

Pekin Insurance Company

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

For the Years Ended December 31, 2019 and 2018

Pekin Insurance Company

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

To the Board of Directors
Pekin Insurance Company
Pekin, Illinois

We have audited the accompanying statutory financial statements of Pekin Insurance Company (the Company), which are comprised of the statutory balance sheets as of December 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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, 2020

Pekin Insurance Company

Statutory Balance Sheets December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Admitted Assets:		
Bonds	\$ 271,841,839	\$ 272,958,452
Common Stocks:		
Affiliates	11,907,605	10,312,510
Other than Affiliates	23,742,510	17,712,767
Cash, Cash Equivalents, and Short-Term Investments	2,520,693	3,785,799
Receivable for Securities	9,373	-
Securities Lending Reinvested Collateral Assets	<u>937,510</u>	<u>4,249,356</u>
Total Cash and Invested Assets	310,959,530	309,018,884
Federal Income Tax Recoverable	2,380,983	-
Net Deferred Tax Asset	2,729,583	3,011,008
Investment Income Accrued	2,189,065	2,261,760
Pension Benefit Plan Asset	638,258	-
Post-Retirement Benefit Plan Asset	<u>-</u>	<u>1,020,722</u>
Total Admitted Assets	<u><u>\$ 318,897,419</u></u>	<u><u>\$ 315,312,374</u></u>
Liabilities:		
Unpaid Losses, Net	\$ 86,675,395	\$ 81,667,188
Unpaid Loss Adjustment Expenses, Net	19,405,117	18,963,664
Unearned Premiums, Net	58,512,269	58,784,590
Commissions, Expenses, Fees, and Taxes	3,538,781	4,047,364
Federal Income Tax	-	264,246
Payable to Parent, Subsidiaries, and Affiliates	6,867,983	3,566,559
Payable for Securities Lending	937,510	4,249,356
Pension Benefit Plan Obligations	3,211,477	2,181,343
Post-Retirement Benefit Plan Obligations	3,060,172	2,430,059
Other Liabilities	<u>619,717</u>	<u>677,304</u>
Total Liabilities	<u>182,828,421</u>	<u>176,831,673</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>134,056,498</u>	<u>136,468,201</u>
Total Stockholder's Equity	<u>136,068,998</u>	<u>138,480,701</u>
Total Liabilities and Stockholder's Equity	<u><u>\$ 318,897,419</u></u>	<u><u>\$ 315,312,374</u></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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Underwriting Operations:		
Net Premiums Earned:		
Direct Premiums Written	\$ 394,648,298	\$ 400,622,235
Reinsurance Assumed	118,252,929	119,962,592
Reinsurance Ceded	<u>(394,648,298)</u>	<u>(400,622,235)</u>
Net Premiums Written	118,252,929	119,962,592
Change in Net Unearned Premiums	<u>272,320</u>	<u>1,579,243</u>
Total Net Premiums Earned	<u>118,525,249</u>	<u>121,541,835</u>
Losses and Expenses Incurred:		
Net Losses	\$ 77,017,790	\$ 73,064,679
Net Loss Adjustment Expenses	14,508,406	12,382,880
Net Underwriting Expenses	<u>42,611,817</u>	<u>38,046,920</u>
Net Losses and Expenses Incurred	<u>134,138,013</u>	<u>123,494,479</u>
Underwriting Loss	(15,612,764)	(1,952,644)
Net Investment Income	8,804,223	8,556,840
Net Realized Capital Gains	535,333	1,911,963
Other Income	<u>536,486</u>	<u>715,595</u>
Net Income (Loss) Before Federal Income Tax	(5,736,722)	9,231,754
Federal Income Tax Expense (Benefit)	<u>(1,771,709)</u>	<u>1,223,482</u>
Net Income (Loss)	<u>\$ (3,965,013)</u>	<u>\$ 8,008,272</u>
Statement of Changes in Stockholder's Equity:		
Stockholder's Equity - Beginning of Year	<u>\$ 138,480,701</u>	<u>\$ 132,308,101</u>
Changes in Stockholder's Equity:		
Net Income (Loss)	(3,965,013)	8,008,272
Net Unrealized Capital Gains (Losses):		
Affiliates	5,131,956	133,246
Other than Affiliates	(404,905)	(3,556,091)
Net Deferred Income Tax	(281,425)	579,406
Non-Admitted Assets	-	130,361
Pension Benefit Plan Obligations	(1,262,455)	404,043
Post-Retirement Benefit Plan Obligations	<u>(1,629,861)</u>	<u>473,363</u>
Net Increase (Decrease)	<u>(2,411,703)</u>	<u>6,172,600</u>
Stockholder's Equity - End of Year	<u>\$ 136,068,998</u>	<u>\$ 138,480,701</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash from Operations:		
Premiums Collected, Net of Reinsurance	\$ 118,252,929	\$ 119,962,592
Net Investment Income	9,883,404	9,738,973
Miscellaneous Income	536,485	715,595
	<u>128,672,818</u>	<u>130,417,160</u>
Total Cash Received		
Benefit and Loss Related Payments	72,009,583	73,993,946
Commissions, Expenses Paid, and Other Deductions	57,398,700	50,483,945
Federal Income Taxes Paid	1,032,058	1,042,207
	<u>130,440,341</u>	<u>125,520,098</u>
Total Cash Disbursed		
Net Cash from Operations	<u>(1,767,523)</u>	<u>4,897,062</u>
Cash from Investments:		
Proceeds from Investments Sold, Matured, or Repaid:		
Bonds	55,733,808	45,983,621
Stocks	5,528,716	11,720,763
Miscellaneous	3,311,846	500,000
	<u>64,574,370</u>	<u>58,204,384</u>
Total Investment Proceeds		
Cost of Investments Acquired:		
Bonds	57,346,606	52,265,718
Stocks	6,010,066	13,317,745
Miscellaneous	9,373	2,854,016
	<u>63,366,045</u>	<u>68,437,479</u>
Total Investments Acquired		
Net Cash from Investments	<u>1,208,325</u>	<u>(10,233,095)</u>
Cash from Financing and Miscellaneous Sources:		
Other Cash Provided (Applied)	(705,900)	6,507,418
	<u>(705,900)</u>	<u>6,507,418</u>
Net Cash from Financing and Miscellaneous Sources		
Net Change in Cash, Cash Equivalents, and Short-Term Investments	(1,265,098)	1,171,385
Cash, Cash Equivalents, and Short-Term Investments at Beginning of Year	<u>3,785,791</u>	<u>2,614,414</u>
Cash, Cash Equivalents, and Short-Term Investments at End of Year	<u>\$ 2,520,693</u>	<u>\$ 3,785,799</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 both 2019 and 2018.

