



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

*Years ended December 31, 2017 and 2016
with Report of Independent Auditors*

HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES
Combined Audited Financial Statements - Statutory Basis

Years ended December 31, 2017 and 2016

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Report of Independent Auditors

Executive Committee
Harcos 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 statutory combined balance sheets as of December 31, 2017 and 2016, and the related combined statements of operations, combined changes in capital and surplus and combined cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Report of Independent Auditors (continued)

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 Departments, 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

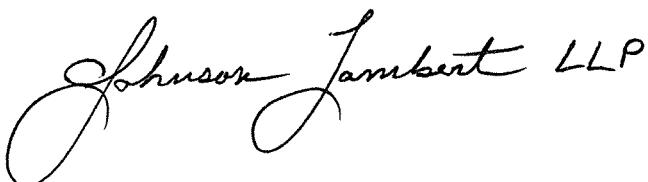
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the combined statutory basis financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the combined statutory basis financial position of the Companies as of December 31, 2017 and 2016, or the combined results of their operations or their combined cash flows for the years 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, 2017 and 2016, and the combined results of their operations and their cash flows for the years then ended, on the basis of accounting described in Note A.

Other Matter - Report on 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, 2017 and 2016 and the Combining Statements of Operations - Statutory Basis for the years 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, 2017, 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.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is fluid and cursive, with "Johnson" and "Lambert" connected by a single stroke, and "LLP" written in a smaller, separate area.

Raleigh, North Carolina
May 24, 2018

Harco National Insurance Company and Affiliates

Combined Balance Sheets - Statutory Basis

	As of December 31,	
	<u>2017</u>	<u>2016</u>
Admitted assets		
Bonds	\$ 464,859,277	\$ 422,357,343
Preferred stocks	47,642,945	44,140,999
Common stocks	920,879,095	783,908,695
Cash and short-term investments	83,305,693	61,459,729
Other invested assets	27,365,482	21,456,148
Receivables for securities	<u>2,533,494</u>	-
Total cash and invested assets	1,546,585,986	1,333,322,914
Accrued interest and dividends	7,379,355	6,826,181
Agents' balances and uncollected premium	217,551,212	166,036,389
Reinsurance recoverable on paid losses and loss adjustment expenses	70,613,605	188,246,199
Funds held by or deposited with reinsured companies	9,342,263	5,438,245
Current federal income taxes recoverable	14,325,111	604,515
EDP equipment and software	2,933	2,483
Receivable from affiliates	969,150	7,281,000
Other assets	<u>1,206,081</u>	<u>64,353,966</u>
Total admitted assets	<u>\$ 1,867,975,696</u>	<u>\$ 1,772,111,892</u>

See accompanying notes to the statutory basis financial statements.

HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES

Combined Balance Sheets - Statutory Basis

	As of December 31,	
	<u>2017</u>	<u>2016</u>
Liabilities, capital and surplus		
Liabilities:		
Reserve for losses	\$ 449,519,276	\$ 410,112,211
Reserve for loss adjustment expenses	69,443,472	79,988,868
Reinsurance payable on paid losses and loss adjustment expenses	7,207,035	1,489,695
Commissions payable and other similar charges	29,302,000	27,724,598
Other expenses payable	7,619,366	9,225,324
Taxes, licenses and fees payable	6,661,230	6,053,762
Net deferred tax liability	62,228,913	61,290,970
Unearned premium	286,428,778	212,153,164
Advanced premiums	4,336,067	4,380,499
Ceded premiums payable	110,239,195	261,100,742
Amounts withheld for account of others	5,876,986	5,793,000
Funds held under reinsurance treaties	27,080,182	47,091,417
Remittances and items not allocated	232,358	-
Provision for reinsurance	90,861	22,861
Drafts outstanding	-	61,823
Payable to affiliates	13,063,079	5,237,182
Payable for securities	1,670,184	-
Deposits Payable	15,706,735	15,369,178
Other liabilities	<u>7,163,530</u>	<u>6,215,421</u>
Total liabilities	<u>1,103,869,247</u>	<u>1,153,310,715</u>
Capital and surplus:		
Common stock	16,100,004	16,100,004
Paid in and contributed surplus	233,343,860	233,343,860
Unassigned funds	<u>514,662,585</u>	<u>369,357,313</u>
Total capital and surplus	<u>764,106,449</u>	<u>618,801,177</u>
Total liabilities, capital and surplus	<u>\$ 1,867,975,696</u>	<u>\$ 1,772,111,892</u>

See accompanying notes to the statutory basis financial statements.

Hanco National Insurance Company and Affiliates

Combined Statements of Operations - Statutory Basis

	Years ended December 31,	
	<u>2017</u>	<u>2016</u>
Underwriting income		
Premium earned	\$ 605,271,706	\$ 516,629,947
Deductions:		
Losses incurred	367,644,873	279,006,934
Loss adjustment expenses incurred	76,160,221	87,386,974
Other underwriting expenses incurred	212,004,900	160,922,524
Aggregate write-ins for underwriting deductions	<u>856,492</u>	<u>1,357,183</u>
Total underwriting deductions	<u>656,666,486</u>	<u>528,673,615</u>
Net underwriting loss	<u>(51,394,780)</u>	<u>(12,043,668)</u>
Investment income		
Net investment income earned	41,245,306	34,209,730
Net realized gains, net of tax	<u>30,786,757</u>	<u>12,904,541</u>
Net investment gain	<u>72,032,063</u>	<u>47,114,271</u>
Other income		
Net loss from agents' or uncollected balances charged off	(1,467,515)	(765,480)
Finance charges not included in premiums	3,489,933	4,508,778
Other miscellaneous income	<u>2,325,964</u>	<u>3,312,779</u>
Total other income	<u>4,348,382</u>	<u>7,056,077</u>
Net income before federal income taxes	24,985,665	42,126,680
Federal income tax benefit (expense)	<u>1,508,323</u>	<u>(8,510,168)</u>
Net income	<u>\$ 26,493,988</u>	<u>\$ 33,616,512</u>

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, 2016	\$ 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	<u>(1,640,000)</u>	<u>-</u>	<u>(5,000,000)</u>	<u>12,430,743</u>	<u>55,052,066</u>	<u>60,842,809</u>
Balance as of December 31, 2016	-	16,100,004	-	233,343,860	369,357,313	618,801,177
Net income	-	-	-	-	26,493,988	26,493,988
Change in net unrealized capital gains and losses, net of tax	-	-	-	-	137,550,229	137,550,229
Change in net deferred income tax	-	-	-	-	(15,609,821)	(15,609,821)
Change in non-admitted assets	-	-	-	-	(3,061,124)	(3,061,124)
Change in provision for reinsurance	-	-	-	-	(68,000)	(68,000)
Net change in capital and surplus	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>145,305,272</u>	<u>145,305,272</u>
Balance as of December 31, 2017	<u>\$ -</u>	<u>\$ 16,100,004</u>	<u>\$ -</u>	<u>\$ 233,343,860</u>	<u>\$ 514,662,585</u>	<u>\$ 764,106,449</u>

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,	
	2017	2016
Cash from operations		
Premiums collected	\$ 478,079,403	\$ 579,493,968
Net investment income received	42,197,897	34,193,880
Miscellaneous income	401,344	1,794,287
Benefits and loss related payments	(207,081,589)	(293,049,758)
Commissions, expenses, and other underwriting expenses paid	(296,427,751)	(234,706,312)
Federal income taxes paid	<u>(26,880,189)</u>	<u>(13,994,064)</u>
Net cash (used in) from operations	<u>(9,710,885)</u>	<u>73,732,001</u>
Cash from (used in) investments		
Proceeds from investments sold, matured, or repaid:		
Bonds	158,570,697	181,680,132
Stocks	234,598,583	90,453,327
Miscellaneous proceeds	<u>1,670,184</u>	<u>260,495</u>
Total investment proceeds	<u>394,839,464</u>	<u>272,393,954</u>
Cost of long-term investments acquired:		
Bonds	197,489,276	226,163,126
Stocks	223,999,964	113,433,364
Miscellaneous applications	<u>2,533,494</u>	<u>97,750</u>
Total investments acquired	<u>424,022,734</u>	<u>339,694,240</u>
Net cash used in investing activities	<u>(29,183,270)</u>	<u>(67,300,286)</u>
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)
Other cash provided - crop	62,918,279	(6,864,957)
Other cash provided - other	<u>(2,178,160)</u>	<u>12,202,635</u>
Net cash provided (used in) financing and miscellaneous activities	<u>60,740,119</u>	<u>(8,931,579)</u>
Net change in cash and short-term investments	21,845,964	(2,499,864)
Cash and short-term investments, beginning of year	<u>61,459,729</u>	<u>63,959,593</u>
Cash and short-term investments, end of year	<u>\$ 83,305,693</u>	<u>\$ 61,459,729</u>

See accompanying notes to the statutory basis financial statements.

