The Farmers Automobile Insurance Association

Report on Audits of Financial Statements - Statutory Basis

For the Years Ended December 31, 2020 and 2019

The Farmers Automobile Insurance Association

Table of Contents

Strohm Ballweg

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INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS

To the Board of Directors
The Farmers Automobile Insurance Association
Pekin, Illinois

We have audited the accompanying statutory financial statements of The Farmers Automobile Insurance Association (the Association), which are comprised of the statutory balance sheets as of December 31, 2020 and 2019, and the related statutory statements of operations and changes in policyholders' surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, the financial statements are prepared by the Association in accordance with accounting practices prescribed or permitted by the Illinois Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America to meet the requirements of the state of Illinois.

The effects on the statutory financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America have not been determined but are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Association as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2020 and 2019, and the results of its operations and changes in policyholders' surplus, and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance described in Note 1.

Strohm Ballweg, LLP

Madison, Wisconsin
April 26, 2021

The Farmers Automobile Insurance Association

Statutory Balance Sheets
December 31, 2020 and 2019

	2020	2019
Admitted Assets:		
Bonds	$ 553,082,891	$ 590,053,070
Common Stocks:		
Affiliates	235,836,707	236,148,113
Other than Affiliates	90,073,866	73,610,815
Real Estate Occupied by the Association		
(Net of Accumulated Depreciation of $17,202,602 and $15,705,021)	36,304,901	31,243,225
Real Estate Held for Production of Income		
(Net of Accumulated Depreciation of $1,286,967 and $1,248,097)	968,680	1,027,550
Cash, Cash Equivalents, and Short-Term Investments	26,261,617	14,519,029
Securities Lending Reinvested Collateral Assets	6,597,603	3,692,264
Other Invested Assets	218,984	127,913
Total Cash and Invested Assets	949,345,249	950,421,979
Investment Income Accrued	4,692,015	5,248,844
Uncollected Premiums	175,906,006	178,768,857
Current Federal Income Tax Recoverable	4,965,498	5,173,640
Net Deferred Tax Asset	35,958,912	33,108,547
EDP Equipment		
(Net of Accumulated Depreciation of $9,486,273 and $9,099,381)	793,375	336,570
Receivable from Affiliate and Subsidiaries	18,684,440	8,539,611
Recoverable from Reinsurers	7,625,677	7,050,342
Pension Benefit Plan Asset	-	2,553,032
Total Admitted Assets	$ 1,197,971,172	$ 1,191,201,422
Liabilities:		
Unpaid Losses, Net	$ 336,662,098	$ 346,701,573
Unpaid Loss Adjustment Expenses, Net	75,950,316	77,620,468
Unearned Premiums, Net	232,932,286	234,049,076
Commissions, Expenses, Fees, and Taxes	30,667,802	30,336,074
Drafts Outstanding	32,788,496	19,547,107
Remittances and Items Not Allocated	(1,136,797)	4,335,238
Advance Premiums	6,912,004	5,423,757
Payable for Securities Lending	6,597,603	3,692,264
Pension Benefit Plan Obligations	11,039,180	12,845,907
Post-Retirement Benefit Plan Obligations	5,910,794	2,436,543
Other Liabilities	26,641,990	20,424,134
Total Liabilities	764,965,772	757,412,141
Policyholders' Surplus:		
Special Surplus Fund	872,500	872,500
Unassigned Surplus	432,132,900	432,916,781
Total Policyholders' Surplus	433,005,400	433,789,281
Total Liabilities and Policyholders' Surplus	$ 1,197,971,172	$ 1,191,201,422

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

The Farmers Automobile Insurance Association

Statutory Statements of Operations and Changes in Policyholders' Surplus
Years Ended December 31, 2020 and 2019

	2020	2019
Underwriting Operations:		
Net Premiums Earned:		
Direct Premiums Written	$ 241,147,521	$ 236,973,518
Reinsurance Assumed	394,867,263	396,725,100
Reinsurance Ceded	(176,023,785)	(160,563,565)
Net Premiums Written	459,990,999	473,135,053
Change in Net Unearned Premiums	1,116,790	1,089,283
Total Net Premiums Earned	461,107,789	474,224,336
Losses and Expenses Incurred:		
Net Losses	292,176,687	308,071,156
Net Loss Adjustment Expenses	48,910,324	58,033,625
Net Underwriting Expenses	171,672,952	170,447,267
Net Losses and Expenses Incurred	512,759,963	536,552,048
Underwriting Loss	(51,652,174)	(62,327,712)
Net Investment Income	19,026,716	21,062,039
Net Realized Capital Gains	3,613,843	1,598,533
Other Income	3,544,854	1,551,868
Net Loss Before Federal Income Tax	(25,466,761)	(38,115,272)
Federal Income Tax Benefit	(3,283,986)	(1,899,971)
Net Loss	$ (22,182,775)	$ (36,215,301)
Statement of Changes in Policyholders' Surplus:		
Policyholders' Surplus - Beginning of Year	$ 433,789,281	$ 480,404,193
Changes in Policyholders' Surplus:		
Net Loss	(22,182,775)	(36,215,301)
Net Unrealized Capital Gains (Losses):		
Affiliates	(4,175,223)	(6,208,919)
Other than Affiliates	12,685,066	15,815,006
Non-Admitted Assets	13,010,860	(18,105,166)
Provision for Reinsurance	72,000	(72,000)
Net Deferred Income Tax	1,473,715	9,740,734
Pension Benefit Plan Obligations	1,806,727	(5,049,819)
Post-Retirement Benefit Plan Obligations	(3,474,251)	(6,519,447)
Net Decrease	(783,881)	(46,614,912)
Policyholders' Surplus - End of Year	$ 433,005,400	$ 433,789,281

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

The Farmers Automobile Insurance Association

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

	2020	2019
Cash from Operations:		
Premiums Collected, Net of Reinsurance	$ 467,115,744	$ 488,762,625
Net Investment Income	23,871,746	24,827,243
Miscellaneous Income	3,544,830	1,551,868
Total Cash Received	494,532,320	515,141,736
Benefit and Loss Related Payments	302,791,497	293,835,001
Commissions, Expenses Paid, and Other Deductions	221,921,695	230,290,710
Federal Income Taxes Recovered	(2,517,332)	(8,343,063)
Total Cash Disbursed	522,195,860	515,782,648
Net Cash from Operations	(27,663,540)	(640,912)
Cash from Investments:		
Proceeds from Investments Sold, Matured, or Repaid:		
Bonds	149,883,724	116,980,173
Stocks	19,874,188	16,550,426
Real estate	35,000	50,745
Other Invested Assets	-	50,000
Miscellaneous	1,127,440	3,228,250
Total Investment Proceeds	170,920,352	136,859,594
Cost of Investments Acquired:		
Bonds	112,565,795	91,734,274
Stocks	26,026,852	21,822,196
Real Estate	6,574,256	10,152,935
Miscellaneous	2,999,655	23,375
Total Investments Acquired	148,166,558	123,732,780
Net Cash from Investments	22,753,794	13,126,814
Cash from Financing and Miscellaneous Sources:		
Other Cash Applied	16,652,334	(23,156,583)
Net Cash from Financing and Miscellaneous Sources	16,652,334	(23,156,583)
Net Change in Cash, Cash Equivalents, and Short-Term Investments	11,742,588	(10,670,681)
Cash, Cash Equivalents, and Short-Term Investments at Beginning of Year	14,519,029	25,189,710
Cash, Cash Equivalents, and Short-Term Investments at End of Year	$ 26,261,617	$ 14,519,029

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

Notes to Financial Statements – Statutory Basis

1. Nature of Operations and Summary of Significant Accounting Practices

The Farmers Automobile Insurance Association (Association) is a regional Midwest property and casualty insurance company domiciled in the state of Illinois. The Association sells insurance through independent agents. Insurance products primarily include private passenger and commercial automobile, homeowners, workers' compensation, commercial multi-peril, general liability, and business owners' policies. Approximately 54 percent of the direct premium was written in the state of Illinois in 2020 and 2019.