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: 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, 2020 which is the date the financial statements were available to be issued.

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 has 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 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

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

and losses; under GAAP, the financial statements of wholly owned subsidiaries would be consolidated with those of the parent.

Loan-backed securities (mortgage-backed and asset-backed securities) are stated at amortized cost using a prospective basis. The prospective approach recognizes, through the recalculation of the effective yield to be applied to future periods, the effects of all cash flows whose amounts differ from those estimated earlier. Changes in amortization and amortized cost will occur in future periods. Assumptions for loan-backed securities are updated on a quarterly basis. Loan-backed securities with an initial NAIC designation of three or higher are carried at the lower of amortized cost or fair value. Agency pass-through and collateralized mortgage obligations use the three-month generic prepayment speed assumption. Non-agency collateralized mortgage obligations and asset-backed securities are updated using projected principal payment windows.

Investment income is recorded when earned. Realized gains and losses on sale or maturity of investments are determined on the basis of specific identification. Aggregate unrealized capital gains and losses are credited or charged directly to unassigned surplus. Unrealized capital losses on investments that are determined to be other than temporary declines in value must be recognized as realized capital losses. The 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.

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. Equity securities would be carried at fair value with the unrealized holding gains and losses reported in income.

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

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

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

as changes in surplus, and state income taxes are not included in deferred tax calculations; under GAAP, there is no admissibility concept, changes in deferred tax assets and liabilities would be reported through operations and/or surplus depending on their characteristics, and state income taxes would be included in the deferred tax calculation.

E. 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, 2019 and 2018. 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.

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 87.10 percent and 85.83 percent of the Pekin Life Insurance Company (PLIC) at December 31, 2019 and 2018, respectively. Specifically, the Company owned 7.58 percent of PLIC as of these dates.

In 2019, Pekin Select Insurance Company was formed as a wholly owned subsidiary of the Company. On April 15, 2020, the Company's Board of Directors approved an additional capital contribution of \$4 million to its subsidiary, which is not reflected in these financial statements.

The Company, its subsidiary, 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.

Additionally, the Association, the Company, and its subsidiary 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 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, 2019, are as follows:

Obligation	2019			Market Value
	Admitted Value	Unrealized Gain	Unrealized Loss	
U.S. Government	\$ 7,595,900	\$ 273,477	\$ 4,034	7,865,343
Other Government	1,747,289	83,298	-	1,830,587
U.S. States, Territories, and Possessions	6,337,025	299,502	-	6,636,527
U.S. Political Subdivisions	11,152,954	536,634	-	11,689,588
U.S. Special Revenue and Special Assessment	22,911,906	1,002,241	-	23,914,147
Industrial and Miscellaneous	127,936,281	8,101,901	6,509	136,031,673
Loan-Backed Securities	94,160,484	1,442,785	116,010	95,487,259
Total	\$ 271,841,839	\$ 11,739,838	\$ 126,553	\$ 283,455,124

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

Obligation	2018			Market Value
	Admitted Value	Unrealized Gain	Unrealized Loss	
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	\$ 272,958,452	\$ 2,418,416	\$ 6,010,633	\$ 269,366,235

The admitted value of loan-backed securities includes \$90,374 and \$124,122 of U.S. Government Guaranteed Securities for 2019 and 2018, respectively.

