IAT Reinsurance Company, Ltd.

Audited Consolidated Financial Statements

Year ended December 31, 2017
with Report of Independent Auditors

IAT Reinsurance Company, Ltd.

Consolidated Audited Financial Statements

Years ended December 31, 2017 and 2016

Contents

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Independent Auditor's Report

To the Board of Directors
IAT Reinsurance Company, Ltd.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of IAT Reinsurance Company, Ltd. ("the Company"), which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with accounting principles 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and its financial performance and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

RSM Cayman Ltd.

Grand Cayman, Cayman Islands
June 29, 2018

IAT Reinsurance Company, Ltd.

Consolidated Balance Sheets

	As of December 31, 2017	As of December 31, 2016
Assets		
Bonds	$ 508,707,119	$ 462,108,274
Preferred stocks	50,616,649	45,067,788
Common stocks	1,483,870,721	1,233,332,680
Short-term investments	29,451,176	15,857,428
Investment in affiliate	-	694,366
Real estate	-	28,881,664
Other investments	73,401,825	74,130,632
Receivable for securities	3,064,876	-
Cash and cash equivalents	84,160,149	56,044,878
Total investments	2,233,272,515	1,916,117,710
Accrued investment income	10,221,552	10,594,064
Premiums and commissions receivable	236,731,492	181,414,240
Reinsurance recoverable on losses and loss adjustment expenses		
Paid	69,177,042	183,073,304
Unpaid	212,788,912	354,157,333
Prepaid expenses and deposits	3,811,758	1,886,092
Prepaid reinsurance premiums	57,562,303	51,468,235
Deferred policy acquisition costs	105,573,077	74,673,023
Property and equipment, net	2,886,417	8,715,976
Goodwill	59,156,365	59,156,365
Federal income taxes receivable	5,437,852	89,049,085
Due from affiliates	8,518,907	12,800,678
Funds held by ceding reinsurers	26,524,341	11,751,491
Receivable - FCIC	29,173	62,947,452
Loans to unconsolidated affiliates	12,461,946	12,127,999
Related party loans	-	34,877,149
Other assets	1,619,902	24,237,101
Total assets	$ 3,045,773,554	$ 3,089,047,297

See accompanying notes to the consolidated financial statements

IAT Reinsurance Company, Ltd.

Consolidated Balance Sheets (Continued)

	As of December 31, 2017	2016
Liabilities and shareholder's equity		
Liabilities:		
Losses and loss adjustment expenses	$ 965,318,552	$ 1,097,687,466
Unearned premiums	464,788,905	367,700,129
Reinsurance payable	134,653,382	303,408,817
Premium deposits payable	15,706,735	15,369,178
Deferred tax liability	108,230,751	101,747,156
Compensation commitments	62,013,616	63,753,955
Other liabilities	50,813,259	72,205,712
Total liabilities	1,801,525,200	2,021,872,413
Shareholder's equity:		
Class A - voting stock	100,005	100,005
Class B - nonvoting stock	20,000	20,000
Additional paid in capital	11,051,603	11,051,603
Equity notes	2,792,608	3,320,822
Accumulated other comprehensive income	570,546,814	326,091,562
Retained earnings	659,737,324	726,590,892
Total shareholder's equity	1,244,248,354	1,067,174,884
Total liabilities and shareholder's equity	$ 3,045,773,554	$ 3,089,047,297

See accompanying notes to the consolidated financial statements

IAT Reinsurance Company, Ltd.