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 Association does not use any permitted practices.

Accounting Estimates

The preparation of statutory financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term relate to: 1) the estimated unpaid losses and loss adjustment expenses, 2) the assumptions regarding the other than temporary impairment (OTTI) analysis of the investment portfolio, 3) the assumptions, including the discount rate, used to determine the benefit obligations for the defined benefit pension plan and other post-retirement benefit plan, and 4) the amount of deferred tax assets expected to be realized in future years.

Subsequent Events

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

COVID - 19 Impact

In early 2020, the World Health Organization declared the COVID – 19 (Coronavirus) outbreak to be a pandemic. The U.S. Government's response to the pandemic included significant limitations on many aspects of Americans' daily lives, including personal mobility and closures of many public facilities. These limitations have caused significant disruption to workflow for U.S. companies and also have negatively impacted the financial markets in the U.S. and around the globe. The Association 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 Association and significant variances from accounting principles generally accepted in the United States of America (GAAP) are as follows:

A. Investments

Bonds and stocks are valued in accordance with rules prescribed by the NAIC. Investment grade bonds (i.e., NAIC designation 1 or 2) not backed by other loans are stated at amortized cost using a scientific method. Below investment grade bonds (i.e., NAIC designation 3 or higher) not backed by other loans are stated at the lesser of fair value or amortized cost with any change in the carrying value of the bond being treated as an unrealized gain (loss) and credited (charged) directly to surplus. Common stocks of non-affiliated companies are carried at market value and common stocks of insurance company affiliates are accounted for using the statutory equity method in which undistributed earnings are reported as unrealized gains and losses; under GAAP, the financial statements of wholly owned subsidiaries would be consolidated with those of the parent.

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

Investment income is recorded when earned. Realized gains and losses on sale or maturity of investments are determined on the basis of specific identification. Aggregate unrealized capital gains and losses are credited or charged directly to unassigned surplus. Unrealized capital losses on investments that are determined to be other than temporary declines in value must be recognized as realized capital losses. The Association reviews its investment portfolio on a periodic basis to determine other than temporary declines in value. In evaluating whether a decline in value is other than temporary, management considers several factors including, but not limited to: 1) the Association's ability and intent to retain the security for a sufficient amount of time for it to recover, 2) the extent and duration of the decline in value, 3) the probability of collecting all cash flows according to contractual terms in effect at acquisition or restructuring, 4) relevant industry conditions and trends, and 5) the financial condition and current and future business prospects of the issuer.

Investments in debt securities are generally carried at amortized cost and investments in equity securities of non-affiliated companies are carried at fair value. Under GAAP, the Association's debt securities would be classified as held-to-maturity, trading, or available-for-sale. 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 of non-affiliated companies would be carried at fair value with the unrealized holding gains and losses reported in income.

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

B. Unpaid Losses and Loss Adjustment Expenses

The liabilities for unpaid losses and loss adjustment expenses are based upon management's estimates of reported and unreported losses determined on the basis of claim evaluation and past statistical experience. These liabilities are reported net of anticipated salvage and subrogation receivable. Reinsurance recoverables related to unpaid losses and loss adjustment expenses are netted with the respective liabilities; under GAAP, these reinsurance recoverables would be shown on a separate gross basis.

C. Policy Acquisition Costs

The costs of acquiring premium income are immediately charged against operations, whereas premium income is deferred over the periods covered by the policies. Under GAAP, costs which vary directly with the production of new and renewal business would be capitalized and amortized as premium is earned.

D. Deferred Tax Assets

Deferred income taxes are provided for differences between the financial statement and the tax bases of assets and liabilities and are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Additionally, under statutory accounting practices, limitations are placed on the admissibility of deferred tax assets. All changes in deferred tax assets and liabilities are reported as changes in surplus, and state income taxes are not included in deferred tax calculations; under GAAP, there is no admissibility concept, changes in deferred tax assets and liabilities would be reported through operations and/or surplus depending on their characteristics, and state income taxes would be included in the deferred tax calculation.

E. Special Surplus Fund

The special surplus fund is an appropriation of unassigned surplus established to meet Wisconsin statutory requirements.

F. Non-Admitted Assets

Certain assets designated as “non-admitted assets”, aggregating $115,249,708 and $128,260,566 at December 31, 2020 and 2019, respectively, are not recognized by statutory accounting practices. Non-admitted assets are excluded from the balance sheet, and the net change in such assets is charged or credited directly to unassigned surplus. Under GAAP, such assets would be included in the balance sheet net of accumulated amortization.

G. Premium Income Recognition

Premiums are earned over the terms of the related insurance policies and reinsurance contracts on a daily pro rata basis. Unearned premium reserves are established to cover the unexpired portion of premiums written and are computed on a pro rata basis. The Association determined that a premium deficiency reserve was not necessary for the years ended December 31, 2020 and 2019. The Association does not anticipate investment income as a factor in the calculation of a potential premium deficiency reserve.

H. Cash, Cash Equivalents, and Short-Term Investments

For purposes of reporting cash flows, the Association follows statutory accounting practices and considers cash in checking accounts, certain money market funds, and highly liquid debt instruments purchased with an original maturity of one year or less to be cash, cash equivalents, and short-term investments.

On December 31, 2020, the Association held on deposit $11,692,448 in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) limit. The Association does not believe it is exposed to any significant credit risks on this account.

I. Other

Real estate consists of home office properties and properties held for the production of income. Depreciation of real estate and other admitted and non-admitted assets is computed using the straight-line method over the estimated useful or class life.

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

The Association, at the approval of the Board of Directors, has a line of credit with The Northern Trust Company not to exceed $30 million. The Association did not borrow any amounts against this line of credit during 2020 or 2019.

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

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

2. Affiliated Entity Transactions

The Association and its wholly owned subsidiary, Pekin Insurance Company, owned 88.91 percent and 87.10 percent of Pekin Life Insurance Company (PLIC) at December 31, 2020 and 2019, respectively. Specifically, the Association owned 81.33 percent and 79.52 percent of PLIC as of these dates. In 2019, Pekin Select Insurance Company was formed as a wholly owned subsidiary of Pekin Insurance Company.

The Association, Pekin Insurance Company (PIC), and Pekin Select Insurance Company (PSIC) occupy the same building, and, along with PLIC, utilize many common facilities, management, administrative and office personnel, and services. Since 1966, the Association and Pekin Insurance Company have had a reinsurance pooling agreement under which underwriting income and expense and other administrative expenses are prorated to the Association (80 percent) and to Pekin Insurance Company (20 percent). In 2020, the reinsurance pooling agreement was amended to prorate underwriting income and expense and other administrative expenses to the Association (80 percent), PIC (20 percent), and PSIC (0 percent). The proration does not include provisions for federal income taxes or results of investment transactions.

The Association and PLIC allocate related expenses to one another. Intercompany balances are paid periodically throughout the year based on estimates and settled within 45 days after year-end based on actual allocated expenses. Such net expenses allocated to PLIC, and therefore not included in the accompanying statements of income, were $7,921,043 in 2020 and $7,637,183 in 2019.

