

Pekin Select Insurance Company

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

For the Years Ended December 31, 2020 and 2019

Pekin Select Insurance Company

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**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS**

To the Board of Directors
Pekin Select Insurance Company
Pekin, Illinois

We have audited the accompanying statutory financial statements of Pekin Select Insurance Company (the Company), which are comprised of the statutory balance sheets as of December 31, 2020 and 2019, 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, 2020, 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, 2020 and 2019, 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 26, 2021

Pekin Select Insurance Company

Statutory Balance Sheets December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Admitted Assets:		
Bonds	\$ 1,577,055	\$ 1,593,717
Cash, Cash Equivalents, and Short-Term Investments	<u>5,170,071</u>	<u>388,568</u>
Total Cash and Invested Assets	6,747,126	1,982,285
Net Deferred Tax Asset	21,315	42,976
Investment Income Accrued	<u>3,792</u>	<u>25,156</u>
Total Admitted Assets	<u><u>\$ 6,772,233</u></u>	<u><u>\$ 2,050,417</u></u>
Liabilities:		
Commissions, Expenses, Fees, and Taxes	\$ -	\$ 12,125
Payable to Parent and Affiliates	920,083	178,142
Advance Premiums	<u>-</u>	<u>21,820</u>
Total Liabilities	<u>920,083</u>	<u>212,087</u>
Stockholder's Equity:		
Common Capital Stock, \$20.00 Par Value, 100,000 Shares		
Authorized, Issued, and Outstanding	2,000,000	2,000,000
Paid-In Surplus	4,000,000	-
Unassigned Surplus	<u>(147,850)</u>	<u>(161,670)</u>
Total Stockholder's Equity	<u>5,852,150</u>	<u>1,838,330</u>
Total Liabilities and Stockholder's Equity	<u><u>\$ 6,772,233</u></u>	<u><u>\$ 2,050,417</u></u>

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

Pekin Select Insurance Company

Statutory Statements of Operations and Changes in Stockholder's Equity Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Underwriting Operations:		
Net Premiums Earned:		
Direct Premiums Written	\$ 1,811,546	\$ -
Reinsurance Ceded	<u>(1,811,546)</u>	<u>-</u>
Net Premiums Written	-	-
Expenses Incurred:		
Net Underwriting Expenses	<u>(11,225)</u>	<u>212,092</u>
Net Expenses Incurred	<u>(11,225)</u>	<u>212,092</u>
Underwriting Gain (Loss)	11,225	(212,092)
Net Investment Income	24,255	7,441
Other Income	<u>-</u>	<u>5</u>
Net Income (Loss)	<u>\$ 35,480</u>	<u>\$ (204,646)</u>
Statement of Changes in Stockholder's Equity:		
Stockholder's Equity - Beginning of Year	<u>\$ 1,838,330</u>	<u>\$ -</u>
Changes in Stockholder's Equity:		
Net Income (Loss)	35,480	(204,646)
Net Deferred Income Tax	(7,451)	42,976
Change in Non-Admitted Assets	(14,209)	-
Paid-In Capital	-	2,000,000
Paid-In Surplus	<u>4,000,000</u>	<u>-</u>
Net Increase	<u>4,013,820</u>	<u>1,838,330</u>
Stockholder's Equity - End of Year	<u>\$ 5,852,150</u>	<u>\$ 1,838,330</u>

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

Pekin Select Insurance Company

Statutory Statements of Cash Flow Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash from Operations:		
Net Investment Income	\$ 62,282	\$ (12,995)
Miscellaneous Income	-	5
Total Cash Received	<u>62,282</u>	<u>(12,990)</u>
Commissions, Expenses Paid, and Other Deductions	<u>900</u>	<u>199,967</u>
Total Cash Disbursed	<u>900</u>	<u>199,967</u>
Net Cash from Operations	<u>61,382</u>	<u>(212,957)</u>
Cash from Investments:		
Cost of Investments Acquired:		
Bonds	-	1,598,438
Total Investments Acquired	<u>-</u>	<u>1,598,438</u>
Net Cash from Investments	<u>-</u>	<u>(1,598,438)</u>
Cash from Financing and Miscellaneous Sources:		
Capital and Paid In Surplus, less Treasury Stock	4,000,000	2,000,000
Other Cash Provided	<u>720,121</u>	<u>199,963</u>
Net Cash from Financing and Miscellaneous Sources	<u>4,720,121</u>	<u>2,199,963</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments	4,781,503	388,568
Cash, Cash Equivalents, and Short-Term Investments at Beginning of Year	<u>388,568</u>	<u>-</u>
Cash, Cash Equivalents, and Short-Term Investments at End of Year	<u>\$ 5,170,071</u>	<u>\$ 388,568</u>

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

Pekin Select Insurance Company

Notes to Financial Statements – Statutory Basis

1. Nature of Operations and Summary of Significant Accounting Practices

Pekin Select Insurance Company (Company), formed in 2019, is a regional Midwest property and casualty insurance company domiciled in the state of Illinois. The Company sells worker compensation insurance through independent agents. Direct premiums written in 2020 were 100 percent ceded to affiliates.