Consolidated Statements of Comprehensive Income

	Years ended December 31, 2017	2016
Revenues		
Premiums earned, net	$ 893,642,580	$ 777,470,051
Commissions and other income	8,023,194	11,042,664
Net investment income earned	57,910,946	86,299,705
Realized investment gain	55,833,791	26,096,179
Total revenues	1,015,410,511	900,908,599
Losses and expenses		
Losses and loss adjustment expenses incurred, net	609,280,978	536,377,370
Commissions expense	224,894,384	161,688,379
Selling, general and administrative expenses	55,583,638	86,738,977
Depreciation expense	1,459,712	1,912,890
Total expenses	891,218,712	786,717,616
Income before income tax expense	124,191,799	114,190,983
Income taxes:		
Current expense (benefit)	25,615,898	(18,856,781)
Deferred (benefit) expense	(66,185,335)	31,372,982
Total income tax (benefit) expense	(40,569,437)	12,516,201
Net income	164,761,236	101,674,782
Other comprehensive income - (benefit):		
Unrealized holding gains on securities, net of deferred income tax expense of $(92,728,967) and $(98,684,109), in 2017 and 2016, respectively	181,463,804	32,486,849
Reclassification adjustment, net of income tax expense of $19,541,827 in 2017 and $9,094,529 in 2016, respectively	(36,291,964)	(16,889,840)
Other comprehensive income	145,171,840	15,597,009
Total comprehensive income	$ 309,933,076	$ 117,271,791

See accompanying notes to the consolidated financial statements

IAT Reinsurance Company, Ltd.

Consolidated Statements of Changes in Shareholder's Equity

	Class A - voting stock	Class B - nonvoting stock	Additional paid-in capital	Equity notes	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance as of January 1, 2016	$ 100,005	$ 20,000	$ 11,051,603	$ 5,115,710	$ 310,494,553	$ 625,241,971	$ 952,023,842
Net income	-	-	-	-	-	101,674,782	101,674,782
Dividends	-	-	-	-	-	(325,861)	(325,861)
Equity notes redeemed	-	-	-	(1,794,888)	-	-	(1,794,888)
Other comprehensive income	-	-	-	-	15,597,009	-	15,597,009
Balance as of December 31, 2016	100,005	20,000	11,051,603	3,320,822	326,091,562	726,590,892	1,067,174,884
Net income	-	-	-	-	-	164,761,236	164,761,236
Dividends	-	-	-	-	-	(132,331,392)	(132,331,392)
Equity notes redeemed	-	-	-	(528,214)	-	-	(528,214)
Legislative rate change	-	-	-	-	99,283,412	(99,283,412)	-
Other comprehensive income	-	-	-	-	145,171,840	-	145,171,840
Balance as of December 31, 2017	$ 100,005	$ 20,000	$ 11,051,603	$ 2,792,608	$ 570,546,814	$ 659,737,324	$ 1,244,248,354

See accompanying notes to the consolidated financial statements

IAT Reinsurance Company, Ltd.

Consolidated Statements of Cash Flows

	Years ended December 31,	
	2017	2016
Cash flows from operating activities		
Net income	$ 164,761,236	$ 101,674,782
Adjustments to reconcile net income to the net cash provided by operating activities:		
Depreciation	1,459,712	1,912,890
Amortization of bonds	1,437,996	1,116,271
Net realized investment (gains)	(55,833,791)	(25,984,369)
Provision for deferred income taxes	(66,185,335)	31,372,982
Change in operating assets and liabilities:		
Accrued investment income	(767,488)	(1,483,517)
Premiums and commissions receivable	(55,317,252)	19,740,607
Reinsurance recoverable on paid losses	255,264,683	(82,306,431)
Prepaid reinsurance premiums	(5,756,511)	3,552,794
Deferred policy acquisition costs	(30,900,054)	(13,754,464)
Due from affiliates	(18,510,599)	(23,704,678)
Federal income taxes receivable	83,611,233	(84,787,935)
Prepaid expenses	(1,925,666)	(888,499)
Other assets	55,036,340	(25,933,260)
Reserve for losses and loss adjustment expenses	(132,368,914)	85,416,229
Unearned premiums	97,088,776	29,673,153
Reinsurance payable on paid losses	(168,755,435)	67,102,578
Compensation commitments	(1,740,339)	885,634
Other liabilities	(21,392,453)	(18,398,071)
Net cash provided by operating activities	99,206,139	65,206,696
Cash flows from investing activities		
Proceeds from sales of property and real estate	(941,840)	502,332
Proceeds from sale and maturity of securities	489,430,249	328,237,097
Purchase of intangible assets	-	(35,866,167)
Purchases of securities	(551,694,112)	(352,577,169)
Purchases of property and equipment	4,658,892	(3,424,064)
Sale of property and equipment	(289,042)	-
Net cash (used in) investing activities	(58,835,853)	(63,127,971)

- Continued -

IAT Reinsurance Company, Ltd.

