



2025



ANNUAL REPORT

PEKIN LIFE INSURANCE COMPANY



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TO OUR SHAREHOLDERS

The operating results for 2025 are summarized below.

The results for 2025 reflect net income of \$0.3 million, or \$0.02 per share, compared to net income of \$8.6 million, or \$0.50 per share, last year primarily due to lower investment income in 2025 as a result of a Pre-need reinsurance transaction. Realized capital gains were \$1.7 million, or \$0.10 per share, compared to realized capital gains of \$2.1 million, or \$0.12 per share, last year.

Premium decreased \$327.2 million this year due to entering a reinsurance transaction on an existing block of Pre-need products. Ordinary Life and Medicare Supplement premium showed growth in 2025.

Investment income excluding capital gains decreased to \$63.9 million this year, or a decrease of 10.8 percent from last year. The decrease is due to funding the Pre-need reinsurance transaction. Our bond portfolio is comprised of high-quality holdings, of which 94.8 percent are investment grade.

As of December 31, 2025, assets were \$1.4 billion. Book value increased during the year by \$4.3 million from year end 2024. Book value per share was \$7.80 at December 31, 2025.

Further information regarding the results for the year 2025 can be found on our website at www.pekininsurance.com.

We appreciate the continued support of our shareholders, agents, and employees.

Daniel V. Connell, CPA
Chairman of the Board, President & Chief Executive Officer

SIGNIFICANT FIGURES

Pekin Life Insurance Company

	2025	2024	CHANGE
Life Insurance in Force			
Ordinary	\$21,014,925,000	\$20,723,643,000	1.41%
Credit	151,278,000	267,513,000	-43.45%
Group	768,681,000	783,943,000	-1.95%
Total Life Insurance in Force	21,934,884,000	21,775,099,000	0.73%
Assets	1,368,005,458	1,712,897,439	-20.14%
Policy Reserves	1,116,089,962	1,413,282,322	-21.03%
Premium Income	(141,274,177)	185,972,738	-175.96%
Payments to Policyholders and Beneficiaries	176,061,437	179,177,703	-1.74%
Investment Income	68,816,441	71,586,920	-3.87%
Net Rate of Return on Investments	4.69%	4.40%	6.60%
Net Income (Loss) Before Realized Capital Gains	(1,360,927)	6,492,674	-120.96%
Net Income (Loss)	341,777	8,614,192	-96.03%
Net Income (Loss) Before Realized Capital Gains Per Share	(0.08)	0.38	-121.05%
Realized Capital Gains Per Share	0.10	0.12	-16.67%
Net Income (Loss) Per Share	0.02	0.50	-96%
Book Value Per Share	7.80	7.55	3.31%

Pekin Life Insurance Company

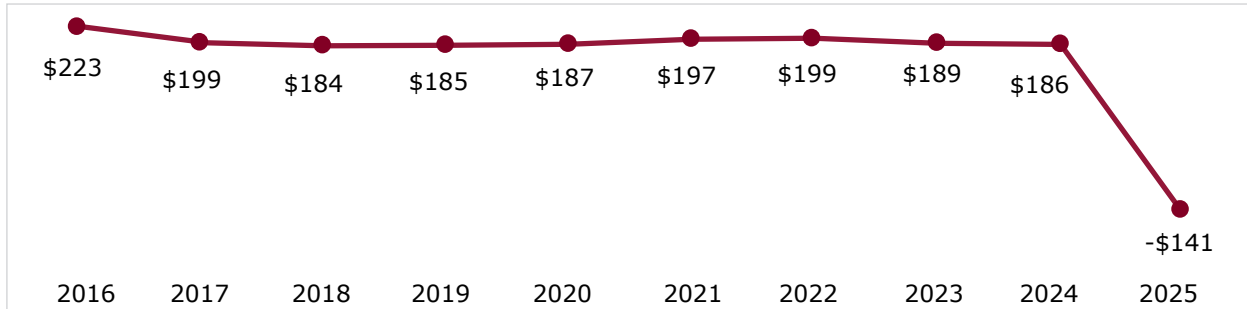
Premium Income By Product Line	2025		2024	
	Amount	% of Total	Amount	% of Total
Ordinary Life	\$ 87,664,862	-62%	\$ 86,281,434	46%
Annuity	6,219,881	-4%	8,140,809	4%
Pre-Need Life and Annuity	(279,529,660)	198%	49,683,235	27%
Group Life and Health	2,303,942	-2%	2,335,281	1%
Group Annuity	122,740	0%	377,590	0%
Individual Health	42,520,305	-30%	40,262,374	22%
Credit Life and Health	(576,247)	0%	(1,107,985)	-1%
Total	\$ (141,274,177)	100%	\$ 185,972,738	100%

FINANCIAL HIGHLIGHTS

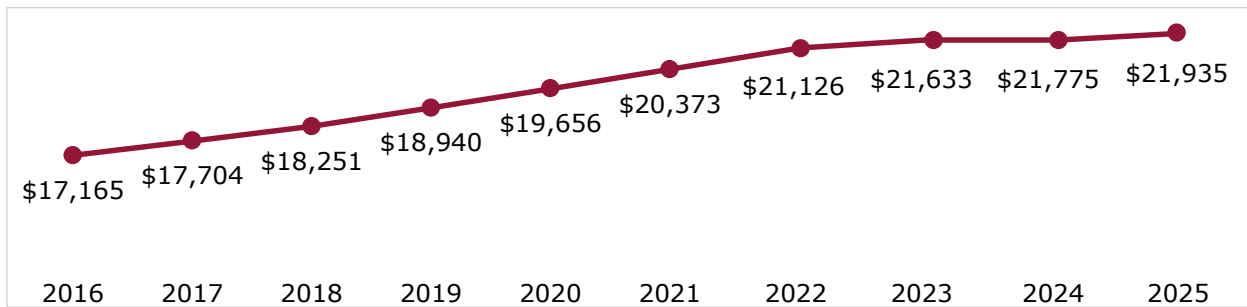
2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
12.38	12.70	12.65	12.56	12.13	5.55	11.78	11.52	11.88	11.80	Marketing Price Per Share
13.04	11.68	10.81	10.86	10.94	11.56	11.64	11.05	10.90	(8.28)	Premium Income Per Share
3.29	3.43	3.52	3.60	3.59	3.62	3.77	4.08	4.19	4.03	Investment Income Per Share
.09	.36	.09	.09	.10	(.31)	(.33)	.05	.38	(.08)	(A) (C) Earnings Per Share
(.15)	.07	.11	.00	(.03)	.09	.05	.06	.12	.10	(D) Realized Capital Gains (Losses) Per Share
(.06)	.43	.20	.09	.07	(.22)	(.28)	0.11	.50	.02	(A) (B) Earnings Per Share
.0100	.0000	.0300	.0100	.0100	.0200	.0000	.0000	.0000	.0000	Dividends Declared Per Share
7.30	7.48	7.57	7.37	7.14	7.15	6.75	6.79	7.55	7.80	(A) Tangible Book Value Per Share
17,068	17,068	17,068	17,068	17,068	17,068	17,068	17,068	17,068	17,068	(B) Common Shares Outstanding (000)
170	170	167	170	170	78	174	170	157	151	% Price to Book Value
-	30	63	140	173	-	-	105	23.75	590	Year End P/E Ratio
.08	-	.24	.08	.08	.36	-	-	-	-	Year End Dividend Yield (%)
124,564	127,625	129,198	125,850	121,798	122,042	115,201	115,888	128,898	133,162	Net Worth (\$000)
-	5.8	2.3	1.0	0.8	-	-	1.7	6.7	0.3	% Profits Retained to Common Equity
-	-	14.9	11.7	14.4	-	-	-	-	-	% Cash Dividends to Net Profit

- (A) Due to regulatory changes, the Company's stock in 2021 was temporarily removed from the OTC's publicly quoted market and was resolved as of January 2022.
- (B) The statutory basis of accounting applies (used for reporting to the respective Insurance Departments).
- (C) Includes realized capital gains (losses).
- (D) Excludes realized capital gains (losses).
- (E) Effective January 1, 2001, the statutory basis of accounting requires that unrealized capital losses on investments that are determined to be other than temporary declines in value must be reclassified to be realized capital losses. In 2001, these reclassified unrealized capital losses were reflected as a change in accounting adjusting unassigned surplus, rather than as a charge to earnings. In 2023, 2022, 2019 and 2016, a realized capital loss of \$(0.006), \$(0.005), \$(0.002) and \$(0.17), respectively, is considered to be an other than temporary decline in value and is charged against earnings.