The accompanying financial statements have been 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 the amount of deferred tax assets expected to be realized in future years.

Subsequent Events

Subsequent events were evaluated through April 26, 2021, which is the date the financial statements were available to be issued.

COVID - 19 Impact

In early 2020, the World Health Organization declared the COVID – 19 (Coronavirus) outbreak to be a pandemic. The U.S. Government's response to the pandemic included significant limitations on many aspects of Americans' daily lives, including personal mobility and closures of many public facilities. These limitations have caused significant disruption to workflow for U.S. companies and also have negatively impacted the financial markets in the U.S. and around the globe. The Company has not made any adjustments to these financial statements as a result of the uncertainty.

Summary of Significant Accounting Practices and 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 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.

Investment income is recorded when earned.

Pekin Select Insurance Company

Notes to Financial Statements – Statutory Basis

Investments in debt securities are generally carried at amortized cost and investments in equity securities are carried at fair value. Under GAAP, the Company's debt securities would be classified as held-to-maturity, trading, or available-for-sale. For GAAP, debt securities classified as held-to-maturity would be carried at cost or amortized cost, and debt securities classified as trading or available-for-sale would be carried at fair value with the unrealized holding gains and losses reported in income for those securities classified as trading and as a separate component of surplus for those securities classified as available-for-sale.

B. Deferred Tax Assets

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; 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.

C. 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, 2020 and 2019, 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.

D. Other

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.

2. Affiliated Entity Transactions

The Company is a wholly owned subsidiary of its parent, Pekin Insurance Company (PIC), and is managed by Farmers Automobile Management Corporation (FAMC). PIC contributed \$2 million of capital to the Company upon its formation in 2019, and an additional \$4 million in 2020. The other affiliate, which is controlled by the Farmers Automobile Insurance Association (Association), and managed by FAMC, is Pekin Life Insurance Company (PLIC). All of the above affiliates utilize many common facilities, management, administrative and office personnel, and services. The Company, Pekin Insurance Company, and the Association are parties to a reinsurance pooling agreement under which underwriting income and expense and other administrative expenses are prorated. In 2020, the reinsurance pooling agreement was amended to prorate underwriting income and expense and other administrative expenses to the Association (80 percent), PIC (20 percent), and the Company (0 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.

Additionally, the Company, the Association, and PIC 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.

Pekin Select 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, 2020, are as follows:

<u>Obligation</u>	2020			
	Admitted Value	Unrealized Gain	Unrealized Loss	Market Value
U.S. Government	\$ 1,577,055	\$ 91,929	\$ -	\$ 1,668,984
Total	<u>\$ 1,577,055</u>	<u>\$ 91,929</u>	<u>\$ -</u>	<u>\$ 1,668,984</u>

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2019, are as follows:

<u>Obligation</u>	2019			
	Admitted Value	Unrealized Gain	Unrealized Loss	Market Value
U.S. Government	\$ 1,593,717	\$ -	\$ 4,827	\$ 1,588,890
Total	<u>\$ 1,593,717</u>	<u>\$ -</u>	<u>\$ 4,827</u>	<u>\$ 1,588,890</u>

The admitted value and market value of bonds at December 31, 2020, by contractual maturity, are shown below:

	Admitted Value	Market Value
Due in One Year or Less	\$ -	\$ -
Due After One Year Through Five Years	1,577,055	1,668,984
Due After Five Years Through Ten Years	-	-
Due After Ten Years	-	-
Total	<u>\$ 1,577,055</u>	<u>\$ 1,668,984</u>

As of December 31, 2020, there were no securities with unrealized losses less than or greater than 12 months based on estimated market values.