Harco National Insurance Company and Affiliates

Notes to Combined Statutory Basis Financial Statements

Years ended December 31, 2017 and 2016

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. HNIC, AIIC, OFC and TGIC are wholly owned subsidiaries of IAT Insurance Group ("IIG"), a North Carolina based insurance holding company. IIG is a wholly-owned subsidiary of IAT Reinsurance Company, Ltd. ("IAT"), a Cayman Island based reinsurance company. IAT is ultimately controlled by Goose Creek Capital ("GCC"), a Wyoming based holding company. 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 allied lines. 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, 2017 and 2016 (as prescribed or permitted by the Departments) and NAIC statutory accounting practices.

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:

HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES

Notes to Combined Statutory Basis Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (continued)

Basis of Reporting (continued)

- 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.

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.

Harco National Insurance Company and Affiliates

Notes to Combined Statutory Basis Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (continued)

Investments (continued)

- 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 which was \$8,365,506 and \$5,065,734, for the years ended December 31, 2017 and 2016, 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.

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.

HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES

NOTES TO COMBINED STATUTORY BASIS FINANCIAL STATEMENTS (CONTINUED)

Note A - Organization and Significant Accounting Policies (continued)

Investments (continued)

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, 2017 or 2016.

HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES

Notes to Combined Statutory Basis Financial Statements (Continued)

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 \$29,173 and \$62,947,453 as of December 31, 2017 and 2016, respectively. This amount is recorded in other assets of the accompanying combined balance sheet. The Companies no longer participate in the MPCI program in 2017. 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, 2017 or 2016.

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.

Harco National Insurance Company and Affiliates

Notes to Combined Statutory Basis Financial Statements (Continued)

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 GCC 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, 2017 and 2016.

Subsequent Events

The Companies have evaluated subsequent events through May 24, 2018, 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. On April 3, 2018, TGIC announced that it had reached a definitive agreement to acquire IFIC Surety Group, Inc. ("IFIC") for an undisclosed amount. This acquisition will initiate the Companies' entry into the surety market. The closing of the agreement is subject to customary regulatory approvals and is expected to conclude in the third quarter of 2018. IFIC consists of International Fidelity Insurance Company and its subsidiary Allegheny Casualty Company. IFIC writes in excess of \$150 million in gross written premium and is the largest independently owned and eighth largest surety writer in the United States.

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.

Harco National Insurance Company and Affiliates

Notes to Combined Statutory Basis Financial Statements (Continued)

Note B - Insurance Activity (continued)

Premium activity for the years ended December 31, 2017 and 2016 is summarized as follows:

<u>December 31, 2017</u>	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
Premiums written	\$ 1,029,677,286	\$ 204,273,814	\$ (554,403,780)	\$ 679,547,320
Change in unearned premiums	<u>(37,229,426)</u>	<u>(53,738,493)</u>	<u>16,692,305</u>	<u>(74,275,614)</u>
Premiums earned	<u>\$ 992,447,860</u>	<u>\$ 150,535,321</u>	<u>\$ (537,711,475)</u>	<u>\$ 605,271,706</u>

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

Unearned premiums at December 31, 2017 and 2016 are net of unearned ceded premiums of \$157,290,174 and \$140,597,869, respectively, and include unearned assumed premiums of \$96,430,316 and \$42,691,822, respectively.

Premium balances due consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Billed premium balances due	\$ 133,224,139	\$ 98,629,120
Deferred premiums	85,411,489	69,646,996
Non-admitted premiums due	<u>(1,084,416)</u>	<u>(2,239,727)</u>
Agents' balances and uncollected premiums	<u>\$ 217,551,212</u>	<u>\$ 166,036,389</u>

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.

HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES

NOTES TO COMBINED STATUTORY BASIS FINANCIAL STATEMENTS (CONTINUED)

Note B - Insurance Activity (continued)

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

	<u>2017</u>	<u>2016</u>
Reserves for losses and LAE at beginning of year	\$ 490,101,079	\$ 453,452,444
Provision for losses and LAE related to:		
Current year	433,829,000	323,736,000
Prior years	<u>9,976,094</u>	<u>42,657,908</u>
Total incurred losses and LAE	<u>443,805,094</u>	<u>366,393,908</u>
Losses and LAE paid related to:		
Current year	167,905,000	121,726,000
Prior years	<u>247,038,425</u>	<u>208,019,273</u>
Total paid losses and LAE	<u>414,943,425</u>	<u>329,745,273</u>
Reserves for losses and LAE at end of year	<u>\$ 518,962,748</u>	<u>\$ 490,101,079</u>

The reconciliation above shows unfavorable development of \$9,976,094 emerged during 2017 in the reserves for unpaid losses and LAE recorded at December 31, 2016, as a result of actuarial re-estimations. 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 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 reserves for losses and LAE as of December 31, 2017 and 2016 have been offset by reinsurance recoverables amounting to \$403,260,886 and \$560,882,723, respectively. Amounts recovered pursuant to reinsurance agreements during the years ended December 31, 2017 and 2016 were \$399,292,873 and \$493,543,363, respectively.

At December 31, 2017 and 2016, a provision for reinsurance of \$90,861 and \$22,861, respectively, related to past due and unauthorized reinsurance recoverables was established. At December 31, 2017 and 2016, 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, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Swiss Re America Corp.	\$ 29,640,238	\$ 26,139,996
North Carolina Reinsurance Facility	39,967,214	70,255,388

HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES

Notes to Combined Statutory Basis Financial Statements (Continued)

Note B - Insurance Activity (continued)

Commission activity during the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Commission expense on direct premium	\$ 194,713,055	\$ 222,122,298
Commission expense on assumed premium	75,594,009	32,593,354
Ceding commissions on ceded premium	<u>(146,896,547)</u>	<u>(179,846,527)</u>
Net commissions on direct, assumed and ceded premium	<u>\$ 123,410,517</u>	<u>\$ 74,869,125</u>

Included in net commissions on direct premium for 2017 and 2016 is contingent commission expense of \$8,723,555 and \$10,954,477, respectively, predicated on profit-sharing arrangements. Included in net commissions on assumed premium for 2017 and 2016 is contingent commission income of \$265,220 and \$2,039,556, respectively, predicated on profit-sharing arrangements. Included in net commissions on ceded premium for 2017 and 2016 is contingent commission income (expense) of \$1,638,393 and \$(299,765), respectively, predicated on profit-sharing arrangements.

If all the Companies' ceded reinsurance activity had been canceled at December 31, 2017 and 2016, the maximum amount of return commission due to the reinsurers would have been \$51,347,005 and \$44,879,510, respectively. If all the Companies' assumed reinsurance activity had been canceled at December 31, 2017 and 2016, the maximum amount of return commission due to the Companies would have been \$34,969,621 and \$15,269,449, respectively.