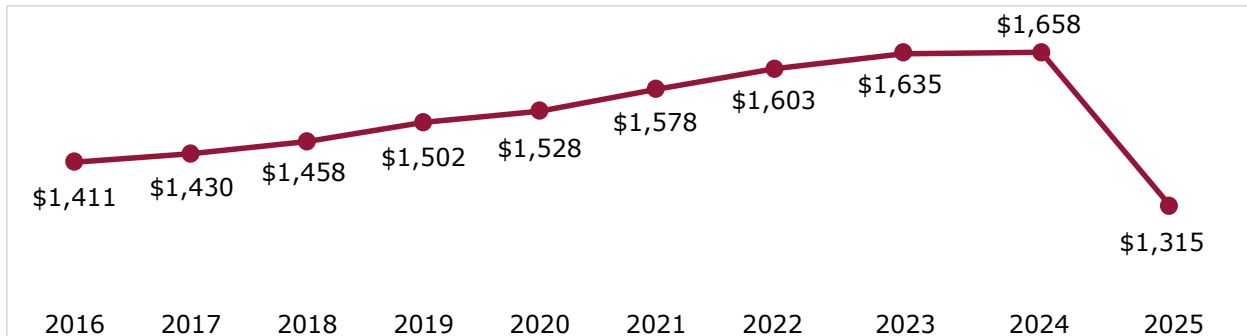
PREMIUM INCOME (In Millions)



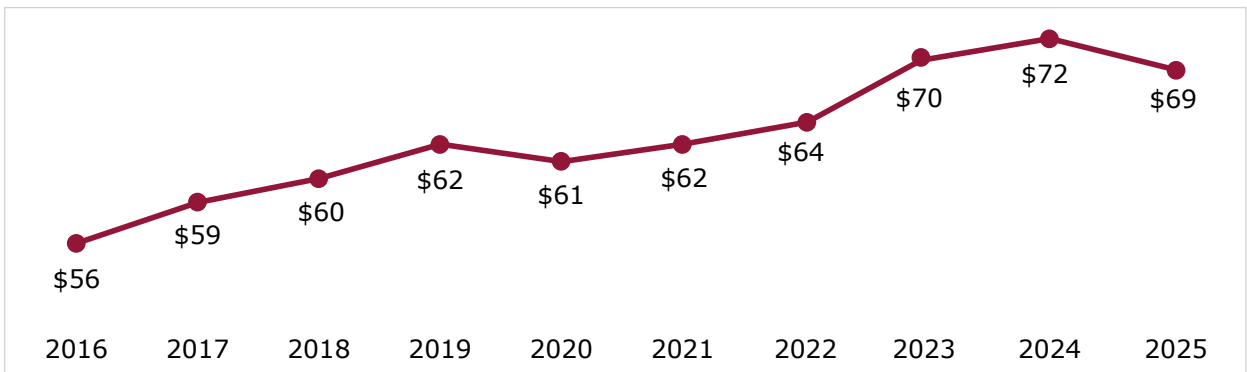
LIFE INSURANCE IN FORCE (In Millions)



CASH AND INVESTED ASSETS (In Millions)



INVESTMENT INCOME (In Millions)





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

To the Board of Directors and Shareholders
Pekin Life Insurance Company
Pekin, Illinois

Report on the Audit of the Statutory Financial Statements

Opinions

We have audited the statutory financial statements of Pekin Life Insurance Company (the Company), which are comprised of the statutory balance sheets as of December 31, 2025 and 2024, and the related statutory statements of operations, changes in policyholders' surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying statutory financial statements present fairly, in all material respects, the statutory financial position of the Company as of December 31, 2025 and 2024, and the results of its operations 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.

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 section of our report, the statutory financial statements 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, 2025 and 2024, or the results of its operations or its cash flows thereof for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statutory Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 statutory financial statements, the statutory financial statements are prepared using 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. The effects on the statutory financial statements of the variances between these statutory accounting practices 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 and pervasive.

Responsibilities of Management for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory 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 statutory financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the statutory financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the statutory financial statements are issued.

Auditor's Responsibilities for the Audit of the Statutory Financial Statements

Our objectives are to obtain reasonable assurance about whether the statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statutory financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statutory financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statutory financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.



- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statutory financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Strohm Ballweg, LLP

Madison, Wisconsin
March 25, 2026

STATUTORY BALANCE SHEETS

DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Admitted Assets:		
Bonds	\$ 1,132,726,481	\$ 1,430,859,822
Preferred Stocks	1,500,000	1,500,000
Common Stocks	39,606,858	43,482,898
Mortgage Loans	102,275,802	115,299,511
Real Estate Occupied by the Company, Net of Depreciation	1,110,255	1,203,063
Cash, Cash Equivalents, and Short-Term Investments	11,246,811	12,582,649
Contract Loans	14,286,119	14,458,256
Receivables for Securities	-	67,746
Securities Lending Reinvested Collateral Assets	<u>12,051,583</u>	<u>38,440,488</u>
Total Cash and Invested Assets	1,314,803,910	1,657,894,433
Life and Health Premiums Due and Unpaid	60,268	49,457
Life Premiums Deferred	26,817,611	26,883,674
Investment Income Accrued	13,580,339	16,839,908
Amounts Recoverable from Reinsurers	25,000	772,359
Current Federal Income Tax Recoverable	4,049,544	3,069,678
Net Deferred Tax Asset	7,756,511	7,387,930
State Income Tax Receivable	912,275	-
Total Admitted Assets	<u><u>\$ 1,368,005,458</u></u>	<u><u>\$ 1,712,897,439</u></u>
Liabilities:		
Aggregate Reserve for Contracts:		
Life	\$ 842,506,816	\$ 1,106,044,338
Annuity	264,252,479	296,908,304
Health	<u>9,330,667</u>	<u>10,329,680</u>
Total Aggregate Reserve for Contracts	1,116,089,962	1,413,282,322
Contract Claims:		
Life	10,370,872	12,671,959
Health	<u>5,762,336</u>	<u>5,604,636</u>
Total Contract Claims	16,133,208	18,276,595
Other Policy Liabilities:		
Premium Received in Advance	2,363,604	2,457,405
Policyholders' Dividends	9,392	9,856
Deposit Administration Contracts	20,438,388	41,696,149
Other Deposit-Type Contracts	<u>14,509,711</u>	<u>15,029,402</u>
Total Other Policy Liabilities	37,321,095	59,192,812
Interest Maintenance Reserve	4,195,362	4,595,892
Expenses and Taxes Accrued	7,394,082	7,424,352
Amounts Withheld or Retained	2,189,125	2,326,687
Asset Valuation Reserve	21,139,404	25,012,579
Due to Parent	3,636,333	1,524,851
Drafts Outstanding	3,351,740	5,071,820
Payable for Securities	392,552	-
Payable for Securities Lending	12,051,583	38,440,488
Post-Retirement Liability	7,950,337	7,222,874
Other Liabilities	<u>2,998,760</u>	<u>1,628,509</u>
Total Liabilities	1,234,843,543	1,583,999,781
Policyholders' Surplus:		
Capital Stock, Par Value \$1.25; 22,000,000 Shares Authorized; Shares Issued - 17,600,000; and Shares Outstanding - 17,068,023	22,000,000	22,000,000
Paid-In Surplus	900,000	900,000
Unassigned Surplus	114,531,519	110,267,262
Treasury Stock, Shares at Cost, 531,977 in 2025 and 2024	<u>(4,269,604)</u>	<u>(4,269,604)</u>
Total Policyholders' Surplus	133,161,916	128,897,658
Total Liabilities and Policyholders' Surplus	<u><u>\$ 1,368,005,458</u></u>	<u><u>\$ 1,712,897,439</u></u>

STATUTORY STATEMENTS OF OPERATIONS AND CHANGES IN POLICYHOLDERS' SURPLUS

YEARS ENDED DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Income:		
Life Premiums	\$(180,547,961)	\$ 133,853,920
Annuity Considerations	(3,542,918)	11,808,660
Health Premiums	42,816,702	40,310,158
Net Investment Income	68,816,440	71,586,920
Total Income	<u>(72,457,737)</u>	<u>257,559,658</u>
Deductions:		
Benefits to Policyholders and Beneficiaries:		
Life	100,278,427	91,942,915
Annuity	34,469,198	46,490,549
Health	41,313,812	40,744,239
Total Benefits to Policyholders and Beneficiaries	<u>176,061,437</u>	<u>179,177,703</u>
Changes to Policy Reserves:		
Life	(269,102,522)	44,441,857
Annuity	(32,635,828)	(23,464,102)
Health	(999,016)	(4,363,468)
Total Changes to Policy Reserves	<u>(302,737,366)</u>	<u>16,614,287</u>
Expenses:		
Commissions and Service Fees	13,490,040	15,127,099
General Insurance Expenses	33,702,067	31,176,405
Taxes, Licenses, and Fees	2,815,881	4,345,313
Total Expenses	<u>50,007,988</u>	<u>50,648,817</u>
Change in IMR Reserve	4,926,106	-
Total Deductions	<u>(71,741,835)</u>	<u>246,440,807</u>
Income (Loss) Before Federal Income Tax Expense and Net Realized Capital Gains	(715,902)	11,118,851
Federal Income Tax Expense	645,025	4,626,177
Income (Loss) Before Net Realized Capital Gains, Net of Tax	(1,360,927)	6,492,674
Net Realized Capital Gains, Net of Tax	1,702,704	2,121,518
Net Income	<u>\$ 341,777</u>	<u>\$ 8,614,192</u>
Net Income (Loss) Before Net Realized Capital Gains Per Share	\$ (0.08)	\$ 0.38
Net Realized Capital Gains, Net of Income Taxes Per Share	0.10	0.12
Net Income Per Share	<u>\$ 0.02</u>	<u>\$ 0.50</u>
Shares Outstanding	<u>17,068,023</u>	<u>17,068,023</u>
Changes in Policyholders' Surplus:		
Policyholders' Surplus - Beginning of Year	<u>\$ 128,897,658</u>	<u>\$ 115,887,517</u>
Changes in Policyholders' Surplus:		
Net Income	341,777	8,614,192
Net Unrealized Capital Gains	1,666,038	4,183,714
Asset Valuation Reserve	3,873,175	(3,241,184)
Net Deferred Tax Asset	663,448	422,160
Non-Admitted Assets	(832,768)	418,348
Pension Benefit Obligations	121,043	1,047,666
Post-Retirement Benefit Obligations	(756,655)	1,565,245
Deferred Ceding Commission	4,733,199	-
Correction of Prior Year Error	(5,545,000)	-
Net Increase	<u>4,264,257</u>	<u>13,010,141</u>
Policyholders' Surplus - End of Year	<u>\$ 133,161,915</u>	<u>\$ 128,897,658</u>