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

The admitted value and market value of bonds at December 31, 2019, by contractual maturity, are shown below:

	<u>Admitted Value</u>	<u>Market Value</u>
Due in One Year or Less	\$ 18,237,924	\$ 18,403,606
Due After One Year Through Five Years	95,637,924	98,184,808
Due After Five Years Through Ten Years	132,292,337	138,177,574
Due After Ten Years	25,673,654	28,689,136
Total	<u>\$ 271,841,839</u>	<u>\$ 283,455,124</u>

The adjusted cost, unrealized gain and loss, and statement value of investments in stocks as of December 31, 2019 are as follows:

	<u>2019</u>			
	<u>Adjusted Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Statement Value</u>
<u>Common Stocks</u>				
Affiliates	\$ 2,457,868	\$ 9,611,407	\$ 161,670	\$ 11,907,605
Other Than Affiliates	16,856,027	7,222,688	336,205	23,742,510
Total stocks	<u>\$ 19,313,895</u>	<u>\$ 16,834,095</u>	<u>\$ 497,875</u>	<u>\$ 35,650,115</u>

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

	<u>2018</u>			
	<u>Adjusted Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Statement Value</u>
<u>Common Stocks</u>				
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>

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Notes to Financial Statements – Statutory Basis

Securities with unrealized losses based on estimated market values as of December 31, 2019 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	\$ 847,375	\$ 3,394	\$ 503,359	\$ 640	\$ 1,350,734	\$ 4,034
Industrial and Miscellaneous	-	-	1,992,818	6,509	1,992,818	6,509
Loan-Backed Securities	6,196,043	21,504	11,434,489	94,506	17,630,532	116,010
Subtotal Debt Securities	7,043,418	24,898	13,930,666	101,655	20,974,084	126,553
Common Stock - Unaffiliated	873,929	55,469	2,785,395	280,736	3,659,325	336,205
Total Securities With Unrealized Losses	<u>\$ 7,917,347</u>	<u>\$ 80,367</u>	<u>\$ 16,716,061</u>	<u>\$ 382,391</u>	<u>\$ 24,633,409</u>	<u>\$ 462,758</u>

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>

The components of net realized capital gains are as follows:

	2019	2018
Gains on disposals	\$ 1,379,799	\$ 2,892,723
Losses on disposals	(685,928)	(460,269)
Total	\$ 693,871	\$ 2,432,454
Tax Expense	(158,538)	(520,491)
Net realized capital gains	<u>\$ 535,333</u>	<u>\$ 1,911,963</u>

Bonds carried at \$2,274,496 and \$2,272,451 at December 31, 2019 and 2018, respectively, were on deposit with the Illinois Department of Insurance as required by law. Bonds in the amount of \$312,530 and \$304,798 were on deposit with the Nevada Department of Insurance at December 31, 2019 and 2018, 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, 2019 and 2018, the amount of securities loaned was \$926,516 and \$4,013,605, respectively, and the related collateral was \$946,660 and \$4,111,231. At December 31, 2019, collateral assets valued at \$7,467 had maturity dates beyond one year.

The aggregate amount of cash collateral received as of December 31, 2019 and 2018, is shown below by maturity date:

<u>Maturity Date</u>	<u>2019</u>	<u>2018</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Open	\$ 43,463	\$ 1,967,743
30 Days or Less	5,620	254,456
31 to 60 Days	5,976	270,538
61 to 90 Days	2,605	117,936
Greater Than 90 Days	21,274	963,143
Total Bond Collateral Received	\$ 78,937	\$ 3,573,816
Total Equity Collateral Received	867,723	537,416
Total Collateral Received	<u>\$ 946,660</u>	<u>\$ 4,111,231</u>

The Company participates in a liquid asset portfolio. At December 31, 2019 and 2018, the aggregate value of the reported reinvested collateral was \$937,510 and \$4,249,356, and the related fair value was \$950,723 and \$4,102,603, respectively.

As of December 31, 2019 and 2018, the Company had \$2,497,842 and \$4,504,525, 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.

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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, 2019 and 2018:

Description	2019			Total
	Level 1	Level 2	Level 3	
Common Stock - Other Than Affiliates	\$ 23,742,510	\$ -	\$ -	\$ 23,742,510

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

There were no Level 3 assets at December 31, 2019 or 2018. The Company did not have any liabilities measured at fair value at December 31, 2019 and 2018. The Company did not have any transfers between levels at December 31, 2019 and 2018.

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

	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)
Bonds	\$283,455,124	\$271,841,839	\$7,865,344	\$275,589,780	\$ -
Common Stock:					
Affiliates	11,907,605	10,312,510	-	9,539,580 *	2,368,025 *
Other Than Affiliates	23,742,510	23,742,510	23,742,510	-	-

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	-	-

*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.

