JOHNSON LAMBERT LLP

Harco National Insurance Company and Affiliates
Combined Audited Financial Statements - Statutory Basis

Years ended December 31, 2016 and 2015
with Report of Independent Auditors

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Contents

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Report of Independent Auditors

Executive Committee
Harco National Insurance Company and Affiliates

We have audited the accompanying combined statutory basis financial statements of Harco National Insurance Company ("HNIC"), Wilshire Insurance Company ("WIC"), Acceptance Indemnity Insurance Company ("AIIC"), Acceptance Casualty Insurance Company ("ACIC"), Commercial Alliance Insurance Company ("CAIC"), Transguard Insurance Company of America, Inc. ("TGIC") and Occidental Fire & Casualty Company of North Carolina ("OFC"), collectively referred to as "the Companies", which comprise the combined balance sheet - statutory basis as of December 31, 2016, and the related combined statements of operations - statutory basis, combined changes in capital and surplus and combined cash flows for the year then ended and the related notes to the combined statutory basis financial statements.

Management's Responsibility 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 (HNIC and TGIC), the Texas Department of Insurance (CAIC), the North Carolina Department of Insurance (WIC and OFC) and the Nebraska Department of Insurance (ACIC and AIIC), collectively referred to as "the Departments". 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 combined statutory basis financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Companies' 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 Companies' internal control over financial reporting. 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 opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles
As described in Note A to the financial statements, the Companies prepare these combined statutory basis financial statements using accounting practices prescribed or permitted by the Department**,** which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, 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 combined statutory basis financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the combined statutory basis financial position of the Companies as of December 31, 2016, or the combined results of their operations or their combined cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting
In our opinion, the combined statutory basis financial statements referred to above present fairly, in all material respects, the combined statutory basis financial statements of Harco National Insurance Company and Affiliates as of December 31, 2016 and the combined results of their operations and their cash flows for the year then ended, on the basis of accounting described in Note A.

Other Matter - 2015 Combined Statutory Basis Financial Statements
For the year ended December 31, 2016, the Companies received approval from the Departments to provide combined audited statutory basis financial statements. Combined statutory basis financial statements (unaudited) as of and for the year ended December 31, 2015 are presented for comparative purposes. The accompanying combined statutory basis balance sheet as of December 31, 2015, and the related combined statutory basis statements of operations, changes in capital and surplus and cash flow for the year then ended and the related notes the the combined statutory basis financial statements were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

Other Matter - Report on 2016 Supplemental Information
Our audit was conducted for the purpose of forming an opinion on the combined statutory basis financial statements taken as a whole. The accompanying Combining Balance Sheets - Statutory Basis as of December 31, 2016 and the Combining Statements of Operations - Statutory Basis for the year then ended and the Combined Supplemental Investment Risk Interrogatories, Combined Summary Investment Schedule and Reinsurance Summary Supplemental Filing for General Interrogatory 9 of the Companies as of December 31, 2016, are presented for purposes of additional analysis and are not a required part of the combined statutory basis financial statements but are supplemental information required by the Departments. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined statutory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined statutory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined statutory basis financial statements or to the combined statutory basis 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 combined statutory basis financial statements as a whole.

Other Matter - 2015 Supplemental Information

The Combining Balance Sheets - Statutory Basis as of December 31, 2015 and the Combining Statements of Operations - Statutory Basis for the year ended December 31, 2015, are presented for the purposes of additional analysis and are not a required part of the combined statutory basis financial statements. Because we did not audit the combined statutory basis financial statements as of and for the year ended December 31, 2015, it is inappropriate to and we do not express an opinion on the supplemental information referred to above.

Johnson Lambert LLP

Raleigh, North Carolina
May 25, 2017

Harco National Insurance Company and Affiliates

Combined Balance Sheets - Statutory Basis

	As of December 31,	
		Unaudited
	2016	2015
Admitted assets		
Bonds	$ 422,357,343	$ 373,738,836
Preferred stocks	44,140,999	25,265,290
Common stocks	783,908,695	697,330,655
Cash and short-term investments	61,459,729	63,959,593
Other invested assets	21,456,148	20,378,023
Receivables for securities	-	260,495
Total cash and invested assets	1,333,322,914	1,180,932,892
Accrued interest and dividends	6,826,181	5,367,073
Agents' balances and uncollected premium	166,036,389	149,165,124
Reinsurance recoverable on paid losses and loss adjustment expenses	188,246,199	142,539,637
Funds held by or deposited with reinsured companies	5,438,245	176,454
Current federal income taxes recoverable	604,515	186,454
EDP equipment and software	2,483	3,311
Receivable from affiliates	7,281,000	2,040,483
Other assets	64,353,966	57,859,755
Total admitted assets	$ 1,772,111,892	$ 1,538,271,183

See accompanying notes to the statutory basis financial statements.

Harco National Insurance Company and Affiliates

Combined Balance Sheets - Statutory Basis

	As of December 31,	
		Unaudited
	2016	2015
Liabilities, capital and surplus		
Liabilities:		
Reserve for losses	$ 410,112,211	$ 380,774,899
Reserve for loss adjustment expenses	79,988,868	72,677,545
Reinsurance payable on paid losses and loss adjustment expenses	1,489,695	(836,730)
Commissions payable and other similar charges	27,724,598	22,047,965
Other expenses payable	9,225,324	8,403,085
Taxes, licenses and fees payable	6,053,762	4,903,589
Net deferred tax liability	61,290,970	37,336,794
Unearned premium	212,153,164	192,064,680
Advanced premiums	4,380,499	5,493,689
Ceded premiums payable	261,100,742	198,743,296
Amounts withheld for account of others	5,793,000	576,000
Funds held under reinsurance treaties	47,091,417	36,670,788
Provision for reinsurance	22,861	253,861
Drafts outstanding	61,823	-
Payable to affiliates	5,237,182	3,111,987
Payable for securities	-	97,750
Deposits Payable	15,369,178	12,783,622
Other liabilities	6,215,421	5,209,995
Total liabilities	1,153,310,715	980,312,815
Capital and surplus:		
Special surplus funds	-	1,640,000
Common stock	16,100,004	16,100,004
Preferred stock	-	5,000,000
Paid in and contributed surplus	233,343,860	220,913,117
Unassigned funds	369,357,313	314,305,247
Total capital and surplus	618,801,177	557,958,368
Total liabilities, capital and surplus	$ 1,772,111,892	$ 1,538,271,183

See accompanying notes to the statutory basis financial statements.

Harco National Insurance Company and Affiliates

Combined Statements of Operations - Statutory Basis

	Years ended December 31,	
		Unaudited
	2016	2015
Underwriting income		
Premium earned	$ 516,629,947	$ 479,330,442
Deductions:		
Losses incurred	279,006,934	250,356,531
Loss adjustment expenses incurred	87,386,974	79,622,867
Other underwriting expenses incurred	160,922,524	149,689,032
Aggregate write-ins for underwriting deductions	1,357,183	-
Total underwriting deductions	528,673,615	479,668,430
Net underwriting loss	(12,043,668)	(337,988)
Investment income		
Net investment income earned	34,209,730	29,794,202
Net realized gains (losses), net of tax	12,904,541	(17,178,268)
Net investment gain	47,114,271	12,615,934
Other income		
Net loss from agents' or uncollected balances charged off	(765,480)	(979,540)
Finance charges not included in premiums	4,508,778	3,332,506
Other miscellaneous income	3,312,779	1,390,460
Total other income	7,056,077	3,743,426
Net income before federal income taxes	42,126,680	16,021,372
Federal income tax expense	(8,510,168)	(8,515,121)
Net income	$ 33,616,512	$ 7,506,251

See accompanying notes to the statutory basis financial statements.

Harco National Insurance Company and Affiliates

Combined Statements of Changes in Capital and Surplus - Statutory Basis

	Special Surplus Funds	Common Stock	Preferred Stock	Paid in and Contributed Surplus	Unassigned Funds	Total Capital and Surplus
Balance as of January 1, 2015*	$ 1,640,000	$ 16,100,004	$ 5,000,000	$ 220,913,117	$ 359,383,687	$ 603,036,808
Net income	-	-	-	-	7,506,251	7,506,251
Change in net unrealized capital gains and losses, net of tax	-	-	-	-	(29,196,685)	(29,196,685)
Change in net deferred income tax	-	-	-	-	4,715,494	4,715,494
Change in non-admitted assets	-	-	-	-	1,903,600	1,903,600
Change in provision for reinsurance	-	-	-	-	(107,100)	(107,100)
Dividends to stockholders	-	-	-	-	(29,900,000)	(29,900,000)
Net change in capital and surplus	-	-	-	-	(45,078,440)	(45,078,440)
Balance as of December 31, 2015	1,640,000	16,100,004	5,000,000	220,913,117	314,305,247	557,958,368
Net income	-	-	-	-	33,616,512	33,616,512
Change in net unrealized capital gains and losses, net of tax	-	-	-	-	46,254,136	46,254,136
Change in net deferred income tax	-	-	-	-	951,943	951,943
Change in non-admitted assets	-	-	-	-	(3,144,125)	(3,144,125)
Change in provision for reinsurance	-	-	-	-	231,000	231,000
Capital changes:						
Transferred from unassigned	-	-	-	5,790,743	-	5,790,743
Transferred from special and preferred	-	-	-	6,640,000	-	6,640,000
Transferred to paid in	-	-	(5,000,000)	-	-	(5,000,000)
Surplus adjustments:						
Transferred to paid in	(1,640,000)	-	-	-	(5,790,743)	(7,430,743)
Dividends to stockholders	-	-	-	-	(16,700,000)	(16,700,000)
Other gains/losses in surplus	-	-	-	-	(366,657)	(366,657)
Net change in capital and surplus	(1,640,000)	-	(5,000,000)	12,430,743	55,052,066	60,842,809
Balance as of December 31, 2016	$ -	$ 16,100,004	$ -	$ 233,343,860	$ 369,357,313	$ 618,801,177

*The changes in combined capital and surplus - statutory basis for the year ended December 31, 2015 are unaudited

See accompanying notes to the statutory basis financial statements.

Harco National Insurance Company and Affiliates

Combined Statements of Cash Flows - Statutory Basis

	Years ended December 31,	
		Unaudited
	2016	2015
Cash from operations		
Premiums collected	$ 579,493,968	$ 537,104,120
Net investment income received	34,193,880	30,581,495
Miscellaneous income	1,794,287	3,833,556
Benefits and loss related payments	(293,049,758)	(256,961,249)
Commissions, expenses, and other underwriting expenses paid	(234,706,312)	(213,958,893)
Federal income taxes paid	(13,994,064)	(16,628,367)
Net cash from operations	73,732,001	83,970,662
Cash from (used in) investments		
Proceeds from investments sold, matured, or repaid:		
Bonds	181,680,132	86,415,594
Stocks	90,453,327	132,340,787
Miscellaneous proceeds	260,495	97,750
Total investment proceeds	272,393,954	218,854,131
Cost of long-term investments acquired:		
Bonds	226,163,126	153,648,595
Stocks	113,433,364	136,526,008
Other invested assets	97,750	1,434,095
Total investments acquired	339,694,240	291,608,698
Net cash used in investing activities	(67,300,286)	(72,754,567)
Cash from (used in) financing and miscellaneous sources		
Capital and paid in surplus, less treasury stock	2,430,743	-
Dividends paid to stockholders	(16,700,000)	(29,500,000)
Dividends to parent	-	(400,000)
Other cash provided (used)	5,337,678	(9,505,645)
Net cash used in financing and miscellaneous activities	(8,931,579)	(39,405,645)
Net change in cash and short-term investments	(2,499,864)	(28,189,550)
Cash and short-term investments, beginning of year	63,959,593	92,149,143
Cash and short-term investments, end of year	$ 61,459,729	$ 63,959,593

See accompanying notes to the statutory basis financial statements.

Note A - Organization and Significant Accounting Policies

Organization

Harco National Insurance Company ("HNIC") and Transguard Insurance Company of America, Inc. ("TGIC") are Illinois domiciled property and casualty insurance companies. Acceptance Indemnity Insurance Company ("AIIC") and Acceptance Casualty Insurance Company ("ACIC") are Nebraska domiciled property and casualty insurance companies. Occidental Fire & Casualty Company of North Carolina ("OFC") and Wilshire Insurance Company ("WIC") are North Carolina domiciled property and casualty insurance companies. Commercial Alliance Insurance Company ("CAIC") is a Texas domiciled property and casualty insurance company. Collectively these are referred to as Harco National Insurance Company and Affiliates or "the Companies". CAIC, ACIC and WIC are wholly owned subsidiaries' of HNIC, AIIC and OFC, respectively. The Companies' ultimate parent is IAT Reinsurance Company Ltd. ("IAT"), a reinsurance company domiciled in the Cayman Islands. IAT was domiciled in Bermuda as of December 31, 2015. As described in the basis of reporting section below, these financial statements present the combined financial position and combined results of operations of the Companies.