In connection with structured settlements, the Association purchased 8 annuities from PLIC in 2020 and 7 annuities in 2019, of which the Association's claimant is the payee, but for which the Association is contingently liable. The single premium for these annuities totaled $403,778 and $826,134 in 2020 and 2019, respectively. The total reserve carried by PLIC at December 31, 2020 and 2019, was $9,427,592 and $9,427,914, respectively.

3. Investments

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2020, are as follows:

	2020			
Obligation	**Admitted Value**	**Unrealized Gain**	**Unrealized Loss**	**Market Value**
U.S. Government	$ 6,837,691	$ 527,903	$ -	$ 7,365,594
Other Government	4,987,642	645,601	-	5,633,243
U.S. States, Territories, and Possessions	15,366,782	1,137,312	-	16,504,094
U.S. Political Subdivisions	35,260,949	3,319,840	-	38,580,789
U.S. Special Revenue and Special Assessment	60,113,912	3,596,925	-	63,710,837
Industrial and Miscellaneous	292,074,859	38,764,530	36,324	330,803,065
Loan-Backed Securities	138,441,056	6,570,761	3,458	145,008,359
Total	$ 553,082,891	$ 54,562,872	$ 39,782	$ 607,605,981

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

	2019			
Obligation	**Admitted Value**	**Unrealized Gain**	**Unrealized Loss**	**Market Value**
U.S. Government	$ 9,351,878	$ 318,359	$ 4,034	$ 9,666,203
Other Government	7,501,022	452,066	-	7,953,088
U.S. States, Territories, and Possessions	11,927,233	712,455	-	12,639,688
U.S. Political Subdivisions	33,629,111	2,439,689	-	36,068,800
U.S. Special Revenue and Special Assessment	59,349,494	2,271,185	-	61,620,679
Industrial and Miscellaneous	299,878,149	19,612,932	17,442	319,473,639
Loan-Backed Securities	168,416,183	3,181,365	200,974	171,396,574
Total	$ 590,053,070	$ 28,988,051	$ 222,450	$ 618,818,671

The admitted value of the loan-backed securities includes $231,694 and $338,836 of U.S. Government Guaranteed Securities for 2020 and 2019, respectively.

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

	Admitted Value	Market Value
Due in One Year or Less	$ 29,865,404	$ 30,268,115
Due After One Year Through Five Years	236,840,600	253,616,946
Due After Five Years Through Ten Years	218,749,382	242,275,939
Due After Ten Years	67,627,505	81,444,981
Total	$ 553,082,891	$ 607,605,981

The adjusted cost, unrealized gain and loss, and statement value of investments in common stock as of December 31, 2020, are as follows:

	2020			
Common Stocks	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Affiliates	$ 86,499,944	$ 149,336,763	$ -	$ 235,836,707
Other Than Affiliates	56,743,037	34,317,176	986,347	90,073,866
Total	$ 143,242,981	$ 183,653,939	$ 986,347	$ 325,910,573

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

	2019			
Common Stocks	Adjusted Cost	Unrealized Gain	Unrealized Loss	Statement Value
Affiliates	$ 82,636,127	$ 153,511,986	$ -	$ 236,148,113
Other Than Affiliates	52,965,052	21,744,441	1,098,678	73,610,815
Total	$ 135,601,179	$ 175,256,427	$ 1,098,678	$ 309,758,928

Notes to Financial Statements – Statutory Basis

Securities with unrealized losses based on estimated market values as of December 31, 2020, are shown below:

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Industrial and Miscellaneous	$ 7,376,937	$ 36,324	$ -	$ -	$ 7,376,937	$ 36,324
Loan-Backed Securities	941,188	2,171	52,139	1,287	993,327	3,458
Subtotal Debt Securities	8,318,125	38,495	52,139	1,287	8,370,264	39,782
Common Stock - Unaffiliated	11,673,506	313,343	4,662,096	673,004	16,335,602	986,347
Total Securities With Unrealized Losses	$ 19,991,631	$ 351,838	$ 4,714,235	$ 674,291	$ 24,705,866	$ 1,026,129

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

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U. S. Government	$ 847,375	$ 3,394	$ 503,359	$ 640	$ 1,350,734	$ 4,034
Industrial and Miscellaneous	-	-	7,479,773	17,442	7,479,773	17,442
Loan-Backed Securities	11,815,295	42,517	24,637,553	158,457	36,452,848	200,974
Subtotal Debt Securities	12,662,670	45,911	32,620,685	176,539	45,283,355	222,450
Common Stock - Unaffiliated	2,623,014	169,929	9,857,739	928,749	12,480,753	1,098,678
Total Securities With Unrealized Losses	$ 15,285,684	$ 215,840	$ 42,478,424	$ 1,105,288	$ 57,764,108	$ 1,321,128

The components of net realized capital gains are as follows:

	2020	2019
Gains on Disposals	$ 7,415,684	$ 4,336,192
Losses on Disposals	(2,779,496)	(2,073,781)
OTTI	(47,549)	(144,579)
Total	4,588,639	2,117,832
Tax Expense	(974,796)	(519,299)
Net Realized Capital Gains	$ 3,613,843	$ 1,598,533

Bonds carried at $2,021,243 and $2,030,474 at December 31, 2020 and 2019, respectively, were on deposit with the Illinois Department of Insurance as required by law. Bonds carried at $310,295 and $312,530 were on deposit with the Nevada Department of Insurance at December 31, 2020 and 2019, respectively, as required by law.

Securities Lending

The Association lends securities to agreed upon borrowers through an agreement with its custodian. The Association requires initial collateral from the borrower in an amount no less than 102 percent of the fair value of domestic securities and no less than 105 percent of the fair value of foreign securities loaned at the outset of the contract. All collateral so received is held either in the physical custody of the custodian or for the account of the custodian by their agent or a central bank. The offsetting collateral liability is included in Payable for Securities Lending. At December 31, 2020 and 2019, the amount of securities loaned was $6,452,130 and $3,663,350, respectively, and the related collateral was $6,598,659 and $3,742,533, respectively. At December 31, 2020, collateral assets valued at $342,497 had maturity dates beyond one year.

The aggregate amount of cash collateral received as of December 31, 2020 and 2019, is shown below by maturity date:

	2020	2019
Maturity Date	**Fair Value**	**Fair Value**
Open	$ 744,391	$ 563,138
30 Days or Less	914,097	223,977
31 to 60 Days	299,685	167,983
61 to 90 Days	710,836	345,046
Greater Than 90 Days	1,187,940	381,367
Total Bond Collateral Received	3,856,949	1,681,511
Total Equity Collateral Received	2,741,709	2,061,022
Total Collateral Received	$ 6,598,658	$ 3,742,533

The Association participates in a liquid asset portfolio. At December 31, 2020 and 2019, the aggregate value of the reported reinvested collateral was $6,597,603 and $3,692,264, and the related fair value was $6,603,306 and $3,744,299, respectively.

As of December 31, 2020 and 2019, the Association had $8,307,481 and $6,812,722, respectively, in gross restricted assets related to securities lending agreements. This amount represents collateral that has been accepted from the borrower.