Consolidated Statements of Cash Flows (Continued)

	Years ended December 31, 2017	2016
Cash flows from financing activities		
Dividends	$ (11,726,801)	$ (325,861)
Equity notes redeemed	(528,214)	(1,794,888)
Net cash (used in) financing activities	(12,255,015)	(2,120,749)
Net change in cash and cash equivalents	28,115,271	(42,024)
Cash and cash equivalents:		
Beginning of year	56,044,878	56,086,902
End of year	$ 84,160,149	$ 56,044,878
Investing and financing activities through noncash dividend		
Transfer of real estate	$ 29,823,504	$ -
Transfer of investments	16,579,227	-
Transfer of accrued rental income	1,140,000	-
Transfer of receivables from affiliates	22,792,370	-
Transfer of loans receivable	32,966,497	-
Other miscellaneous assets	17,302,993	-
Total noncash dividend	$ 120,604,591	$ -
Supplemental information		
Income taxes paid	$ 18,620,985	$ 14,099,037

See accompanying notes to the consolidated financial statements

Note A - Organization and Significant Accounting Policies

Organization

IAT Reinsurance Company Ltd. (IAT) was incorporated on June 6, 1991 under the laws of Bermuda. The Company was managed in Bermuda by Marsh Management Services (Bermuda) Ltd. and was registered as a Class 3A insurer under the Insurance Act 1978 (Bermuda), amendments thereto and related regulations.

Effective September 30, 1991, IAT assumed the assets, liabilities and insurance business of IAT Syndicate, Inc. (the Syndicate), a former member of the New York Insurance Exchange (the Exchange). The insurance business written by the Syndicate consisted of non-related property and casualty policies effective from February 1986 until its petition for voluntary withdrawal from the Exchange in December 1987, which was approved in November 1988. Upon its withdrawal from the Exchange, IAT ceased writing new business and had been in runoff since the Exchange's closure in 1988. During 2001, IAT received approval from the Registrar of Companies in Bermuda to recommence third party reinsurance underwriting activities. During 2002, the Syndicate received approval to change its name to IAT Reinsurance Company, Ltd

Effective November 30, 2011, IAT amalgamated with its wholly owned subsidiary, MMK Reinsurance Ltd. (MMK), with IAT being the survivor

In early 2017, IAT filed for re-registration by continuation to the Cayman Islands and applied for licensing as a Class B(iii) insurer under the Insurance Law, 2010 of the Cayman Islands Monetary Authority. On September 28, 2017, the re-registration was approved and the Company received its Class B(iii) insurance license. The Company is managed in the Cayman Islands by Marsh Management Services (Cayman) Ltd.

The Company is owned by Goose Creek Capital, Inc. (GCC) an investment holding company owned by the Kellogg family of the United States of America, with Peter R. Kellogg as the sole holder of the Class A – voting stock of GCC.

In addition to the reinsurance business it writes directly, IAT writes a broad range of property and casualty insurance and reinsurance products through the following wholly owned subsidiaries:

Acceptance Casualty Insurance Company
Acceptance Indemnity Insurance Company
Commercial Alliance Insurance Company
Harco National Insurance Company
Occidental Fire & Casualty Insurance Company of North Carolina
Service Insurance Company
Transguard Insurance Company of America
Wilshire Insurance Company

Note A - Organization and Significant Accounting Policies (Continued)

Business written by the companies include but are not limited to insurance coverages for homeowner's, the long-haul trucking industry, small business owners and auto and truck dealers. The Companies also provide a market for specialized programs produced by general agents. In addition, Service Insurance Company participates in the Write Your Own Program of the National Flood Insurance Program which is 100% reinsured by the Federal Emergency Management Agency.