The Companies operate under several business units. These business units write different lines of coverage which are placed across certain statutory companies. The Companies collectively are authorized to write property and casualty insurance and reinsurance in 50 states and the District of Columbia. The Companies are also authorized to write reinsurance in Puerto Rico. Direct coverages written under the business units include commercial auto physical damage and liability, homeowners, private passenger automobile, and multiple peril crop insurance. The Companies write assumed reinsurance through its reinsurance business unit. Coverages written include property and casualty pro-rata and excess of loss reinsurance covering both personal and commercial line risks.

Basis of Reporting

The accompanying combined statutory basis financial statements have been prepared in conformity with accounting practices prescribed or permitted ("statutory accounting practices") by the Illinois Department of Insurance (HNIC and TGIC), the Texas Department of Insurance (CAIC), the North Carolina Department of Insurance (WIC and OFC) and the Nebraska Department of Insurance (ACIC and AIIC). Collectively these are referred to as "the Departments". Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The NAIC Accounting Practices and Procedures Manual ("NAIC Statutory Accounting Practices") has been adopted as a component of prescribed or permitted practices by the Departments. There are no material differences between statutory surplus as presented in these financial statements as of December 31, 2016 and 2015 (as prescribed or permitted by the Departments) and NAIC statutory accounting practices.

For the year ended December 31, 2016, the Companies received approval from the Departments to provide audited statutory basis financial statements for the Companies prepared on a combined basis. Separate audits of the statutory basis financial statements of the Companies were performed for the year ended December 31, 2015. However, because an audit was not performed of the 2015 combined statutory basis financial statements of the Companies, they are labeled "unaudited" herein. In preparing the combined statutory basis financial statements, significant intercompany balances and transactions have been eliminated.

Note A - Organization and Significant Accounting Policies (continued)

Basis of Reporting (continued)

The preparation of combined statutory basis financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined statutory balance sheets and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statutory accounting practices vary from accounting principles generally accepted in the United States of America ("GAAP"). The more significant variances from GAAP that are relevant to the Companies' combined statutory basis financial statements are as follows:

- For statutory purposes, bonds are generally recorded at amortized cost pursuant to NAIC instructions. For GAAP, such securities are reported at fair market value or amortized cost depending on their designation as to trading, available-for-sale or held-to-maturity.
- For statutory purposes, preferred stocks are generally recorded at amortized cost or fair value depending on their designation as redeemable or perpetual and their investment grade status. For GAAP, such securities are reported at fair market value.
- For statutory purposes, unrealized capital gains and losses are reported in surplus, net of the adjustment for deferred federal income taxes. For GAAP, unrealized capital gains and losses on available-for-sale securities are reported in comprehensive income, net of the adjustment for deferred federal income taxes.
- Policy acquisition costs, net of ceding commission received pursuant to reinsurance agreements, are charged to operations in the year such costs are incurred, rather than being deferred and amortized over the terms of the policies as would be required under GAAP.
- Certain assets, including prepaid expenses, most property and equipment and certain receivables, are not admitted for statutory purposes. Those assets designated as non-admitted are charged against unassigned surplus.
- Reserves for losses and loss adjustment expenses and unearned premiums have been reported net of applicable reinsurance, whereas for GAAP purposes these reserves are recorded gross of applicable reinsurance.
- For statutory purposes, changes in deferred income taxes relating to temporary differences between book income for financial reporting purposes and taxable income are recognized as a separate component of gains and losses in surplus rather than included in income tax expense or benefit as would be required under GAAP. Further, deferred tax assets are subject to an admissibility test for statutory purposes and non-admitted amounts are charged directly against unassigned surplus.
- For statutory purposes, a reserve for reinsurance is established, through a direct charge to surplus, for unsecured reinsurance recoverables from unauthorized reinsurers and overdue authorized reinsurance recoverables; such reserves are provided under GAAP based on management's estimates of doubtful recoveries, but are charged against net income.
- The statutory statement of cash flow does not classify cash flow consistent with GAAP, and a reconciliation of net income to net cash provided by operating activities is not provided.

Cash and Short-term Investments

Cash consist of highly liquid investments with original maturities of three months or less when purchased. Short-term investments consist of investments with original maturities of one year or less when purchased. The Companies maintain certain cash balances that exceed FDIC insurance thresholds. Cash and short-term investments are reported at cost, which approximates fair value.

Note A - Organization and Significant Accounting Policies (continued)

Investments

The Companies' investments are stated at values prescribed by the NAIC, which principally are as follows:

- Bonds are generally reported at amortized cost. Bonds with a NAIC rating 3 through 6 are carried at the lower of amortized cost or fair value. Accretion of bond discount and amortization of bond premium is calculated using the interest method.
- Common stocks are reported at fair value as determined by the Securities Valuation Office of the NAIC and the related unrealized capital gains and losses are reported in surplus, net of the adjustment for deferred federal income taxes.
- Redeemable preferred stocks with a NAIC rating 1 or 2 are reported at amortized cost. Perpetual preferred stocks with a NAIC rating 1 or 2 are reported at fair value. Non-investment-grade preferred stocks (NAIC rating 3 through 6) are stated at the lower of amortized cost or fair value. Unrealized capital gains and losses are reported in surplus, net of the adjustment for deferred federal income taxes.
- Loan-backed securities are reported at amortized cost. The prospective adjustment method is used to value all mortgage-backed securities. Prepayment assumptions for single class and multi-class loan-backed securities are obtained from Interactive Data Service.
- Realized investment gains and losses are determined using the specific identification method and are reported net of related federal income tax expense (benefit), which was $5,065,734 and $(1,678,192), for the years ended December 31, 2016 and 2015, respectively.

Declines in fair value of invested assets below cost or amortized cost are evaluated for other-than-temporary impairment ("OTTI"). The decision as to whether an impairment of a security is other-than-temporary incorporates both quantitative criteria and qualitative information. The Companies conduct a periodic review to identify and evaluate securities having OTTI. Some of the factors considered in identifying OTTI include: (1) the likelihood of the recoverability of principal and interest for debt securities (i.e., whether there is a credit loss) or cost for equity securities; (2) the length of time and extent to which the fair value has been less than amortized cost for debt securities or cost for equity securities; and (3) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

Bonds

An other-than-temporary impairment is considered to have occurred if it is probable that the Companies will be unable to collect all amounts due according to the contractual terms of the security in effect at the date of acquisition. A decline in fair value which is other-than-temporary includes situations where a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value. When a decline in the fair value of a bond is determined to be other-than-temporary, an impairment loss is recognized for the entire difference between the security's carrying value and its fair value at the balance sheet date. The fair value of the bond on the date of OTTI becomes the new cost basis of the bond, and the new cost basis is not adjusted for any subsequent recoveries in fair value. The discount or reduced premium recorded for the security, based on the new cost basis, shall be amortized over the remaining life of the security in the prospective manner based on the amount and timing of future estimated cash flows.

Note A - Organization and Significant Accounting Policies (continued)

Investments (continued)

Loan-Backed and Structured Securities

With respect to an investment in an impaired loan-backed or structured security, OTTI occurs if the Companies (a) intend to sell the security, (b) have an inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (c) the present value of cash flows expected to be collected is less than the amortized cost basis of the security.

If the Companies intend to sell the security, or do not have the intent and ability to retain the security for a period of time sufficient to recover the amortized cost basis, a loss in the entire amount of the difference between the security's carrying value and its fair value at the balance sheet date is reflected in net realized capital gains (losses) in the combined statements of operations.

If the Companies determine that it is probable they will be unable to collect all amounts or the present value of cash flows expected to be collected is less than the amortized cost basis of the security, even if the Companies have no intent to sell the debt security and have the intent and ability to hold, a credit loss is recognized in net realized capital gains (losses) in the combined statements of operations to the extent that the present value of expected cash flows is less than the amortized cost basis; any difference between fair value and the new amortized cost basis (net of the credit loss) is reflected as an unrealized loss and charged directly to surplus.

Upon recognizing an OTTI, the new cost basis of the security is the previous amortized cost basis less the OTTI recognized in net realized capital gains (losses). The new cost basis is not adjusted for any subsequent recoveries in fair value; however, the difference between the new cost basis and the expected cash flows is accreted to net realized capital gains (losses) over the remaining expected life of the investment.

The determination of OTTI is a subjective process and different judgments and assumptions could affect the timing of loss realization. The Companies determine the credit loss component of loan-backed investments by utilizing discounted cash flow modeling to determine the present value of the security and comparing the present value with the amortized cost of the security. The significant inputs used to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security including default rates and credit ratings.

Equity Securities

With respect to an investment in an equity security, if the decline in fair value is determined to be other-than-temporary, a loss in the entire amount of the impairment is reflected in net realized capital gains (losses) in the combined statements of operations. Upon recognizing an OTTI, the new cost basis of the security is the previous cost basis less the OTTI recognized in net realized capital gains (losses).

Other Invested Assets

Included in other invested assets is an ownership interest in a limited investment partnership. The investment in this partnership is recorded at its underlying audited U.S. GAAP equity value with changes in the carrying value included in changes in unrealized capital gains and losses within unassigned funds.

The Companies non-admit investment income due and accrued if amounts are over 90 days past due. No accrued investment income was non-admitted at December 31, 2016 or 2015.

Note A - Organization and Significant Accounting Policies (continued)

Premiums Receivable

Premiums receivable are presented net of non-admitted amounts. The Companies routinely evaluate the collectibility of uncollected premium receivables and writes-off any amounts deemed to be uncollectible.

Receivable from the Federal Crop Insurance Corporation (FCIC)

As part of the Multiple Peril Crop Insurance (MPCI) program, the FCIC utilizes an escrow account to distribute or collect funds. Premiums collected from policyholders by the Companies are deposited into this escrow account and are available to pay claims arising under the MPCI program. The Companies share underwriting risk with the FCIC and can earn or lose money according to the claims they must pay policyholders for crop losses. The Companies earn an underwriting profit when net retained premiums exceed net incurred losses, and they incur an underwriting loss when net incurred losses exceed net retained premiums. For purposes of this calculation, the determination of an underwriting gain or loss does not include underwriting expenses. The Companies do not receive premium payments from the escrow account until a settlement occurs with the FCIC.

The Companies recorded a receivable from the FCIC of $62,947,453 and $56,082,497 as of December 31, 2016 and 2015, respectively. This amount is recorded in other assets of the accompanying combined balance sheet. In 2016 MPCI business is 100% reinsured with a 3rd party reinsurer.

Premium

Premiums written directly and assumed, net of premiums ceded pursuant to reinsurance agreements, are earned ratably over the terms of the policy. Premiums written, net of reinsurance ceded, relating to the unexpired portion of policies in-force at the balance sheet date are recorded as unearned premium. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred and are reduced for ceding commissions received or receivable under reinsurance agreements.

If anticipated losses, loss adjustment expenses, commissions and other acquisition costs exceed the Companies' recorded unearned premium reserve and any future installment premiums on existing policies, a premium deficiency reserve is recognized by recording an additional liability for the deficiency. The Companies consider investment income as a factor in the premium deficiency reserve calculation. No premium deficiency reserve has been recorded as of December 31, 2016 or 2015.

Loss and Loss Adjustment Expenses

The reserves for unpaid losses and loss adjustment expenses ("LAE") include case basis estimates of reported losses, plus supplemental amounts for incurred but not reported losses ("IBNR") calculated based upon loss projections utilizing certain actuarial assumptions and studies of the Companies' historical loss experience and industry statistics. In addition, significant risk factors are considered, such as the Companies' exposure to asbestos claims, reinsurance coverage written, changes in the mix of coverage provided under various programs and changes in the relative profitability of business written. The aggregate liability for unpaid losses and LAE at year-end represents management's best estimate of the amount necessary to cover the ultimate cost of claims occurring on or before the balance sheet date. Reserves are regularly reviewed and updated using the most current information available. Any resulting adjustments, which may be material, are reflected in current operations.