4. Fair Value Measurement

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

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

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

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

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

Notes to Financial Statements – Statutory Basis

The following table sets forth by level, within the fair value hierarchy, the Association's financial instruments that are reported at fair value within the statutory balance sheet as of December 31, 2020 and 2019:

	2020			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stock -				
Other Than Affiliates	$ 90,073,866	$ -	$ -	$ 90,073,866

	2019			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stock -				
Other Than Affiliates	$ 73,610,815	$ -	$ -	$ 73,610,815

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

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

	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)
Bonds	$ 607,605,981	$ 553,082,891	$ 7,365,594	$ 600,240,387	$ -
Common Stock:					
Affiliates	235,836,707	235,836,707	-	99,053,035 *	136,783,672 *
Other Than Affiliates	90,073,866	90,073,866	90,073,866	-	-
Agency Loans Receivable	218,984	218,984	-	-	218,984

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	$ 618,818,671	$ 590,053,070	$ 9,666,203	$ 609,152,468	$ -
Common Stock:					
Affiliates	236,148,113	236,148,113	-	100,078,115 *	136,069,998 *
Other Than Affiliates	73,610,815	73,610,815	73,610,815	-	-
Agency Loans Receivable	124,668	124,668	-	-	124,668

*Values are determined using the statutory equity method and are not stated at fair market value.

The type of security included within each hierarchy in the above table is as follows:

Level 1 Measurements

Bonds: Comprised of actively traded U.S. Treasury notes.

Common Stock: Comprised of actively traded, exchange-listed mutual funds and common stocks.

Level 2 Measurements

Bonds: Comprised primarily of Political Subdivisions, Special Revenue, Industrial and Miscellaneous, and Loan-Backed securities.

Common Stock: Comprised of common stock of affiliate which is not actively traded and is recorded at the statutory equity method.

Level 3 Measurements

Common Stock: Comprised of common stock of affiliates recorded using the statutory equity method.

Agency Loans Receivable: Comprised of uncollateralized loans

5. Liability for Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for loss and loss adjustment expense reserves is summarized as follows:

	2020	2019
Balance at January 1	$ 468,220,515	$ 445,755,839
Less Reinsurance Recoverable	(43,898,474)	(43,232,426)
Net Balance at January 1	424,322,041	402,523,413
Incurred Related to:		
Current Year	356,854,715	387,056,954
Prior Years	(15,767,704)	(20,952,173)
Total Incurred	341,087,011	366,104,781
Paid Related to:		
Current Year	199,365,261	205,388,906
Prior Years	153,431,377	138,917,247
Total Paid	352,796,638	344,306,153
Net Balance at December 31	412,612,414	424,322,041
Plus Reinsurance Recoverable	90,062,902	43,898,474
Balance at December 31	$ 502,675,316	$ 468,220,515

The provision for incurred loss and loss adjustment expenses attributable to insured events in prior years decreased by $15,767,704 and $20,952,173 in 2020 and 2019, respectively. In both 2020 and 2019, incurred losses and loss adjustment expenses showed favorable development. The Association conducts regular analyses of reserves and revises estimates accordingly to reflect changes in trends and development.

Estimates of anticipated salvage and subrogation recoveries on losses and loss adjustment expenses have been recorded as a reduction to the liabilities for unpaid loss and unpaid loss adjustment expenses amounting to $14,656,303 and $15,886,000 at December 31, 2020 and 2019, respectively.

6. Reinsurance

The Association has reinsurance treaties in place for its property and casualty insurance business to reduce exposure to large losses. Although reinsurance does not relieve the Association of its legal liability to its policyholders, it provides a measure of protection against catastrophic losses and provides a means of risk reduction on individual losses. In order to maintain an appropriate balance between the cost of reinsurance and surplus growth, the Association periodically evaluates its retention levels correlated to specific types of property and casualty insurance policies. In 2020 and 2019, the Association ceded $61,026,033 and $42,310,637, respectively, of written premium to third parties.

The Association is also a party to an intercompany pooling agreement with Pekin Insurance Company and Pekin Select Insurance Company. All direct business written by the Companies are subject to the intercompany pool. In 2020 and 2019, under this agreement, underwriting income and expenses and other administrative expenses are prorated to the Association (80 percent), Pekin Insurance Company (20 percent), and Pekin Select Insurance Company (0 percent).

The Association had unsecured aggregate amounts recoverable for reinsurance on paid and unpaid losses and unearned premium in excess of three percent of policyholders' surplus for Pekin Insurance Company ($161,386,174), General Reinsurance Company ($15,577,787), and Maiden Reinsurance Company ($13,778,550).

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

Pension Benefits

The Association and its affiliates participate in a trusteed noncontributory defined benefit pension plan for certain employees. The Association and its affiliates adopted an amendment to freeze participation in the Plan for employees hired after January 1, 2013. The Association and its affiliates also adopted an amendment to freeze accrued benefits for all non-grandfathered participants. Non-grandfathered participants are participants who had not attained age 50 on or before December 31, 2017, and whose age and credited years of service as of December 31, 2017, did not exceed 75. Effective August 24, 2020, the Association and its affiliates adopted an amendment to offer a one-time, voluntary, early retirement benefit for certain grandfathered Plan participants. The terminations resulted in a $9.5 million reduction in benefit obligation. In accordance with the curtailment accounting rules, the reduction in benefit obligation was offset against the remaining unrecognized loss at December 31, 2020.

Notes to Financial Statements – Statutory Basis

The funding policy is to contribute annually an amount that represents the current cost of benefits expected to be earned in the current year offset by the expected asset return higher than the discount rate, but no more than the maximum amount that can be deducted for federal income tax purposes. Each affiliate is charged for its applicable share of such contributions based on a percentage of the projected benefit obligation.

Post-Retirement Benefits

In addition to providing pension benefits, the Association and its affiliates provide certain health care and life insurance benefits (post-retirement benefits) for retired employees. Employees hired prior to 2013 may become eligible for these benefits if they reach retirement age while working for the Association.

Expected Cash Flows

The Association and its affiliates expect to contribute to the Pension Plan in 2021. The amount of the contribution is not known. The Association and its affiliates do not expect to contribute to the Post-Retirement Benefit Plan in 2021.

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

Year	Pension Benefits	Post-Retirement Benefits
2021	$ 11,168,000	$ 2,128,000
2022	9,720,000	2,161,000
2023	7,159,000	2,184,000
2024	6,284,000	2,175,000
2025	5,997,000	2,261,000
2026-2030	26,245,000	12,121,000

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 of the Association and its affiliates is as follows at December 31:

	Pension Benefits		Post-Retirement Benefits	
	2020	2019	2020	2019
Change in Benefit Obligation:				
Benefit Obligation at Beginning of Year	$ 107,294,040	$ 89,020,004	$ 54,065,290	$ 43,720,842
Service Cost	1,985,773	1,842,054	1,276,735	996,948
Interest Cost	2,657,373	3,263,608	1,663,616	1,829,136
Actuarial Loss	16,502,374	20,213,265	4,935,130	9,586,236
Benefits Paid	(30,415,450)	(7,044,891)	(692,480)	(2,067,872)
Curtailment	(9,475,265)	-	(883,946)	-
Special Termination Benefits	2,102,727	-	-	-
Benefit Obligation at End of Year	$ 90,651,572	$ 107,294,040	$ 60,364,345	$ 54,065,290
Accumulated Benefit Obligation	$ 86,707,941	$ 99,098,129	$ 60,364,345	$ 54,065,290
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Year	$ 90,935,528	$ 74,229,358	$ 23,176,301	$ 24,198,757
Actual Return on Plan Assets	4,481,426	14,751,061	735,855	708,190
Employer Contribution	-	9,000,000	-	-
Benefits Paid	(30,415,450)	(7,044,891)	(448,131)	(1,730,646)
Fair Value of Plan Assets at End of Year	$ 65,001,504	$ 90,935,528	$ 23,464,025	$ 23,176,301
Funded Status:				
Recognized Liabilities:				
Accrued Benefit Costs	$ 5,645,425	$ (3,818,549)	$ 27,868,502	$ 26,757,181
Liability for Benefits	20,004,643	20,177,061	9,031,818	4,131,808
Total Liabilities Recognized	$ 25,650,068	$ 16,358,512	$ 36,900,320	$ 30,888,989
Unrecognized Liabilities	$ -	$ -	$ -	$ -
Components of Net Periodic Benefit Cost:				
Service Cost	$ 1,985,773	$ 1,842,054	$ 1,276,735	$ 996,948
Interest Cost	2,657,373	3,263,608	1,663,616	1,829,136
Expected Return on Plan Assets	(5,078,804)	(4,315,436)	(869,111)	(1,028,447)
Amortization of				
Transition Obligation	20,981	20,981	-	-
Net Losses	1,063,959	350,862	576,298	-
Prior Service Cost	-	-	(1,042,241)	(1,042,241)
Settlement/Curtailment	6,711,965	1,323,441	(249,627)	-
Special Termination Benefits	2,102,727	-	-	-
Total Net Periodic Benefit Cost	$ 9,463,974	$ 2,485,510	$ 1,355,670	$ 755,396