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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>2019</u>	<u>2018</u>
Balance at January 1	\$ 111,438,959	\$ 113,769,711
Less Reinsurance Recoverable	<u>(10,808,106)</u>	<u>(11,843,225)</u>
Net Balance at January 1	<u>100,630,853</u>	<u>101,926,486</u>
Incurred Related to:		
Current Year	96,764,238	91,748,674
Prior Years	<u>(5,238,042)</u>	<u>(6,301,114)</u>
Total Incurred	<u>91,526,196</u>	<u>85,447,560</u>
Paid Related to:		
Current Year	51,347,226	48,817,995
Prior Years	<u>34,729,311</u>	<u>37,925,198</u>
Total Paid	<u>86,076,537</u>	<u>86,743,193</u>
Net Balance at December 31	106,080,512	100,630,853
Plus Reinsurance Recoverable	<u>10,974,618</u>	<u>10,808,106</u>
Balance at December 31	<u>\$ 117,055,130</u>	<u>\$ 111,438,959</u>

The provision for incurred loss and loss adjustment expenses attributable to insured events in prior years decreased by \$5,238,042 and \$6,301,114 in 2019 and 2018, respectively. In both 2019 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 \$4,031,184 and \$3,944,287 at December 31, 2019 and 2018, respectively.

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.

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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 amounts recoverable for reinsurance on unpaid losses and unearned premium from The Farmers Automobile Insurance Association \$649,237,723.

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 noncontributory 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 2020.

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>
2020	\$ 7,616,000	\$ 1,563,000
2021	9,762,000	1,676,000
2022	10,125,000	1,736,000
2023	10,064,000	1,825,000
2024	9,897,000	1,907,000
2025-2029	43,706,000	11,472,000

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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	
	2019	2018	2019	2018
Change in Benefit Obligation:				
Benefit Obligation at Beginning of Year	\$ 89,020,004	\$103,430,531	\$43,720,842	\$46,850,706
Service Cost	1,842,054	2,160,674	996,948	1,166,449
Interest Cost	3,263,608	3,093,356	1,829,136	1,651,489
Actuarial Loss (Gain)	20,213,265	(6,724,375)	9,586,236	(4,053,197)
Benefits Paid	(7,044,891)	(12,940,182)	(2,067,872)	(1,894,605)
Benefit Obligation at End of Year	<u>\$107,294,040</u>	<u>\$ 89,020,004</u>	<u>\$54,065,290</u>	<u>\$43,720,842</u>
Accumulated Benefit Obligation	99,098,129	81,080,905	54,065,290	43,720,842
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Year	\$ 74,229,358	\$ 86,822,156	\$24,198,757	\$25,219,292
Actual Return on Plan Assets	14,751,061	(1,852,616)	708,190	707,880
Employer Contribution	9,000,000	2,200,000	-	-
Benefits Paid	(7,044,891)	(12,940,182)	(1,730,646)	(1,728,415)
Fair Value of Plan Assets at End of Year	<u>\$ 90,935,528</u>	<u>\$ 74,229,358</u>	<u>\$23,176,301</u>	<u>\$24,198,757</u>
Recognized Liabilities				
Accrued Benefit Costs	\$ (3,818,549)	\$ 2,695,941	\$26,757,181	\$26,339,011
Liability for Benefits	20,177,061	12,094,705	4,131,808	(6,816,926)
Total Liabilities Recognized	<u>\$ 16,358,512</u>	<u>\$ 14,790,646</u>	<u>\$30,888,989</u>	<u>\$19,522,085</u>
Unrecognized Liabilities	\$ -	\$ -	\$ -	\$ -
Components of Net Periodic Benefit Cost:				
Service Cost	\$ 1,842,054	\$ 2,160,674	\$ 996,948	\$ 1,166,449
Interest Cost	3,263,608	3,093,356	1,829,136	1,651,489
Expected Return on Plan Assets	(4,315,436)	(4,972,884)	(1,028,447)	(1,047,211)
Amortization of				
Transition Obligation	20,981	20,981	-	-
Net Losses	350,862	417,983	-	11,144
Prior Service Cost	-	-	(1,042,241)	(1,042,241)
Settlement/Curtailment	1,323,441	1,752,019	-	-
Total Net Periodic Benefit Cost	<u>\$ 2,485,510</u>	<u>\$ 2,472,129</u>	<u>\$ 755,396</u>	<u>\$ 739,630</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