Note C - Investments

The carrying value and fair value of bonds, common stock and preferred stock at December 31, 2017 and 2016, are as follows:

December 31, 2017	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	\$	\$	\$	\$
U.S. treasury securities	\$ 31,166,648	\$ 1,051	\$ 277,092	\$ 30,890,607
Political subdivisions of states, territories, and possessions	1,103,863	40,653	-	1,144,516
Special revenue	6,228,058	196,126	10,825	6,413,359
Mortgage-backed securities	35,507,409	242,715	222,519	35,527,605
Industrial and miscellaneous	<u>390,853,299</u>	<u>12,063,248</u>	<u>1,571,064</u>	<u>401,345,483</u>
Total bonds	<u>\$ 464,859,277</u>	<u>\$ 12,543,793</u>	<u>\$ 2,081,500</u>	<u>\$ 475,321,570</u>
Common stock	<u>\$ 513,962,312</u>	<u>\$ 410,073,026</u>	<u>\$ 3,156,243</u>	<u>\$ 920,879,095</u>
Preferred stock reported at fair value	\$ 13,045,232	\$ 116,038	\$ 433,276	\$ 12,727,994
Preferred stock reported at amortized cost	<u>34,914,951</u>	<u>484,233</u>	<u>60,322</u>	<u>35,338,862</u>
Total preferred stock	<u>\$ 47,960,183</u>	<u>\$ 600,271</u>	<u>\$ 493,598</u>	<u>\$ 48,066,856</u>

Harco National Insurance Company and Affiliates

Notes to Combined Statutory Basis Financial Statements (Continued)

Note C - Investments (continued)

<u>December 31, 2016</u>	<u>Cost/ Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
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	<u>356,068,138</u>	<u>9,566,725</u>	<u>3,574,292</u>	<u>362,060,571</u>
Total bonds	<u>\$ 422,357,343</u>	<u>\$ 10,228,141</u>	<u>\$ 3,918,124</u>	<u>\$ 428,667,360</u>
Common stock	<u>\$ 492,907,978</u>	<u>\$ 295,331,724</u>	<u>\$ 4,331,007</u>	<u>\$ 783,908,695</u>
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	<u>\$ 45,017,559</u>	<u>\$ 217,914</u>	<u>\$ 1,899,084</u>	<u>\$ 43,336,389</u>

Excluding investments in the U.S. government, government agencies and authorities there are no individual securities that exceed 10% of surplus at December 31, 2017.

The amortized cost and fair value of bonds at December 31, 2017, by contractual maturity, are shown below:

Maturity:	Amortized Cost		Fair Value
	Cost	Fair Value	
In 2018	\$ 39,262,936	\$ 39,323,953	
In 2019-2022	113,013,657	115,903,268	
In 2023-2027	186,200,581	191,333,344	
Due after 2027	114,431,916	116,790,622	
Mortgage-backed securities	<u>35,507,409</u>	<u>35,527,605</u>	
Total bonds	<u>\$ 488,416,499</u>	<u>\$ 498,878,792</u>	

Included in the above table maturing in 2018 are investments with a carrying value of \$23,557,222 that are reported as short-term investments on the accompanying balance sheets as of December 31, 2017. 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 sale of investments in bonds during 2017 were \$158,570,697; gross gains of \$5,056,196 and gross losses of \$721,602 were realized on those sales. Proceeds from the sale 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.

HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES

NOTES TO COMBINED STATUTORY BASIS FINANCIAL STATEMENTS (CONTINUED)

Note C - Investments (continued)

Proceeds from the sale of common and preferred stock during 2017 were \$234,598,583; gross gains of \$41,983,982 and gross losses of \$5,991,313 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.

During 2017, the Companies sold securities with previously recognized other-than-temporarily impairments for book purposes of \$12,323,816; thus, these disposals now represent taxable losses. During 2016, the Companies had similar disposals amounting to \$5,085,764.

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, 2017 and 2016:

	Less than 12 months		Greater than 12 months		Total	
	Fair value	Unrealized Loss	Fair value	Unrealized Loss	Fair value	Unrealized Loss
December 31, 2017						
U.S. treasury securities	\$ 12,764,905	\$ 107,732	\$ 17,431,671	\$ 169,360	\$ 30,196,576	\$ 277,092
Special revenue	1,145,926	1,835	991,010	8,990	2,136,936	10,825
Mortgage-backed securities	9,608,589	55,955	11,044,716	166,564	20,653,305	222,519
Industrial and miscellaneous	<u>45,121,532</u>	<u>844,333</u>	<u>31,284,294</u>	<u>726,731</u>	<u>76,405,826</u>	<u>1,571,064</u>
Total bonds	<u>68,640,952</u>	<u>1,009,855</u>	<u>60,751,691</u>	<u>1,071,645</u>	<u>129,392,643</u>	<u>2,081,500</u>
Common stock	<u>41,336,966</u>	<u>2,885,381</u>	<u>2,732,440</u>	<u>270,862</u>	<u>44,069,406</u>	<u>3,156,243</u>
Preferred stock	<u>16,512,553</u>	<u>258,107</u>	<u>1,711,534</u>	<u>235,491</u>	<u>18,224,087</u>	<u>493,598</u>
Total bonds, common and preferred stock	<u><u>\$ 126,490,471</u></u>	<u><u>\$ 4,153,343</u></u>	<u><u>\$ 65,195,665</u></u>	<u><u>\$ 1,577,998</u></u>	<u><u>\$ 191,686,136</u></u>	<u><u>\$ 5,731,341</u></u>

HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES

Notes to Combined Statutory Basis Financial Statements (Continued)

Note C - Investments (continued)

	Less than 12 months		Greater than 12 months		Total	
	Fair value	Unrealized Loss	Fair value	Unrealized Loss	Fair value	Unrealized Loss
<u>December 31, 2016</u>						
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	<u>68,265,623</u>	<u>1,762,212</u>	<u>52,404,653</u>	<u>1,812,080</u>	<u>120,670,276</u>	<u>3,574,292</u>
Total bonds	<u>88,190,719</u>	<u>1,989,248</u>	<u>66,058,190</u>	<u>1,928,876</u>	<u>154,248,909</u>	<u>3,918,124</u>
Common stock	<u>20,489,065</u>	<u>848,247</u>	<u>40,549,961</u>	<u>3,482,760</u>	<u>61,039,026</u>	<u>4,331,007</u>
Preferred stock	<u>27,127,230</u>	<u>1,650,702</u>	<u>5,368,531</u>	<u>248,382</u>	<u>32,495,761</u>	<u>1,899,084</u>
Total bonds, common and preferred stock	<u><u>\$ 135,807,014</u></u>	<u><u>\$ 4,488,197</u></u>	<u><u>\$ 111,976,682</u></u>	<u><u>\$ 5,660,018</u></u>	<u><u>\$ 247,783,696</u></u>	<u><u>\$ 10,148,215</u></u>

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

Impairment write-downs of \$1,175,000 were recognized during 2017. The Companies' 2017 write-down consisted of 1 stock. Impairment write-downs of \$1,479,400 were recognized during 2016. The Companies' 2016 write-downs consisted of 5 bonds.

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, 2017 and 2016:

<u>December 31, 2017</u>	Level 1	Level 2	Level 3	Fair value
Bonds	\$ -	\$ 475,321,570	\$ -	\$ 475,321,570
Common stock	920,879,095	-	-	920,879,095
Preferred stock	<u>48,066,856</u>	<u>-</u>	<u>-</u>	<u>48,066,856</u>
Total	<u>\$ 968,945,951</u>	<u>\$ 475,321,570</u>	<u>\$ -</u>	<u>\$ 1,444,267,521</u>

<u>December 31, 2016</u>	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	<u>43,336,389</u>	<u>-</u>	<u>-</u>	<u>43,336,389</u>
Total	<u>\$ 827,245,084</u>	<u>\$ 428,667,360</u>	<u>\$ -</u>	<u>\$ 1,255,912,444</u>

HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES

NOTES TO COMBINED STATUTORY BASIS FINANCIAL STATEMENTS (Continued)

Note C - Investments (continued)

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 2017 and 2016.

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 \$57,707,627 and \$59,005,016, which is 3.1% and 3.3% of admitted assets, at December 31, 2017 and 2016, respectively. These deposits are carried as admitted assets.