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.

The Farmers Automobile Insurance Association

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	
	2020	2019	2020	2019	2020	2019	2020	2019
Benefit Obligation	$ 55,185,724	$ 67,531,334	$ 13,796,431	$ 16,882,833	$ 21,669,417	$ 22,879,873	$ 90,651,572	$ 107,294,040
Plan Assets	39,572,916	57,238,458	9,893,229	14,309,615	15,535,359	19,387,455	65,001,504	90,935,528
Underfunded	$ 15,612,808	$ 10,292,876	$ 3,903,202	$ 2,573,218	$ 6,134,058	$ 3,492,418	$ 25,650,068	$ 16,358,512
Accrued Benefit Costs	$ 4,573,628	$ (2,553,031)	$ 1,143,405	$ (638,259)	$ (71,608)	$ (627,259)	$ 5,645,425	$ (3,818,549)
Liability for Benefits	11,039,180	12,845,907	2,759,797	3,211,477	6,205,666	4,119,677	20,004,643	20,177,061
	$ 15,612,808	$ 10,292,876	$ 3,903,202	$ 2,573,218	$ 6,134,058	$ 3,492,418	$ 25,650,068	$ 16,358,512
Net Periodic Benefit Cost	$ 6,188,339	$ 1,420,384	$ 1,547,085	$ 355,094	$ 1,728,550	$ 710,032	$ 9,463,974	$ 2,485,510

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	
	2020	2019	2020	2019	2020	2019	2020	2019
Benefit Obligation	$ 38,074,173	$ 33,457,413	$ 9,518,543	$ 8,364,353	$ 12,771,629	$ 12,243,524	$ 60,364,345	$ 54,065,290
Plan Assets	14,799,231	14,341,495	3,699,806	3,585,374	4,964,988	5,249,432	23,464,025	23,176,301
Underfunded	$ 23,274,942	$ 19,115,918	$ 5,818,737	$ 4,778,979	$ 7,806,641	$ 6,994,092	$ 36,900,320	$ 30,888,989
Accrued Benefit Costs	$ 17,364,148	$ 16,679,373	$ 4,341,036	$ 4,169,843	$ 6,163,318	$ 5,907,965	$ 27,868,502	$ 26,757,181
Liability for Benefits	5,910,794	2,436,545	1,477,701	609,136	1,643,323	1,086,127	9,031,818	4,131,808
	$ 23,274,942	$ 19,115,918	$ 5,818,737	$ 4,778,979	$ 7,806,641	$ 6,994,092	$ 36,900,320	$ 30,888,989
Net Periodic Benefit Cost	$ 838,891	$ 477,048	$ 209,722	$ 119,262	$ 307,057	$ 159,086	$ 1,355,670	$ 755,396

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

	Pension Benefits		Post-Retirement Benefits	
	2020	2019	2020	2019
Amounts in Unassigned Surplus Recognized as Components of Net Periodic Benefit Cost:				
Items Not Yet Recognized from Prior Year	$ 20,177,061	$ 12,094,705	$ 4,131,808	$ (6,816,926)
Net Transition Obligation Recognized	(20,981)	(20,981)	-	-
Net Prior Service Cost Recognized	-	-	1,291,868	1,042,241
Net Loss Arising During the Period	7,624,487	9,777,640	4,184,440	9,906,493
Net Loss Recognized	(7,775,924)	(1,674,303)	(576,298)	-
Items Not Yet Recognized Current Year	$ 20,004,643	$ 20,177,061	$ 9,031,818	$ 4,131,808
Amounts in Unassigned Surplus Not Yet Recognized as Components of Net Periodic Benefit Cost:				
Net Transition Obligation Recognized	$ -	$ 20,981	$ -	$ -
Net Prior Service Cost	-	-	(5,555,656)	(6,847,524)
Net Recognized Losses	20,004,643	20,156,080	14,587,474	10,979,332

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

	Pension Benefits		Post-Retirement Benefits	
	2020	2019	2020	2019
Discount Rate	2.23%	3.02%	2.93%	3.51%
Rate of Compensation Increase	3.50% to 8.25%	3.50% to 8.25%	N/A	N/A

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

	Pension Benefits		Post-Retirement Benefits	
	2020	2019	2020	2019
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
Expected Long-Term Rate of Return on Plan Assets	5.75%	6.00%	3.75%	4.25%

The health care portion of the post-retirement benefit plan is contributory, with participants' contributions adjusted annually as determined by the Association; the life insurance portion of the post-retirement benefit plan is noncontributory. The health care cost trend rate in 2020 was 6.82 percent, graded to 6.45 percent for one year, then graded to 4.50 percent by 2028. In 2019, the health care cost trend rate was 7.14 percent, graded to 6.72 percent for one year, then graded to 4.50 percent by 2028.

The retirement plan assets are held in a deposit administration contract and equity securities. The Trustees of the Farmers Automobile Insurance Association Retirement Plan maintain a deposit administration contract with Pekin Life Insurance Company for pension benefits. The contract is a group annuity contract consisting of employer contributions with guaranteed interest, less annuities purchased, to provide benefit payments to retirees and lump sum benefits paid directly to participants. The fair value of the contract included in plan assets of the Association and its affiliates was $6,262,155 and $25,846,371 as of December 31, 2020 and 2019, respectively, or 10 percent and 28 percent of total plan assets. Equity securities comprise the remaining plan assets. At December 31, 2020 and 2019, equity securities, cash, and cash equivalents amounted to $58,739,349 and $65,089,157, respectively, or 90 percent and 72 percent of total plan assets. In 2020, the Trustees liquidated $10,000,000 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, Association experience, and future Association expectations.