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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	
	2019	2018	2019	2018	2019	2018	2019	2018
Benefit Obligation	\$ 67,531,334	\$ 56,349,242	\$ 16,882,833	\$ 14,087,310	\$ 22,879,873	\$ 18,583,452	\$ 107,294,040	\$ 89,020,004
Plan Assets	57,238,458	46,984,214	14,309,615	11,746,054	19,387,455	15,499,090	90,935,528	74,229,358
Underfunded	\$ 10,292,876	\$ 9,365,028	\$ 2,573,218	\$ 2,341,256	\$ 3,492,418	\$ 3,084,362	\$ 16,358,512	\$ 14,790,646
Accrued Benefit Costs	\$ (2,553,031)	\$ 1,568,940	\$ (638,259)	\$ 392,234	\$ (627,259)	\$ 734,767	\$ (3,818,549)	\$ 2,695,941
Liability for Benefits	12,845,907	7,796,088	3,211,477	1,949,022	4,119,677	2,349,595	20,177,061	12,094,705
	\$ 10,292,876	\$ 9,365,028	\$ 2,573,218	\$ 2,341,256	\$ 3,492,418	\$ 3,084,362	\$ 16,358,512	\$ 14,790,646
Net Periodic Benefit Cost	\$ 1,420,384	\$ 1,484,135	\$ 355,094	\$ 371,033	\$ 710,032	\$ 616,961	\$ 2,485,510	\$ 2,472,129

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	
	2019	2018	2019	2018	2019	2018	2019	2018
Benefit Obligation	\$ 33,457,413	\$ 27,610,097	\$ 8,364,353	\$ 6,902,524	\$ 12,243,524	\$ 9,208,221	\$ 54,065,290	\$ 43,720,842
Plan Assets	14,341,495	15,282,000	3,585,374	3,820,499	5,249,432	5,096,258	23,176,301	24,198,757
Underfunded	\$ 19,115,918	\$ 12,328,097	\$ 4,778,979	\$ 3,082,025	\$ 6,994,092	\$ 4,111,963	\$ 30,888,989	\$ 19,522,085
Accrued Benefit Costs	\$ 16,679,373	\$ 16,411,001	\$ 4,169,843	\$ 4,102,749	\$ 5,907,965	\$ 5,825,261	\$ 26,757,181	\$ 26,339,011
Liability for Benefits	2,436,545	(4,082,904)	609,136	(1,020,723)	1,086,127	(1,713,299)	4,131,808	(6,816,926)
	\$ 19,115,918	\$ 12,328,097	\$ 4,778,979	\$ 3,082,026	\$ 6,994,092	\$ 4,111,962	\$ 30,888,989	\$ 19,522,085
Net Periodic Benefit Cost	\$ 477,048	\$ 473,659	\$ 119,262	\$ 118,415	\$ 159,086	\$ 147,556	\$ 755,396	\$ 739,630

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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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Amounts in Unassigned Surplus Recognized as Components of Net Periodic Benefit Cost:				
Items Not Yet Recognized from Prior Year	\$ 12,094,705	\$ 14,184,563	\$ (6,816,926)	\$ (4,134,157)
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	9,777,640	101,125	9,906,493	(3,713,866)
Net Loss Recognized	<u>(1,674,303)</u>	<u>(2,170,002)</u>	<u>-</u>	<u>(11,144)</u>
Items Not Yet Recognized Current Year	\$ 20,177,061	\$ 12,094,705	\$ 4,131,808	\$ (6,816,926)

Amounts in Unassigned Surplus Not Yet

Recognized as Components of

Net Periodic Benefit Cost:

Net Transition Obligation Recognized	\$ 20,981	\$ 41,962	\$ -	\$ -
Net Prior Service Cost	\$ -	\$ -	\$ (6,847,524)	\$ (7,889,765)
Net Recognized Losses	\$ 20,156,080	\$ 12,052,743	\$ 10,979,332	\$ 1,072,839

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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Discount Rate	3.02%	4.20%	3.51%	4.59%
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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</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
Expected Long-Term Rate of Return on Plan Assets	6.00%	6.00%	4.25%	4.25%

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 noncontributory. The health care cost trend rate in 2019 was 7.14 percent, graded to 6.72 percent for one year, then graded to 4.50 percent by 2028. In 2018 the health care cost trend rate was 7.61 percent, graded to 7.10 percent for one year, then graded to 4.50 percent by 2026.

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

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to participants. The fair value of the contract included in plan assets of the Company and its affiliates was \$25,846,371 and \$23,243,155 as of December 31, 2019 and 2018, respectively, or 28 and 31 percent of total plan assets. Equity securities comprise the remaining plan assets. At December 31, 2019 and 2018, equity securities, cash, and cash equivalents amounted to \$65,809,157 and \$50,986,203, respectively, or 72 and 69 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, 2019 and 2018, the fair value of the contract was \$23,176,301 and \$24,198,757, respectively. No contributions were made in 2019 and 2018 into the deposit administration contract.

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.