Nature of Risks

The primary activity of IAT and its subsidiaries (collectively, the Company) is to provide insurance coverage to the property and casualty insurance marketplace by writing policies directly for the consumer or through the assumption of risk from other insurers through reinsurance agreements. The Company provides underwriting and claims adjustment services to markets requiring special focus. Direct markets served by the Company include the transportation industry by providing auto liability, physical damage and cargo coverages to trucking concerns, auto and truck dealerships by providing property (excluding vehicle inventory), liability and crime coverages, homeowner's package coverage, particularly to coastal area risks and business owner's package policies for small businesses. The Company also assumes risk from direct insurers through the reinsurance marketplace through the placement of proportional and non-proportional reinsurance agreements.

Basis of Reporting

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (GAAP). All balances and transactions between the companies have been eliminated in consolidation. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Short-term Investments

Cash consists 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 Company maintains certain cash balances that exceed FDIC insurance thresholds. Cash and short-term investments are reported at cost, which approximates fair value.

Investments

GAAP provides guidance for measuring assets and liabilities at fair value and establishes a three-level hierarchy that 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 or liabilities (Level 1), the next priority to quoted prices for identical assets and liabilities in inactive markets or similar assets and liabilities in active markets (Level 2), and the lowest priority to unobservable inputs (Level 3). The reporting bases and valuation methodologies for the Company's investments are described in greater detail below by type of investment. Realized gains and losses on the disposition of investments are determined using the specific identification basis. Realized gains and losses are recorded on the trade date.

Note A - Organization and Significant Accounting Policies (Continued)

Investments (Continued)

Bonds, Preferred Stocks and Common Stocks

Investments in bonds, preferred stocks and common stocks are reported at fair value based on quoted market prices. Investment transactions are recorded on a trade date basis. Investments are classified as available-for-sale. Available-for-sale securities are those securities that would be available to be sold in the future in response to liquidity needs, changes in market interest rates, and asset-liability management strategies. Available-for-sale securities are reported at their estimated fair values with unrealized holding gains and losses reported as other comprehensive income, net of tax. The Company releases the income tax effects from accumulated other comprehensive income as individual securities are sold or mature.

Other Investments

The Company's other investments, consisting of bonds, debentures, equities and other miscellaneous private ventures, have been recorded on the equity accounting basis where the Company has been provided with reliable investee financial information. Otherwise, these investments are carried at cost, unless it is determined that there is a permanent diminution in value, at which time investments are written down to estimated realizable value, which becomes the new cost basis.

Investment in affiliate

The Company invests in its affiliate that, based on ownership percentage of and lack of control, has been recorded on the equity accounting basis.

Real Estate and Property

Investments in real estate are recorded at cost less accumulated depreciation. Buildings are depreciated on a straight-line basis over a period of 27 years. Land is not subject to depreciation. If it is determined that there is a permanent diminution in value, real estate and property are written down to estimated realizable value, which becomes the new cost basis.

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 Company conducts 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.

If the Company intends to sell the security or does 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 statements of operations.

Note A - Organization and Significant Accounting Policies (Continued)

Investments (continued)
If the Company determines that it is probable it 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 Company has no intent to sell the debt security and has the intent and ability to hold, a credit loss is recognized in net realized investment gains (losses) in the statements of comprehensive income 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 equity through other comprehensive income.

Upon recognizing an OTTI, the new cost basis of the security is the previous amortized cost basis less the OTTI recognized in realized investment 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 Company determines 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.

Premium Recognition
Premium written directly and assumed from other insurers, net of premium ceded pursuant to reinsurance agreements, is earned ratably over the terms of the underlying policies. Premium written, net of reinsurance ceded, relating to the unexpired portion of policies in-force at the balance sheet date is recorded as unearned premium.