Securities with unrealized losses based on estimated market values as of December 31, 2019, are shown below:

<u>Description of Securities</u>	Less Than 12 Months		12 Months or More		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Government	\$ 1,588,890	\$ 4,827	\$ -	\$ -	\$ 1,588,890	\$ 4,827
Unrealized Losses	<u>\$ 1,588,890</u>	<u>\$ 4,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,588,890</u>	<u>\$ 4,827</u>

Bonds carried at \$1,577,055 and \$1,593,717 at December 31, 2020 and 2019, respectively, were on deposit with the Illinois Department of Insurance as required by law.

Pekin Select Insurance Company

Notes to Financial Statements – Statutory Basis

4. Fair Value Measurement

Statutory Accounting Practices establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level one measurements) and the lowest priority to unobservable inputs (level three measurements). The three levels of the fair value hierarchy under statutory accounting are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

The fair values of the Level 2 securities are obtained from independent pricing services or from the Company's investment manager and are determined using quoted market prices from an orderly market at the reporting date for those or similar investments.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company did not have any financial instruments reported at fair value within the statutory balance sheet as of December 31, 2020 or 2019.

There were no Level 3 assets at December 31, 2020 or 2019. The Company did not have any liabilities measured at fair value at December 31, 2020 or 2019.

The aggregate fair value of all financial instruments as of December 31, 2020, is shown below.

	<u>Aggregate</u> <u>Fair Value</u>	<u>Admitted</u> <u>Assets</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Bonds	\$ 1,668,984	\$ 1,577,055	\$ 1,668,984	\$ -	\$ -

The aggregate fair value of all financial instruments as of December 31, 2019, is shown below.

	<u>Aggregate</u> <u>Fair Value</u>	<u>Admitted</u> <u>Assets</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Bonds	\$ 1,588,890	\$ 1,593,717	\$ 1,588,890	\$ -	\$ -

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.

Pekin Select Insurance Company

Notes to Financial Statements – Statutory Basis

5. Liability for Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses, including reinsurance recoverables of \$1,060,072 and \$0 in 2020 and 2019, respectively, are ceded to the Association (80 percent) and to Pekin Insurance Company (20 percent) per the intercompany pooling agreement.

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 and Pekin Insurance Company. 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, amended in 2020 to include the Company, underwriting income and expenses and other administrative expenses are prorated to the Association (80 percent), the Company (20 percent), and to the Company's subsidiary (0 percent).

7. Federal 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 to pretax income for the years ended December 31, 2020 and 2019, respectively, due to the following:

	<u>2020</u>	<u>2019</u>
Computed Expected Federal Income Expense	\$ 7,451	\$ -
Decrease in Taxes Resulting from:		
Net Operating Loss Carryforward	(7,451)	-
Taxes Incurred	<u>\$ -</u>	<u>\$ -</u>

Pekin Select Insurance Company

Notes to Financial Statements – Statutory Basis

The components of the net deferred tax asset as of December 31, 2020 and 2019, are as follows:

	2020		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 35,525	\$ -	\$ 35,525
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	35,525	-	35,525
Deferred Tax Assets Non-Admitted	14,210	-	14,210
Subtotal Net Admitted Deferred Tax Asset	21,315	-	21,315
Deferred Tax Liabilities	-	-	-
Net Admitted Deferred Tax Assets	<u>\$ 21,315</u>	<u>\$ -</u>	<u>\$ 21,315</u>
	2019		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 42,976	\$ -	\$ 42,976
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	42,976	-	42,976
Deferred Tax Assets Non-Admitted	-	-	-
Subtotal Net Admitted Deferred Tax Asset	42,976	-	42,976
Deferred Tax Liabilities	-	-	-
Net Admitted Deferred Tax Assets	<u>\$ 42,976</u>	<u>\$ -</u>	<u>\$ 42,976</u>
	Change		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ (7,451)	\$ -	\$ (7,451)
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	(7,451)	-	(7,451)
Deferred Tax Assets Non-Admitted	14,210	-	14,210
Subtotal Net Admitted Deferred Tax Asset	(21,661)	-	(21,661)
Deferred Tax Liabilities	-	-	-
Net Admitted Deferred Tax Assets	<u>\$ (21,661)</u>	<u>\$ -</u>	<u>\$ (21,661)</u>

Pekin Select 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).