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

STATUTORY STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Cash from Operations:		
Premiums Collected, Net of Reinsurance	\$ (142,740,500)	\$ 186,021,025
Net Investment Income	71,968,474	71,110,248
Miscellaneous Income	3,144,899	663,577
Total Cash Received	<u>(67,627,128)</u>	<u>257,794,850</u>
Benefits and Loss Related Payments	177,448,544	180,065,944
Commissions, Expenses Paid, and Other Deductions	49,546,994	46,837,797
Dividends Paid to Policyholders	9,384	9,641
Federal Income Taxes Paid	754,505	5,436,209
Total Cash Disbursed	<u>227,759,427</u>	<u>232,349,591</u>
Net Cash from Operations	<u>(295,386,554)</u>	<u>25,445,259</u>
Cash from Investments:		
Proceeds from Investments Sold, Matured, or Repaid:		
Bonds	399,321,218	136,642,988
Stocks	21,521,204	18,834,058
Mortgage Loans	14,207,130	8,808,144
Miscellaneous	26,849,203	1,241,363
Total Investment Proceeds	<u>461,898,755</u>	<u>165,526,553</u>
Cost of Investments Acquired:		
Bonds	107,730,453	157,971,974
Stocks	13,730,522	20,902,995
Mortgage Loans	1,168,324	10,197,670
Real Estate	-	(215,220)
Total Investments Acquired	<u>122,629,299</u>	<u>188,857,419</u>
Net Change in Contract Loans	<u>(172,137)</u>	<u>260,680</u>
Net Cash from Investments	<u>339,441,593</u>	<u>(23,591,546)</u>
Cash from Financing and Miscellaneous Sources:		
Net Deposits on Deposit-Type Contracts	(21,777,452)	2,691,470
Other Cash Provided (Applied)	<u>(23,613,425)</u>	<u>(3,779,365)</u>
Net Cash from Financing and Miscellaneous Sources	<u>(45,390,877)</u>	<u>(1,087,895)</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments	(1,335,838)	765,818
Cash, Cash Equivalents, and Short-Term Investments at Beginning of Year	<u>12,582,649</u>	<u>11,816,831</u>
Cash, Cash Equivalents, and Short-Term Investments at End of Year	<u>\$ 11,246,811</u>	<u>\$ 12,582,649</u>

1. Nature of Operations and Summary of Significant Accounting Practices

Pekin Life Insurance Company (Company) is a life and accident and health insurance company domiciled in the State of Illinois that is licensed to operate in 25 states across the nation. The Company sells insurance primarily through independent agents. Insurance products primarily include ordinary life, Medicare Supplement, annuities, and pre-need life. The Company also offers group life, dental, and short-term disability as well as voluntary products.

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.

During the year, the Company identified an error related to a reserve calculation in prior years. As a result of the error, the aggregate reserve for life contracts was understated, and changes to life policy reserves were correspondingly overstated. The company recorded a correction of error in the current year statutory financial statements. The adjustment resulted in a decrease to surplus and an increase to aggregate reserve for life contracts in the amount of \$5,545,000 as of December 31, 2025.

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 life, annuity, and health insurance contract reserves, 2) the assumptions regarding the other than temporary impairment analysis of the investment portfolio, 3) the assumptions, including the discount rate, used to determine the benefit obligations for the defined benefit pension plan and other post-retirement benefit plan, 4) the amount of deferred tax assets expected to be realized in future years, and 5) the amount of net deferred premium.

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, whereby bonds eligible for amortization under such rules are stated at amortized cost. The Company uses a modified scientific method for amortizing bonds. Common stocks are generally carried at fair market value. Redeemable preferred stocks are stated at amortized cost; however, redeemable preferred stocks with an NAIC designation of three or lower are carried at the lower of amortized cost or fair value. Perpetual preferred stocks are carried at fair value.

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 six 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, along with the deferred federal income tax effect. Unrealized capital losses on investments that are determined to be other than temporary declines in value are 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, with a corresponding allowance for credit-related unrealized losses reported in net income; and debt securities classified as trading would be carried at fair value with the unrealized holding gains and losses reported in income; debt securities classified as available for sale would be carried at fair value with a corresponding allowance for credit-related losses reported in net income and non-credit unrealized holding gains and losses reported as a separate component of surplus. Equity securities would be carried at fair value with the unrealized holding gains and losses reported in income.

Mortgage loans and contract loans are stated at the aggregate of unpaid loan balances, which approximate fair value. The stated value of contract loans is not in excess of cash surrender values of related policies.

The asset valuation reserve (AVR) is maintained as prescribed by the NAIC for the purpose of stabilizing surplus against fluctuations in the market values of invested assets. The AVR is reported as a liability and changes are charged or credited directly to unassigned surplus. The AVR would not be required under GAAP.

The interest maintenance reserve (IMR) is maintained as prescribed by the NAIC to defer realized capital gains and losses which result from changes in interest rates for fixed income securities and to amortize these capital gains and losses into investment income over the remaining life of the investments sold, rather than reflecting the gains or losses in the year of sale. The IMR would not be required under GAAP.

An occupancy rental charge on home office real estate owned is recorded as investment income and as offsetting rental expense; under GAAP, no such rental charge would be recognized.

B. Non-Admitted Assets

Certain assets designated as "non-admitted assets" (primarily prepaid pension, nonoperating system software, office furniture and equipment, and certain deferred tax assets) are charged against policyholders' surplus. Under GAAP, nonoperating software and office furniture and equipment would be recognized as assets net of accumulated depreciation and amortization, and deferred taxes would be accounted for as noted in Note 1G.

C. Policy Reserves and Claim Reserves

Policy reserves on life insurance are based on statutory mortality and interest rate requirements and are computed using principally net level and modified preliminary term methods with interest rates ranging primarily from 2.25 percent to 6.00 percent. The use of a modified reserve basis partially offsets the effect of immediately expensing policy acquisition costs. Policy reserves on annuities are based on statutory mortality and interest requirements with interest rates ranging primarily from 1.75 percent to 9.25 percent. Under GAAP, reserves would be based on mortality, lapse, withdrawal, and interest rate assumptions that are based on Company experience.

Liabilities for accident and health policies include unearned premiums and additional reserves. The liability for future policy benefits and claims on life and health insurance products includes estimated unpaid claims that have been reported to the Company and claims incurred but not yet reported. Changes in estimates are reflected in current operations.

D. Reinsurance

The Company has long-standing reinsurance treaties in place for its life 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 related to specific types of life insurance policies.

In October 2025 the Company entered into a coinsurance with trust agreement with Somerset Reinsurance Ltd. Under the terms of the agreement, the Company ceded 100 percent of its in-force pre-need life and annuity business for consideration of \$321,922,823. Subsequent to the Initial Block transaction, the agreement provides for a 90 percent coinsurance arrangement on new pre-need business written after the effective date, with the Company retaining 10 percent of premiums, benefits, and related expenses on such business. In connection with the Initial Block transaction, the Company earned a ceding commission of \$6,116,534, of which, \$1,383,335 was recognized as income in 2025, net with commissions and service fees in these statutory financial statements. The Company has deferred the remaining ceding commission of \$4,832,062, as a write-in to surplus, to be recognized as income ratably over the remaining life of contracts ceded under the agreement.

Assets and liabilities related to reinsurance ceded transactions are netted with respective accounts: under GAAP, reinsurance balances would be shown on a separate gross basis.

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

E. Premiums

Premiums deferred and uncollected represent modal premiums, either due and uncollected or not yet due, where policy reserves have been provided on the assumption that the full modal premium for the current policy year has been collected. Also, where policy reserves have been provided on a continuous premium assumption, premiums uncollected are similarly defined.

Premiums and annuity considerations are recognized as income over the premium paying period of the policies. Acquisition costs, such as commissions and other costs related to the new business, are expensed as incurred. Contracts that permit the insured to change the amount and timing of premium payments, such as universal life products, are recorded as revenue when received. Under GAAP, revenues would include only policy charges for the cost of insurance, contract initiation and administration, surrender charges, and other fees that have been assessed against contract account values; and benefits would represent the excess of benefits paid over the policy account value and interest credited to the account values.

Additionally, acquisition costs under GAAP would be capitalized and amortized over the policy period.

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 a remaining maturity of one year or less to be cash, cash equivalents, and short-term investments. The Company occasionally has on deposit in a financial institution a balance in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). On December 31, 2025, the Company held \$3,346,262 in one financial institution in excess of the FDIC limit. The Company does not believe it is exposed to any significant credit risks on this account.

G. Deferred Tax Assets

Deferred income taxes are provided for differences between the financial statement and the tax basis 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 would 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.

H. Leases

All leases are accounted for as operating leases and are expensed as incurred. Under GAAP, leases would be classified separately as either finance or operating leases and recorded on the balance sheet as right-of-use assets and lease liabilities. For finance leases, the lessee would recognize amortization of the right-to-use asset and interest expense on the lease liability in separate line items on the statement of operations. For operating leases, the lessee would recognize a single lease cost, which is generally amortized on a straight-line basis over the remaining lease term.

I. Subsequent Events

Subsequent events were evaluated through March 25, 2026, which is the date the financial statements were available to be issued.

J. Other

Under GAAP, allowances for credit losses are required to be assessed and recorded for certain financial assets measured at cost or amortized cost such as mortgage loans, uncollected premium and amounts due from reinsurers; under statutory accounting, no such allowance for credit losses are recorded.

Treasury Stock is recorded at cost and reported as a reduction of capital and surplus under both statutory accounting practices and GAAP.

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 presented under GAAP.

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

2. Pension Plan, Post-Retirement Benefits, 401(k) Savings Plan, and Deferred Compensation

Pension Benefits

The Company, its parent (The Farmers Automobile Insurance Association), and its affiliates participate in a trustee non-contributory defined benefit pension plan for certain employees. The Company and its affiliates adopted an amendment to freeze participation in the Plan for employees hired after January 1, 2013. The Company and its affiliates also adopted an amendment to freeze accrued benefits for all non-grandfathered participants. Non-grandfathered participants are participants who did not attain 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 points. Additionally, the Company and its affiliates adopted an amendment to offer a one-time, voluntary, early retirement benefit for certain grandfathered Plan participants.

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 percent of 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 in 2026. The Company and its affiliates do not expect to contribute to the Post-Retirement Benefit Plan in 2026.