Premiums Receivable
The premiums receivable balance represents the net balance due from each insured. The Company routinely evaluates the collectibility of uncollected premium receivables and writes-off any amounts deemed to be uncollectible. As of December 31, 2017 and 2016, the allowance for uncollectible premiums receivable had no material impact to the Company's consolidated balance sheets.

Note A - Organization and Significant Accounting Policies (Continued)

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 Company are deposited into this escrow account and are available to pay claims arising under the MPCI program. The Company shares underwriting risk with the FCIC and can earn or lose money according to the claims they must pay policyholders for crop losses. The Company earns 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 Company does not receive premium payments from the escrow account until a settlement occurs with the FCIC. The Company recorded a receivable from the FCIC of $29,173 and $62,947,452 as of December 31, 2017 and 2016, respectively. MPCI business is 100% reinsured with a 3rd party reinsurer.

Deferred Policy Acquisition Costs
Policy acquisition costs consist of commissions, premium taxes and other underwriting expenses, net of reinsurance allowances, associated with issued policies. Policy acquisition costs that vary with and are related to the production of bound new and renewal business are deferred and amortized ratably over the terms of the related policies.

If anticipated losses, loss adjustment expenses, commissions and other acquisition costs exceed the Company's 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 Company does not consider investment income as a factor in the premium deficiency reserve calculation. No premium deficiency reserve has been recorded as of December 31, 2017 and 2016.

Electronic Data Processing Equipment and Software
Depreciation expense on EDP equipment and software for the years ended December 31, 2017 and 2016 amounted to $1,459,712 and $1,247,620, respectively. Accumulated depreciation expense on EDP equipment and software for the years ended December 31, 2017 and 2016 amounted to $75,629,821 and $74,459,671, respectively. During 2008 IIG purchased all the EDP equipment and software of its affiliates and entered into a Consolidated Master Hardware and Software Agreement with them. The agreement requires the equitable allocation of depreciation expense among the Company and its affiliates.

Commissions and Fees
Commissions and fee income is earned over the period in which services are to be provided, generally ratably over the period covered by the related insurance policies.

Reinsurance
In the normal course of business, the Company seeks to reduce the risk of loss that may arise from significant events that cause unfavorable underwriting results by reinsuring certain levels of risk with reinsurers.

Note A - Organization and Significant Accounting Policies (Continued)

Reinsurance (continued)
Amounts recoverable from reinsurers are estimated in a manner consistent with the provisions of the reinsurance agreement and the establishment of the liability for loss and loss adjustment expenses (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. No amounts are estimated to be uncollectible. Premiums earned, losses, LAE incurred and policy acquisition costs are reported net of the amounts related to reinsurance ceded to other companies. Amounts recoverable from reinsurers related to the portions of the liabilities for loss and LAE and unearned premiums ceded are reported as assets.

Loss and Loss Adjustment Expenses
The reserves for unpaid losses and 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 Company's historical loss experience and industry statistics. In addition, significant risk factors are considered, such as the Company's 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. Such estimates are necessarily based on assumptions, and while management believes the amounts are adequate, the ultimate liability may be in excess of or less than the amount recorded. Estimates of reserves are continually reviewed using the most current information available. Any resulting adjustments are reflected in current operations.

Equity Notes and Compensation Commitments
During the year ended December 31, 2003, the Company entered into a compensation agreement with key managers and administrators of its insurance businesses. The premise of this agreement is to have these managing directors share in the profits and losses of the Company. A key aspect of the agreement is that the managing directors' share of profits must remain invested in IAT and is not distributed until the managing director's resignation or termination of employment and then only after loss development has been firmly determined for each participation year. The profits may be allocated in any of four different pieces: 1) current compensation distributed in equity notes; 2) deferred compensation generally distributed in equity notes; 3) cash payments; and 4) interest payments on the principal amount of equity notes issued.