	2020		
	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	21,315	-	21,315
11c. Offset of Deferred Tax Liabilities	-	-	-
Total Admitted Deferred Tax Assets	<u>\$ 21,315</u>	<u>\$ -</u>	<u>\$ 21,315</u>
	2019		
	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	42,976	-	42,976
11c. Offset of Deferred Tax Liabilities	-	-	-
Total Admitted Deferred Tax Assets	<u>\$ 42,976</u>	<u>\$ -</u>	<u>\$ 42,976</u>
	Change		
	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	(21,661)	-	(21,661)
11c. Offset of Deferred Tax Liabilities	-	-	-
Total Admitted Deferred Tax Assets	<u>\$ (21,661)</u>	<u>\$ -</u>	<u>\$ (21,661)</u>
	2020	2019	
Ratio Used to Determine Recovery Period and Threshold Limitation Amount Under Paragraph 11b	72,003%	214,755%	
Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation Under Paragraph 11b	\$ 5,830,835	\$ 1,795,354	

Pekin Select 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, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Deferred Tax Assets:			
Ordinary:			
Net Operating Loss Carryforward	\$ 35,525	\$ 42,976	\$ (7,451)
Total Ordinary Deferred Tax Assets	35,525	42,976	(7,451)
Non-Admitted	14,210	-	14,210
Admitted Ordinary Deferred Tax Assets	21,315	42,976	(21,661)
Admitted Capital Deferred Tax Assets	-	-	-
Admitted Deferred Tax Assets	21,315	42,976	(21,661)
Deferred Tax Liabilities:			
Ordinary:			
Ordinary Deferred Tax Liabilities	-	-	-
Capital Deferred Tax Liabilities	-	-	-
Total Deferred Tax Liabilities	-	-	-
Net Deferred Tax Assets	<u>\$ 21,315</u>	<u>\$ 42,976</u>	<u>\$ (21,661)</u>

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, 2020 and 2019, the Company had a net operating loss carryforward of \$169,165 and \$204,646, respectively. There are no capital loss carryforwards on December 31, 2020 or 2019.

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. The Company did not have a state income tax benefit or expense included in underwriting expenses in 2020 or 2019.

As of December 31, 2020 and 2019, the Company has not identified any material loss contingencies arising from uncertain tax positions.

7. Capital and Surplus

The Company is required to maintain minimum capital and surplus established by the Illinois Department of Insurance (the Department). The Company is also subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the Department. The RBC standards establish uniform minimum capital requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. At December 31, 2020, the Company's surplus exceeded the minimum levels required by the Department and RBC standards.

SUPPLEMENTAL FINANCIAL INFORMATION

Independent Auditor's Report on the Supplementary Information

Board of Directors
Pekin Select Insurance Company
Pekin, Illinois

Our audit was conducted 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 26, 2021

Pekin Select Insurance Company

Summary Investment Schedule December 31, 2020

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	%	Amount	%
1. Long-Term Bonds:				
01.01 U.S. governments	\$ 1,577,055	23.4	\$ 1,577,055	23.4
01.02 All other governments	-	-	-	-
01.03 U.S. states, territories and possessions, etc. guaranteed	-	-	-	-
01.04 U.S. political subdivisions of states, territories, and possessions, guaranteed	-	-	-	-
01.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed	-	-	-	-
01.06 Industrial and miscellaneous	-	-	-	-
01.07 Hybrid securities	-	-	-	-
01.08 Parent, subsidiaries and affiliates	-	-	-	-
01.09 SVO identified funds	-	-	-	-
01.10 Unaffiliated Bank loans	-	-	-	-
01.11 Total long-term bonds	1,577,055	23.4	1,577,055	23.4
2. Preferred stocks:				
02.01 Industrial and miscellaneous (Unaffiliated)	-	-	-	-
02.02 Parent, subsidiaries and affiliates	-	-	-	-
02.03 Total preferred stocks	-	-	-	-
3. Common stocks:				
03.01 Industrial and miscellaneous Publicly traded (Unaffiliated)	-	-	-	-
03.02 Industrial and miscellaneous Other (Unaffiliated)	-	-	-	-
03.03 Parent, subsidiaries and affiliates Publicly traded	-	-	-	-
03.04 Parent, subsidiaries and affiliates Other	-	-	-	-
03.05 Mutual funds	-	-	-	-
03.06 Unit investment trusts	-	-	-	-
03.07 Closed-end funds	-	-	-	-
03.08 Total common stocks	-	-	-	-
4. Mortgage loans:				
04.01 Farm mortgages	-	-	-	-
04.02 Residential mortgages	-	-	-	-
04.03 Commercial mortgages	-	-	-	-
04.04 Mezzanine real estate loans	-	-	-	-
04.05 Total valuation allowance	-	-	-	-
04.06 Total mortgage loans	-	-	-	-
5. Real estate:				
05.01 Properties occupied by company	-	-	-	-
05.02 Properties held for production of income	-	-	-	-
05.03 Properties held for sale	-	-	-	-
05.04 Total real estate	-	-	-	-
6. Cash, cash equivalents and short-term investments:				
06.01 Cash	1,076,310	16.0	1,076,310	16.0
06.02 Cash equivalents	4,093,761	60.6	4,093,761	60.6
06.03 Short-term investments	-	-	-	-
06.04 Total cash, cash equivalents and short-term investments:	5,170,071	76.6	5,170,071	76.6
7. Contract loans	-	-	-	-
8. Derivatives	-	-	-	-
9. Other invested assets	-	-	-	-
10. Receivable for securities	-	-	-	-
11. Securities lending	-	-	-	-
12. Other invested assets	-	-	-	-
13. Total invested assets	\$ 6,747,126	100.0	\$ 6,747,126	100.0