Securities with carrying values of \$9,342,263 and \$5,438,245 were on deposit with other insurance companies at December 31, 2017 and 2016, 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, 2017 and 2016. In addition collateral received and reflected as assets within the Company's financial statements under ceded reinsurance treaties were \$27,080,182 and \$47,091,417, which represents 1.4% and 2.7% of admitted assets, at December 31, 2017 and 2016, respectively. These amounts are included within funds held under reinsurance treaties on the accompanying combined balance sheets.

Major categories of the Companies' net investment income for the years ended December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Investment income:		
Bonds	\$ 23,127,876	\$ 20,759,507
Stocks	22,557,488	17,504,477
Cash and short-term investments	35,818	13,498
Investment income - other	<u>111,015</u>	<u>170,779</u>
Gross investment income	45,832,197	38,448,261
Investment expenses	<u>(4,586,891)</u>	<u>(4,238,531)</u>
Net investment income	<u>\$ 41,245,306</u>	<u>\$ 34,209,730</u>

Note D - Federal Income Taxes

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

	<u>2017</u>	<u>2016</u>
Current income tax expense	\$ 7,982,656	\$ 16,322,470
Prior over/under accrual	(1,125,473)	(2,746,568)
Reclassification of tax on realized capital gains	<u>(8,365,506)</u>	<u>(5,065,734)</u>
Federal income tax (benefit) expense	<u>\$ (1,508,323)</u>	<u>\$ 8,510,168</u>

Harco National Insurance Company and Affiliates

Notes to Combined Statutory Basis Financial Statements (Continued)

Note D - Federal Income Taxes (continued)

The components of the net deferred tax asset at December 31, 2017 and 2016 are as follows:

<u>December 31, 2017</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Gross deferred tax assets	\$ 20,015,734	\$ 5,042,613	\$ 25,058,347
Gross deferred tax liabilities	<u>748,096</u>	<u>86,539,059</u>	<u>87,287,260</u>
Net deferred tax asset (liability)	19,267,638	(81,496,446)	(62,228,913)
Non-admitted deferred tax asset	<u>-</u>	<u>-</u>	<u>-</u>
Admitted net deferred tax asset (liability)	<u>\$ 19,267,638</u>	<u>\$ (81,496,446)</u>	<u>\$ (62,228,913)</u>
Change in non-admitted deferred tax asset			<u>\$ -</u>

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

The amount of each component pursuant to SSAP 101 paragraph 11 by tax character at December 31, 2017 and 2016 are as follows:

<u>December 31, 2017</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Can be recovered through loss carrybacks (11.a.)	\$ -	\$ -	\$ -
Less of:			
Expected to be realized following the balance sheet date (11.b.i.)	18,593,085	166,237	18,759,322
Adj. gross DTAs allowed per limit threshold (11.b.ii.)			152,659,478
Adjusted Gross DTAs offset against existing DTLs (11.c.)	<u>1,422,649</u>	<u>4,876,376</u>	<u>6,299,025</u>
DTAs admitted as a result of the application of SSAP 101	<u>\$ 20,015,734</u>	<u>\$ 5,042,613</u>	<u>\$ 25,058,347</u>

<u>December 31, 2016</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
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.)	<u>1,799,608</u>	<u>13,786,166</u>	<u>15,585,774</u>
DTAs admitted as a result of the application of SSAP 101	<u>\$ 27,262,148</u>	<u>\$ 13,786,166</u>	<u>\$ 41,048,314</u>

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

2017	2016
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HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES

Notes to Combined Statutory Basis Financial Statements (Continued)

Note D - Federal Income Taxes (continued)

	Ex DTA ACL RBC Ratio Percentage	Adjusted capital and surplus	Ex DTA ACL RBC Ratio Percentage	Adjusted capital and surplus
HNIC	550%	\$ 204,060,687	567%	\$ 169,176,012
WIC	598%	140,215,531	525%	109,076,350
AIIC	540%	181,630,605	518%	139,832,919
ACIC	582%	67,232,082	848%	55,671,682
CAIC	706%	46,175,791	862%	39,903,294
TGIC	661%	154,434,363	848%	137,101,931
OFC	532%	223,980,794	373%	172,690,315

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, 2017 and 2016, are as follows:

	2017	2016
Deferred tax assets:		
Discounting of unpaid losses and LAE	\$ 5,134,455	\$ 8,575,909
Unearned premiums	12,030,009	14,913,579
Bad debt reserve	4,956	83,194
Premium deposits payable	724,321	1,076,618
Non-admitted assets	1,895,602	2,201,871
Purchase related intangibles	184,940	410,977
Other-than-temporary impairments recognized	5,042,613	13,786,166
Other assets	<u>41,451</u>	-
Gross deferred tax assets	<u>25,058,347</u>	<u>41,048,314</u>
Non-admitted deferred tax assets	<u>-</u>	<u>-</u>
Gross admitted deferred tax asset	<u>25,058,347</u>	<u>41,048,314</u>
 Deferred tax liabilities:		
Unrealized capital gains	86,539,059	101,210,937
Bond discounts	352,775	477,331
Accrued dividends	<u>395,426</u>	<u>651,016</u>
Total deferred tax liabilities	<u>87,287,260</u>	<u>102,339,284</u>
 Net deferred tax liabilities	<u><u>\$ (62,228,913)</u></u>	<u><u>\$ (61,290,970)</u></u>

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, 2017 and 2016.

Deferred federal income taxes arise from temporary differences between the valuation of assets and liabilities as determined for financial reporting purposes and federal income tax purposes and are measured at enacted tax rates. As of December 31, 2016 the Companies' measured its deferred tax items at an effective rate of 35%. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Act) was signed into law. Among other things, the Act reduced the Companies' corporate federal tax rate to a flat 21%. As a result, the Companies' deferred tax items are

Harco National Insurance Company and Affiliates

Notes to Combined Statutory Basis Financial Statements (Continued)

Note D - Federal Income Taxes (continued)

measured at an effective rate of 21% as of December 31, 2017. The amount of the gross deferred tax asset calculated is then reduced for any valuation allowance and an admissibility test. The admissibility test is based on the realization threshold table and other limitations. The Companies also admitted deferred tax assets that can be used to offset against deferred tax liabilities. The Companies' have recorded a tax benefit to surplus of \$41,485,872 due to the re-measurement of the December 31, 2017 deferred tax assets and liabilities.

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

	December 31,		
	2017	2016	Change
Gross deferred tax assets	\$ 25,058,347	\$ 41,048,314	\$ (15,989,967)
Gross deferred tax liabilities	<u>(87,287,260)</u>	<u>(102,339,284)</u>	<u>15,052,024</u>
Net deferred tax liability	<u><u>\$ (62,228,913)</u></u>	<u><u>\$ (61,290,970)</u></u>	<u><u>(937,943)</u></u>
Deferred tax on change in unrealized capital gains and losses			(14,671,878)
Change in net deferred income tax			<u><u>\$ (15,609,821)</u></u>

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, true up of prior-year items and in 2017, the impact of the Act on deferred taxes.

As of December 31, 2017, 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:

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

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.

HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES

Notes to Combined Statutory Basis Financial Statements (Continued)

Note E - Other Underwriting Expenses

The significant components of other underwriting expenses incurred during December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Net commissions and brokerage	\$ 123,410,517	\$ 74,869,125
Allowances to manager and agent	1,919,723	1,010,420
Advertising	673,858	465,742
Board, bureaus and associations	4,527,673	3,254,961
Surveys and underwriting reports	815,590	720,007
Audits of assured's records	181,255	117,058
Salaries and related items	38,888,421	36,548,901
Employee relations and welfare	6,410,718	7,793,005
Insurance	74,102	67,994
Travel and travel items	1,312,475	1,253,313
Rent and rent items	4,313,149	3,796,555
Equipment	2,373,087	5,150,750
Cost or depreciation of EDP equipment and software	108,965	74,824
Printing and Stationery	744,265	678,401
Postage and telephone	943,895	1,009,017
Legal and auditing	2,638,481	2,355,986
Taxes, licenses and fees	<u>22,668,726</u>	<u>21,756,465</u>
Other underwriting expenses incurred	<u>\$ 212,004,900</u>	<u>\$ 160,922,524</u>

Note F - Non-Admitted Assets

The significant components of non-admitted assets as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Premiums receivable	\$ 1,084,416	\$ 2,239,727	\$ (1,155,311)
Prepaid balances	3,942,313	1,805,365	2,136,948
Other non-admitted assets	<u>3,656,502</u>	<u>1,577,015</u>	<u>2,079,487</u>
Totals	<u>\$ 8,683,231</u>	<u>\$ 5,622,107</u>	<u>\$ 3,061,124</u>

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, 2017 and 2016, 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.