Note A - Organization and Significant Accounting Policies (continued)

Loss and Loss Adjustment Expenses (continued)

The Companies utilize ceded reinsurance to limit its insurance risk. Reinsurance recoverable is estimated using assumptions consistent with those used to estimate the reserves for unpaid losses and LAE. In preparing financial statements, management makes estimates of amounts recoverable from reinsurers, which include consideration of amounts, if any, estimated to be uncollectible by management based on an assessment of factors including the creditworthiness of the reinsurers. Reinsurance receivable on losses and LAE paid by the Companies are reported as an asset, while reinsurance recoverable on unpaid losses and LAE are reported as a reduction of the gross reserve.

Federal Income Taxes

The Companies' federal income tax return is consolidated with IAT and other affiliates. Federal income taxes are allocated to members of the affiliated tax group based on separate return calculations. The provision for current income taxes is reported in the combined statutory basis statement of operations while any change in net deferred income tax assets or liabilities is credited or charged to unassigned funds. Deferred income tax assets included in the statutory basis balance sheet are limited to the amount admitted in accordance with Statement of Statutory Accounting Principles (SSAP) 101, *Income Taxes*. The Companies consider uncertain tax positions during the preparation of their annual income tax provision, and management believes there are no uncertain tax positions as of December 31, 2016 and 2015.

Subsequent Events

The Companies have evaluated subsequent events through May 25, 2017, the date on which these combined financial statements were available to be issued, and considered any relevant matters in the preparation of the combined financial statements.

Note B - Insurance Activity

Certain premiums are assumed from and ceded to other insurance companies under various reinsurance agreements. The Companies utilize ceded excess of loss and quota share reinsurance to limit their exposure to variation in severity and frequency of claims. The Companies remain obligated to policyholders for amounts ceded to reinsurers in the event that any reinsurer does not meet their obligation to the Companies.

Premium activity for the years ended December 31, 2016 and 2015 is summarized as follows:

December 31, 2016	Direct	Assumed	Ceded	Net
Premiums written	$ 1,203,842,224	$ 94,909,218	$ (762,033,612)	$ 536,717,830
Change in unearned premiums	(23,374,666)	(8,672,740)	11,959,523	(20,087,883)
Premiums earned	$ 1,180,467,558	$ 86,236,478	$ (750,074,089)	$ 516,629,947

December 31, 2015	Direct	Assumed	Ceded	Net
Premiums written	$ 1,063,258,399	$ 72,999,992	$ (657,540,355)	$ 478,718,036
Change in unearned premiums	3,389,068	(12,041,565)	9,264,903	612,406
Premiums earned	$ 1,066,647,467	$ 60,958,427	$ (648,275,452)	$ 479,330,442

Unearned premiums at December 31, 2016 and 2015 are net of unearned ceded premiums of $140,597,869 and $128,638,345, respectively, and include unearned assumed premiums of $42,691,822 and $34,037,510, respectively.

Note B - Insurance Activity (continued)

Premium balances due consist of the following at December 31, 2016 and 2015:

	2016	2015
Billed premium balances due	$ 98,629,120	$ 80,058,277
Deferred premiums	69,646,996	69,656,423
Non-admitted premiums due	(2,239,727)	(549,576)
Agents' balances and uncollected premiums	$ 166,036,389	$ 149,165,124

Billed premium balances due include amounts due from insureds for billed premiums. Deferred premiums consist of future, unbilled installments and estimates of earned but unbilled premiums.

The following table provides a reconciliation of the beginning and ending reserve balances for losses and LAE, net of reinsurance recoverables:

	2016	2015
Reserves for losses and LAE at beginning of year	$ 453,452,444	$ 412,182,856
Provision for losses and LAE related to:		
Current year	323,736,000	299,104,767
Prior years	42,657,908	30,874,631
Total incurred losses and LAE	366,393,908	329,979,398
Losses and LAE paid related to:		
Current year	121,726,000	117,230,741
Prior years	208,019,273	171,479,069
Total paid losses and LAE	329,745,273	288,709,810
Reserves for losses and LAE at end of year	$ 490,101,079	$ 453,452,444

The reconciliation above shows unfavorable development of $42,657,908 emerged during 2016 in the reserves for unpaid losses and LAE recorded at December 31, 2015, as a result of actuarial re-estimations. The reconciliation above shows unfavorable development of $30,874,631 emerged during 2015 in the reserves for unpaid losses and LAE recorded at December 31, 2014, as a result of actuarial re-estimations. The adverse development recognized by the Companies in 2016 primarily emerged in commercial auto liability which experienced approximately $16,981,000, other liability-occurrence which experienced approximately $8,574,000, auto physical damage which experienced approximately $3,908,000, private passenger which experienced approximately $3,075,000 and homeowners which experienced approximately $2,304,000. The adverse development emerging during 2015 primarily emerged in commercial auto liability which experienced approximately $16,841,000, homeowners which experienced approximately $8,504,000 and other liability-occurrence which experienced approximately $9,448,000.

The reserves for losses and LAE as of December 31, 2016 and 2015 have been offset by reinsurance recoverables amounting to $560,882,723 and $494,317,991, respectively. Amounts recovered pursuant to reinsurance agreements during the years ended December 31, 2016 and 2015 were $493,543,363 and $404,111,229, respectively.

Note B - Insurance Activity (continued)

At December 31, 2016 and 2015, a provision for reinsurance of $22,861 and $253,861, respectively, related to past due and unauthorized reinsurance recoverables was established. At December 31, 2016 and 2015, management determined that no additional provision for uncollectible reinsurance, based on the creditworthiness of reinsurance counterparties, was necessary.

The Company's unsecured reinsurance balances (including ceded case and IBNR reserves, and ceded unearned premiums) with any one reinsurer in excess of 3% of policyholders surplus as of December 31, 2016 and 2015, are as follows:

	2016	2015
Swiss Re America Corp.	$ 26,139,996	$ 18,648,000
Maiden Reinsurance Company	*	20,062,000
North Carolina Reinsurance Facility	70,255,388	85,649,000

***** Amount was not in excess of 3% of unassigned surplus

Commission activity during the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Commission expense on direct premium	$ 222,122,298	$ 200,953,983
Commission expense on assumed premium	32,593,354	25,391,698
Ceding commissions on ceded premium	(179,846,527)	(153,709,996)
Net commissions on direct, assumed and ceded premium	$ 74,869,125	$ 72,635,685

Included in net commissions on direct premium for 2016 and 2015 is contingent commission of $10,954,477 and $11,329,577, respectively, predicated on profit-sharing arrangements. Included in net commissions on assumed premium for 2016 and 2015 is contingent commission of $(2,039,556) and $149,115, respectively, predicated on profit-sharing arrangements. Included in net commissions on ceded premium for 2016 and 2015 is contingent commission of $299,765 and $(827,547), respectively, predicated on profit-sharing arrangements.

If all the Companies' ceded reinsurance activity had been canceled at December 31, 2016 and 2015, the maximum amount of return commission due to the reinsurers would have been $44,879,510 and $42,302,207, respectively. If all the Companies' assumed reinsurance activity had been canceled at December 31, 2016 and 2015, the maximum amount of return commission due to the Companies would have been $15,269,449 and $10,931,169, respectively.

Note C - Investments

The carrying value and fair value of bonds, common stock and preferred stock at December 31, 2016 and 2015, are as follows:

December 31, 2016	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	$ 20,653,562	$ 8,116	$ 108,127	$ 20,553,551
Political subdivisions of states, territories, and possessions	1,434,470	71,898	-	1,506,368
Special revenue	8,934,846	234,135	1,248	9,167,733
Mortgage-backed securities	35,266,327	347,267	234,457	35,379,137
Industrial and miscellaneous	356,068,138	9,566,725	3,574,292	362,060,571
Total bonds	$ 422,357,343	$ 10,228,141	$ 3,918,124	$ 428,667,360
Common stock	$ 492,907,978	$ 295,331,724	$ 4,331,007	$ 783,908,695
Preferred stock reported at fair value	$ 20,404,924	$ -	$ 876,560	$ 19,528,364
Preferred stock reported at amortized cost	24,612,635	217,914	1,022,524	23,808,025
Total preferred stock	$ 45,017,559	$ 217,914	$ 1,899,084	$ 43,336,389

December 31, 2015	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	$ 17,997,025	$ 42,032	$ 40,113	$ 17,998,944
Political subdivisions of states, territories, and possessions	1,924,570	109,116	-	2,033,686
Special revenue	6,711,558	289,686	17,138	6,984,106
Mortgage-backed securities	35,232,743	508,637	213,462	35,527,918
Industrial and miscellaneous	265,992,671	6,156,955	4,995,551	267,154,075
Other corporate bonds	45,880,269	1,215,986	967,138	46,129,117
Total bonds	$ 373,738,836	$ 8,322,412	$ 6,233,402	$ 375,827,846
Common stock	$ 477,029,827	$ 227,806,228	$ 7,505,400	$ 697,330,655
Preferred stock reported at fair value	$ 18,672,850	$ 418,947	$ 355,728	$ 18,736,069
Preferred stock reported at amortized cost	6,529,221	52,816	44,124	6,537,913
Total preferred stock	$ 25,202,071	$ 471,763	$ 399,852	$ 25,273,982

Excluding investments in the U.S. government, government agencies and authorities there are no individual securities that exceed 10% of surplus at December 31, 2016.

Note C - Investments (continued)

The amortized cost and fair value of bonds at December 31, 2016, by contractual maturity, are shown below:

	Amortized Cost	Fair Value
Maturity:		
In 2017	$ 36,763,391	$ 36,947,710
In 2018-2021	115,749,100	120,072,166
In 2022-2026	153,150,383	155,885,450
Due after 2026	93,920,411	92,875,076
Mortgage-backed securities	35,266,237	35,379,137
Total bonds	$ 434,849,522	$ 441,159,539

Included in the above table maturing in 2017 are investments with a carrying value of $12,492,179 that are reported as short-term investments on the accompanying balance sheets as of December 31, 2016. The actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from the sales of investments in bonds during 2016 were $181,680,132; gross gains of $7,471,278 and gross losses of $478,183 were realized on those sales. Proceeds from the sale, maturity and paydown of investments in bonds during 2015 were $86,415,594; gross gains of $1,539,229 and gross losses of $1,898,441 were realized on those sales.

Proceeds from the sale of common and preferred stock during 2016 were $90,453,327; gross gains of $13,402,124 and gross losses of $945,544 were realized on those sales. Proceeds from the sale of common and preferred stock during 2015 were $132,340,787; gross gains of $31,359,861 and gross losses of $24,766,798 were realized on those sales.

During 2016, the Companies sold securities with previously recognized other-than-temporarily impairments for book purposes of $5,085,764; thus, these disposals now represent taxable losses. During 2015, the Companies had similar disposals amounting to $7,419,560.

Note C - Investments (continued)

The following table provides a breakdown, by type and duration, of the securities owned by the Companies that are in an unrealized loss position at December 31, 2016 and 2015:

	Less than 12 months		Greater than 12 months		Total	
December 31, 2016	Fair value	Unrealized Loss	Fair value	Unrealized Loss	Fair value	Unrealized Loss
U.S. treasury securities	$ 10,909,375	$ 102,562	$ 5,431,932	$ 5,565	$ 16,341,307	$ 108,127
Special revenue	936,440	208	998,960	1,040	1,935,400	1,248
Mortgage-backed securities	8,079,281	124,266	7,222,645	110,191	15,301,926	234,457
Industrial and miscellaneous	68,265,623	1,762,212	52,404,653	1,812,080	120,670,276	3,574,292
Total bonds	88,190,719	1,989,248	66,058,190	1,928,876	154,248,909	3,918,124
Common stock	20,489,065	848,247	40,549,961	3,482,760	61,039,026	4,331,007
Preferred stock	27,127,230	1,650,702	5,368,531	248,382	32,495,761	1,899,084
Total bonds, common and preferred stock	$ 135,807,014	$ 4,488,197	$ 111,976,682	$ 5,660,018	$ 247,783,696	$10,148,215

	Less than 12 months		Greater than 12 months		Total	
December 31, 2015	Fair value	Unrealized Loss	Fair value	Unrealized Loss	Fair value	Unrealized Loss
U.S. treasury securities	$ 23,471,278	$ 10,485	$ 7,871,549	$ 29,628	$ 31,342,827	$ 40,113
Special revenue	986,320	13,680	313,005	3,458	1,299,325	17,138
Mortgage-backed securities	10,076,448	103,761	4,928,508	109,701	15,004,956	213,462
Industrial and miscellaneous and other corporate	101,700,750	4,112,404	20,725,872	1,850,285	122,426,622	5,962,689
Total bonds	136,234,796	4,240,330	33,838,934	1,993,072	170,073,730	6,233,402
Common stock	57,690,386	5,035,724	27,192,391	2,469,676	84,882,777	7,505,400
Preferred stock	8,646,307	134,217	4,391,850	265,635	13,038,157	399,852
Total bonds, common and preferred stock	$ 202,571,489	$ 9,410,271	$ 65,423,175	$ 4,728,383	$ 267,994,664	$14,138,654

Based on consideration of the factors described in Note A, management believes that these securities are not other-than-temporarily impaired.

