605	1.3%	\$ 964,435	\$ 685,851	\$ 622,096

See Independent Auditor's Report on the Supplementary Information

Pekin Insurance Company

Investment Risks Interrogatories December 31, 2018

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, 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]

See Independent Auditor's Report on the Supplementary Information.

Pekin Insurance Company

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 []