HARCO NATIONAL INSURANCE COMPANY AND AFFILIATES

Notes to Combined Statutory Basis Financial Statements (Continued)

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 \$4,546,338 and \$4,559,112 during the years ended December 31, 2017 and 2016, respectively. Minimum future rental commitments are as follows:

Year	Amount
2018	\$ 3,137,704
2019	2,658,120
2020	2,300,953
2021	2,548,278
2022	<u>186,366</u>
	<u>\$ 10,831,421</u>

Note H - Employee Benefits

The Companies' employees are eligible to participate in a defined contribution savings and profit sharing plan sponsored by IIG. Contributions of up to 7% of each eligible employee's annual compensation were made during 2017 and 2016. In addition, contributions are made to the profit sharing portion of this plan at the discretion of IIG based on each eligible employee's annual compensation. Expenses incurred during the years ended December 31, 2017 and 2016 amounted to \$4,299,637 and \$5,946,857, respectively. As of December 31, 2017 and 2016, the Company has accrued a liability of \$2,192,677 and \$2,143,550, 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.

Harco National Insurance Company and Affiliates

Notes to Combined Statutory Basis Financial Statements (Continued)

Note I - Related Party Transactions (continued)

Amounts due to and from the Companies by affiliates at December 31, 2017 and 2016 are disclosed in the following table. The intercompany agreements require that balances are settled within ninety days of month end.

Due (to) from:	2017	2016
McM Corporation	\$ 112,851	\$ 5,296,503
Harco Transportation Services, Inc.	(130,765)	(130,765)
Harco Insurance Services, Inc.	(193,166)	(193,166)
IAT Reinsurance Company Ltd.	(1,208,835)	(1,947,864)
Service Insurance Company	(6,171,503)	(1,987,896)
Agrilogic Insurance Services, LLC	-	246,191
National Association of Independent Truckers, LLC	(99,618)	(111,224)
Equity American Financial Services, Inc.	829,696	112,890
Equity American General Agency, Inc.	3,386	1,623,075
Equity Holdings	(196)	-
Agrilogic Consulting	-	2,191
Claimguard, Inc.	(72,858)	(72,858)
Vanguard Insurance Agency, Inc.	17,225	150
Transguard General Agency, Inc.	(5,185,983)	(793,291)
Truckers Helping Truckers	(155)	(118)
Safe Insurance Management Group, Inc.	5,992	-
	<u>\$ (12,093,929)</u>	<u>\$ 2,043,818</u>

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 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
Beecher Carlson 8390 E Crescent Parkway, Suite 200 Greenwood Village, CO 80111	95-3679538	No	Inland Marine	P, CA, C	\$ 96,828,190

Harco National Insurance Company and Affiliates

Notes to Combined Statutory Basis Financial Statements (Continued)

Note K - Capital and Surplus

Under Illinois insurance regulations, TGC 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 AIC 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 2018 is \$76,410,645. The Companies may distribute additional dividends with the prior approval of the Departments. The Companies paid dividends of \$0 and \$16,700,000 during 2017 and 2016, respectively.

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

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, 2017 and 2016, 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, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Unrealized gains and losses on investments, gross of capital gains tax	\$ 412,091,258	\$ 289,144,104
Non-admitted assets	(8,683,231)	(5,622,107)
Provision for reinsurance	(90,861)	(22,861)

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

	As of December 31, 2017								
	<u>HNIC</u>	<u>WIC</u>	<u>AIIC</u>	<u>ACIC</u>	<u>CAIC</u>	<u>TGIC</u>	<u>OFC</u>	<u>Eliminations</u>	<u>Total</u>
Admitted assets									
Bonds	\$ 65,616,533	\$ 84,661,318	\$ 55,290,791	\$ 22,119,742	\$ 38,810,617	\$ 143,251,066	\$ 55,109,210	\$ -	\$ 464,859,277
Preferred stocks	6,666,888	7,401,613	8,900,813	8,108,544	4,185,549	8,392,095	3,987,443	-	47,642,945
Common stocks	233,439,306	177,211,239	236,040,479	79,143,869	41,136,753	144,241,606	263,291,734	(253,625,891) (a)	920,879,095
Cash and short-term investments	10,782,200	5,117,204	3,779,018	19,180,333	6,588,940	28,695,579	9,162,419	-	83,305,693
Other invested assets	10,786,193	2,696,548	2,696,548	1,348,274	-	6,741,371	3,096,548	-	27,365,482
Receivables for securities	-	982,387	519,131	257,994	-	773,982	-	-	2,533,494
Total cash and invested assets	327,291,120	278,070,309	307,226,780	130,158,756	90,721,859	332,095,699	334,647,354	(253,625,891)	1,546,585,986
Accrued interest and dividends	1,170,949	1,540,678	1,077,734	462,266	598,250	1,582,733	946,745	-	7,379,355
Agents' balances and uncollected premium	150,818,485	15,849,073	12,708,493	10,968,331	6,122,910	31,640,331	63,220,519	(73,776,930) (d)	217,551,212
Reinsurance recoverable on paid losses and loss adjustment expenses	73,033,748	29,459,823	8,148,421	288,148	998,328	3,398,565	55,149,424	(99,862,852) (d)	70,613,605
Funds held by or deposited with reinsured companies	9,084,281	53,736	13,606	-	-	-	190,640	-	9,342,263
Current federal income taxes recoverable	3,122,178	2,451,284	1,462,481	862,455	326,588	3,772,253	2,327,872	-	14,325,111
EDP equipment and software	-	-	-	-	2,483	-	450	-	2,933
Receivable from affiliates	41,582,059	3,351,746	-	19,738,424	6,778,452	16,677,965	17,327,465	(104,486,961) (c)	969,150
Other assets	35,002	313,612	-	-	-	339,410	518,057	-	1,206,081
Total admitted assets	<u>\$ 606,137,822</u>	<u>\$ 331,090,261</u>	<u>\$ 330,637,515</u>	<u>\$ 162,478,380</u>	<u>\$ 105,548,870</u>	<u>\$ 389,506,956</u>	<u>\$ 474,328,526</u>	<u>\$ (531,752,634)</u>	<u>\$ 1,867,975,696</u>