Note C - Investments (continued)

Impairment write-downs of $1,479,400 were recognized during 2016. The Companies' 2016 write-downs consisted of 5 bonds. Impairment write-downs of $25,090,311 were recognized during 2015. The Companies' 2015 write-downs consisted of 41 bonds and 29 stocks.

Current accounting guidance establishes a three-level hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1), the next priority to quoted prices for identical assets in inactive markets or similar assets in active markets (Level 2) and the lowest priority to unobservable inputs (Level 3).

The following tables show fair value hierarchy levels for the Companies' investments as of December 31, 2016 and 2015:

December 31, 2016	Level 1	Level 2	Level 3	Fair value
Bonds	$ -	$ 428,667,360	$ -	$ 428,667,360
Common stock	783,908,695	-	-	783,908,695
Preferred stock	43,336,389	-	-	43,336,389
Total	$ 827,245,084	$ 428,667,360	$ -	$ 1,255,912,444

December 31, 2015	Level 1	Level 2	Level 3	Fair value
Bonds	$ -	$ 375,827,846	$ -	$ 375,827,846
Common stock	697,330,655	-	-	697,330,655
Preferred stock	25,273,982	-	-	25,273,982
Total	$ 722,604,637	$ 375,827,846	$ -	$ 1,098,432,483

At the end of each reporting period, the Companies evaluate whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred between Levels 1 and 2. No such transfers were made during 2016 and 2015.

Various state insurance departments require the Companies to maintain deposits with acceptable financial institutions in cash or acceptable securities. This requirement is met by the deposit of securities with carrying values of $59,005,016 and $60,284,241, which is 3.3% and 3.9% of admitted assets, at December 31, 2016 and 2015, respectively. These deposits are carried as admitted assets.

Securities with carrying values of $5,438,245 and $176,454 were on deposit with other insurance companies at December 31, 2016 and 2015, respectively, under the terms of assumed reinsurance agreements. These deposits are carried as admitted assets and represent less than 1% of admitted assets, at December 31, 2016 and 2015, respectively. In addition collateral received and reflected as assets within the Company's financial statements under ceded reinsurance treaties were $47,091,417 and $36,670,788, which represents 2.7% and 2.4% of admitted assets, at December 31, 2016 and 2015, respectively. These amounts are included within funds held under reinsurance treaties on the accompanying combined balance sheets.

Note C - Investments (continued)

Major categories of the Companies' net investment income for the years ended December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Investment income:		
Bonds	$ 20,759,507	$ 17,083,637
Stocks	17,504,477	16,216,103
Cash and short-term investments	13,498	13,475
Investment income - other	170,779	388
Gross investment income	38,448,261	33,313,603
Investment expenses	(4,238,531)	(3,519,401)
Net investment income	$ 34,209,730	$ 29,794,202

Note D - Federal Income Taxes

The provision for federal income taxes consists of the following components:

	2016	2015
Current income tax expense	$ 16,322,470	$ 7,482,125
Prior over/under accrual	(2,746,568)	(645,196)
Reclassification of tax on realized capital gains	(5,065,734)	1,678,192
Federal income tax expense	$ 8,510,168	$ 8,515,121

The components of the net deferred tax asset at December 31, 2016 and 2015 are as follows:

December 31, 2016	Ordinary	Capital	Total
Gross deferred tax assets	$ 27,262,148	$ 13,786,166	$ 41,048,314
Gross deferred tax liabilities	1,128,347	101,210,937	102,339,284
Net deferred tax asset (liability)	26,133,801	(87,424,771)	(61,290,970)
Non-admitted deferred tax asset	-	-	-
Admitted net deferred tax asset (liability)	$ 26,133,801	$ (87,424,771)	$ (61,290,970)
Change in non-admitted deferred tax asset			$ -

December 31, 2015	Ordinary	Capital	Total
Gross deferred tax assets	$ 25,381,404	$ 15,004,369	$ 40,385,773
Gross deferred tax liabilities	1,417,749	76,304,818	77,722,567
Net deferred tax asset (liability)	23,963,655	(61,300,449)	(37,336,794)
Non-admitted deferred tax asset	-	-	-
Admitted net deferred tax asset (liability)	$ 23,963,655	$ (61,300,449)	$ (37,336,794)
Change in non-admitted deferred tax asset			$ -

Note D - Federal Income Taxes (continued)

The amount of each component pursuant to SSAP 101 paragraph 11 by tax character at December 31, 2016 and 2015 are as follows:

December 31, 2016	Ordinary	Capital	Total
Can be recovered through loss carrybacks (11.a.)	$ -	$ -	$ -
Less of:			
Expected to be realized following the balance sheet date (11.b.i.)	25,462,540	-	25,462,540
Adj. gross DTAs allowed per limit threshold (11.b.ii.)			122,452,586
Adjusted Gross DTAs offset against existing DTLs (11.c.)	1,799,608	13,786,166	15,585,774
DTAs admitted as a result of the application of SSAP 101	$ 27,262,148	$ 13,786,166	$ 41,048,314

December 31, 2015	Ordinary	Capital	Total
Can be recovered through loss carrybacks (11.a.)	$ -	$ -	$ -
Less of:			
Expected to be realized following the balance sheet date (11.b.i.)	23,518,024	-	23,518,024
Adj. gross DTAs allowed per limit threshold (11.b.ii.)			110,524,772
Adjusted Gross DTAs offset against existing DTLs (11.c.)	1,863,380	15,004,369	16,867,749
DTAs admitted as a result of the application of SSAP 101	$ 25,381,404	$ 15,004,369	$ 40,385,773

The ratio percentage and the amount of adjusted capital and surplus used to determine recovery period and threshold limitation were as follows:

	2016		2015	
	Ex DTA ACL RBC Ratio Percentage	Adjusted capital and surplus	Ex DTA ACL RBC Ratio Percentage	Adjusted capital and surplus
HNIC	567%	$ 169,176,012	629%	$ 164,657,632
WIC	525%	109,076,350	500%	92,068,466
AIIC	518%	139,832,919	544%	123,566,314
ACIC	848%	55,671,682	962%	50,294,152
CAIC	862%	39,903,294	824%	36,099,470
TGIC	848%	137,101,931	875%	124,120,271
OFC	373%	172,690,315	388%	145,462,105

Note D - Federal Income Taxes (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") at December 31, 2016 and 2015, are as follows:

	2016	2015
Deferred tax assets:		
Discounting of unpaid losses and LAE	$ 8,575,909	$ 8,993,437
Unearned premiums	14,913,579	13,444,528
Bad debt reserve	83,194	231,551
Premium deposits payable	1,076,618	894,853
Net operating loss carryforward	-	57,485
Non-admitted assets	2,201,871	1,056,860
Section 338(h)(10)	-	188,968
Purchase related intangibles	410,977	513,722
Other-than-temporary impairments recognized	13,786,166	15,004,369
Gross deferred tax assets	41,048,314	40,385,773
Non-admitted deferred tax assets	-	-
Gross admitted deferred tax asset	41,048,314	40,385,773
Deferred tax liabilities:		
Unrealized capital gains	101,210,937	76,304,818
Bond discounts	477,331	945,886
Accrued dividends	651,016	357,327
Other	-	114,536
Total deferred tax liabilities	102,339,284	77,722,567
Net deferred tax liabilities	$ (61,290,970)	$ (37,336,794)

Based on the weight of available evidence, if the Company believes that it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the gross DTAs will not be realized, a statutory valuation allowance shall be recorded to reduce gross DTAs. No such statutory valuation allowance has been recorded as of December 31, 2016 and 2015.

The change in net deferred income taxes is comprised as follows, before consideration of non-admitted deferred tax assets:

	December 31,		
	2016	2015	Change
Gross deferred tax assets	$ 41,048,314	$ 40,385,773	$ 662,541
Gross deferred tax liabilities	(102,339,284)	(77,722,567)	(24,616,717)
Net deferred tax liability	$ (61,290,970)	$ (37,336,794)	(23,954,176)
Deferred tax on change in unrealized capital gains and losses			24,906,119
Change in net deferred income tax			$ 951,943

Note D - Federal Income Taxes (continued)

The provision for federal income taxes incurred is different from that which would be obtained by applying the federal income tax rate to statutory income before income taxes. The significant items causing this difference are dividends received deduction, tax-exempt interest and true up of prior-year items.

As of December 31, 2016, the Companies did not have any unused operating loss carry-forwards available to offset against future taxable income.

The Companies' federal income tax return is consolidated with the following entities:

IAT Reinsurance Company Ltd.	Safe Insurance Management Group, Inc.
Vanguard Insurance Agency, Inc.	Bay Area Insurance Services, Inc.
Claimguard, Inc.	National Association of Independent Truckers, LLC
Transguard General Agency, Inc.	Harco Insurance Services, Inc.
McM Corporation	Harco Transportation Services, Inc.
Equity Holdings, Inc.	Service Insurance Company
Equity American General Agency, Inc.	CAIC Holding Company, Inc.
Equity American Financial Services, Inc.	Bay Area Claims Services, Inc.
Pillar Insurance Agency, Inc.	Housemex Servicios S. de R.L. de C.V.

The Companies have entered into a federal income tax allocation agreement which has been approved by the Companies' Board of Directors. The tax allocation agreement provides that federal income taxes shall be allocated to members of the consolidated tax group based upon separate return calculations and that income tax refunds to the subsidiaries with net operating losses shall be made in the year in which the reduction in income taxes of the consolidated group is reduced as a result of such loss.

Note E - Other Underwriting Expenses

The significant components of other underwriting expenses incurred during December 31, 2016 and 2015 were as follows:

	2016	2015
Net commissions and brokerage	$ 74,869,125	$ 72,635,685
Allowances to manager and agent	1,010,420	613,125
Advertising	465,742	314,114
Board, bureaus and associations	3,254,961	2,470,514
Surveys and underwriting reports	720,007	756,183
Audits of assured's records	117,058	65,215
Salaries and related items	36,548,901	33,845,639
Employee relations and welfare	7,793,005	6,541,333
Insurance	67,994	47,926
Travel and travel items	1,253,313	992,640
Rent and rent items	3,796,555	3,697,556
Equipment	5,150,750	4,528,370
Cost or depreciation of EDP equipment and software	74,824	179,983
Printing and Stationery	678,401	655,780
Postage and telephone	1,009,017	976,174
Legal and auditing	2,355,986	2,051,340
Taxes, licenses and fees	21,756,465	19,317,455
Other underwriting expenses incurred	$ 160,922,524	$ 149,689,032

Note F - Non-Admitted Assets

The significant components of non-admitted assets as of December 31, 2016 and 2015 are as follows:

	2016	2015	Change
Premiums receivable	$ 2,239,727	$ 549,576	$ 1,690,151
Prepaid balances	1,805,365	1,498,112	307,253
Other non-admitted assets	1,577,015	430,294	1,146,721
Totals	$ 5,622,107	$ 2,477,982	$ 3,144,125

Note G - Commitments and Contingencies

The Companies are subject to guaranty fund and other assessments by the various states in which the Companies write business. Guaranty fund assessments should be accrued at the time of insolvencies. Other assessments should be accrued either at the time of assessments or, in the case of premium based assessments, at the time the premiums were written or, in the case of loss based assessments, at the time the losses are incurred. As of December 31, 2016 and 2015, the Companies have recorded guaranty fund accruals of $120,000.

Lawsuits arise against the Companies in the normal course of operations. Contingent liabilities arising from such litigation are not considered material in relation to the combined financial position of the Companies.