The specific goal of the investment portfolio is to maintain a fully funded plan over time to ensure the benefit for the plan participants. New contributions are invested in equity securities until the amount in equities exceeds 45 percent of the plan's total assets. Additional amounts will be paid into the deposit administration contract, unless the equity portfolio falls under 45 percent. If the equity portfolio exceeds 60 percent of the plan's assets, part of the equity portfolio will be liquidated and proceeds moved into the deposit administration contract within a reasonable time frame. There are three return objectives. The primary benchmark is the projected annual rate of return used by the plan's actuary. The average annualized investment performance of the invested assets, net of investment-related expenses, should be equal to or in excess of this benchmark. The secondary (equity) benchmark is the percent total rate of return of a balanced portfolio comprised of a 70 percent weighting of the Standard & Poor's 500 Index and a 30 percent weighting of the Barclay's Government Corporate Index. The secondary (fixed income) benchmark is the weighted average rate of return of the Pekin Life Insurance Company's bond portfolio, excluding mortgage-backed securities, less 0.75 percent which includes 0.25 percent for expenses and 0.50 percent for spread. All plan assets, in excess of those funds targeted for short-term cash flows needs, should be invested in a manner consistent with the basic principles of prudent long-term portfolio management. Derivatives, private placement securities, and commodity contracts are prohibited investment vehicles. The Trustees of the plan recognize the long-term nature of the majority of the plan's assets.

The Farmers Automobile Insurance Association Retirement Plan maintains an account to partially fund health benefits provided to certain retirees and eligible dependents through a deposit administration contract with Pekin Life Insurance Company. The permissible account funding was determined in accordance with generally recognized and accepted actuarial principles and practices, which are consistent with the Actuarial Standards of Practice. At December 31, 2020 and 2019, the fair value of the contract was $23,464,025 and $23,176,301, respectively. No contributions were made in 2020 and 2019 into the deposit administration contract other than the transfer of $10,000,000 noted above.

The Association utilizes the following valuation techniques in determining the level within the fair value hierarchy of the Pension Plan and Post-Retirement Plan assets:

Level 1 – Quoted market prices reported on the active markets on which the individual stocks and money market funds are traded.

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

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, 2020, for the Association and its affiliates:

	Assets at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Pension Plan Assets:				
Equity Securities:				
Communication Services	$ 3,843,550	$ -	$ -	$ 3,843,550
Consumer Discretionary	2,229,330	-	-	2,229,330
Consumer Staples	4,382,083	-	-	4,382,083
Energy	3,194,625	-	-	3,194,625
Financials	10,080,744	-	-	10,080,744
Health Care	8,208,640	-	-	8,208,640
Industrials	6,425,165	-	-	6,425,165
Information Technology	7,871,373	-	-	7,871,373
Materials	1,312,530	-	-	1,312,530
Utilities	9,037,495	-	-	9,037,495
Total Equity Securities	56,585,535	-	-	56,585,535
Cash and Cash Equivalents	2,153,814	-	-	2,153,814
Deposit Administration Contract	-	-	6,262,155	6,262,155
Total Pension Plan Assets	$ 58,739,349	$ -	$ 6,262,155	$ 65,001,504
Post-Retirement Plan Assets:				
Deposit Administration Contract	$ -	$ -	$ 23,464,025	$ 23,464,025
Total Post-Retirement Plan Assets	$ -	$ -	$ 23,464,025	$ 23,464,025

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 Association 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

Director Retirement Plan

Pursuant to a retirement plan for Directors elected prior to 2004, eligible Directors will receive a retirement benefit equal to the annual retainer in effect on the Directors' retirement dates. The Association's benefits paid were $48,750 in 2020 and 2019. The Association's liability for the Directors' retirement benefit was $801,214 and $877,305 at December 31, 2020 and 2019, respectively.

401(k) Savings Plan

The Association and its affiliates participate in a voluntary 401(k) savings plan for eligible participants. Participation requires that an employee be at least 18 years of age and not a temporary employee. Employer contributions of $2,615,393 and $2,708,473, respectively, were made to this plan for all participants in 2020 and 2019.

Deferred Compensation

The Association maintains a deferred compensation plan for the Directors. This plan allows for voluntary deferral of all or any part of compensation to which a Director might otherwise be entitled to as Directors' fees, in accordance with the plan provisions. During 2020 and 2019, $11,500 and $23,000 of Directors' fees were deferred, respectively. The liability for Directors' deferred compensation was $486,172 and $487,752 at December 31, 2020 and 2019, respectively.

8. Federal Income Taxes

The Association is taxed as an insurance company under Section 831 of the Internal Revenue Code. Federal income tax expense differs from the amount obtained by applying the federal income tax rate of 21 percent to pretax income for the years ended December 31, 2020 and 2019, respectively, due to the following:

	2020	2019
Computed Expected Federal Income Tax Benefit	$ (5,143,312)	$ (7,895,154)
Increase (Decrease) in Taxes Resulting from:		
Tax-Exempt Interest	(455,339)	(477,561)
Dividends Received Deduction	(86,695)	(81,933)
Adjustment for Prior Year Under Accrual	-	120,395
Unearned Premium	(46,905)	(45,750)
Pension Benefits	1,496,598	(865,614)
Post-Retirement Benefits	(349,580)	70,314
Loss Reserve Discounting	388,537	1,028,334
Bonus Depreciation	162,840	657,972
Federal Net Operating Loss Carryforward	1,851,397	5,568,035
AMT Credit Applied	-	157,948
All Others	(126,731)	382,342
Federal Income Tax Benefit	(2,309,190)	(1,380,672)
Tax on Capital Gains	974,796	519,299
Tax Benefit	$ (3,283,986)	$ (1,899,971)

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

	2020		
	Ordinary	**Capital**	**Total**
Gross Deferred Tax Assets	$ 58,207,852	$ 15,175	$ 58,223,027
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	58,207,852	15,175	58,223,027
Deferred Tax Assets Non-Admitted	4,786,008	-	4,786,008
Subtotal Net Admitted Deferred Tax Asset	53,421,844	15,175	53,437,019
Deferred Tax Liabilities	11,309,001	6,169,106	17,478,107
Net Admitted Deferred Tax Assets	$ 42,112,843	$ (6,153,931)	$ 35,958,912

	2019		
	Ordinary	**Capital**	**Total**
Gross Deferred Tax Assets	$ 56,223,535	$ 30,362	$ 56,253,897
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	56,223,535	30,362	56,253,897
Deferred Tax Assets Non-Admitted	6,162,658	-	6,162,658
Subtotal Net Admitted Deferred Tax Asset	50,060,877	30,362	50,091,239
Deferred Tax Liabilities	12,486,244	4,496,448	16,982,692
Net Admitted Deferred Tax Assets	$ 37,574,633	$ (4,466,086)	$ 33,108,547

	Change		
	Ordinary	**Capital**	**Total**
Gross Deferred Tax Assets	$ 1,984,317	$ (15,187)	$ 1,969,130
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	1,984,317	(15,187)	1,969,130
Deferred Tax Assets Non-Admitted	(1,376,650)	-	(1,376,650)
Subtotal Net Admitted Deferred Tax Asset	3,360,967	(15,187)	3,345,780
Deferred Tax Liabilities	(1,177,243)	1,672,658	495,415
Net Admitted Deferred Tax Assets	$ 4,538,210	$ (1,687,845)	$ 2,850,365

The net admitted deferred tax asset was determined using the guidance related to admissibility provided in the following paragraphs of NAIC *Statement of Statutory Accounting Principles No. 101 (SSAP 101).*

	2020		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ -	$ -	$ -
11b. Expected to be Realized, After Application of Threshold Limitations	35,943,737	15,175	35,958,912
11c. Offset of Deferred Tax Liabilities	17,478,107	-	17,478,107
Total Admitted Deferred Tax Assets	$ 53,421,844	$ 15,175	$ 53,437,019

	2019		
	Ordinary	**Capital**	**Total**
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	$ -	$ -	$ -
11b. Expected to be Realized, After Application of Threshold Limitations	33,078,185	30,362	33,108,547
11c. Offset of Deferred Tax Liabilities	16,982,692	-	16,982,692
Total Admitted Deferred Tax Assets	$ 50,060,877	$ 30,362	$ 50,091,239