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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, 2019, for the Company and its affiliates:

	Assets at Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Pension Plan Assets:				
Equity Securities				
Communication Services	\$ 2,985,363	\$ -	\$ -	\$ 2,985,363
Consumer Discretionary	2,714,658	-	-	2,714,658
Consumer Staples	5,076,360	-	-	5,076,360
Energy	5,270,659	-	-	5,270,659
Financials	12,121,476	-	-	12,121,476
Health Care	7,507,795	-	-	7,507,795
Industrials	5,731,491	-	-	5,731,491
Information Technology	9,059,405	-	-	9,059,405
Materials	1,531,840	-	-	1,531,840
Utilities	11,025,110	-	-	11,025,110
Total Equity Securities	\$ 63,024,157	\$ -	\$ -	\$ 63,024,157
Cash and Cash Equivalents	2,065,000	-	-	2,065,000
Deposit Administration Contract	-	-	25,846,371	25,846,371
Total Pension Plan Assets	\$ 65,089,157	\$ -	\$ 25,846,371	\$ 90,935,528
Post-Retirement Plan Assets:				
Deposit Administration Contract	\$ -	\$ -	\$ 23,176,301	\$ 23,176,301
Total Post-Retirement Plan Assets	\$ -	\$ -	\$ 23,176,301	\$ 23,176,301

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

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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 Company's benefits paid were \$63,300 in both 2019 and 2018. The liability for the Directors' retirement benefit was \$219,326 and \$237,529 at December 31, 2019 and 2018, 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 \$677,118 and \$598,970 respectively, were made to this plan for all participants in 2019 and 2018.

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 2019 and 2018 Directors' fees of \$33,000, were deferred. The liability for Directors' deferred compensation was \$246,027 and \$233,350 at December 31, 2019 and 2018, respectively.

8. 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, 2019 and 2018, respectively, due to the following:

	<u>2019</u>	<u>2018</u>
Computed Expected Federal Income Tax Expense (Benefit)	\$ (1,171,419)	\$ 2,047,971
Increase (Decrease) in Taxes Resulting from:		
Tax Exempt Interest	(197,987)	(239,850)
Dividends Received Deduction	(20,822)	(20,560)
Adjustment for Prior Year (Over) Under Accrual	(9,990)	(106,664)
Unearned Premium	(11,437)	(66,328)
Loss Reserve Discounting	257,084	905
Pension Benefits	(216,404)	9,292
Post-Retirement Benefits	17,578	5,085
Net Operating Loss Rate Difference	(353,292)	-
All Other	<u>93,518</u>	<u>114,122</u>
Federal Income Tax Expense (Benefit)	\$ (1,613,171)	\$ 1,743,973
Tax on Capital Gains	<u>158,538</u>	<u>520,491</u>
Tax Expense (Benefit)	<u>\$ (1,771,709)</u>	<u>\$ 1,223,482</u>

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

The components of the net deferred tax asset as of December 31, 2019 and 2018 are as follows:

	2019		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 6,165,502	\$ -	\$ 6,165,502
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	6,165,502	-	6,165,502
Deferred Tax Assets Nonadmitted	-	-	-
Subtotal Net Admitted Deferred Tax Asset	6,165,502	-	6,165,502
Deferred Tax Liabilities	905,811	2,530,108	3,435,919
Net Admitted Deferred Tax Assets	<u>\$ 5,259,691</u>	<u>\$ (2,530,108)</u>	<u>\$ 2,729,583</u>
	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>
	Change		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 432,058	\$ -	\$ 432,058
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	432,058	-	432,058
Deferred Tax Assets Nonadmitted	-	-	-
Subtotal Net Admitted Deferred Tax Asset	432,058	-	432,058
Deferred Tax Liabilities	(242,370)	955,853	713,483
Net Admitted Deferred Tax Assets	<u>\$ 674,428</u>	<u>\$ (955,853)</u>	<u>\$ (281,425)</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)*.

	2019		
	Ordinary	Capital	Total
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	\$ 1,242,005	\$ -	\$ 1,242,005
11b. Expected to be Realized, After Application of Threshold Limitations	3,336,096	-	3,336,096
11c. Offset of Deferred Tax Liabilities	1,587,401	-	1,587,401
Total Admitted Deferred Tax Assets	<u>\$ 6,165,502</u>	<u>\$ -</u>	<u>\$ 6,165,502</u>
	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>
	Change		
	Ordinary	Capital	Total
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	\$ (1,564,065)	\$ -	\$ (1,564,065)
11b. Expected to be Realized, After Application of Threshold Limitations	1,913,166	-	1,913,166
11c. Offset of Deferred Tax Liabilities	82,957	-	82,957
Total Admitted Deferred Tax Assets	<u>\$ 432,058</u>	<u>\$ -</u>	<u>\$ 432,058</u>
	2019	2018	
Ratio Used to Determine Recovery Period and Threshold Limitation Amount Under Paragraph 11b	971%	1,286%	
Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation Under Paragraph 11b	\$134,015,759	\$136,146,059	