The following benefit payments for the Company and its affiliates, which reflect expected cash flows for future service, are expected to be paid:

Year	Pension Benefits	Post-Retirement Benefits
2026	\$ 4,849,000	\$ 2,684,000
2027	5,841,000	2,772,000
2028	2,955,000	2,946,000
2029	3,327,000	3,151,000
2030	3,816,000	3,318,000
2031-2035	14,535,000	18,860,000

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 for the Company and its affiliates is as follows at December 31:

	Pension Benefits		Post-Retirement Benefits	
	2025	2024	2025	2024
Change in Benefit Obligation:				
Benefit Obligation at Beginning of Year	\$ 38,060,967	\$ 39,940,231	\$ 52,339,955	\$ 57,331,030
Service Cost	355,013	385,622	795,955	925,910
Interest Cost	1,918,532	1,863,488	2,827,931	2,788,250
Actuarial Gain	(834,394)	(2,036,308)	2,101,503	(7,134,157)
Benefits Paid	(3,130,465)	(2,092,066)	(1,446,563)	(1,571,078)
Benefit Obligation at End of Year	<u>\$ 36,369,653</u>	<u>\$ 38,060,967</u>	<u>\$ 56,618,781</u>	<u>\$ 52,339,955</u>
Accumulated Benefit Obligation	\$ 35,422,886	\$ 36,537,769	\$ 56,618,781	\$ 52,339,955
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Year	\$ 56,036,678	\$ 51,970,524	\$ 20,640,063	\$ 21,116,321
Actual Return on Plan Assets	4,271,104	6,158,220	765,510	701,182
Employer Contribution	-	-	-	-
Benefits Paid	(3,130,465)	(2,092,066)	(1,073,129)	(1,177,440)
Fair Value of Plan Assets at End of Year	<u>\$ 57,177,317</u>	<u>\$ 56,036,678</u>	<u>\$ 20,332,444</u>	<u>\$ 20,640,063</u>
Funded Status:				
Recognized Liabilities				
Accrued Benefit Costs (Prepaid Asset) Liability (Prepaid Asset) for Benefits	\$ (12,279,347)	\$ (9,725,063)	\$ 33,805,210	\$ 32,687,386
Total Liabilities Recognized (Nonadmitted Prepaid Asset)	<u>\$ (20,807,664)</u>	<u>\$ (17,975,711)</u>	<u>\$ 36,286,337</u>	<u>\$ 31,699,892</u>
Unrecognized Liabilities	\$ -	\$ -	\$ -	\$ -
Components of Net Periodic Benefit Cost:				
Service Cost	\$ 355,013	\$ 385,622	\$ 795,955	\$ 925,910
Interest Cost	1,918,532	1,863,488	2,827,931	2,788,250
Expected Return on Plan Assets	(3,821,444)	(3,549,866)	(1,135,203)	(1,161,398)
Amortization of Net Gains (Losses)	(272,323)	-	-	166,956
Prior Service Cost	-	-	(997,425)	(997,425)
Settlement/Curtailment	(734,062)	-	-	-
Total Net Periodic (Benefit) Cost	<u>\$ (2,554,284)</u>	<u>\$ (1,300,756)</u>	<u>\$ 1,491,258</u>	<u>\$ 1,722,293</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.

NOTES TO FINANCIAL STATEMENTS

STATUTORY BASIS

Below is a summary, on a Company basis, of obligations, assets, and net periodic benefit costs of the Pension Benefit Plan at December 31:

	Farmers Automobile Insurance Association		Pekin Insurance Company		Pekin Life Insurance Company		Combined Companies	
	2025	2024	2025	2024	2025	2024	2025	2024
Benefit Obligation	\$ 22,220,403	\$ 23,335,940	\$ 5,555,101	\$ 5,833,985	\$ 8,594,149	\$ 8,891,042	\$ 36,369,653	\$ 38,060,967
Plan Assets	34,933,054	34,357,208	8,733,263	8,589,302	13,511,000	13,090,168	57,177,317	56,036,678
Underfunded (Overfunded)	<u>\$ (12,712,651)</u>	<u>\$ (11,021,268)</u>	<u>\$ (3,178,162)</u>	<u>\$ (2,755,317)</u>	<u>\$ (4,916,851)</u>	<u>\$ (4,199,126)</u>	<u>\$ (20,807,664)</u>	<u>\$ (17,975,711)</u>
Accrued Benefit Costs (Prepaid Asset)	\$ (6,257,779)	\$ (4,691,698)	\$ (1,564,448)	\$ (1,172,927)	\$ (4,457,120)	\$ (3,860,438)	\$ (12,279,347)	\$ (9,725,063)
Liability (Asset) for Benefits	(6,454,872)	(6,329,568)	(1,613,714)	(1,582,392)	(459,731)	(338,688)	(8,528,317)	(8,250,648)
	<u>\$ (12,712,651)</u>	<u>\$ (11,021,266)</u>	<u>\$ (3,178,162)</u>	<u>\$ (2,755,319)</u>	<u>\$ (4,916,851)</u>	<u>\$ (4,199,126)</u>	<u>\$ (20,807,664)</u>	<u>\$ (17,975,711)</u>
Net Periodic Benefit Cost	<u>\$ (1,566,081)</u>	<u>\$ (794,606)</u>	<u>\$ (391,521)</u>	<u>\$ (198,651)</u>	<u>\$ (596,682)</u>	<u>\$ (307,499)</u>	<u>\$ (2,554,284)</u>	<u>\$ (1,300,756)</u>

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	
	2025	2024	2025	2024	2025	2024	2025	2024
Benefit Obligation	\$ 35,370,885	\$ 32,693,630	\$ 8,842,721	\$ 8,173,407	\$ 12,405,175	\$ 11,472,918	\$ 56,618,781	\$ 52,339,955
Plan Assets	12,702,085	12,892,609	3,175,521	3,223,152	4,454,838	4,524,302	20,332,444	20,640,063
Underfunded	<u>\$ 22,668,800</u>	<u>\$ 19,801,021</u>	<u>\$ 5,667,200</u>	<u>\$ 4,950,255</u>	<u>\$ 7,950,337</u>	<u>\$ 6,948,616</u>	<u>\$ 36,286,337</u>	<u>\$ 31,699,892</u>
Accrued Benefit Costs (Prepaid Asset)	\$ 21,069,821	\$ 20,371,614	\$ 5,267,450	\$ 5,092,899	\$ 7,467,939	\$ 7,222,873	\$ 33,805,210	\$ 32,687,386
Liability (Asset) for Benefits	1,598,980	(570,593)	399,749	(142,644)	482,398	(274,257)	2,481,127	(987,494)
	<u>\$ 22,668,801</u>	<u>\$ 19,801,021</u>	<u>\$ 5,667,199</u>	<u>\$ 4,950,255</u>	<u>\$ 7,950,337</u>	<u>\$ 6,948,616</u>	<u>\$ 36,286,337</u>	<u>\$ 31,699,892</u>
Net Periodic Benefit Cost	<u>\$ 931,499</u>	<u>\$ 1,065,617</u>	<u>\$ 232,875</u>	<u>\$ 266,404</u>	<u>\$ 326,884</u>	<u>\$ 390,272</u>	<u>\$ 1,491,258</u>	<u>\$ 1,722,293</u>

NOTES TO FINANCIAL STATEMENTS

STATUTORY BASIS

Following are components of net periodic benefit cost as they related to unassigned surplus for the Company and its affiliates at December 31:

	Pension Benefits		Post-Retirement Benefits	
	2025	2024	2025	2024
Amounts in Unassigned Surplus Recognized as Components of Net Periodic Benefit Cost:				
Items Not Yet Recognized from Prior Year	\$ (8,250,648)	\$ (3,605,986)	\$ (987,494)	\$ 4,855,978
Net Prior Service Cost Recognized	-	-	997,425	997,425
Net (Gain) Loss Arising During the Period	(277,669)	(4,644,662)	2,471,196	(6,673,941)
Net Gain (Loss) Recognized	-	-	-	(166,956)
Items Not Yet Recognized Current Year	<u>\$ (8,528,317)</u>	<u>\$ (8,250,648)</u>	<u>\$ 2,481,127</u>	<u>\$ (987,494)</u>
Amounts in Unassigned Surplus Not Yet Recognized as Components of Net Periodic Benefit Cost:				
Net Prior Service Cost (Credit)	\$ -	\$ -	\$ (568,531)	\$ (1,565,956)
Net Recognized (Gains) Losses	\$ (8,528,317)	\$ (8,250,648)	\$ 3,049,658	\$ 578,462

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

	Pension Benefits		Post-Retirement Benefits	
	2025	2024	2025	2024
Discount Rate	5.11%	5.51%	5.68%	5.81%
Rate of Compensation Increase	4.00% to 8.75%	4.00% to 8.75%	N/A	N/A

Weighted average assumptions used to determine the net periodic benefit cost are shown below for the years ended December 31:

	Pension Benefits		Post-Retirement Benefits	
	2025	2024	2025	2024
Discount Rate	5.51%	4.91%	5.81%	5.11%
Rate of Compensation Increase	4.00% to 8.75%	4.00% to 8.75%	N/A	N/A
Expected Long-Term Rate of Return on Plan Assets	7.00%	7.00%	5.50%	5.50%

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. For 2025, the health care cost trend rate for 2026 was 7.65 percent/7.14 percent for pre-65/post-65, then graded down to 4.50 percent by 2034 onwards. In 2024, the health care cost trend rate for 2025 was 8.07 percent/9.90 percent for pre-65/post-65, then graded down to 4.50 percent by 2033 onwards.

The Trustees of the Farmers Automobile Insurance Association Retirement Plan funded the Plan through a Fidelity Investment Account. In October 2025, the balances from the deposit administration contract and Charles Schwab Institutional Brokerage Trust Account were transferred to Fidelity Investments to manage. The Plan's assets are managed with an asset allocation set by the Trustees of the Plan. The Plan's assets are invested 30 percent in a diversified portfolio of return seeking assets, which include US and non-US equities, REITS, High Yield Bonds, Leveraged Loans and Emerging Market Debt, and 70 percent in liability hedging assets. The liability hedging asset portfolio is designed to hedge 100 percent of the interest risk inherent in the Plan's liabilities. The plan's assets were comprised of \$37,548,670 of commingled funds, \$18,964,310 of mutual funds/ETFs, and \$664,337 in cash & cash equivalents. As of December 31, 2024 the assets were

compromised of \$34,980,591 of equity securities and \$21,056,087 in the deposit administration contract. In 2025 and 2024, the Trustees liquidated \$0 and \$5,800,000 of equity securities and transferred these funds into the deposit administration contract.