	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	2,865,552	(15,187)	2,850,365
11c. Offset of Deferred Tax Liabilities	495,415	-	495,415
Total Admitted Deferred Tax Assets	$ 3,360,967	$ (15,187)	$ 3,345,780

	2020	**2019**
Ratio Used to Determine Recovery Period and Threshold Limitation Amount Under Paragraph 11b	674%	671%
Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation Under Paragraph 11b	$ 409,407,883	$ 407,755,641

Notes to Financial Statements – Statutory Basis

The major components of current income taxes incurred and net deferred tax assets as of December 31, 2020 and 2019, are as follows:

	2020	2019	Change
Current Income Tax:			
Federal	$ -	$ (1,501,067)	$ 1,501,067
Prior Year Under (Over) Accrual of Tax Reserves	(2,309,190)	120,395	(2,429,585)
Federal Income Tax Benefit	$ (2,309,190)	$ (1,380,672)	$ (928,518)
Deferred Tax Assets:			
Ordinary:			
Discounting of Unpaid Losses	$ 6,915,603	$ 6,995,312	$ (79,709)
Unearned Premium Reserve	9,783,156	9,830,061	(46,905)
Advance Premium	174,609	182,238	(7,629)
Compensation and Benefits Accrual	524,270	545,148	(20,878)
Pension Accrual	960,462	-	960,462
Post-Retirement/Health Care Accrual	3,646,471	3,502,668	143,803
Transition Liability for Pension Benefits	2,318,228	2,697,640	(379,412)
Transition liability for Post-Retirement Benefits	1,241,267	511,674	729,593
Net Operating Loss Carryforward	8,887,035	5,568,035	3,319,000
Tax Credit Carryforward	64,512	157,948	(93,436)
Non-Admitted Assets	22,215,033	24,831,193	(2,616,160)
Other	1,477,206	1,401,618	75,588
Total Ordinary Deferred Tax Assets	58,207,852	56,223,535	1,984,317
Non-Admitted	4,786,008	6,162,658	(1,376,650)
Admitted Ordinary Deferred Tax Assets	53,421,844	50,060,877	3,360,967
Admitted Capital Deferred Tax Assets	15,175	30,362	(15,187)
Admitted Deferred Tax Assets	53,437,019	50,091,239	3,345,780
Deferred Tax Liabilities:			
Ordinary:			
Salvage and Subrogation	169,538	181,788	(12,250)
TCJA Reserve Adjustment	2,291,940	2,750,328	(458,388)
Fixed Assets Bonus Depreciation	62,377	73,769	(11,392)
Accrued Pension Prepaid Asset	-	536,137	(536,137)
Accelerated Deduction of Software Amortization	8,685,308	8,836,756	(151,448)
Other	99,838	107,466	(7,628)
Total Ordinary Deferred Tax Liabilities	11,309,001	12,486,244	(1,177,243)
Capital:			
Unrealized Gains	6,169,106	4,496,448	1,672,658
Total Capital Deferred Tax Liabilities	6,169,106	4,496,448	1,672,658
Total Deferred Tax Liabilities	17,478,107	16,982,692	495,415
Net Deferred Tax Assets	$ 35,958,912	$ 33,108,547	$ 2,850,365

Notes to Financial Statements – Statutory Basis

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

There are no Federal income taxes which would be available for recoupment in the event of future tax losses.

As of December 31, 2020 and 2019, the Association had $42,319,212 and $22,429,919 net operating loss carryforwards, respectively. As of December 31, 2020 and 2019, the Association had an Alternative Minimum Tax (AMT) credit carryforward of $0 and $157,948, respectively. As of December 31, 2020, and 2019, the Association had a foreign tax credit carryforward of $88,275 and $51,172, respectively.

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 provision as of December 31, 2020, contains a CARES Act carryback of $2,325,355 related to tax year 2019.

In the opinion of management, the liability for federal income taxes is sufficient to cover computed taxes for the current and prior years that are currently payable. The Association and its affiliates file a unitary tax return with the State of Illinois. A state income tax expense of $0 and $579 in 2020 and 2019, respectively, is included in underwriting expenses.

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

9. Structured Settlements

The Association has purchased annuities of which the claimant is payee, but for which the Association is contingently liable. The aggregate amount of annuities from all life insurers was $9,208,800 and $9,443,814 at December 31, 2020 and 2019, respectively.

10. Capital and Surplus

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

The Association's unassigned surplus was increased (reduced) by the following cumulative amounts at December 31, 2020 and 2019, respectively:

	2020	2019
Net Unrealized Capital Gains	$ 182,667,593	$ 174,157,750
Non-Admitted Assets	(115,249,708)	(128,260,566)
Provision for Reinsurance	-	(72,000)

SUPPLEMENTAL FINANCIAL INFORMATION

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
The Farmers Automobile Insurance Association
Pekin, Illinois

Our audit was conducted for the purpose of forming an opinion on the statutory financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the statutory financial statements. The supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. This information is presented in a format consistent with the Annual Statement filed by the Association with the regulatory authorities. Such information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

Strohm Ballweg, LLP

Madison, Wisconsin
April 26, 2021

The Farmers Automobile Insurance Association

Summary Investment Schedule
December 31, 2020

		Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
		Amount	%	Amount	%
1.	Long-Term Bonds:				
01.01	U.S. governments	$ 7,069,385	0.7	$ 7,069,385	0.7
01.02	All other governments	4,987,642	0.5	4,987,642	0.5
01.03	U.S. states, territories and possessions, etc. guaranteed	15,366,782	1.7	15,366,782	1.7
01.04	U.S. political subdivisions of states, territories, and possessions, guaranteed	35,260,949	3.7	35,260,949	3.7
01.05	U.S. special revenue and special assessment obligations, etc. non-guaranteed	129,944,165	13.7	129,944,165	13.7
01.06	Industrial and miscellaneous	360,453,968	38.0	360,453,968	38.0
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	553,082,891	58.3	553,082,891	58.3
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 (Unaffiliatec	84,439,824	8.9	84,439,824	8.9
03.02	Industrial and miscellaneous Other (Unaffiliated)	5,634,042	0.6	5,634,042	0.6
03.03	Parent, subsidiaries and affiliates Publicly traded	-	-	-	-
03.04	Parent, subsidiaries and affiliates Other	235,836,707	24.9	235,836,707	24.9
03.05	Mutual funds	-	-	-	-
03.06	Unit investment trusts	-	-	-	-
03.07	Closed-end funds	-	-	-	-
03.08	Total common stocks	325,910,573	34.4	325,910,573	34.4
4.	Mortgage loans:				
04.01	Farm mortgages	-	-	-	-
04.02	Residential mortgages	-	-	-	-
04.03	Commercial mortgages	-	-	-	-
04.04	Mezzanine real estate loans	-	-	-	-
04.05	Total valuation allowance	-	-	-	-
04.06	Total mortgage loans	-	-	-	-
5.	Real estate:				
05.01	Properties occupied by company	36,304,901	3.9	36,304,901	3.9
05.02	Properties held for production of income	968,680	0.1	968,680	0.1
05.03	Properties held for sale	-	-	-	-
05.04	Total real estate	37,273,581	4.0	37,273,581	4.0
6.	Cash, cash equivalents and short-term investments:				
06.01	Cash	23,853,188	2.5	23,853,188	2.5
06.02	Cash equivalents	2,408,429	0.2	2,408,429	0.2
06.03	Short-term investments	-	-	-	-
06.04	Total cash, cash equivalents and short-term investments	26,261,617	2.7	26,261,617	2.7
7.	Contract loans	-	-	-	-
8.	Derivatives	-	-	-	-
9.	Other invested assets	-	-	-	-
10.	Receivable for securities	-	-	-	-
11.	Securities lending	6,597,603	0.6	6,597,603	0.6
12.	Other invested assets	218,984	-	218,984	-
13.	Total invested assets	$ 949,345,249	100.0	$ 949,345,249	100.0