Note G - Commitments and Contingencies (continued)

The Companies entered into several non-cancelable lease agreements covering office space occupied by the Companies. Rental expenses amounted to $4,559,112 and $4,363,786 during the years ended December 31, 2016 and 2015, respectively. Minimum future rental commitments are as follows:

Year	Amount
2017	$ 2,573,678
2018	2,000,721
2019	1,563,292
2020	1,067,453
2021	1,458,689
	$ 8,663,833

Note H - Employee Benefits

The Companies' employees are eligible to participate in a defined contribution savings and profit sharing plan sponsored by McM Corporation ("McM"), a wholly-owned subsidiary of IAT. Contributions of up to 7% of each eligible employee's annual compensation were made during 2016 and 2015. In addition, contributions are made to the profit sharing portion of this plan at the discretion of McM based on each eligible employee's annual compensation. Expenses incurred during the years ended December 31, 2016 and 2015 amounted to $5,946,857 and $4,886,780, respectively. As of December 31, 2016 and 2015, the Company has accrued a liability of $2,143,550 and $1,791,798, respectively, for the profit sharing component of the plan.

Note I - Related Party Transactions

Effective January 1, 2008, the Companies adopted the Consolidated Master Cost Sharing Agreement ("Agreement"). The Agreement is between the Companies and Service Insurance Company. Since the cost structure of all of the insurance companies within the IAT Group are virtually the same the costs are effectively combined and allocated to each company based on net written premiums. Management believes that this methodology provides the most equitable allocation of costs between the insurance companies within the group. This Agreement was approved by the Departments.

Note I - Related Party Transactions (continued)

Amounts due to and from the Companies by affiliates at December 31, 2016 and 2015 are disclosed in the following table. The intercompany agreements require that balances are settled within ninety days of month end.

Due (to) from:	2016	2015
McM Corporation	$ 5,296,503	$ (199,803)
Harco Transportation Services, Inc.	(130,765)	(130,765)
Harco Insurance Services, Inc.	(193,166)	(193,166)
IAT Reinsurance Company Ltd.	(1,947,864)	537,104
Service Insurance Company	(1,987,896)	170,314
Agrilogic Insurance Services, LLC	246,191	-
National Association of Independent Truckers, LLC	(111,224)	32,343
Equity American Financial Services, Inc.	112,890	-
Equity American General Agency, Inc.	1,623,075	1,299,086
Agrilogic Consulting	2,191	-
Claimguard, Inc.	(72,858)	(72,858)
Vanguard Insurance Agency, Inc.	150	3,769
Transguard General Agency, Inc.	(793,291)	(2,517,508)
Truckers Helping Truckers	(118)	(8)
Safe Insurance Management Group, Inc.	-	(12)
	$ 2,043,818	$ (1,071,504)

HNIC and IAT have entered into a retrocession agreement under which HNIC retrocedes to IAT a pro-rata share of assumed reinsurance business written through the Company's reinsurance division. The percentage of retrocession varies by contract and ranges from 40% to 100%. In addition, HNIC, OFC, WIC, AIIC, ACIC and TGIC have entered into a quota share agreement with IAT under which they cede, on a quota share basis, 20% of net retained premiums written directly by the them and cede 100% of certain blocks of business.

Note J - Managing General Agents

The Companies use managing general agents/third party administrators ("MGAs/TPAs") to write and administer various types of business in specified territories. As reported in the following chart MGAs/TPAs wrote direct premiums greater than 5% of policyholders' surplus. The terms of the MGA/TPA contracts give the MGAs/TPAs authority for premium collections (P), claims adjustment (CA), and claims payment (C). The Companies retain underwriting authority for policies issued under these agreements.

Name and address	FEIN	Exclusive contract	Type of business written	Type of authority granted	Direct written premium
Agrilogic Insurance Services 1000 Ballpark Way, Suite 314 Arlington, TX 76011	26-4731544	Yes	Federal Multi Peril Crop	P, CA, C	$ 219,394,848
Beecher Carlson 8390 E Crescent Parkway, Suite 200 Greenwood Village, CO 80111	95-3679538	No	Inland Marine	P, CA, C	$ 85,857,093
Roberto Moreno Insurance Services 1400 N. Harbor Blvd. #250 Fullerton, CA 92635	95-3516413	No	Private Passenger Auto	P, CA, C	$ 30,976,019

Note K - Capital and Surplus

Under Illinois insurance regulations, TGIC and HNIC are required to maintain a minimum capital and surplus of $2,000,000. Under Texas insurance regulations, CAIC is required to maintain a minimum of $2,500,000 of capital stock and $2,500,000 of surplus. Under North Carolina insurance regulations, OFC and WIC are required to maintain a minimum capital and surplus of $2,250,000. Under Nebraska insurance regulation AIIC and ACIC are required to maintain a minimum capital of $2,000,000.

Dividends on common stock are paid as declared by the Board of Directors of the Companies. Under the regulation of the Departments, the maximum amount of dividends which the Companies may pay to shareholders is limited to the greater of 10% of the most recent year-end surplus or net income (excluding realized capital gains) earned for that same year-end. Based on such limitations, the maximum amount of dividends that the Companies can distribute during 2017 is $61,880,118. The Companies may distribute additional dividends with the prior approval of the Departments. The Companies paid dividends of $16,700,000 and $29,900,000 during 2016 and 2015, respectively.

During 2016, the Companies transferred the $5,000,000 of preferred stock to paid in capital.

Note K - Capital and Surplus (continued)

The NAIC has established a standard for assessing the solvency of insurance companies using a formula for determining each insurer's risk-based capital ("RBC"). At December 31, 2016 and 2015, the Companies' total capital and surplus exceeded the levels that would trigger regulatory corrective actions.

The components contributing to the cumulative increase (reduction) of unassigned surplus at December 31, 2016 and 2015, were as follows:

	2016	2015
Unrealized gains and losses on investments, gross of capital gains tax	$ 289,144,104	$ 221,723,050
Non-admitted assets	(5,622,107)	(2,477,982)
Provision for reinsurance	(22,861)	(253,861)

Harco National Insurance Company and Affiliates
Combining Schedules
Balance Sheets - Statutory Basis

	As of December 31, 2016									
	HNIC	WIC	AIIC	ACIC	CAIC	TGIC	OFC	Eliminations		Total
Admitted assets										
Bonds	$ 64,892,749	$ 72,048,810	$ 36,268,748	$ 23,324,700	$ 38,521,616	$ 125,857,753	$ 61,442,967	$ -		$ 422,357,343
Preferred stocks	5,737,581	4,814,406	7,041,129	3,338,923	5,441,206	7,807,306	9,960,448	-		44,140,999
Common stocks	197,393,733	153,446,813	208,444,894	51,501,564	30,053,047	107,119,791	240,602,663	(204,653,810)	(a)	783,908,695
Cash and short-term investments	3,999,112	4,066,873	19,008,253	11,932,432	5,388,783	10,493,035	6,571,241	-		61,459,729
Other invested assets	8,422,459	2,105,615	2,105,615	1,052,807	-	5,264,037	2,505,615	-		21,456,148
Total cash and invested assets	280,445,634	236,482,517	272,868,639	91,150,426	79,404,652	256,541,922	321,082,934	(204,653,810)		1,333,322,914
Accrued interest and dividends	1,236,417	1,362,105	866,620	406,868	585,656	1,328,573	1,039,942	-		6,826,181
Agents' balances and uncollected premium	124,454,769	33,120,079	13,524,561	17,485,370	2,239,217	39,352,941	53,335,724	(117,476,272)	(d)	166,036,389
Reinsurance recoverable on paid losses and loss adjustment expenses	23,155,605	16,203,112	6,873,304	597,715	288,698	1,764,771	146,230,645	(6,867,651)	(d)	188,246,199
Funds held by or deposited with reinsured companies	5,255,539	44,974	15,364	-	-	-	122,368	-		5,438,245
Current federal income taxes recoverable	-	-	914,924	-	501,628	-	3,971,179	(4,783,216)	(b)	604,515
EDP equipment and software	-	-	-	-	2,483	-	-	-		2,483
Receivable from affiliates	2,468,705	3,847,853	2,005,880	2,809,442	9,294	150	13,846,742	(17,707,066)	(c)	7,281,000
Other assets	33,364	546,347	297,554	-	90,312	203,623	63,182,766	-		64,353,966
Total admitted assets	$ 437,050,033	$ 291,606,987	$ 297,366,846	$ 112,449,821	$ 83,121,940	$ 299,191,980	$ 602,812,300	$ (351,488,015)		$ 1,772,111,892

Harco National Insurance Company and Affiliates
Combining Schedules
Balance Sheets - Statutory Basis

	HNIC	WIC	AIIC	ACIC	CAIC	TGIC	OFC	Eliminations		Total
Liabilities, capital and surplus										
Liabilities:										
Reserve for losses	$ 88,571,906	$ 77,130,333	$ 53,168,752	$ 21,263,196	$ 20,087,717	$ 73,768,022	$ 76,122,285	$ -		$ 410,112,211
Reserve for loss adjustment expenses	13,449,697	14,098,878	11,470,936	4,437,699	5,004,363	17,303,496	14,223,799	-		79,988,868
Reinsurance payable on paid losses and loss adjustment expenses	5,696,000	-	-	2,634,000	-	27,346	-	(6,867,651)	(d)	1,489,695
Commissions payable and other similar charges	6,260,149	3,267,129	3,952,585	1,419,780	691,791	3,253,816	8,879,348	-		27,724,598
Other expenses payable	957,274	380,604	1,269,396	56,573	674,109	1,675,709	4,211,659	-		9,225,324
Taxes, licenses and fees payable	1,717,156	382,573	44,368	6,013	-	383,565	3,520,087	-		6,053,762
Current federal income taxes payable	1,415,035	1,311,968	-	1,185,347	-	870,866	-	(4,783,216)	(b)	-
Net deferred tax liability	13,689,520	16,653,911	13,368,140	4,566,609	1,534,160	2,591,670	8,886,960	-		61,290,970
Unearned premium	48,787,067	34,994,469	27,927,308	19,116,992	13,797,950	47,234,892	20,294,486	-		212,153,164
Advanced premiums	801,393	143,990	-	11,076	121,183	898,538	2,404,319	-		4,380,499
Ceded premiums payable	77,410,000	8,463,000	17,895,000	1,091,000	965,486	5,918,528	266,834,000	(117,476,272)	(d)	261,100,742
Amounts withheld for account of others	5,223,000	-	-	-	20,000	-	550,000	-		5,793,000
Funds held under reinsurance treaties	1,793,473	7,115,000	20,132,000	77,000	100,000	3,818,944	14,055,000	-		47,091,417
Provision for reinsurance	-	-	-	-	-	22,861	-	-		22,861
Drafts outstanding	-	-	-	-	-	-	61,823	-		61,823
Payable to affiliates	1,923,662	4,454,490	8,242,723	900,336	216,965	2,109,129	5,096,943	(17,707,066)	(c)	5,237,182
Deposits Payable	-	14,094,398	-	-	-	-	1,274,780	-		15,369,178
Other liabilities	178,689	39,894	62,719	12,518	2,438	2,212,667	3,706,496	-		6,215,421
Total liabilities	267,874,021	182,530,637	157,533,927	56,778,139	43,216,162	162,090,049	430,121,985	(146,834,205)		1,153,310,715
Common stock	3,500,004	4,200,000	5,000,000	3,000,000	2,500,000	5,000,000	2,600,000	(9,700,000)	(a)	16,100,004
Paid in and contributed surplus	62,039,069	34,931,424	13,613,145	31,214,770	18,825,675	38,227,500	119,464,146	(84,971,869)	(a)	233,343,860
Unassigned funds	103,636,939	69,944,926	121,219,774	21,456,912	18,580,103	93,874,431	50,626,169	(109,981,941)	(a)	369,357,313
Total capital and surplus	169,176,012	109,076,350	139,832,919	55,671,682	39,905,778	137,101,931	172,690,315	(204,653,810)		618,801,177
Total liabilities, capital and surplus	$ 437,050,033	$ 291,606,987	$ 297,366,846	$ 112,449,821	$ 83,121,940	$ 299,191,980	$ 602,812,300	$ (351,488,015)		$ 1,772,111,892

Harco National Insurance Company and Affiliates
Combining Schedules
Balance Sheets - Statutory Basis

As of December 31, 2015 (unaudited)