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	\$ 103,389,434	\$ 74,170,680	\$ 58,887,024	\$ 40,456,735	\$ 29,218,753	\$ 100,242,800	\$ 43,153,850	\$ -	\$ 449,519,276
Reserve for loss adjustment expenses	15,971,996	11,458,173	9,097,095	6,249,913	4,513,827	15,485,894	6,666,574	-	69,443,472
Reinsurance payable on paid losses and loss adjustment expenses	61,069,000	-	-	15,415,000	2,560,346	28,025,541	-	(99,862,852) (d)	7,207,035
Commissions payable and other similar charges	7,190,295	3,635,747	2,943,692	844,998	1,057,550	3,327,483	10,302,235	-	29,302,000
Other expenses payable	286,136	170,911	325,182	56,573	493,345	1,019,775	5,267,444	-	7,619,366
Taxes, licenses and fees payable	1,008,647	89,684	107,690	6,522	-	420,936	5,027,751	-	6,661,230
Net deferred tax liability	13,786,036	15,216,975	12,683,477	4,889,588	1,902,670	5,857,999	7,892,168	-	62,228,913
Unearned premium	65,878,618	47,260,748	37,522,171	25,778,590	18,617,871	63,873,617	27,497,163	-	286,428,778
Advanced premiums	648,805	43,396	-	1	-	798,993	2,844,872	-	4,336,067
Ceded premiums payable	80,748,000	4,933,000	6,683,000	1,085,000	(1,191)	3,908,316	86,660,000	(73,776,930) (d)	110,239,195
Amounts withheld for account of others	1,874,142	-	-	-	100,000	3,902,844	-	-	5,876,986
Funds held under reinsurance treaties	11,539,000	1,781,000	4,535,000	159,000	22,182	-	9,044,000	-	27,080,182
Remittances and items not allocated	-	-	-	-	232,358	-	-	-	232,358
Provision for reinsurance	-	-	-	-	-	22,861	68,000	-	90,861
Payable to affiliates	38,357,937	18,088,648	15,433,499	1,912	652,554	5,761,953	39,253,537	(104,486,961) (c)	13,063,079
Payable for securities	-	-	504,000	302,184	-	864,000	-	-	1,670,184
Deposits Payable	-	13,750,061	-	-	-	-	1,956,674	-	15,706,735
Other liabilities	329,089	275,707	285,080	279	330	1,559,581	4,713,464	-	7,163,530
Total liabilities	402,077,135	190,874,730	149,006,910	95,246,295	59,370,595	235,072,593	250,347,732	(278,126,743)	1,103,869,247
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	138,521,614	101,084,107	163,017,460	33,017,315	24,852,600	111,206,863	101,916,648	(158,954,022) (a)	514,662,585
Total capital and surplus	204,060,687	140,215,531	181,630,605	67,232,085	46,178,275	154,434,363	223,980,794	(253,625,891)	764,106,449
Total liabilities, capital and surplus	\$ 606,137,822	\$ 331,090,261	\$ 330,637,515	\$ 162,478,380	\$ 105,548,870	\$ 389,506,956	\$ 474,328,526	\$ (531,752,634)	\$ 1,867,975,696

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

	As of December 31, 2016								Total
	HNIC	WIC	AIIC	ACIC	CAIC	TGIC	OFC	Eliminations	
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	<u>8,422,459</u>	<u>2,105,615</u>	<u>2,105,615</u>	<u>1,052,807</u>	<u>-</u>	<u>5,264,037</u>	<u>2,505,615</u>	<u>-</u>	<u>21,456,148</u>
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	<u>33,364</u>	<u>546,347</u>	<u>297,554</u>	<u>-</u>	<u>90,312</u>	<u>203,623</u>	<u>63,182,766</u>	<u>-</u>	<u>64,353,966</u>
Total admitted assets	<u><u>\$ 437,050,033</u></u>	<u><u>\$ 291,606,987</u></u>	<u><u>\$ 297,366,846</u></u>	<u><u>\$ 112,449,821</u></u>	<u><u>\$ 83,121,940</u></u>	<u><u>\$ 299,191,980</u></u>	<u><u>\$ 602,812,300</u></u>	<u><u>\$ (351,488,015)</u></u>	<u><u>\$ 1,772,111,892</u></u>

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

	<u>HNIC</u>	<u>WIC</u>	<u>AIIC</u>	<u>ACIC</u>	<u>CAIC</u>	<u>TGIC</u>	<u>OFC</u>	<u>Eliminations</u>	<u>Total</u>
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
Capital and surplus:									
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
Statements of Operations - Statutory Basis

	Year ended December 31, 2017							
	<u>HNIC</u>	<u>WIC</u>	<u>AIIC</u>	<u>ACIC</u>	<u>CAIC</u>	<u>TGIC</u>	<u>OFC</u>	<u>Total</u>
Underwriting income								
Premium earned	\$ 139,204,332	\$ 99,859,023	\$ 79,425,837	\$ 54,497,662	\$ 39,350,655	\$ 134,900,327	\$ 58,033,870	\$ 605,271,706
Deductions:								
Losses incurred	84,558,326	60,661,402	48,161,479	33,088,039	23,896,916	81,984,806	35,293,905	367,644,873
Loss adjustment expenses incurred	17,516,851	12,566,436	9,976,989	6,854,419	4,950,415	16,983,729	7,311,382	76,160,221
Other underwriting expenses incurred	48,978,219	33,967,897	26,526,951	18,770,012	13,627,444	47,565,176	22,569,201	212,004,900
Aggregate write-ins for underwriting deductions	606,924	191,118	7,736	4,964	38,500	-	7,250	856,492
Total underwriting deductions	<u>151,660,320</u>	<u>107,386,853</u>	<u>84,673,155</u>	<u>58,717,434</u>	<u>42,513,275</u>	<u>146,533,711</u>	<u>65,181,738</u>	<u>656,666,486</u>
Net underwriting loss	(12,455,988)	(7,527,830)	(5,247,318)	(4,219,772)	(3,162,620)	(11,633,384)	(7,147,868)	(51,394,780)
Investment income								
Net investment income earned	6,975,664	7,593,608	5,591,324	2,831,371	3,005,306	8,027,558	7,220,475	41,245,306
Net realized gains, net of tax	4,217,787	5,984,009	7,569,297	1,492,389	1,348,963	2,855,045	7,319,267	30,786,757
Net investment gain	<u>11,193,451</u>	<u>13,577,617</u>	<u>13,160,621</u>	<u>4,323,760</u>	<u>4,354,269</u>	<u>10,882,603</u>	<u>14,539,742</u>	<u>72,032,063</u>
Other income (expense)								
Net gain from agents' or uncollected balances charged off	(80,697)	(294,887)	(785,558)	9,134	(536)	(51,431)	(263,540)	(1,467,515)
Finance charges not included in premiums	1,707,697	39,991	365	-	114,149	578,366	1,049,365	3,489,933
Other miscellaneous income	5,499	6,654	-	-	368	545,044	1,768,399	2,325,964
Total other income (loss)	<u>1,632,499</u>	<u>(248,242)</u>	<u>(785,193)</u>	<u>9,134</u>	<u>113,981</u>	<u>1,071,979</u>	<u>2,554,224</u>	<u>4,348,382</u>
Net income before federal income taxes	369,962	5,801,545	7,128,110	113,122	1,305,630	321,198	9,946,098	24,985,665
Federal income tax (expense) benefit	<u>864,960</u>	<u>394,885</u>	<u>141,916</u>	<u>189,374</u>	<u>(300,143)</u>	<u>(112,278)</u>	<u>329,609</u>	<u>1,508,323</u>
Net income	<u>\$ 1,234,922</u>	<u>\$ 6,196,430</u>	<u>\$ 7,270,026</u>	<u>\$ 302,496</u>	<u>\$ 1,005,487</u>	<u>\$ 208,920</u>	<u>\$ 10,275,707</u>	<u>\$ 26,493,988</u>

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	<u>121,906,408</u>	<u>85,941,713</u>	<u>68,362,974</u>	<u>47,077,462</u>	<u>34,091,952</u>	<u>117,593,680</u>	<u>53,699,426</u>	<u>528,673,615</u>
Net underwriting loss	<u>(3,101,167)</u>	<u>(724,004)</u>	<u>(354,982)</u>	<u>(525,051)</u>	<u>(491,469)</u>	<u>(2,568,273)</u>	<u>(4,278,722)</u>	<u>(12,043,668)</u>
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	<u>11,592,822</u>	<u>7,479,632</u>	<u>7,682,984</u>	<u>2,652,589</u>	<u>3,676,178</u>	<u>7,099,996</u>	<u>6,930,070</u>	<u>47,114,271</u>
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	<u>1,386,485</u>	<u>25,506</u>	<u>-</u>	<u>63,650</u>	<u>154,742</u>	<u>330,621</u>	<u>1,351,775</u>	<u>3,312,779</u>
Total other income (loss)	<u>1,949,189</u>	<u>(106,851)</u>	<u>(304,447)</u>	<u>73,569</u>	<u>165,492</u>	<u>1,481,977</u>	<u>3,797,148</u>	<u>7,056,077</u>
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	<u>(1,333,072)</u>	<u>(2,100,036)</u>	<u>(480,534)</u>	<u>(1,546,267)</u>	<u>(1,275,668)</u>	<u>(3,014,733)</u>	<u>1,240,142</u>	<u>(8,510,168)</u>
Net income	<u>\$ 9,107,772</u>	<u>\$ 4,548,741</u>	<u>\$ 6,543,021</u>	<u>\$ 654,840</u>	<u>\$ 2,074,533</u>	<u>\$ 2,998,967</u>	<u>\$ 7,688,638</u>	<u>\$ 33,616,512</u>

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.