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 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 the Company. The permissible account funding was determined in accordance with generally recognized and accepted actuarial principles and practices, which are consistent with the Actuarial Standards of Practice. As of December 31, 2025 and 2024, the fair value of the contract was \$20,438,372 and \$20,640,063, respectively. No contributions were made into the deposit administration contract in 2025 and 2024.

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 2 – Other significant observable inputs such as quoted prices for similar investments, interest rates, and prepayment speeds.

Level 3 – Principal valuation technique is discounted cash flows. Unobservable inputs are credit rate and payout date.

NOTES TO FINANCIAL STATEMENTS

STATUTORY BASIS

The following table sets forth by level, within the fair value hierarchy, the assets of the Pension Plan and Post-Retirement Plan at fair value as of December 31, 2025, for the Company and its affiliates:

	Assets at Fair Value as of December 31, 2025			
	Level 1	Level 2	Level 3	Total
Pension Plan Assets:				
Public Equities	\$ 2,087,933	\$ 14,692,667	\$ -	\$ 16,780,600
Emerging Market Debt	-	1,020,500	-	1,020,500
TIP's	728,923	-	-	728,923
Commodities	316,046	-	-	316,046
Investment Grade Corporate Bonds	-	17,039,702	-	17,039,702
U.S. Treasury Bonds	15,831,408	4,795,801	-	20,627,209
		-		
Total	18,964,310	37,548,670	-	56,512,980
Cash and Cash Equivalents	664,337	-	-	664,337
Deposit Administration Contract	-	-	-	-
Total Pension Plan Assets	\$ 19,628,647	\$ 37,548,670	\$ -	\$ 57,177,317
Post-Retirement Plan Assets:				
Deposit Administration Contract	\$ -	\$ -	\$ 20,438,372	\$ 20,438,372
Total Post-Retirement Plan Assets	\$ -	\$ -	\$ 20,438,372	\$ 20,438,372

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, 2024, for the Company and its affiliates:

	Assets at Fair Value as of December 31, 2024			
	Level 1	Level 2	Level 3	Total
Pension Plan Assets:				
Equity Securities				
Communications Services	\$ 2,184,345	\$ -	\$ -	\$ 2,184,345
Consumer Discretionary	1,119,900	-	-	1,119,900
Consumer Staples	3,445,731	-	-	3,445,731
Energy	2,976,190	-	-	2,976,190
Financials	6,539,399	-	-	6,539,399
Health Care	4,690,186	-	-	4,690,186
Industrials	3,005,775	-	-	3,005,775
Information Technology	3,766,300	-	-	3,766,300
Materials	793,410	-	-	793,410
Utilities	5,945,610	-	-	5,945,610
Total Equity Securities	34,466,846	-	-	34,466,846
Cash and Cash Equivalents	513,745	-	-	513,745
Deposit Administration Contract	-	-	21,056,087	21,056,087
Total Pension Plan Assets	\$ 34,980,591	\$ -	\$ 21,056,087	\$ 56,036,678
Post-Retirement Plan Assets:				
Deposit Administration Contract	\$ -	\$ -	\$ 20,640,062	\$ 20,640,062
Total Post-Retirement Plan Assets	\$ -	\$ -	\$ 20,640,062	\$ 20,640,062

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 \$60,300 and \$60,300 in 2025 and 2024. The Company's liability for the director retirement benefit was \$153,667 and \$169,039 at December 31, 2025 and 2024, respectively. In December 2021, the Board adopted an additional director retirement plan for eligible directors not in the aforementioned director retirement plan. The benefits paid were \$71,866 and \$55,106 at December 31, 2025 and in 2024, respectively. The liability for the director retirement benefit under the additional plan was \$953,820 and \$936,814 at December 31, 2025 and 2024, respectively.

401(k) Savings Plan

The Company and its affiliates participate in a voluntary 401(k) savings plan for eligible participants. Participation requires that an employee be at least 18 years of age and not a temporary employee. The Company may elect, at the discretion of the Trustees, to contribute a matching percentage of the participants' contributions to the participants' accounts. In 2025 and 2024, the Company elected to match 25 percent of the employee's contribution up to a maximum match of \$400 to employees hired prior to January 1, 2013.

Employees hired after January 1, 2013, may receive, at the discretion of the Company, a contribution from the Company based on a percentage of eligible earnings and a Company match of the employee's percentage of contribution. The Company contributed 3.0 percent of employees' eligible earnings in 2025 and 2024, as well as a 75.0 percent match of the employees' percentage of contribution not to exceed 7.0 percent of employees' eligible earnings in 2025 or in 2024.

Employer contributions of \$361,635 and \$335,774, respectively, were made to this plan for all participants in 2025 and 2024.

Deferred Compensation

The Company maintains a deferred compensation plan for the directors. This plan allows for voluntary deferral of all or any part of the compensation to which a director might otherwise be entitled to as director fees, in accordance with the plan provisions. During 2025 and 2024, \$0 and \$26,000 of director fees were deferred, respectively. The liability for director deferred compensation was \$252,700 and \$277,813 at December 31, 2025 and 2024, respectively.

3. Affiliated Entity Transactions

The Farmers Automobile Insurance Association (Association) and its wholly owned subsidiary, Pekin Insurance Company, owned 93.22 percent and 92.68 percent of the Company at December 31, 2025 and 2024, respectively. The Company and the Association utilize many common facilities, management, administrative and office personnel, and services. The Association incurs such expenses and allocates the related cost to the Company on a specific identification basis. Intercompany balances are paid periodically throughout the year based on estimates and settled within 45 days after year end based on actual allocated expenses. Such expenses allocated to the Company were \$7,856,314 in 2025 and \$6,027,805 in 2024.

The Company's home office building has a book value of \$1,110,255 and was constructed on land leased from the Association for a term expiring on December 31, 2026, with a year-to-year extension of the lease thereafter. Automatic termination would occur with change of control of the Company. The Association has an irrevocable option to purchase the building at any time during the lease or in the event the lease is canceled. The purchase price of the building shall be the fair market value as of the closing date. The annual lease payment is \$1,000.

In connection with structured settlements, the Association purchased 5 annuities from the Company in 2025 and 11 annuities in 2024. The single premium for these annuities totaled \$292,942 and \$362,140 in 2025 and 2024, respectively. The total reserve carried by the Company

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at December 31, 2025 and 2024, is \$9,069,508 and \$9,145,009, respectively. The Association's claimants are the payees.

4. Investments

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2025, are as follows:

Issuer Credit Obligations & Asset-Backed Securities	2025			
	Admitted Value	Unrealized Gain	Unrealized Loss	Market Value
U.S. Governments Obligations	\$ 2,889,176	\$ 21,424	\$ 32,392	\$ 2,878,208
Non-U.S. Sovereign Jurisdiction Securities	10,589,210	345,120	1,328,776	9,605,554
Municipal Bonds - General Obligation and Special Revenue	73,765,089	1,440,826	8,237,575	66,968,343
Corporate Bonds	860,307,523	12,646,152	92,135,311	780,818,368
Bonds Issued by Funds Representing Operating Entities	43,222,296	243,080	2,775,304	40,690,072
Financial Asset-Backed Securities Self-Liquidating	139,327,028	457,725	9,905,346	129,879,409
Non-Financial Asset-Backed Securities	2,626,159	23,918	1,357	2,648,720
Total	\$ 1,132,726,481	\$ 15,178,245	\$ 114,416,061	\$ 1,033,488,674

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2024, are as follows:

Obligation	2024			
	Admitted Value	Unrealized Gain	Unrealized Loss	Market Value
U.S. Government	\$ 2,896,057	\$ -	\$ 102,018	\$ 2,794,039
Other Government	5,793,247	-	1,496,319	4,296,932
U.S. States, Territories and Possessions	5,125,000	-	838,031	4,286,969
U.S. Political Subdivisions	3,550,000	-	855,138	2,694,862
U.S. Special Revenue and Special Assessment	84,827,259	924,691	9,561,162	76,190,790
Industrial and Miscellaneous	1,077,660,959	9,039,811	116,665,400	970,035,370
Hybrid Securities	8,296,942	32,892	31,816	8,298,018
Loan-Backed Securities	242,710,358	242,592	24,379,428	218,573,526
Total	\$ 1,430,859,822	\$ 10,239,986	\$ 153,929,312	\$ 1,287,170,506

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The admitted value and market value of bonds at December 31, 2025, by contractual maturity, are shown below:

	<u>Admitted Value</u>	<u>Market Value</u>
Due in One Year or Less	\$ 5,637,000	\$ 5,625,020
Due After One Year Through Five Years	86,522,387	86,934,404
Due After Five Years Through Ten Years	159,497,086	158,305,771
Due After Ten Years Through Twenty Years	353,004,577	335,651,871
Due After Twenty Years	528,065,431	446,971,608
Total	<u>\$ 1,132,726,481</u>	<u>\$ 1,033,488,674</u>

The Company does not engage in direct subprime residential mortgage lending. The Company's minimal exposure to subprime lending is limited to investments within the fixed maturity investment portfolio which contain securities collateralized by mortgages that have characteristics of subprime lending such as adjustable rate mortgages and alternative documentation mortgages. These investments are in the form of asset-backed securities collateralized by subprime mortgages and collateralized mortgage obligations backed by alternative documentation mortgages. The Company did not hold any such investments as of December 31, 2025 or 2024.