	HNIC	WIC	AIIC	ACIC	CAIC	TGIC	OFC	Eliminations		Total
Admitted assets										
Bonds	$ 71,782,402	$ 58,082,870	$ 31,290,106	$ 15,942,192	$ 30,476,816	$ 116,889,500	$ 49,274,950	$ -		$ 373,738,836
Preferred stocks	2,962,369	5,066,550	4,839,359	998,000	2,946,733	2,498,000	5,954,279	-		25,265,290
Common stocks	181,699,513	132,947,422	190,582,163	44,980,557	26,356,647	92,929,497	206,499,101	(178,664,245)	(a)	697,330,655
Cash and short-term investments	2,659,945	1,335,520	4,067,931	6,484,456	4,715,743	1,935,234	42,760,764	-		63,959,593
Other invested assets	7,991,208	1,997,802	1,997,805	998,901	-	4,994,505	2,397,802	-		20,378,023
Receivables for securities	-	-	260,495	-	-	-	-	-		260,495
Total cash and invested assets	267,095,437	199,430,164	233,037,859	69,404,106	64,495,939	219,246,736	306,886,896	(178,664,245)		1,180,932,892
Accrued interest and dividends	1,163,387	924,686	652,436	251,241	412,869	1,182,754	779,700	-		5,367,073
Agents' balances and uncollected premium	49,476,525	16,875,699	13,413,803	2,074,904	4,355,262	15,959,641	47,009,290	-		149,165,124
Reinsurance recoverable on paid losses and loss adjustment expenses	3,696,399	7,696,565	2,767,764	83,144	1,655,533	1,139,959	125,500,273	-		142,539,637
Funds held by or deposited with reinsured companies	46,278	45,851	13,745	-	-	-	70,580	-		176,454
Current federal income taxes recoverable	-	3,094,751	1,333,723	-	198,846	-	738,772	(5,179,638)	(b)	186,454
Net deferred tax asset	-	-	-	-	-	152,046	-	(152,046)	(b)	-
EDP equipment and software	-	-	-	-	3,311	-	-	-		3,311
Receivable from affiliates	1,931,776	4,251,818	6,910,825	1,472,071	1,145,168	35,507	3,966,909	(17,673,591)	(c)	2,040,483
Other assets	58,471	34,583	232,255	-	21,369	224,482	57,288,595	-		57,859,755
Total admitted assets	$ 323,468,273	$ 232,354,117	$ 258,362,410	$ 73,285,466	$ 72,288,297	$ 237,941,125	$ 542,241,015	$ (201,669,520)		$ 1,538,271,183

Harco National Insurance Company and Affiliates
Combining Schedules
Balance Sheets - Statutory Basis

	HNIC	WIC	AIIC	ACIC	CAIC	TGIC	OFC	Eliminations		Total
Liabilities, capital and surplus										
Liabilities:										
Reserve for losses	$ 73,795,390	$ 67,110,917	$ 52,234,750	$ 10,137,799	$ 18,068,984	$ 59,315,518	$ 100,111,541	$ -		$ 380,774,899
Reserve for loss adjustment expenses	13,706,431	12,535,840	10,537,828	1,992,934	3,899,680	13,702,711	16,302,121	-		72,677,545
Reinsurance payable on paid losses and loss adjustment expenses	(859,000)	-	-	-	-	22,270	-	-		(836,730)
Commissions payable and other similar charges	4,093,832	2,129,465	3,760,059	491,469	361,213	3,264,614	7,947,313	-		22,047,965
Other expenses payable	881,927	320,214	1,278,614	44,756	688,231	1,717,091	3,472,252	-		8,403,085
Taxes, licenses and fees payable	952,091	846,910	108,188	7,204	1	301,083	2,688,112	-		4,903,589
Current federal income taxes payable	803,942	-	-	200,393	-	4,175,303	-	(5,179,638)	(b)	-
Net deferred tax liability	9,935,239	11,495,900	9,447,714	3,785,389	593,250	-	2,231,348	(152,046)	(b)	37,336,794
Unearned premium	40,433,091	24,292,859	30,078,030	4,848,251	11,798,307	17,666,635	62,947,507	-		192,064,680
Advanced premiums	717,104	153,506	2,992,824	16,734	213,881	800,841	598,799	-		5,493,689
Ceded premiums payable	10,982,000	5,956,000	4,369,000	1,077,000	263,111	2,437,185	173,659,000	-		198,743,296
Amounts withheld for account of others	1,000	-	-	-	-	-	575,000	-		576,000
Funds held under reinsurance treaties	2,436,010	809,000	17,539,000	79,000	100,000	3,820,778	11,887,000	-		36,670,788
Provision for reinsurance	-	-	-	-	-	22,861	231,000	-		253,861
Payable to affiliates	645,222	2,276,443	2,197,351	298,060	12	5,303,123	10,065,367	(17,673,591)	(c)	3,111,987
Payable for securities	97,750	-	-	-	-	-	-	-		97,750
Deposits Payable	-	12,034,403	-	-	-	-	749,219	-		12,783,622
Other liabilities	188,612	324,194	252,738	12,325	-	1,118,795	3,313,331	-		5,209,995
Total liabilities	158,810,641	140,285,651	134,796,096	22,991,314	35,986,670	113,668,808	396,778,910	(23,005,275)		980,312,815
Capital and surplus:										
Special surplus funds	-	-	-	-	-	-	1,640,000	-		1,640,000
Common stock	3,500,004	4,200,000	5,000,000	3,000,000	2,500,000	5,000,000	2,600,000	(9,700,000)	(a)	16,100,004
Preferred stock	-	-	-	-	-	-	5,000,000	-		5,000,000
Paid in and contributed surplus	62,039,069	34,931,424	13,613,145	31,214,770	18,825,675	38,227,500	107,033,403	(84,971,869)	(a)	220,913,117
Unassigned funds	99,118,559	52,937,042	104,953,169	16,079,382	14,975,952	81,044,817	29,188,702	(83,992,376)	(a)	314,305,247
Total capital and surplus	164,657,632	92,068,466	123,566,314	50,294,152	36,301,627	124,272,317	145,462,105	(178,664,245)		557,958,368
Total liabilities, capital and surplus	$ 323,468,273	$ 232,354,117	$ 258,362,410	$ 73,285,466	$ 72,288,297	$ 237,941,125	$ 542,241,015	$ (201,669,520)		$ 1,538,271,183

Harco National Insurance Company and Affiliates
Combining Schedules
Statements of Operations - Statutory Basis

	Year ended December 31, 2016							
	HNIC	WIC	AIIC	ACIC	CAIC	TGIC	OFC	Total
Underwriting income								
Premium earned	$ 118,805,241	$ 85,217,709	$ 68,007,992	$ 46,552,411	$ 33,600,483	$ 115,025,407	$ 49,420,704	$ 516,629,947
Deductions:								
Losses incurred	74,582,507	54,355,722	32,502,087	23,016,068	17,611,474	51,121,632	25,817,444	279,006,934
Loss adjustment expenses incurred	17,721,135	18,356,270	11,602,224	6,893,754	4,892,978	15,875,960	12,044,653	87,386,974
Other underwriting expenses incurred	36,622,401	25,485,658	19,982,136	14,062,653	10,229,333	36,016,296	18,524,047	160,922,524
Aggregate write-ins for underwriting deductions (gains)	(7,019,635)	(12,255,937)	4,276,527	3,104,987	1,358,167	14,579,792	(2,686,718)	1,357,183
Total underwriting deductions	121,906,408	85,941,713	68,362,974	47,077,462	34,091,952	117,593,680	53,699,426	528,673,615
Net underwriting gain (loss)	(3,101,167)	(724,004)	(354,982)	(525,051)	(491,469)	(2,568,273)	(4,278,722)	(12,043,668)
Investment income								
Net investment income earned	7,071,692	6,274,560	4,267,901	1,993,394	2,566,736	6,528,805	5,506,642	34,209,730
Net realized gains, net of tax	4,521,130	1,205,072	3,415,083	659,195	1,109,442	571,191	1,423,428	12,904,541
Net investment gain	11,592,822	7,479,632	7,682,984	2,652,589	3,676,178	7,099,996	6,930,070	47,114,271
Other income (expense)								
Net gain from agents' or uncollected balances charged off	(99,470)	(223,594)	(306,733)	9,919	(6,962)	374,492	(513,132)	(765,480)
Finance charges not included in premiums	662,174	91,237	2,286	-	17,712	776,864	2,958,505	4,508,778
Other miscellaneous income (loss)	1,386,485	25,506	-	63,650	154,742	330,621	1,351,775	3,312,779
Total other income (loss)	1,949,189	(106,851)	(304,447)	73,569	165,492	1,481,977	3,797,148	7,056,077
Net income before federal income taxes	10,440,844	6,648,777	7,023,555	2,201,107	3,350,201	6,013,700	6,448,496	42,126,680
Federal income tax (expense) benefit	(1,333,072)	(2,100,036)	(480,534)	(1,546,267)	(1,275,668)	(3,014,733)	1,240,142	(8,510,168)
Net income	$ 9,107,772	$ 4,548,741	$ 6,543,021	$ 654,840	$ 2,074,533	$ 2,998,967	$ 7,688,638	$ 33,616,512

Harco National Insurance Company and Affiliates
Combining Schedules
Statements of Operations - Statutory Basis

	Year ended December 31, 2015 (unaudited)							
	HNIC	WIC	AIIC	ACIC	CAIC	TGIC	OFC	Total
Underwriting income								
Premium earned	$ 76,222,421	$ 89,490,481	$ 63,498,442	$ 12,116,637	$ 33,244,941	$ 66,060,799	$ 138,696,721	$ 479,330,442
Deductions:								
Losses incurred	32,608,758	58,221,690	35,759,703	6,752,079	18,410,796	23,896,765	74,706,740	250,356,531
Loss adjustment expenses incurred	14,395,752	19,023,293	11,277,889	1,807,865	3,937,947	6,306,096	22,874,025	79,622,867
Other underwriting expenses incurred	28,711,679	28,643,161	20,737,644	3,641,338	9,409,662	21,048,299	37,497,249	149,689,032
Total underwriting deductions	75,716,189	105,888,144	67,775,236	12,201,282	31,758,405	51,251,160	135,078,014	479,668,430
Net underwriting gain (loss)	506,232	(16,397,663)	(4,276,794)	(84,645)	1,486,536	14,809,639	3,618,707	(337,988)
Investment income								
Net investment income earned	7,575,116	5,036,270	3,523,567	1,587,515	1,989,134	5,884,626	4,197,974	29,794,202
Net realized gains (losses), net of tax	(894,363)	(1,221,658)	(6,197,906)	770,351	(1,259,704)	(3,162,456)	(5,212,532)	(17,178,268)
Net investment gain (loss)	6,680,753	3,814,612	(2,674,339)	2,357,866	729,430	2,722,170	(1,014,558)	12,615,934
Other income (expense)								
Net gain from agents' or uncollected balances charged off	928,059	(220,517)	20,067	6,567	(1,241,862)	(19,596)	(452,258)	(979,540)
Finance charges not included in premiums	954,983	143,168	22,703	-	150,070	31,679	2,029,903	3,332,506
Other miscellaneous income	2,601	(586)	711	-	-	649,313	738,421	1,390,460
Total other income (loss)	1,885,643	(77,935)	43,481	6,567	(1,091,792)	661,396	2,316,066	3,743,426
Net income (loss) before federal income taxes	9,072,628	(12,660,986)	(6,907,652)	2,279,788	1,124,174	18,193,205	4,920,215	16,021,372
Federal income tax (expense) benefit	(3,598,147)	3,899,825	767,574	246,439	(497,199)	(6,681,621)	(2,159,114)	(8,515,121)
Net income (loss)	$ 5,474,481	$ (8,761,161)	$ (6,140,078)	$ 2,033,349	$ 626,975	$ 11,511,584	$ 2,761,101	$ 7,506,251

Harco National Insurance Company and Affiliates

Notes to the Combining Schedules

(a) Represents the elimination of HNIC's investment in CAIC, OFC's investment in WIC and AIIC's investment in ACIC.

(b) Represents the netting of federal income tax payable/receivable and deferred tax asset/liability to be shown net on the combined basis.

(c) Represents the elimination of intercompany balances payable/receivable between the Companies.

(d) Represents the elimination of insurance balances due to and from the Companies as a result of a pooling arrangement.