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2017
 (To Be Filed by April 1)

Of The Pool Company.....

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

NAIC Group Code 1111 NAIC Company Code 11111 Federal Employer's Identification Number (FEIN) 12-3456789

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.\$ 2,044,420,162

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	BOEING CO	COMMON	\$ 48,866,587	2.4 %
2.02	MERCER INTERNATIONAL INC	COMMON	\$ 42,971,500	2.1 %
2.03	NAM TAI PROPERTY INC	COMMON	\$ 39,093,250	1.9 %
2.04	TWENTY-FIRST CENTURY FOX INC	COMMON	\$ 36,081,900	1.8 %
2.05	APPLE INC	COMMON	\$ 34,087,153	1.7 %
2.06	GOLDMAN SACHS GROUP INC	COMMON	\$ 33,061,479	1.6 %
2.07	VOLKSWAGEN GROUP ADR	COMMON	\$ 32,249,860	1.6 %
2.08	CORNING INC	COMMON	\$ 28,904,565	1.4 %
2.09	JACOBS ENGINEERING GR INC	COMMON	\$ 28,903,672	1.4 %
2.10	WALT DISNEY CO	COMMON	\$ 28,576,158	1.4 %

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 \$ 150,842,104	7.4 %	P/RP-1 \$ 1,253,839	0.1 %
3.02	NAIC-2 \$ 233,221,115	11.4 %	P/RP-2 \$ 30,966,219	1.5 %
3.03	NAIC-3 \$ 82,890,566	4.1 %	P/RP-3 \$ 13,407,129	0.7 %
3.04	NAIC-4 \$ 21,462,712	1.0 %	P/RP-4 \$ 2,009,440	0.1 %
3.05	NAIC-5 \$ 0	0.0 %	P/RP-5 \$ 0	0.0 %
3.06	NAIC-6 \$ 0	0.0 %	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.....	\$ 220,654,055	10.8 %
4.03	Foreign-currency-denominated investments	\$ 0	0.0 %
4.04	Insurance liabilities denominated in that same foreign currency	\$ 0	0.0 %

SUPPLEMENT FOR THE YEAR 2017 OF THE Pool Company

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		\$ 39,093,250	1.9 %
10.02 VOLKSWAGEN GROUP ADR	U		\$ 32,249,860	1.6 %
10.03 CHUBB LTD	L		\$ 25,775,871	1.3 %
10.04 SEAGATE TECHNOLOGY	L		\$ 19,099,960	0.9 %
10.05 ANNHEUSER-BUSCH INBEV	L		\$ 16,231,980	0.8 %
10.06 ALLEGEN PLC	L		\$ 12,147,451	0.6 %
10.07 BARCLAYS BANK PLC	2FE		\$ 5,000,000	0.2 %
10.08 CENTAUR FUNDING CORP	L		\$ 4,860,435	0.2 %
10.09 MFC BANCORP LTD	1FE		\$ 4,821,644	0.2 %
10.10 CREDIT SUISSE NASSAU	2FE		\$ 3,518,897	0.2 %

SUPPLEMENT FOR THE YEAR 2017 OF THE Pool Company

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	\$ 10,158,214	0.5 %	
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 BOEING CO	\$ 48,866,587	2.4 %	
13.03 MERCER INTERNATIONAL INC	\$ 42,971,500	2.1 %	
13.04 NAM TAI PROPERTY INC	\$ 39,093,250	1.9 %	
13.05 TWENTY-FIRST CENTURY FOX INC	\$ 36,081,900	1.8 %	
13.06 APPLE INC	\$ 34,087,153	1.7 %	
13.07 GOLDMAN SACHS GROUP INC	\$ 33,061,479	1.6 %	
13.08 VOLKSWAGEN GROUP ADR	\$ 32,249,860	1.6 %	
13.09 CORNING INC	\$ 28,904,565	1.4 %	
13.10 JACOBS ENGINEERING GR INC	\$ 28,903,672	1.4 %	
13.11 WALT DISNEY CO	\$ 28,576,158	1.4 %	

SUPPLEMENT FOR THE YEAR 2017 OF THE Pool Company

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 [] No [X]

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	\$ 26,965,482	1.3 %
Largest three investments in general partnership interests:		
15.03 PRINCE STREET OPPORTUNITIES ONSHORE LP	\$ 26,965,482	1.3 %
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 %

SUPPLEMENT FOR THE YEAR 2017 OF THE Pool Company

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:

Loan to Value	Residential		Commercial		Agricultural	
	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	MACK CALI REALTY LP		\$ 2,244,681	.....0.1 %
18.03	CARE CAPITAL PROPERTIES		\$ 2,030,123	.....0.1 %
18.04	EPR PROPERTIES		\$ 2,004,660	.....0.1 %
18.05	LEXINGTON REALTY TRUST		\$ 1,999,146	.....0.1 %
18.06	CBL ASSOCIATES LP		\$ 1,926,573	.....0.1 %

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 %

SUPPLEMENT FOR THE YEAR 2017 OF THE Pool Company

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		3rd Quarter 5
	1	2	1st Quarter 3	2nd Quarter 4	
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		4
	1	2	3	4	
21.01 Hedging	\$0	0.0 %	\$0	\$0	0.0 %
21.02 Income generation	\$0	0.0 %	\$0	\$0	0.0 %
21.03 Other	\$0	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		3rd Quarter 5
	1	2	1st Quarter 3	2nd Quarter 4	
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		3rd Quarter 5
	1	2	1st Quarter 3	2nd Quarter 4	
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

ANNUAL STATEMENT FOR THE YEAR 2017 OF THE Pool Company
SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities	31,166,649	2.016	31,166,649	0	31,166,649	2.015
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	1,103,863	0.071	1,103,863	0	1,103,863	0.071
1.43 Revenue and assessment obligations	6,228,058	0.403	6,228,058	0	6,228,058	0.403
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	526,496	0.034	526,496	0	526,496	0.034
1.512 Issued or guaranteed by FNMA and FHLMC	3,075,938	0.199	3,075,938	0	3,075,938	0.199
1.513 All other	946,443	0.061	946,443	0	946,443	0.061
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	4,064,503	0.263	4,064,503	0	4,064,503	0.263
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	1,853,599	0.120	1,853,599	0	1,853,599	0.120
1.523 All other	13,495,589	0.873	13,495,589	0	13,495,589	0.873
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	323,988,676	20.954	323,988,676	0	323,988,676	20.949
2.2 Unaffiliated non-U.S. securities (including Canada)	78,409,463	5.071	78,409,463	0	78,409,463	5.070
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	47,642,945	3.081	47,642,945	0	47,642,945	3.081
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated	1	0.000	.1	0	.1	0.000
3.32 Unaffiliated	920,879,095	59.558	920,879,095	0	920,879,095	59.543
3.4 Other equity securities:						
3.41 Affiliated	0	0.000	0	0	0	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	2,533,494	0.164	2,533,494	0	2,533,494	0.164
9. Securities Lending (Line 10, Asset Page reinvested collateral).....	0	0.000	0	XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	83,305,693	5.388	83,305,693	0	83,305,693	5.386
11. Other invested assets	26,965,482	1.744	27,365,482	0	27,365,482	1.769
12. Total invested assets	1,546,185,987	100.000	1,546,585,987	0	1,546,585,987	100.000

**SUPPLEMENT FOR THE YEAR 2017 OF THE ACCEPTANCE CASUALTY INSURANCE COMPANY
REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)**

For The Year Ended December 31, 2017

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	162,478,380	(4,623,637)	167,102,017
A02. Liabilities	95,246,295	(5,190,959)	100,437,254
A03. Surplus as regards to policyholders	67,232,082	567,322	66,664,760
A04. Income before taxes	113,122	168,304	(55,182)

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
<p>Effective Date: January 1, 2003 Type of Treaty: 20% quota share Ceding Commission: 33.9% 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.</p>	<p>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.</p>
<p>Effective Date: January 1, 2008 Expiration Date: December 31, 2015 Type of Treaty: Commercial Auto Liability 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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>Effective Date: June 1, 2017 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 (50.08%) 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.</p>	<p>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.</p>

- 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.