The adjusted cost and market value of investments in preferred stock as of December 31 are as follows:

	<u>2025</u>		<u>2024</u>	
	<u>Adjusted Cost</u>	<u>Market Value</u>	<u>Adjusted Cost</u>	<u>Market Value</u>
Preferred Stocks				
Redeemable Preferred Stock	\$ 1,500,000	\$ 1,542,243	\$ 1,500,000	\$ 1,512,404
Gross Unrealized Gains		\$ 42,243		\$ 12,404
Gross Unrealized Losses		-		-

The adjusted cost and market value of investments in common stock as of December 31 are as follows:

	<u>2025</u>		<u>2024</u>	
	<u>Adjusted Cost</u>	<u>Market Value</u>	<u>Adjusted Cost</u>	<u>Market Value</u>
Common Stock				
Common Stock	\$20,799,581	\$ 39,606,858	\$26,341,650	\$ 43,482,898
Gross Unrealized Gains		\$ 19,702,063		\$ 18,171,146
Gross Unrealized Losses		894,786		1,029,908

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Debt securities with unrealized losses based on estimated market values as of December 31, 2025, 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. Governments Obligations	\$ -	\$ -	\$ 1,529,176	\$ 32,392	\$ 1,529,176	\$ 32,392
Non-U.S. Sovereign Jurisdiction Securities	-	-	4,466,919	1,328,776	4,466,919	1,328,776
Municipal Bonds - General Obligation and Special Revenue	1,063,591	236,409	44,853,924	8,001,166	45,917,515	8,237,575
Corporate Bonds	24,153,482	2,198,150	523,917,255	89,937,161	548,070,737	92,135,311
Bonds Issued by Funds Representing Operating Entities	933,563	44,831	26,439,844	2,730,473	27,373,407	2,775,304
Financial Asset-Backed Securities Self-Liquidating	10,436,785	34,200	73,847,123	9,871,146	84,283,908	9,905,346
Non-Financial Asset-Backed Securities	831,643	1,357	-	-	831,643	1,357
Total Bonds with Unrealized Losses	<u>\$ 37,419,064</u>	<u>\$ 2,514,947</u>	<u>\$ 675,054,241</u>	<u>\$ 111,901,114</u>	<u>\$ 712,473,305</u>	<u>\$ 114,416,061</u>

Debt securities with unrealized losses based on estimated market values as of December 31, 2024, 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	\$ 610,875	\$ 7,294	\$ 2,183,164	\$ 94,724	\$ 2,794,039	\$ 102,018
Other Government	-	-	4,296,932	1,496,316	4,296,932	1,496,316
U.S. States, Territories and Possessions	1,840,000	160,000	2,446,969	678,031	4,286,969	838,031
U.S. Political Subdivisions	1,917,820	582,180	777,042	272,958	2,694,862	855,138
U.S. Special Revenue and Special Assessment	4,977,125	122,875	54,443,972	9,438,287	59,421,097	9,561,162
Industrial and Miscellaneous	200,172,127	9,494,712	554,277,650	107,170,689	754,449,777	116,665,401
Loan-Backed Securities	35,943,076	408,174	132,599,921	23,971,256	168,542,997	24,379,430
Total Bonds with Unrealized Losses	<u>\$ 245,461,023</u>	<u>\$ 10,775,235</u>	<u>\$ 754,995,268</u>	<u>\$ 143,154,077</u>	<u>\$ 1,000,456,291</u>	<u>\$ 153,929,312</u>

Equity securities with unrealized losses based on estimated market values as of December 31, 2025, 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
Common Stocks	\$ 6,737,890	\$ 401,873	\$ 4,130,548	\$ 492,913	\$ 10,868,438	\$ 894,786
Total Common Stocks with Unrealized Losses	<u>\$ 6,737,890</u>	<u>\$ 401,873</u>	<u>\$ 4,130,548</u>	<u>\$ 492,913</u>	<u>\$ 10,868,438</u>	<u>\$ 894,786</u>

Equity securities with unrealized losses based on estimated market values as of December 31, 2024, 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
Common Stocks	\$ 10,499,728	\$ 295,351	\$ 6,811,452	\$ 734,557	\$ 17,311,180	\$ 1,029,908
Total Common Stocks with Unrealized Losses	<u>\$ 10,499,728</u>	<u>\$ 295,351</u>	<u>\$ 6,811,452</u>	<u>\$ 734,557</u>	<u>\$ 17,311,180</u>	<u>\$ 1,029,908</u>

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The components of net realized capital gains (losses), as of December 31, are as follows:

	<u>2025</u>	<u>2024</u>
Gains on Disposals	\$ 9,744,405	\$ 4,688,837
Losses on Disposals	(14,262,617)	(10,125,374)
OTTI	-	-
Transfers to IMR	5,350,535	6,531,523
Total	832,323	1,094,986
Tax Expense	870,381	1,026,532
Net Realized Capital Gains	<u>\$ 1,702,704</u>	<u>\$ 2,121,518</u>

Bonds and Certificate of Deposit are submitted for purposes of statutory deposit with various State Insurance Departments. These assets as reported at admitted value at December 31, 2025 and 2024, respectively, as shown below:

State of Record	2025		2024	
	Bonds	Certificate of Deposit	Bonds	Certificate of Deposit
Georgia	\$ -	\$ 35,000	\$ -	\$ 35,000
Illinois	1,667,890	-	1,669,789	-
Nevada	203,980	-	200,336	-
North Carolina	613,679	-	618,169	-
Virginia	403,627	-	407,763	-
Total Deposits	<u>\$ 2,889,176</u>	<u>\$ 35,000</u>	<u>\$ 2,896,057</u>	<u>\$ 35,000</u>

Mortgage Loans

The Company invests in mortgage loans collateralized by commercial property. The Company's mortgage loan portfolio consists of loans made on properties located in 37 states. The minimum and maximum lending rates for mortgage loans during 2025 was 3.88 percent and 7.06 percent. The minimum and maximum lending rates for mortgage loans during 2024 was 3.75 percent and 6.94 percent. In 2025 and 2024, the Company's maximum percentage of any one loan to the value of security at the time the loan was originated, exclusive of insured, guaranteed, or purchase money mortgages, was 100 percent. In 2025 and 2024, the Company's minimum percentage of any one loan to the value of security at the time the loan was originated, exclusive of insured, guaranteed, or purchase money mortgages was 17 percent and 16 percent, respectively. The Company has not included taxes, assessments, or other amounts advanced in mortgage loans at December 31, 2025 or 2024. The Company had one mortgage 90 to 179 days past due as of December 31, 2025 and one mortgage more than 180 days past due and no OTTI recognized as realized loss as of December 31, 2025 and December 31, 2024. There were no gains or losses from the disposal of mortgage loans in 2025 or 2024. There were no mortgage loans derecognized as a result of foreclosure during 2025 or 2024.

An age analysis of mortgage loans is shown below:

Recorded Investment	2025		2024	
	Commercial	All Other	Commercial	All Other
Current	\$ 101,568,626	\$ 115,153,198	-	-
90- 179 days past due	560,863	-	-	-
180+ days past due	146,313	146,313	-	-
	<u>\$ 102,275,802</u>	<u>\$ 115,299,511</u>	<u>\$ 115,299,511</u>	<u>\$ 115,299,511</u>

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, 2025 and 2024, respectively, the amount of securities loaned was \$18,745,304 and \$49,160,154, and the related collateral was \$11,222,383 and \$37,351,526. At December 31, 2025 collateral assets valued at \$1,108,711 had maturity dates beyond one year.

The aggregate amount of cash collateral received as of December 31, 2025 and 2024 is shown below by maturity date:

Maturity Date	2025	2024
	Fair Value	Fair Value
Open	\$ 4,628,111	\$ 12,621,544
30 Days or Less	1,639,590	8,520,188
31 to 60 Days	1,339,953	2,414,299
61 to 90 Days	559,997	5,984,066
Greater Than 90 Days	3,054,732	7,375,796
Total Bond Collateral Received	11,222,383	36,915,894
Total Equity Collateral Received	-	435,632
Total Collateral Received	\$ 11,222,383	\$ 37,351,526

The Company participates in a liquid asset portfolio. At December 31, 2025 and 2024, the aggregate value of the reported reinvested collateral was \$12,051,583 and \$38,440,488 and the related fair value was \$11,892,885 and \$37,264,933, respectively.

As of December 31, 2025 and 2024, the Company has \$8,362,181 and \$54,327,802, respectively, in gross restricted assets related to securities lending agreements. This amount represents collateral that has been accepted from the borrower.

5. 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.

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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, 2025:

Description	2025			Total
	Level 1	Level 2	Level 3	
Common Stocks	\$ 39,606,859	\$ -	\$ -	\$ 39,606,859
Cash Equivalents	8,824,138	-	-	8,824,138

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, 2024:

Description	2024			Total
	Level 1	Level 2	Level 3	
Common Stocks	\$ 42,934,448	\$ -	\$ 548,450	\$ 43,482,898
Cash Equivalents	10,919,819	-	-	10,919,819

There were no Level 3 assets held at December 31, 2025. The Level 3 asset held at December 31, 2024 was purchased for \$587,316. As of December 31, 2024 the asset showed a cumulative loss of \$38,866, bringing the value to \$548,450. The Company does not have any liabilities measured at fair value at December 31, 2025 and 2024.

The aggregate fair value of all financial instruments as of December 31, 2025, is shown below.

	2025					Not Practicable (Carrying Value)
	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	
Issuer Credit Obligations	\$ 900,960,539	\$ 990,773,294	\$ 2,878,208	\$ 898,082,331	\$ -	\$ -
Asset Backed Securities	132,528,126	141,953,187	-	132,028,126	500,000	-
Preferred Stocks	1,542,243	1,500,000	-	1,542,243	-	-
Common Stocks	39,606,859	39,606,859	39,606,859	-	-	-
Mortgage Loans	102,275,802	102,275,802	-	-	-	102,275,802
Cash Equivalents	8,824,138	8,824,138	8,824,138	-	-	-

The aggregate fair value of all financial instruments as of December 31, 2024, is shown below:

	2024					Not Practicable (Carrying Value)
	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	
Bonds	\$ 1,287,170,506	\$ 1,430,859,822	\$ 2,794,039	\$ 1,284,376,467	\$ -	\$ -
Preferred Stocks	1,512,404	1,500,000	-	1,512,404	-	-
Short-Term Investments	43,482,989	43,482,898	42,934,448	-	548,450	-
Mortgage Loans	115,299,511	115,299,511	-	-	-	115,299,511
Cash Equivalents	10,884,819	10,884,819	10,884,819	-	-	-

It was not practicable to determine fair value of these mortgage loans because a quoted market price was not available and the cost of obtaining independent appraisals would be excessive. As of December 31, 2025 and 2024, the carrying value of the mortgage loans was \$102,275,802 and \$115,299,511, respectively.