2 6 4 3 3 2 0 1 6 2 8 5 0 0 1 0 0

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2016
(To Be Filed by April 1)

Of The HARCO NATIONAL POOL

ADDRESS (City, State and Zip Code) Raleigh , NC 27605-0800

NAIC Group Code 0225 NAIC Company Code 26433 Federal Employer's Identification Number (FEIN) 13-6108721

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 1,772,111,892

2. Ten largest exposures to a single issuer/borrower/investment.

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	MERCER INTERNATIONAL INC	BONDS/COMMON	$ 33,882,232	1.9 %
2.02	GOLDMAN SACHS GROUP ING	BONDS/COMMON	$ 31,574,633	1.8 %
2.03	HALLIBURTON CO HOLDING CO	COMMON	$ 28,608,201	1.6 %
2.04	MOTOROLA INC	BONDS/COMMON	$ 27,523,051	1.6 %
2.05	BOEING CO	COMMON	$ 25,796,176	1.5 %
2.06	WALT DISNEY CO	COMMON	$ 23,637,096	1.3 %
2.07	JACOBS ENGINEERING GROUP	COMMON	$ 23,409,900	1.3 %
2.08	THE BANK OF NY MELLON CORP	COMMON	$ 23,358,340	1.3 %
2.09	APPLE INC	COMMON	$ 23,329,044	1.3 %
2.10	NAM TAI PROPERTY INC	COMMON	$ 23,051,000	1.3 %

3. 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	$ 122,107,652	6.9 %	3.07	P/RP-1	$ 1,488,000	0.1 %
3.02	NAIC-2	$ 219,537,214	12.4 %	3.08	P/RP-2	$ 26,607,370	1.5 %
3.03	NAIC-3	$ 64,103,431	3.6 %	3.09	P/RP-3	$ 16,039,309	0.9 %
3.04	NAIC-4	$ 14,635,281	0.8 %	3.10	P/RP-4	$ 0	0.0 %
3.05	NAIC-5	$ 1,002,514	0.1 %	3.11	P/RP-5	$ 0	0.0 %
3.06	NAIC-6	$ 971,250	0.1 %	3.12	P/RP-6	$ 6,321	0.0 %

4. Assets held in foreign investments:

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

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

4.02	Total admitted assets held in foreign investments	$ 175,701,518	9.9 %
4.03	Foreign-currency-denominated investments	$ 0	0.0 %
4.04	Insurance liabilities denominated in that same foreign currency	$ 0	0.0 %

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

		1	2
5.01	Countries designated NAIC-1	$ 0	0.0 %
5.02	Countries designated NAIC-2	$ 0	0.0 %
5.03	Countries designated NAIC-3 or below	$ 0	0.0 %

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

		1	2
	Countries designated NAIC - 1:		
6.01	Country 1:	$ 0	0.0 %
6.02	Country 2:	$ 0	0.0 %
	Countries designated NAIC - 2:		
6.03	Country 1:	$ 0	0.0 %
6.04	Country 2:	$ 0	0.0 %
	Countries designated NAIC - 3 or below:		
6.05	Country 1:	$ 0	0.0 %
6.06	Country 2:	$ 0	0.0 %

		1	2
7.	Aggregate unhedged foreign currency exposure	$ 0	0.0 %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

		1	2
8.01	Countries designated NAIC-1	$ 0	0.0 %
8.02	Countries designated NAIC-2	$ 0	0.0 %
8.03	Countries designated NAIC-3 or below	$ 0	0.0 %

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

		1	2
	Countries designated NAIC - 1:		
9.01	Country 1:	$ 0	0.0 %
9.02	Country 2:	$ 0	0.0 %
	Countries designated NAIC - 2:		
9.03	Country 1:	$ 0	0.0 %
9.04	Country 2:	$ 0	0.0 %
	Countries designated NAIC - 3 or below:		
9.05	Country 1:	$ 0	0.0 %
9.06	Country 2:	$ 0	0.0 %

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

	1 Issuer	2 NAIC Designation	3	4
10.01	NAM TAI PROPERTY INC	L	$ 23,051,000	1.3 %
10.02	VOLKSWAGEN GROUP ADR	L	$ 19,068,198	1.1 %
10.03	CHUBB LTD	L	$ 17,227,127	1.0 %
10.04	ALLERGEN PLC	L	$ 16,750,398	0.9 %
10.05	ANHEUSER-BUSCH INBEV	L	$ 13,338,160	0.8 %
10.06	WILLIS TOWERS WATSON PLC	L	$ 10,501,284	0.6 %
10.07	ASPEN INSURANCE HOLDING	RP3LFE	$ 5,872,400	0.3 %
10.08	CENTAUR FUNDING CORP	2FE	$ 5,001,607	0.3 %
10.09	CREDIT SUISSE AG LONDON	2FE	$ 4,423,995	0.2 %
10.10	SIGNET UK FINANCE	2FE	$ 3,488,633	0.2 %

11. Amounts 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 [ ]

If response to 11.01 is yes, detail is not required for the remainder of interrogatory 11.

		1	2
11.02	Total admitted assets held in Canadian investments	$ 13,775,299	0.8 %
11.03	Canadian-currency-denominated investments	$ 0	0.0 %
11.04	Canadian-denominated insurance liabilities	$ 0	0.0 %
11.05	Unhedged Canadian currency exposure	$ 0	0.0 %

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	1	2	3
12.02	Aggregate statement value of investments with contractual sales restrictions	$ 0	0.0 %
	Largest three investments with contractual sales restrictions:		
12.03		$ 0	0.0 %
12.04		$ 0	0.0 %
12.05		$ 0	0.0 %

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

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1 Issuer	2	3
13.02	MERCER INTERNATIONAL INC	$ 31,891,276	1.8 %
13.03	GOLDMAN SACHS GROUP INC	$ 31,074,624	1.8 %
13.04	HALLIBURTON CO HOLDING CO	$ 28,608,201	1.6 %
13.05	BOEING CO	$ 25,796,176	1.5 %
13.06	MOTOROLA INC	$ 23,962,256	1.4 %
13.07	WALT DISNEY CO	$ 23,637,096	1.3 %
13.08	JACOBS ENGINEERING GROUP	$ 23,409,900	1.3 %
13.09	THE BANK OF NY MELLON CORP	$ 23,358,340	1.3 %
13.10	APPLE INC	$ 23,329,044	1.3 %
13.11	NAM TAI PROPERTY INC	$ 23,051,000	1.3 %

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 the remainder of Interrogatory 14.

	1		2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities	$	0	0.0 %
	Largest three investments held in nonaffiliated, privately placed equities:			
14.03		$	0	0.0 %
14.04		$	0	0.0 %
14.05		$	0	0.0 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1		2	3
15.02	Aggregate statement value of investments held in general partnership interests	$	21,056,149	1.2 %
	Largest three investments in general partnership interests:			
15.03	PRINCE STREET OPPORTUNITIES ONSHORE LP	$	21,056,149	1.2 %
15.04		$	0	0.0 %
15.05		$	0	0.0 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1 Type (Residential, Commercial, Agricultural)		2	3
16.02		$	0	0.0 %
16.03		$	0	0.0 %
16.04		$	0	0.0 %
16.05		$	0	0.0 %
16.06		$	0	0.0 %
16.07		$	0	0.0 %
16.08		$	0	0.0 %
16.09		$	0	0.0 %
16.10		$	0	0.0 %
16.11		$	0	0.0 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans	
16.12	Construction loans	$ 0	0.0 %
16.13	Mortgage loans over 90 days past due	$ 0	0.0 %
16.14	Mortgage loans in the process of foreclosure	$ 0	0.0 %
16.15	Mortgage loans foreclosed	$ 0	0.0 %
16.16	Restructured mortgage loans	$ 0	0.0 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

		Residential		Commercial		Agricultural	
	Loan to Value	1	2	3	4	5	6
17.01	above 95%	$ 0	0.0 %	$ 0	0.0 %	$ 0	0.0 %
17.02	91 to 95%	$ 0	0.0 %	$ 0	0.0 %	$ 0	0.0 %
17.03	81 to 90%	$ 0	0.0 %	$ 0	0.0 %	$ 0	0.0 %
17.04	71 to 80%	$ 0	0.0 %	$ 0	0.0 %	$ 0	0.0 %
17.05	below 70%	$ 0	0.0 %	$ 0	0.0 %	$ 0	0.0 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

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

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	Description 1	2	3
18.02	UNION DOMINION REALTY TRUST	$ 5,384,705	0.3 %
18.03	MACK CALI REALTY LP	$ 3,021,624	0.2 %
18.04	CBL ASSOCIATES LP	$ 1,917,780	0.1 %
18.05	NATIONAL RETAIL PROPERTIES	$ 1,575,532	0.1 %
18.06	CORPORATE OFFICE PROPERTIES	$ 505,200	0.0 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 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 [ ]

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02	Aggregate statement value of investments held in mezzanine real estate loans:	$ 0	0.0 %
	Largest three investments held in mezzanine real estate loans:		
19.03		$ 0	0.0 %
19.04		$ 0	0.0 %
19.05		$ 0	0.0 %

20. 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		
					1st Quarter	2nd Quarter	3rd Quarter
		1	2		3	4	5
20.01	Securities lending agreements (do not include assets held as collateral for such transactions)	$ 0	0.0 %		$ 0	$ 0	$ 0
20.02	Repurchase agreements	$ 0	0.0 %		$ 0	$ 0	$ 0
20.03	Reverse repurchase agreements	$ 0	0.0 %		$ 0	$ 0	$ 0
20.04	Dollar repurchase agreements	$ 0	0.0 %		$ 0	$ 0	$ 0
20.05	Dollar reverse repurchase agreements	$ 0	0.0 %		$ 0	$ 0	$ 0

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

		Owned		Written	
		1	2	3	4
21.01	Hedging	$ 0	0.0 %	$ 0	0.0 %
21.02	Income generation	$ 0	0.0 %	$ 0	0.0 %
21.03	Other	$ 0	0.0 %	$ 0	0.0 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

		At Year End			At End of Each Quarter		
					1st Quarter	2nd Quarter	3rd Quarter
		1	2		3	4	5
22.01	Hedging	$ 0	0.0 %		$ 0	$ 0	$ 0
22.02	Income generation	$ 0	0.0 %		$ 0	$ 0	$ 0
22.03	Replications	$ 0	0.0 %		$ 0	$ 0	$ 0
22.04	Other	$ 0	0.0 %		$ 0	$ 0	$ 0

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

		At Year End			At End of Each Quarter		
					1st Quarter	2nd Quarter	3rd Quarter
		1	2		3	4	5
23.01	Hedging	$ 0	0.0 %		$ 0	$ 0	$ 0
23.02	Income generation	$ 0	0.0 %		$ 0	$ 0	$ 0
23.03	Replications	$ 0	0.0 %		$ 0	$ 0	$ 0
23.04	Other	$ 0	0.0 %		$ 0	$ 0	$ 0

Harco National Pool

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities	20,653,563	1.549	20,653,563	0	20,653,563	1.549
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies	0	0.000	0	0	0	0.000
1.22 Issued by U.S. government sponsored agencies	0	0.000	0	0	0	0.000
1.3 Non-U.S. government (including Canada, excluding mortgaged-backed securities)	0	0.000	0	0	0	0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S. :						
1.41 States, territories and possessions general obligations	0	0.000	0	0	0	0.000
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	1,434,469	0.108	1,434,469	0	1,434,469	0.108
1.43 Revenue and assessment obligations	8,934,846	0.670	8,934,846	0	8,934,846	0.670
1.44 Industrial development and similar obligations	0	0.000	0	0	0	0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA	717,012	0.054	717,012	0	717,012	0.054
1.512 Issued or guaranteed by FNMA and FHLMC	4,691,644	0.352	4,691,644	0	4,691,644	0.352
1.513 All other	1,150,562	0.086	1,150,562	0	1,150,562	0.086
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	4,416,155	0.331	4,416,155	0	4,416,155	0.331
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	2,334,043	0.175	2,334,043	0	2,334,043	0.175
1.523 All other	12,371,476	0.928	12,371,476	0	12,371,476	0.928
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	297,708,492	22.328	297,708,492	0	297,708,492	22.328
2.2 Unaffiliated non-U.S. securities (including Canada)	67,945,080	5.096	67,945,080	0	67,945,080	5.096
2.3 Affiliated securities	0	0.000	0	0	0	0.000
3. Equity interests:						
3.1 Investments in mutual funds	0	0.000	0	0	0	0.000
3.2 Preferred stocks:						
3.21 Affiliated	0	0.000	0	0	0	0.000
3.22 Unaffiliated	44,140,999	3.311	44,140,999	0	44,140,999	3.311
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated	0	0.000	0	0	0	0.000
3.32 Unaffiliated	783,908,694	58.794	783,908,694	0	783,908,694	58.794
3.4 Other equity securities:						
3.41 Affiliated	1	0.000	1	0	1	0.000
3.42 Unaffiliated	0	0.000	0	0	0	0.000
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated	0	0.000	0	0	0	0.000
3.52 Unaffiliated	0	0.000	0	0	0	0.000
4. Mortgage loans:						
4.1 Construction and land development	0	0.000	0	0	0	0.000
4.2 Agricultural	0	0.000	0	0	0	0.000
4.3 Single family residential properties	0	0.000	0	0	0	0.000
4.4 Multifamily residential properties	0	0.000	0	0	0	0.000
4.5 Commercial loans	0	0.000	0	0	0	0.000
4.6 Mezzanine real estate loans	0	0.000	0	0	0	0.000
5. Real estate investments:						
5.1 Property occupied by company	0	0.000	0	0	0	0.000
5.2 Property held for production of income (including $ 0 of property acquired in satisfaction of debt)	0	0.000	0	0	0	0.000
5.3 Property held for sale (including $ 0 property acquired in satisfaction of debt)	0	0.000	0	0	0	0.000
6. Contract loans	0	0.000	0	0	0	0.000
7. Derivatives	0	0.000	0	0	0	0.000
8. Receivables for securities	0	0.000	0	0	0	0.000
9. Securities Lending (Line 10, Asset Page reinvested collateral)	0	0.000	0	XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	61,459,729	4.610	61,459,729	0	61,459,729	4.610
11. Other invested assets	21,456,149	1.609	21,456,149	0	21,456,149	1.609
12. Total invested assets	1,333,322,914	100.000	1,333,322,914	0	1,333,322,914	100.000