**SUPPLEMENT FOR THE YEAR 2017 OF THE ACCEPTANCE INDEMNITY INSURANCE COMPANY
REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)**

For The Year Ended December 31, 2017

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	330,637,515	(24,021,897)	354,659,412
A02. Liabilities	149,006,910	(27,120,557)	176,127,467
A03. Surplus as regards to policyholders	181,630,605	3,098,660	178,531,945
A04. Income before taxes	7,128,110	2,400,874	4,727,236

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
<p>Effective Date: January 1, 2003 Type of Treaty: 20% quota share Ceding Commission: 33.9% 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.</p>	<p>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.</p>
<p>Effective Date: January 1, 2008 Expiration Date: December 31, 2015 Type of Treaty: Commercial Auto Liability 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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>Effective Date: June 1, 2017 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 (50.08%) 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.</p>	<p>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.</p>

- 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.

**SUPPLEMENT FOR THE YEAR 2017 OF THE Commercial Alliance Insurance Company
REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)**

For The Year Ended December 31, 2017

To Be Filed by March 1

(A) Financial Impact

	1 As Reported	2 Interrogatory 9 Reinsurance Effect	3 Restated Without Interrogatory 9 Reinsurance
NONE			
A01. Assets			
A02. Liabilities			
A03. Surplus as regards to policyholders			
A04. Income before taxes			

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
NONE	NONE

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.

**SUPPLEMENT FOR THE YEAR 2017 OF THE HARCO NATIONAL INSURANCE COMPANY
REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)**

For The Year Ended December 31, 2017

To Be Filed by March 1

(A) Financial Impact

(A) Financial Impact	1 As Reported	2 Interrogatory 9 Reinsurance Effect	3 Restated Without Interrogatory 9 Reinsurance
A01. Assets	606,137,822	(60,899,090)	..667,036,912
A02. Liabilities	402,077,135	(77,898,958)	..479,976,093
A03. Surplus as regards to policyholders	204,060,687	16,999,868	..187,060,819
A04. Income before taxes	369,962	17,734,064	(17,364,102)

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
<p>Effective Date: January 1, 2003 Type of Treaty: 20% quota share(specialty programs surety at 100%) Ceding Commission: 34.91% 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.</p>	<p>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.</p>
<p>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 direct and assumed premium written by IAT based on its most recently available financial statement.</p>	<p>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.</p>
<p>Effective Date: January 1, 2008 Expiration Date: December 31, 2015 Type of Treaty: Commercial Auto Liability 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.</p>	<p>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.</p>
<p>Effective Date: June 1, 2017 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 (50.08%) 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.</p>	<p>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.</p>
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- 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.

SUPPLEMENT FOR THE YEAR 2017 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, 2017

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	474,328,526	(52,536,011)	526,864,537
A02. Liabilities	250,347,732	(62,073,439)	312,421,171
A03. Surplus as regards to policyholders	223,980,794	9,537,428	214,443,366
A04. Income before taxes	9,946,098	(21,382,725)	31,328,823

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
<p>Effective Date: January 1, 2002</p> <p>Type of Treaty: 20% quota share (certain lines at 100%)</p> <p>Ceding Commission: 34.0%</p> <p>Collateral: Ceded liabilities fully collateralized by security trust</p> <p>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.</p>	<p>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.</p>
<p>Effective Date: January 1, 2008</p> <p>Expiration Date: December 31, 2015</p> <p>Type of Treaty: Commercial Auto Liability Excess of Loss</p> <p>Cover: \$700,000 xs of \$300,000</p> <p>Collateral: Ceded liabilities fully collateralized by security trust.</p> <p>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.</p>	<p>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.</p>
<p>Effective Date: January 1, 2014</p> <p>Type of Treaty: Public Auto Excess of Loss</p> <p>Cover: \$3,500,000 xs of \$1,500,000 (40%)</p> <p>Collateral: Ceded liabilities fully collateralized by security trust.</p> <p>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.</p>	<p>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.</p>
<p>Effective Date: June 1, 2016</p> <p>Type of Treaty: Property Catastrophe Excess of Loss</p> <p>Cover: \$15,000,000 xs of \$5,000,000 (100%)</p> <p>\$30,000,000 xs of \$20,000,000 (46.08%)</p> <p>\$80,000,000 xs of \$50,000,000 (4%)</p> <p>Collateral: Ceded liabilities fully collateralized by security trust.</p> <p>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.</p>	<p>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.</p>
<p>Effective Date: June 1, 2017</p> <p>Type of Treaty: Property Catastrophe Excess of Loss</p> <p>Cover: \$15,000,000 xs of \$5,000,000 (100%)</p> <p>\$30,000,000 xs of \$20,000,000 (50.08%)</p> <p>Collateral: Ceded liabilities fully collateralized by security trust.</p> <p>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.</p>	<p>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.</p>

- 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.

SUPPLEMENT FOR THE YEAR 2017 OF THE TRANSGUARD INSURANCE COMPANY OF
AMERICA, INC.

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

For The Year Ended December 31, 2017

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	389,506,956	(16,005,390)	389,506,956
A02. Liabilities	235,072,593	(18,097,519)	235,072,593
A03. Surplus as regards to policyholders	154,434,363	2,092,128	152,342,235
A04. Income before taxes	321,198	(2,025,284)	2,346,482

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
<p>Effective Date: December 31, 2005</p> <p>Type of Treaty: 20% quota share Ceding Commission: 33.9%</p> <p>Collateral: Ceded liabilities fully collateralized by security trust</p> <p>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.</p>	<p>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.</p>
<p>Effective Date: June 1, 2016</p> <p>Type of Treaty: Property Catastrophe Excess of Loss</p> <p>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%)</p> <p>Collateral: Ceded liabilities fully collateralized by security trust</p> <p>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.</p>	<p>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.</p>
<p>Effective Date: June 1, 2017</p> <p>Type of Treaty: Property Catastrophe Excess of Loss</p> <p>Cover: \$15,000,000 xs of \$5,000,000 (100%) \$30,000,000 xs of \$20,000,000 (50.08%)</p> <p>Collateral: Ceded liabilities fully collateralized by security trust</p> <p>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.</p>	<p>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.</p>

- 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.

**SUPPLEMENT FOR THE YEAR 2017 OF THE WILSHIRE INSURANCE COMPANY
REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)**

For The Year Ended December 31, 2017

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	334,547,498	(33,805,114)	368,352,612
A02. Liabilities	194,331,967	(35,858,042)	230,190,009
A03. Surplus as regards to policyholders	140,215,531	2,052,928	138,162,603
A04. Income before taxes	5,801,545	10,825,177	(5,023,632)

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
<p>Effective Date: July 1, 2002 Type of Treaty: 20% quota share (certain lines at 100%) Ceding Commission: 33.9% 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.</p>	<p>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.</p>
<p>Effective Date: January 1, 2008 Expiration Date: December 31, 2015 Type of Treaty: Commercial Auto Liability 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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>Effective Date: June 1, 2017 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 (50.08%) 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.</p>	<p>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.</p>

- 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.