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, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Current Income Tax			
Federal	\$(1,603,181)	\$ 1,850,637	\$(3,453,818)
Prior Year Over Accrual of Tax Reserves	(9,990)	(106,664)	96,674
Federal Income Tax Expense (Benefit)	<u>\$(1,613,171)</u>	<u>\$ 1,743,973</u>	<u>\$(3,357,144)</u>
Deferred Tax Assets:			
Ordinary:			
Discounting of Unpaid Losses	\$ 1,748,828	\$ 1,691,370	\$ 57,458
Unearned Premium Reserve	2,457,515	2,468,953	(11,438)
Advanced Premium	45,560	30,332	15,228
Compensation and Benefits Accrual	154,723	154,703	20
Pension Accrual	-	82,369	(82,369)
Postretirement Benefits	875,667	-	875,667
Liability for Pension Benefits	674,410	409,295	265,115
Liability for Postretirement Benefits	127,919	-	127,919
Other	80,880	896,422	(815,542)
Total Ordinary Deferred Tax Assets	<u>6,165,502</u>	<u>5,733,444</u>	<u>432,058</u>
Non-admitted	-	-	-
Admitted Ordinary Deferred Tax Assets	<u>6,165,502</u>	<u>5,733,444</u>	<u>432,058</u>
Admitted Capital Deferred Tax Assets	-	-	-
Admitted Deferred Tax Assets	<u>\$ 6,165,502</u>	<u>\$ 5,733,444</u>	<u>\$ 432,058</u>
Deferred Tax Liabilities:			
Ordinary:			
Other	\$ 905,811	\$ 1,148,181	\$ (242,370)
Total Ordinary Deferred Tax Liabilities	<u>905,811</u>	<u>1,148,181</u>	<u>(242,370)</u>
Capital:			
Unrealized Capital Gains	\$ 2,530,108	\$ 1,574,255	\$ 955,853
Total Capital Deferred Tax Liabilities	<u>2,530,108</u>	<u>1,574,255</u>	<u>955,853</u>
Total Deferred Tax Liabilities	<u>\$ 3,435,919</u>	<u>\$ 2,722,436</u>	<u>\$ 713,483</u>
Net Deferred Tax Assets	<u>\$ 2,729,583</u>	<u>\$ 3,011,008</u>	<u>\$ (281,425)</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, 2019 and 2018, the Company had no operating loss carryforwards. There are no capital loss carryforwards on December 31, 2019 and 2018.

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 \$145 and tax expense of \$71,068 in 2019 and 2018, respectively, is included in underwriting expenses.

The CARES Act was enacted on March 27, 2020 in response to COVID - 19. The CARES Act contains provisions for a five year net operating loss carryback, along with Alternative Minimum Tax (AMT) credit refunds. The tax provisions for 2019 and 2018 do not reflect these considerations.

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

Pekin Insurance Company

Notes to Financial Statements – Statutory Basis

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 \$2,360,953 and \$2,245,930 at December 31, 2019 and 2018, respectively.

10. 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, 2019, 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, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Net Unrealized Capital Gains	\$ 16,336,214	\$ 11,609,161

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, 2020

Pekin Insurance Company

Summary Investment Schedule December 31, 2019

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	%	Amount	%
1. Long-Term Bonds:				
01.01 U.S. governments	\$ 7,686,274	2.5	\$ 7,686,274	2.5
01.02 All other governments	1,747,289	0.6	1,747,289	0.6
01.03 U.S. states, territories and possessions, etc. guaranteed	6,337,025	2.0	6,337,025	2.0
01.04 U.S. political subdivisions of states, territories, and possessions, guaranteed	11,152,954	3.6	11,152,954	3.6
01.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed	82,985,583	26.7	82,985,583	26.7
01.06 Industrial and miscellaneous	161,932,714	52.1	161,932,714	52.1
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	271,841,839	87.5	271,841,839	87.5
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)	22,246,795	7.1	22,246,795	7.1
03.02 Industrial and miscellaneous Other (Unaffiliated)	1,495,715	0.5	1,495,715	0.5
03.03 Parent, subsidiaries and affiliates Publicly traded	-	-	-	-
03.04 Parent, subsidiaries and affiliates Other	11,907,605	3.8	11,907,605	3.8
03.05 Mutual funds	-	-	-	-
03.06 Unit investment trusts	-	-	-	-
03.07 Closed-end funds	-	-	-	-
03.08 Total common stocks	35,650,115	11.4	35,650,115	11.4
4. Mortgage loans:				
04.01 Farm mortgages	-	-	-	-
04.02 Residential mortgages	-	-	-	-
04.03 Commercial mortgages	-	-	-	-
04.04 Mezzanine real estate loans	-	-	-	-
04.05 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	20,619	-	20,619	-
06.02 Cash equivalents	2,500,074	0.8	2,500,074	0.8
06.03 Short-term investments	-	-	-	-
06.04 Total cash, cash equivalents and short-term investments:	2,520,693	0.8	2,520,693	0.8
7. Contract loans	-	-	-	-
8. Derivatives	-	-	-	-
9. Other invested assets	-	-	-	-
10. Receivable for securities	9,373	-	9,373	-
11. Securities Lending	937,510	0.3	937,510	0.3
12. Other invested assets	-	-	-	-
13. Total invested assets	<u>\$ 310,959,530</u>	<u>100.0</u>	<u>\$ 310,959,530</u>	<u>100.0</u>

See Independent Auditor's Report on the Supplementary Information.