See Independent Auditor's Report on the Supplementary Information.

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Investment Risks Interrogatories December 31, 2020

1. State the reporting entity's total admitted assets as reported on Page 2 of the annual statement. \$ 6,772,233

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			\$ -	0.0%
2.02			\$ -	0.0%
2.03			\$ -	0.0%
2.04			\$ -	0.0%
2.05			\$ -	0.0%
2.06			\$ -	0.0%
2.07			\$ -	0.0%
2.08			\$ -	0.0%
2.09			\$ -	0.0%
2.10			\$ -	0.0%

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	\$ 1,577,055	23.3%	3.07	P/RP-1	\$ -	0.0%
3.02	NAIC-2	\$ -	0.0%	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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>
4.02 Total admitted assets held in foreign investments	\$ -	0.0%

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

	1	2
5.01 Countries designated NAIC-1	\$ -	0.0%
5.02 Countries designated NAIC-2	\$ -	0.0%
5.03 Countries designated NAIC-3 or below	\$ -	0.0%

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Investment Risks Interrogatories December 31, 2020

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:	\$ -	0.0%
6.02 Country:	\$ -	0.0%
Countries designated NAIC-2:		
6.03 Country:	\$ -	0.0%
6.04 Country:	\$ -	0.0%
Countries designated NAIC-3 or below:		
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		2FE	\$ -	0.0%
10.02		1FE	\$ -	0.0%
10.03		2FE	\$ -	0.0%
10.04		1FE	\$ -	0.0%
10.05		2FE	\$ -	0.0%
10.06		1FE	\$ -	0.0%
10.07		1FE	\$ -	0.0%
10.08		1FE	\$ -	0.0%
10.09		1FE	\$ -	0.0%
10.10		1FE	\$ -	0.0%

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	<u>1</u> \$ -	<u>2</u> 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 []

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Investment Risks Interrogatories December 31, 2020

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

13.01 Assets held in equity interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 13: Yes No

	1 Issuer	2	3
13.02		\$ -	0.0%
13.03		\$ -	0.0%
13.04		\$ -	0.0%
13.05		\$ -	0.0%
13.06		\$ -	0.0%
13.07		\$ -	0.0%
13.08		\$ -	0.0%
13.09		\$ -	0.0%
13.10		\$ -	0.0%
13.11		\$ -	0.0%

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes No
If response to 14.01 above is yes, responses are not required for 14.02 through 14.05.

Ten largest fund managers:

	Fund Manager	Total Invested 1	Diversified 2	Nondiversified 3
14.06	Northern Trust	\$ 4,093,761	\$ 4,093,761	\$ -
14.07		\$ -	\$ -	\$ -
14.08		\$ -	\$ -	\$ -
14.09		\$ -	\$ -	\$ -
14.10		\$ -	\$ -	\$ -
14.11		\$ -	\$ -	\$ -
14.12		\$ -	\$ -	\$ -
14.13		\$ -	\$ -	\$ -
14.14		\$ -	\$ -	\$ -
14.15		\$ -	\$ -	\$ -

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 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 No

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Investment Risks Interrogatories December 31, 2020

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 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 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)	At End of Each Quarter		(Unaudited)
	1	2	1st Qtr	2nd Qtr	3rd Qtr	5
20.01 Securities lending (do not include assets held as collateral for such transactions)	\$ -	0.0%	\$ -	\$ -	\$ -	\$ -

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

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Reinsurance Interrogatories December 31, 2020

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]

Pekin Select Insurance Company

Reinsurance Interrogatories December 31, 2020

- 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 []