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The type of security included within each hierarchy in the above tables 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.

Cash Equivalents: Comprised of money market securities.

Level 2 Measurements

Bonds: Comprised of U.S. Government, municipal, and corporate securities.

Preferred Stocks: Comprised of actively traded, exchange-listed redeemable preferred stock and is recorded at amortized cost.

Level 3 Measurements

Bonds: Comprised of asset-backed securities.

Common Stock: Comprised of industrial and miscellaneous unaffiliated other common stock.

6. Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics

Annuity actuarial reserves and deposit liabilities, by withdrawal characteristics, as of December 31 are as follows:

	Individual Annuities			
	2025		2024	
	General Account	Percent of Total	General Account	Percent of Total
Subject to Discretionary Withdrawal:				
With Market Value Adjustment	\$ 112,104,344	47.7%	\$ 108,391,341	42.6%
At Book Value Less Current Surrender Charge of 5% or More	4,055,445	1.7%	3,587,184	1.4%
At Fair Value	162,014	0.1%	160,046	0.1%
Total With Market Value Adjustment or at Fair Value	116,321,803	49.6%	112,138,571	44.1%
At Book Value Without Adjustment	112,975,063	48.1%	136,502,151	53.7%
Not Subject to Discretionary Withdrawal	5,511,086	2.3%	5,479,354	2.2%
Total Gross	234,807,952	100.0%	254,120,076	100.0%
Reinsurance Ceded	(78,983)		(40,012)	
Total Net	\$ 234,728,969		\$ 254,080,064	

	Group Annuities			
	2025		2024	
	General Account	Percent of Total	General Account	Percent of Total
Subject to Discretionary Withdrawal:				
With Market Value Adjustment	\$ -	0.0%	\$ -	0.0%
At Book Value Less Current Surrender Charge of 5% or More	7,316,211	24.8%	6,943,066	16.2%
At Fair Value	-	0.0%	-	0.0%
Total With Market Value Adjustment or at Fair Value	7,316,211	24.8%	6,943,066	16.2%
At Book Value Without Adjustment	5,313,414	18.0%	5,125,160	12.0%
Not Subject to Discretionary Withdrawal	29,487,461	99.9%	30,760,014	71.8%
Total Gross	42,117,086	142.7%	42,828,240	100.0%
Reinsurance Ceded	(12,593,576)		-	
Total Net	\$ 29,523,510		\$ 42,828,240	

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	Deposit-Type Contracts			
	2025		2024	
	General Account	Percent of Total	General Account	Percent of Total
Subject to Discretionary Withdrawal:				
With Market Value Adjustment	\$ -	0.0%	\$ -	0.0%
At Book Value Less Current Surrender Charge of 5% or More	-	0.0%	-	0.0%
At Fair Value	-	0.0%	-	0.0%
Total With Market Value Adjustment or at Fair Value	-	0.0%	-	0.0%
At Book Value Without Adjustment	14,462,236	41.4%	15,029,402	26.5%
Not Subject to Discretionary Withdrawal	20,485,867	58.6%	41,696,149	73.5%
Total Gross	34,948,103	100.0%	56,725,551	100.0%
Reinsurance Ceded	-		-	
Total Net	\$ 34,948,103		\$ 56,725,551	

In 2025 and 2024, the Company reported \$20,485,867 and \$41,696,149, respectively, in the annuity actuarial reserves and deposit liabilities related to the deposit administration contracts for the Farmers Automobile Insurance Association Retirement Plan and Post-Retirement Plan of which the Company is a participant.

7. Analysis of Life Actuarial Reserves by Withdrawal Characteristics

Life actuarial reserves, by withdrawal characteristics, as of December 31, 2025 are as follows:

	2025		
	General Account		
	Account Value	Cash Value	Reserve
Subject to Discretionary Withdrawal, Surrender Values, or Policy Loans:			
Universal Life	\$ 259,103,027	\$ 228,328,153	\$ 242,994,449
Universal Life with Secondary Guarantees	101,005,447	99,289,995	100,508,283
Other Permanent Cash Value Life Insurance	456,376,199	456,376,199	598,435,953
Not Subject to Discretionary Withdrawal or No Cash Values:			
Term Policies Without Cash Value	-	-	200,660,707
Accidental Death Benefits	-	-	91,757
Disability - Active Lives	-	-	2,119,848
Disability - Disabled Lives	-	-	333,721
Miscellaneous Reserves	-	-	33,428,330
Total Gross	816,484,673	783,994,347	1,178,573,048
Reinsurance Ceded	-	-	336,066,232
Total Net	\$ 816,484,673	\$ 783,994,347	\$ 842,506,816

Life actuarial reserves, by withdrawal characteristics, as of December 31, 2024 are as follows:

	2024		
	General Account		
	Account Value	Cash Value	Reserve
Subject to Discretionary Withdrawal, Surrender Values, or Policy Loans:			
Universal Life	\$ 267,581,794	\$ 236,416,704	\$ 246,183,140
Universal Life with Secondary Guarantees	83,421,371	81,478,717	103,195,121
Other Permanent Cash Value Life Insurance	437,516,965	437,516,965	562,631,267
Miscellaneous Reserves	-	-	3,441,392
Not Subject to Discretionary Withdrawal or No Cash Values:			
Term Policies Without Cash Value	-	-	198,261,847
Accidental Death Benefits	-	-	88,925
Disability - Active Lives	-	-	1,855,238
Disability - Disabled Lives	-	-	292,589
Miscellaneous Reserves	-	-	11,251,025
Total Gross	<u>788,520,130</u>	<u>755,412,386</u>	<u>1,127,200,544</u>
Reinsurance Ceded	-	-	21,156,206
Total Net	<u>\$ 788,520,130</u>	<u>\$ 755,412,386</u>	<u>\$ 1,106,044,338</u>

Not included in the above table are Credit Life reserves of \$3,764,495 and \$5,901,087 as of December 31, 2025, and 2024, respectively.

8. Life and Health Reserves

A. Life Contracts and Deposit-Type Contracts

The Company waives deduction of deferred fractional premiums upon death of an insured and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. Policies subject to an extra premium because the insured is placed in a special rating class are valued as follows:

Premium-Paying Policies

Extra premiums are charged for all substandard lives plus the gross premium for the insured's age. Mean reserves are determined by computing the regular mean reserve for the plan at the insured's age holding in addition one-half (1/2) of the extra premium charge for the year.

Paid-Up Policies

For whole life policies that are known to have been based on a substandard mortality table, the reserves are based on the same substandard table. As of December 31, 2025 and 2024, the Company had \$1,797,972,726 and \$1,411,160,978, respectively, insurance in force for which the gross premiums are less than the net premiums according to the standard valuation set by the State of Illinois. Deficiency reserves to cover the difference between gross and net premiums totaled \$5,723,148 and \$8,791,329 and at December 31, 2025 and 2024, respectively. The insurance amount does not include insurance on policies for which deficiency reserves are either exempted or calculated to be zero on a seriatim basis.

Tabular interest, tabular less actual reserve released, and tabular cost have been determined by formulas used in accordance with the Statutory Accounting Practices. Tabular interest on

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deposit funds not involving life contingencies are computed based on the interest rate actually credited to the funds using interest rates as approved by the Board of Directors.

B. Liability for Health Claim Reserves

Activity in the claim reserves is summarized as follows:

	<u>2025</u>	<u>2024</u>
Balance at January 1	\$ 7,459,656	\$ 7,995,862
Less Reinsurance Recoverables	-	-
Net Balance at January 1	<u>7,459,656</u>	<u>7,995,862</u>
Incurred Related to:		
Current Year	42,346,254	41,208,565
Prior Years	<u>(1,399,506)</u>	<u>(1,915,138)</u>
Total Incurred	<u>40,946,748</u>	<u>39,293,427</u>
Paid Related to:		
Current Year	35,806,767	34,784,134
Prior Years	<u>5,348,484</u>	<u>5,045,499</u>
Total Paid	<u>41,155,251</u>	<u>39,829,633</u>
Net Balance at December 31	<u>7,251,153</u>	<u>7,459,656</u>
Plus Reinsurance Recoverables	-	-
Balance at December 31	<u>\$ 7,251,153</u>	<u>\$ 7,459,656</u>

Health claim reserves of \$1,488,816 and \$1,855,020 and health contract claims of \$5,762,336 and \$5,604,636 as of December 31, 2025 and 2024, respectively, are included in the previous table and their respective liabilities in the balance sheet.

As a result of actual claim payments varying from previous estimates of insured events and subsequent reserve changes, the provision for claim benefits decreased by \$1,399,506 and \$1,915,138 in 2025 and 2024, respectively.