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SUPPLEMENT FOR THE YEAR 2016 OF THE ACCEPTANCE CASUALTY INSURANCE COMPANY

REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)

For The Year Ended December 31, 2016
To Be Filed by March 1

(A) Financial Impact

	1 As Reported	2 Interrogatory 9 Reinsurance Effect	3 Restated Without Interrogatory 9 Reinsurance
A01. Assets	112,449,821	(5,711,162)	118,160,983
A02. Liabilities	56,778,139	(6,076,061)	62,854,200
A03. Surplus as regards to policyholders	55,671,682	364,899	55,306,783
A04. Income before taxes	2,201,107	(906,098)	3,107,205

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
Effective Date: January 1, 2003 Type of Treaty: 20% quota share Ceding Commission: 34.9% Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the quota share reinsurance agreement described herein with IAT.
Effective Date: January 1, 2008 Expiration Date: December 31, 2015 Type of Treaty: Commercial Auto Liabiity Excess of Loss Cover: $700,000 xs of $300,000 Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.
Effective Date: June 1, 2015 Type of Treaty: Property Catastrophe Excess of Loss Cover: $15,000,000 xs of $5,000,000 (100%) $30,000,000 xs of $20,000,000 (47.75%) Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.
Effective Date: June 1, 2016 Type of Treaty: Property Catastrophe Excess of Loss Cover: $15,000,000 xs of $5,000,000 (100%) $30,000,000 xs of $20,000,000 (46.08%) $80,000,000 xs of $50,000,000 (4%) Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.

D. If the response to General Interrogatory 9.4 (Part 2 Property & Casualty Interrogatories) is yes, explain below why the contracts are treated differently for GAAP and SAP.

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SUPPLEMENT FOR THE YEAR 2016 OF THE ACCEPTANCE INDEMNITY INSURANCE COMPANY

REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)

For The Year Ended December 31, 2016
To Be Filed by March 1

(A) Financial Impact

	1 As Reported	2 Interrogatory 9 Reinsurance Effect	3 Restated Without Interrogatory 9 Reinsurance
A01. Assets	297,366,846	(18,846,912)	316,213,758
A02. Liabilities	157,533,927	(21,696,098)	179,230,025
A03. Surplus as regards to policyholders	139,832,919	2,849,186	136,983,733
A04. Income before taxes	7,023,555	(2,622,991)	9,646,546

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
Effective Date: January 1, 2003 Type of Treaty: 20% quota share Ceding Commission: 34.9% Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the quota share reinsurance agreement described herein with IAT.
Effective Date: January 1, 2008 Expiraton Date: December 31, 2015 Type of Treaty: Commercial Auto Liabiity Excess of Loss Cover: $700,000 xs of $300,000 Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.
Effective Date: June 1, 2015 Type of Treaty: Property Catastrophe Excess of Loss Cover: $15,000,000 xs of $5,000,000 (100%) $30,000,000 xs of $20,000,000 (47.75%) Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.
Effective Date: June 1, 2016 Type of Treaty: Property Catastrophe Excess of Loss Cover: $15,000,000 xs of $5,000,000 (100%) $30,000,000 xs of $20,000,000 (46.08%) $80,000,000 xs of $50,000,000 (4%) Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.

D. If the response to General Interrogatory 9.4 (Part 2 Property & Casualty Interrogatories) is yes, explain below why the contracts are treated differently for GAAP and SAP.

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SUPPLEMENT FOR THE YEAR 2016 OF THE HARCO NATIONAL INSURANCE COMPANY

REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)

For The Year Ended December 31, 2016
To Be Filed by March 1

(A) Financial Impact

	1 As Reported	2 Interrogatory 9 Reinsurance Effect	3 Restated Without Interrogatory 9 Reinsurance
A01. Assets	437,050,033	(57,880,233)	494,930,266
A02. Liabilities	267,874,021	(66,585,597)	334,459,618
A03. Surplus as regards to policyholders	169,176,012	8,705,364	160,470,648
A04. Income before taxes	10,440,844	7,335,074	3,105,770

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
Effective Date: January 1, 2003 Type of Treaty: 20% quota share(specialty programs surety at 100%) Ceding Commission: 33.96% Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the quota share reinsurance agreement described herein with IAT.
Effective Date: April 1, 2002 Type of Treaty: 40% quota share (individual contracts at up to 100%) Ceding Commission: Original commission rate plus 2.5% override Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire directand assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the quota share reinsurance agreement described herein with IAT.
Effective Date: January 1, 2008 Expiration Date: December 31, 2015 Type of Treaty: Commercial Auto Liabiity Excess of Loss Cover: $700,000 xs of $300,000 Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.

D. If the response to General Interrogatory 9.4 (Part 2 Property & Casualty Interrogatories) is yes, explain below why the contracts are treated differently for GAAP and SAP.

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SUPPLEMENT FOR THE YEAR 2016 OF THE OCCIDENTAL FIRE AND CASUALTY COMPANY OF NORTH CAROLINA

REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)

For The Year Ended December 31, 2016
To Be Filed by March 1
(A) Financial Impact

	1 As Reported	2 Interrogatory 9 Reinsurance Effect	3 Restated Without Interrogatory 9 Reinsurance
A01. Assets	602,812,300	(87,018,714)	689,831,014
A02. Liabilities	430,121,985	(102,310,351)	532,432,336
A03. Surplus as regards to policyholders	172,690,315	15,291,637	157,398,678
A04. Income before taxes	6,448,496	7,758,605	(1,310,109)

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
Effective Date: July 1, 2002 Type of Treaty: 20% quota share (certain lines at 100%) Ceding Commission: 34.9% Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the quota share reinsurance agreement described herein with IAT.
Effective Date: January 1, 2008 Expiration Date: December 31, 2015 Type of Treaty: Commercial Auto Liabiity Excess of Loss Cover: $700,000 xs of $300,000 Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.
Effective Date: January 1, 2014 Type of Treaty: Public Auto Liabiity Excess of Loss Cover: $3,500,000 xs of $1,500,000 (40%) Collateral: Ceded liabilities fully collateralized by security trustNote: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.
Effective Date: June 1, 2015 Type of Treaty: Property Catastrophe Excess of Loss Cover: $15,000,000 xs of $5,000,000 (100%) $30,000,000 xs of 20,000,000 (47.75%) Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.
Effective Date: June 1, 2016 Type of Treaty: Property Catastrophe Excess of Loss Cover: $15,000,000 xs of $5,000,000 (100%) $30,000,000 xs of $20,000,000 (46.08%) $80,000,000 xs of $50,000,000 (4%) Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.

D. If the response to General Interrogatory 9.4 (Part 2 Property & Casualty Interrogatories) is yes, explain below why the contracts are treated differently for GAAP and SAP.

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SUPPLEMENT FOR THE YEAR 2016 OF THE TRANSGUARD INSURANCE COMPANY OF AMERICA, INC.

REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)

For The Year Ended December 31, 2016
To Be Filed by March 1
(A) Financial Impact

	1 As Reported	2 Interrogatory 9 Reinsurance Effect	3 Restated Without Interrogatory 9 Reinsurance
A01. Assets	299,191,980	(14,812,360)	314,004,340
A02. Liabilities	162,090,049	(16,418,913)	178,508,962
A03. Surplus as regards to policyholders	137,101,931	1,606,553	135,495,378
A04. Income before taxes	6,013,700	(3,155,179)	9,168,879

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
Effective Date: December 31, 2005 Type of Treaty: 20% quota share Ceding Commission: 34.9% Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the quota share reinsurance agreement described herein with IAT.
Effective Date: June 1, 2015 Type of Treaty: Property Catastrophe Excess of Loss Cover: $15,000,000 xs of $5,000,000 (100%) $30,000,000 xs of $20,000,000 (47.75%) Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.
Effective Date: June 1, 2016 Type of Treaty: Property Catastrophe Excess of Loss Cover: $15,000,000 xs of $5,000,000 (100%) $30,000,000 xs of $20,000,000 (46.08%) $80,000,000 xs of $50,000,000 (4%) Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.

D. If the response to General Interrogatory 9.4 (Part 2 Property & Casualty Interrogatories) is yes, explain below why the contracts are treated differently for GAAP and SAP.

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SUPPLEMENT FOR THE YEAR 2016 OF THE WILSHIRE INSURANCE COMPANY

REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)

For The Year Ended December 31, 2016
To Be Filed by March 1

(A) Financial Impact

	1 As Reported	2 Interrogatory 9 Reinsurance Effect	3 Restated Without Interrogatory 9 Reinsurance
A01. Assets	291,606,987	(38,114,791)	329,721,778
A02. Liabilities	182,530,637	(40,264,489)	222,795,126
A03. Surplus as regards to policyholders	109,076,350	2,149,698	106,926,652
A04. Income before taxes	6,648,777	1,672,950	4,975,827

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
Effective Date: July 1, 2002 Type of Treaty: 20% quota share (certain lines at 100%) Ceding Commission: 34.9% Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the quota share reinsurance agreement described herein with IAT.
Effective Date: January 1, 2008 Expiration Date: December 31, 2015 Type of Treaty: Commercial Auto Liabiity Excess of Loss Cover: $700,000 xs of $300,000 Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.
Effective Date: June 1, 2015 Type of Treaty: Property Catastrophe Excess of Loss Cover: $15,000,000 xs of $5,000,000 (100%) $30,000,000 xs of $20,000,000 (47.75%) Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.
Effective Date: June 1, 2016 Type of Treaty: Property Catastrophe Excess of Loss Cover: $15,000,000 xs of $5,000,000 (100%) $30,000,000 xs of $20,000,000 (46.08%) $80,000,000 xs of $50,000,000 (4%) Collateral: Ceded liabilities fully collateralized by security trust Note: Applies to reinsurance contract meeting the criteria of General Interrogatory 9.2(a); feature: written premium ceded to IAT by the Company and its affiliates represents 50% or more of the entire direct and assumed premium written by IAT based on its most recently available financial statement.	To utilize the excess capital of the Company's ultimate parent, IAT Reinsurance Company Ltd ("IAT"), while improving the writings to capital and surplus leverage of the Company, the Company entered into the excess of loss reinsurance agreement described herein with IAT.

D. If the response to General Interrogatory 9.4 (Part 2 Property & Casualty Interrogatories) is yes, explain below why the contracts are treated differently for GAAP and SAP.

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SUPPLEMENT FOR THE YEAR 2016 OF THE Commercial Alliance Insurance Company

REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)

For The Year Ended December 31, 2016
To Be Filed by March 1
(A) Financial Impact

	1 As Reported	2 Interrogatory 9 Reinsurance Effect	3 Restated Without Interrogatory 9 Reinsurance
A01. Assets	83,121,940		83,121,940
A02. Liabilities	43,216,162		43,216,162
A03. Surplus as regards to policyholders	39,905,778		39,905,778
A04. Income before taxes	3,350,201		3,350,201

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives

D. If the response to General Interrogatory 9.4 (Part 2 Property & Casualty Interrogatories) is yes, explain below why the contracts are treated differently for GAAP and SAP.