Pekin Insurance Company

Investment Risks Interrogatories December 31, 2019

1. State the reporting entity's total admitted assets as reported on Page 2 of the annual statement. \$ 318,897,419

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
<u>Issuer</u>	<u>Description of Exposure</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
2.01 FANNIE MAE	Bond	\$ 38,217,477	12.0%
2.02 FREDDIE MAC	Bond	\$ 12,984,250	4.1%
2.03 PEKIN LIFE INSURANCE CO	Affiliated Common Stock	\$ 9,539,580	3.0%
2.04 FR SD 8005	MBS/CMO	\$ 3,981,037	1.2%
2.05 ESTEE LAUDER CO INC	Bond	\$ 2,998,439	0.9%
2.06 FR QA3869	MBS/CMO	\$ 2,050,299	0.6%
2.07 OMFIT 2019-2A A	MBS/CMO	\$ 1,999,179	0.6%
2.08 PORT OF PORTLAND OR ARPT REVEN	Bond	\$ 1,905,011	0.6%
2.09 PEKIN SELECT INSURANCE CO	Affiliated Common Stock	\$ 1,838,330	0.6%
2.10 WISCONSIN ST HLTH & EDUCTNL FA	Bond	\$ 1,816,178	0.6%

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

<u>Bonds</u>		<u>1</u>	<u>2</u>	<u>Preferred Stocks</u>		<u>3</u>	<u>4</u>
3.01	NAIC-1	\$ 229,594,562	72.0%	3.07	P/RP-1	\$ -	0.0%
3.02	NAIC-2	\$ 42,247,277	13.2%	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:

		<u>1</u>	<u>2</u>
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	\$ 23,186,135	7.3%

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

		<u>1</u>	<u>2</u>
5.01	Countries designated NAIC-1	\$ 20,937,140	6.6%
5.02	Countries designated NAIC-2	\$ 2,248,995	0.7%
5.03	Countries designated NAIC-3 or below	\$ -	0.0%

Pekin Insurance Company

Investment Risks Interrogatories December 31, 2019

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	\$ 4,393,917	1.4%
6.02 Country: Australia	\$ 3,037,289	1.0%
Countries designated NAIC-2		
6.03 Country: Mexico	\$ 1,498,801	0.5%
6.04 Country: Indonesia	\$ 500,400	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	\$ 1,074,646	0.3%
10.02	HSBC HOLDINGS PLC	1FE	\$ 1,001,510	0.3%
10.03	CREDIT SUISSE GROUP AG	2FE	\$ 1,000,494	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	BNP PARIBAS	1FE	\$ 999,881	0.3%
10.07	EQUINOR ASA	1FE	\$ 999,597	0.3%
10.08	WESTPAC BANKING CORP	1FE	\$ 999,363	0.3%
10.09	AMERICA MOVIL SAB DE CV	1FE	\$ 999,337	0.3%
10.10	TYCO ELECTRONICS GROUP S	1FE	\$ 993,695	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	<table> <thead> <tr> <th style="text-align: center;"><u>1</u></th> <th style="text-align: center;"><u>2</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">0.0%</td> </tr> </tbody> </table>	<u>1</u>	<u>2</u>	\$ -	0.0%
<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 []

Pekin Insurance Company

Investment Risks Interrogatories December 31, 2019

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

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

1 Issuer	2	3
13.02 PEKIN LIFE INSURANCE CO	\$ 9,539,580	3.0%
13.03 PEKIN SELECT INSURANCE CO	\$ 1,838,330	0.6%
13.04 MEDTRONIC PLC	\$ 939,139	0.3%
13.05 ALPHABET INC-CL A	\$ 816,592	0.3%
13.06 APPLE INC	\$ 652,490	0.2%
13.07 MICROSOFT CORP	\$ 560,781	0.2%
13.08 COCA-COLA CO/THE	\$ 536,452	0.2%
13.09 PAC INC	\$ 529,695	0.2%
13.10 BAXTER INTERNATIONAL INC	\$ 514,096	0.2%
13.11 SKYWORKS SOLUTIONS INC	\$ 422,838	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 End of Each Quarter				
	At Year-End		(Unaudited) 1st Qtr	(Unaudited) 2nd Qtr	(Unaudited) 3rd Qtr
	1	2	3	4	5
20.01 Securities lending (do not include assets held as collateral for such transactions)	\$ 926,516	0.3%	\$ 2,430,103	\$ 954,779	\$ 943,923

See Independent Auditor's Report on the Supplementary Information

Pekin Insurance Company

Investment Risks Interrogatories December 31, 2019

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, 2019

- 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 []
- 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 []
- 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 []

See Independent Auditor's Report on the Supplementary Information.

Pekin Insurance Company

Reinsurance Interrogatories December 31, 2019

- 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 []