C. Premium and Annuity Considerations Deferred

Deferred life insurance premiums and annuity considerations as of December 31 are as follows:

	<u>2025</u>		<u>2024</u>	
	<u>Gross</u>	<u>Net of Loading</u>	<u>Gross</u>	<u>Net of Loading</u>
Ordinary New Business	\$ 2,063,187	\$ 705,321	\$ 1,725,180	\$ 633,453
Ordinary Renewal	18,708,883	25,621,157	17,767,966	25,800,681
Group Life	727,518	491,133	644,100	449,540
Total	<u>\$ 21,499,588</u>	<u>\$ 26,817,611</u>	<u>\$ 20,137,246</u>	<u>\$ 26,883,674</u>

9. Federal Income Taxes

The Company is taxed as a life insurance company on the basis of combined net investment income, capital gains, and underwriting income. 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, 2025 and 2024, respectively, due to the following:

NOTES TO FINANCIAL STATEMENTS

STATUTORY BASIS

	2025	2024	Change
Computed Expected Federal Income Tax Expense	\$ (201,113)	\$ 2,334,959	\$ (2,536,072)
Increase (Decrease) in Taxes Resulting from:			
Statutory Reserves Versus Tax Reserves	665,590	827,065	(161,475)
Amortization of IMR	1,039,501	(54,062)	1,093,563
Deferred Acquisition Costs	(593,738)	1,361,506	(1,955,244)
Defined Benefit and Post-Retirement	(73,839)	(738)	(73,101)
Prior Year Over Accrual	(185,690)	(107,092)	(78,598)
All Others	(5,686)	264,539	(270,225)
Federal Income Tax Expense	645,025	4,626,177	(3,981,152)
Tax on Capital Losses	(870,381)	(1,026,532)	156,151
Taxes Incurred	<u>\$ (225,356)</u>	<u>\$ 3,599,645</u>	<u>\$ (3,825,001)</u>

The components of the net deferred tax asset as of December 31, 2025 and 2024, are as follows:

	2025		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 25,706,063	\$ 874,131	\$ 26,580,194
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	25,706,063	874,131	26,580,194
Deferred Tax Assets Non-Admitted	13,139,226	-	13,139,226
Subtotal Net Admitted Deferred Tax Asset	12,566,837	874,131	13,440,968
Deferred Tax Liabilities	1,742,659	3,941,798	5,684,457
Net Admitted Deferred Tax Assets	<u>\$ 10,824,178</u>	<u>\$ (3,067,667)</u>	<u>\$ 7,756,511</u>
	2024		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 26,385,469	\$ 27,458	\$ 26,412,927
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	26,385,469	27,458	26,412,927
Deferred Tax Assets Non-Admitted	12,844,358	-	12,844,358
Subtotal Net Admitted Deferred Tax Asset	13,541,111	27,458	13,568,569
Deferred Tax Liabilities	2,588,709	3,591,930	6,180,639
Net Admitted Deferred Tax Assets	<u>\$ 10,952,402</u>	<u>\$ (3,564,472)</u>	<u>\$ 7,387,930</u>
	Change		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ (679,406)	\$ 846,673	\$ 167,267
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	(679,406)	846,673	167,267
Deferred Tax Assets Non-Admitted	294,868	-	294,868
Subtotal Net Admitted Deferred Tax Asset	(974,274)	846,673	(127,601)
Deferred Tax Liabilities	(846,050)	349,868	(496,182)
Net Admitted Deferred Tax Assets	<u>\$ (128,224)</u>	<u>\$ 496,805</u>	<u>\$ 368,581</u>

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)*.

	2025		
	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	7,756,511	-	7,756,511
11c. Offset of Deferred Tax Liabilities	5,684,457	-	5,684,457
Total Admitted Deferred Tax Assets	<u>\$ 13,440,968</u>	<u>\$ -</u>	<u>\$ 13,440,968</u>

	2024		
	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	7,387,930	-	7,387,930
11c. Offset of Deferred Tax Liabilities	6,180,639	-	6,180,639
Total Admitted Deferred Tax Assets	<u>\$ 13,568,569</u>	<u>\$ -</u>	<u>\$ 13,568,569</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	368,581	-	368,581
11c. Offset of Deferred Tax Liabilities	(496,182)	-	(496,182)
Total Admitted Deferred Tax Assets	<u>\$ (127,601)</u>	<u>\$ -</u>	<u>\$ (127,601)</u>

	2025	2024
Ratio Used to Determine Recovery Period and Threshold Limitation Amount Under Paragraph 11b	936%	816%
Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation Under Paragraph 11b	\$146,549,505	\$146,527,235

NOTES TO FINANCIAL STATEMENTS

STATUTORY BASIS

The major components of current income taxes incurred and net deferred tax assets as of December 31, 2025 and 2024, are as follows:

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Current Income Tax:			
Federal	\$ (198,331)	\$ 3,678,213	\$ (3,876,544)
Prior Year Under (Over) Accrual of Tax Reserves	(27,025)	(78,568)	51,543
Federal Income Tax Incurred	<u>\$ (225,356)</u>	<u>\$ 3,599,645</u>	<u>\$ (3,825,001)</u>
Deferred Tax Assets:			
Ordinary:			
Stat vs. Tax Reserves	\$ 9,158,614	\$ 9,608,636	\$ (450,022)
DAC	12,006,099	12,900,652	(894,553)
Discounting of A&H Claim Reserves	84	67	17
Unearned Premium	83,028	122,190	(39,162)
Post-Retirement Accrual	1,669,571	1,516,803	152,768
Deferred Compensation	54,450	60,124	(5,674)
Directors Pension Liability	232,572	232,229	343
Non-Admitted Assets	1,677,786	1,897,219	(219,433)
Other	823,859	47,549	776,311
Total Ordinary Deferred Tax Assets	<u>25,706,063</u>	<u>26,385,469</u>	<u>(679,405)</u>
Statutory Valuation Allowance Adjustment	-	-	-
Non-Admitted	<u>13,139,226</u>	<u>12,844,358</u>	<u>294,868</u>
Admitted Ordinary Deferred Tax Assets	<u>12,566,837</u>	<u>13,541,111</u>	<u>(974,273)</u>
Capital:			
Other	<u>874,131</u>	<u>27,458</u>	<u>846,673</u>
Total Capital Deferred Tax Assets	<u>874,131</u>	<u>27,458</u>	<u>846,673</u>
Statutory Valuation Allowance Adjustment	-	-	-
Non-Admitted	-	-	-
Admitted Capital Deferred Tax Assets	<u>874,131</u>	<u>27,458</u>	<u>846,673</u>
Admitted Deferred Tax Assets	<u>\$ 13,440,968</u>	<u>\$ 13,568,569</u>	<u>\$ (127,601)</u>
Deferred Tax Liabilities:			
Ordinary:			
Accrual of Discount	\$ 171,111	\$ 618,169	\$ (447,058)
PIVOT & LiFT & PATH Depreciation	-	576,795	(576,795)
Pension Benefits	1,032,539	939,410	93,129
Tax Cuts and Jobs Act Reserve Adjustments	537,682	453,180	84,502
Other	1,327	1,155	172
Total Ordinary Deferred Tax Liabilities	<u>1,742,659</u>	<u>2,588,709</u>	<u>(846,050)</u>
Capital:			
Unrealized Gains Common Stock	<u>\$ 3,941,798</u>	<u>\$ 3,591,930</u>	<u>\$ 349,868</u>
Total Capital Deferred Tax Liabilities	<u>3,941,798</u>	<u>3,591,930</u>	<u>349,868</u>
Total Deferred Tax Liabilities	<u>\$ 5,684,457</u>	<u>\$ 6,180,639</u>	<u>\$ (496,182)</u>
Net Deferred Tax Assets	<u>\$ 7,756,511</u>	<u>\$ 7,387,930</u>	<u>\$ 368,581</u>

There was a net operating loss carry-forward of \$944,437 available on December 31, 2025 to offset against consolidated taxable income.

The Company is included in a consolidated federal income tax return with its parent company, The Farmers Automobile Insurance Association, its Attorney-In-Fact, The Farmers Automobile Management Corporation, and its affiliates, Pekin Insurance Company and Pekin Select Insurance Company. The Company has a written agreement, approved by the Company's Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidation. As stated in this agreement, the Pekin Insurance Group has elected the Separate Return Method under Treasury Regulation § 1.1552-1(a)(2) and the "percentage method" of tax allocation described in Treasury Regulation §§ 1.1552-1(a)(2)(ii) and 1.1502-33(d)(3). Pursuant to this agreement, the Company has the enforceable right to recoup

federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

The Company is considered a nonapplicable reporting entity under the Corporate Alternative Minimum Tax (CAMT) regulations, and therefore has not included any provision for CAMT.

10. Capital and Surplus and Dividends

The Company is required to maintain minimum surplus established by the Department of Insurance. The Company is also subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the Department. The RBC standards establish minimum surplus 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, 2025, the Company's surplus exceeded the minimum levels required by the Department and RBC standards.

The Company's unassigned surplus was increased (reduced) by the following cumulative amounts at December 31, 2025 and 2024, respectively:

	<u>2025</u>	<u>2024</u>
Net Unrealized Capital Gains	\$ 18,807,279	\$ 17,141,241
Non-Admitted Assets	(22,711,505)	(21,878,737)
Asset Valuation Reserve	(21,139,405)	(25,012,579)

Non-cumulative dividends are paid quarterly as determined by the Board of Directors. The maximum amount of dividends which can be paid by a State of Illinois domiciled insurance company to shareholders without prior approval of the Director of Insurance is limited to the greater of 10 percent of statutory surplus or the net income of the company for the preceding year. Statutory surplus at December 31, 2025, was \$111,161,916. The maximum dividend payout which may be made without prior approval in 2026 is \$11,116,192.



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OUR MISSION

Pekin Insurance provides financial protection and peace of mind for our customers. We deliver innovation and excellence in our products and services. In all we do, we are dedicated to going *Beyond the expected.*[®]

OUR VISION

Our vision is to set the standard of excellence among insurance providers by being innovative, being financially strong, and exceeding customer expectations. We will attract and retain the very best employees and agents to help us achieve this goal.

Pekin Life Insurance Company, headquartered in Pekin, Illinois, became an integral member of the Pekin Insurance® group of companies in April 1965. Joining together with our property/casualty companies, The Farmers Automobile Insurance Association, Pekin Insurance Company, and Pekin Select Insurance Company, we are committed to providing quality insurance service to our policyholders spanning a 25-state marketing area. Our property/casualty products deliver coverage to protect homes, autos, businesses, and a wide range of other insurance needs. The Company's life and health products listed offer a diverse portfolio of coverages to help families and businesses achieve secure financial futures. Whether for property/casualty, life, annuities, or medicare supplement insurance, we are committed to going the extra mile to provide the products and services necessary for your peace of mind. Now, more than ever, it is important that policyholders have complete trust in their insurance company. Pekin Insurance...going *Beyond the expected*® to meet your insurance needs.

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Transitional Life

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Group Life

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