See Independent Auditor's Report on the Supplementary Information

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2020

1. State the reporting entity's total admitted assets as reported on Page 2 of the annual statement. $ 1,197,971,172

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

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	PEKIN INSURANCE CO	Affiliated Common Stock	$ 136,782,618	11.4%
2.02	PEKIN LIFE INSURANCE CO	Affiliated Common Stock	$ 99,053,035	8.3%
2.03	FANNIE MAE	Bond	$ 36,389,869	3.0%
2.04	FREDDIE MAC	Bond	$ 33,440,384	2.8%
2.05	ALPHABET INC-CL C	Bond/Stock	$ 5,601,210	0.5%
2.06	MICROSOFT CORP	Bond/Stock	$ 4,560,308	0.4%
2.07	VISA INC-CLASS A SHARES	Bond/Stock	$ 4,040,122	0.3%
2.08	WISCONSIN ST HLTH & EDUCTNL FA	Bond	$ 3,870,196	0.3%
2.09	CALIFORNIA ST	Bond	$ 3,795,007	0.3%
2.10	MASTERCARD INC - A	Bond/Stock	$ 3,699,783	0.3%

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

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC-1	$ 438,866,556	36.6%	3.07	P/RP-1	$ -	0.0%
3.02	NAIC-2	$ 114,216,335	9.5%	3.08	P/RP-2	$ -	0.0%
3.03	NAIC-3	$ -	0.0%	3.09	P/RP-3	$ -	0.0%
3.04	NAIC-4	$ -	0.0%	3.10	P/RP-4	$ -	0.0%
3.05	NAIC-5	$ -	0.0%	3.11	P/RP-5	$ -	0.0%
3.06	NAIC-6	$ -	0.0%	3.12	P/RP-6	$ -	0.0%

4. Assets held in foreign investments:

		1		2
4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?		Yes [ ]	No [X]
4.02	Total admitted assets held in foreign investments	$ 50,882,457		4.2%

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

		1	2
5.01	Countries rated NAIC-1	$ 47,506,840	4.0%
5.02	Countries rated NAIC-2	$ 3,375,617	0.3%
5.03	Countries rated NAIC-3 or below	$ -	0.0%

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2020

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

	1	2
Countries designated NAIC-1:		
6.01 Country: United Kingdom	$ 12,524,428	1.0%
6.02 Country: Australia	$ 9,119,883	0.8%
Countries designated NAIC-2:		
6.03 Country: Indonesia	$ 1,500,502	0.1%
6.04 Country: Peru	$ 999,211	0.1%
Countries designated NAIC-3 or below:		
6.01 Country:	$ -	0.0%
6.02 Country:	$ -	0.0%

7. Aggregate unhedged foreign currency exposure: None

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation: None

9. Largest unhedged foreign currency exposures by county, categorized by the countries' NAIC sovereign designation:

   Countries designated NAIC-1: None

   Countries designated NAIC-2: None

   Countries designated NAIC-3 or below: None

10. List the 10 largest non-sovereign (i.e. non-governmental) foreign issues:

	1 Issuer	2 NAIC Rating	3	4
10.01	HSBC HOLDINGS PLC	1FE	$ 3,003,873	0.3%
10.02	SCENTRE GROUP TRUST 1/2	1FE	$ 2,496,910	0.2%
10.03	TRANSURBAN FINANCE CO	2FE	$ 2,494,714	0.2%
10.04	SINOPEC GRP OVERSEA 2015	1FE	$ 2,488,893	0.2%
10.05	BARCLAYS PLC	2FE	$ 2,240,974	0.2%
10.06	ING GROEP NV	1FE	$ 2,123,909	0.2%
10.07	MEDTRONIC PLC	1FE	$ 2,084,975	0.2%
10.08	CREDIT SUISSE GROUP AG	1FE	$ 2,000,698	0.2%
10.09	MACQUARIE GROUP LTD	1FE	$ 2,000,000	0.2%
10.10	NATWEST GROUP PLC	1FE	$ 2,000,000	0.2%

11. State the amount and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

    11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

	1	2
11.02 Total admitted assets held in Canadian investments	$ -	0.0%

12. State the aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days):

    Assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets; therefore, detail not required for Interrogatory 12. Yes [X] No [ ]

See Independent Auditor's Report on the Supplementary Information

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2020

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

	1 Issuer	2	3
13.02	PEKIN INSURANCE CO	$ 136,782,672	11.4%
13.03	PEKIN LIFE INSURANCE CO	$ 99,053,035	8.3%
13.04	APPLE INC	$ 3,571,617	0.3%
13.05	ALPHABET INC-CL A	$ 3,131,491	0.3%
13.06	MICROSOFT CORP	$ 3,067,617	0.3%
13.07	AMAZON.COM INC	$ 2,400,357	0.2%
13.08	MEDTRONIC PLC	$ 2,084,975	0.2%
13.09	INTERCONTINENTAL EXCHANGE IN	$ 1,638,156	0.1%
13.10	FISERV INC	$ 1,477,561	0.1%
13.11	ZEBRA TECHNOLOGIES CORP-CL A	$ 1,378,592	0.1%

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

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

Ten largest fund managers:

	Fund Manager	Total Invested 1	Diversified 2	Nondiversified 3
14.06	Northern Trust	$ 2,408,429	$ 2,408,429	$ -
14.07		$ -	$ -	$ -
14.08		$ -	$ -	$ -
14.09		$ -	$ -	$ -
14.10		$ -	$ -	$ -
14.11		$ -	$ -	$ -
14.12		$ -	$ -	$ -
14.13		$ -	$ -	$ -
14.14		$ -	$ -	$ -
14.15		$ -	$ -	$ -

15. State the aggregate amounts and percentages of the entity's total admitted assets held in general partnership interests (included in other equity securities):

Assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 15. Yes [X] No [ ]

16. With respect to mortgage loans reported in Schedule B, state the amounts and percentages of the reporting entity's total admitted assets held:

Mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 16 and 17. Yes [X] No [ ]

The Farmers Automobile Insurance Association

Investment Risks Interrogatories
December 31, 2020

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date: None

18. Are assets held in investments held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

19. Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

20. State the amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year-End		At End of Each Quarter (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)	$ 6,452,130	0.5%	$ 8,763,182	$ 7,325,575	$ 6,550,865

21. State the amounts and percentages indicated below for warrants not attached to other financial instruments, options, caps, and floors: None

22. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for collars, swaps, and forwards: None

23. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for futures contracts: None

The Farmers Automobile Insurance Association

Reinsurance Interrogatories
December 31, 2020

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

Yes [ ] No [X]

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

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

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

c. Aggregate stop loss reinsurance coverage;

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

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

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

Yes [ ] No [X]

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

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

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

Yes [ ] No [X]

The Farmers Automobile Insurance Association

Reinsurance Interrogatories
December 31, 2020

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:

a. The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;

b. A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and

c. A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

9.4 Except for transactions meeting the requirements of paragraph 32 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

Yes [ ] No [X]