Note A - Organization and Significant Accounting Policies (Continued)

Equity Notes and Compensation Commitments (continued)
Effective December 31, 2014, this compensation agreement was terminated and the Company recorded a total deferred compensation liability of $70.6 million. The Company did not recognize a reduction in compensation expense related to this agreement in 2017. The Company recognized a reduction in compensation expense related to this agreement in the amount of $5.6 million in 2016 as a result of adverse loss development in accident years subject to the agreement. The Company retired notes totaling $0.5 million and $1.8 million during the years ended December 31, 2017 and 2016, respectively, to former managing directors. Net equity notes of $2.8 million and $3.3 million are recorded as of December 31, 2017 and 2016, respectively, and are included as a component of shareholder's equity in accordance with GAAP.

Federal Income Taxes
The Company was domiciled in Bermuda through December 31, 2016 and redomiciled to the Cayman Islands effective September 28, 2017. Neither Bermuda nor Cayman Islands presently impose any income, withholding or capital gains taxes. IAT elected to be treated as a U.S. domestic corporation for U.S. tax purposes under Section 953(d) of the U.S. Treasury tax code. This election was approved by the Internal Revenue Service effective as of the first day of the January 1, 2002 taxable year.

Based on an Internal Revenue Service (IRS) determination letter, management believes the Company is exempt from federal income tax under Internal Revenue Code (IRC) Section 501(c) (15) for tax years where net premium written did not exceed $350,000. The Company ceased to qualify for this exemption in 2001. Further, the Company believes its operations qualified it to elect to be treated as a U.S. domestic insurance company under IRS section 953(d). The IRS had taken the position that the Company was not acting as an insurance company for the year ended December 31, 2000 and revoked IAT's status under IRC Section 501(c) (15) retroactively applying different standards in determining which taxpayers qualify for tax treatment under IRC Section 501(c) (15). The Company opted to pay the assessed taxes and interest rather than contesting the IRS' position in tax court and recognized the effects thereof in the financial statements. Subsequently, the Company filed for a refund of the assessed taxes and interest. In April 2013, the Company filed a lawsuit against the United States of America (U.S.) seeking the refund of taxes and interest paid by the Company in 2011, related to the 2000 and 2001 tax years. A settlement was reached with the U.S. in 2016 and in February 2017 the Company received a payment of $93,721,399 in full settlement of this dispute. This amount was fully accrued at December 31, 2016 and included within the accompanying financial statements of the Company.

Note A - Organization and Significant Accounting Policies (Continued)

Reclassifications
Certain balances in the 2016 financial statements have been reclassified to conform to the 2017 presentation. The Company has elected to early adopt accounting Standards Update 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This update was issued to address the income tax accounting treatment of the stranded tax effects within accumulated other comprehensive income resulting from the enactment of the Tax Cuts and Jobs Act of 2017 (the Act) on December 22, 2017. This resulted in the reclassification of approximately $99.3 million of stranded taxes from accumulated other comprehensive income to retained earnings as reflected on the statement of changes in shareholder’s equity. Such reclassifications had no impact on reported consolidated shareholder's equity or consolidated comprehensive income.

Subsequent Events
On April 3, 2018, IIG announced that it had reached a definitive agreement to acquire IFIC Surety Group, Inc. (IFIC) for an undisclosed amount. This acquisition will initiate IIG’s 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 - Investments

The amortized cost (or cost), gross unrealized gains, gross unrealized losses and fair value of available-for-sale securities at December 31, 2017 are as follows:

December 31, 2017	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:				
U.S. treasury and agencies securities	$ 34,504,588	$ 1,051	$ (303,937)	$ 34,201,702
U.S. political subdivisions	1,103,863	40,653	-	1,144,516
Special revenue	6,228,058	196,126	(10,825)	6,413,359
Loan-backed securities	36,213,718	250,544	(287,271)	36,176,991
Industrial and miscellaneous	420,328,905	13,048,264	(2,606,618)	430,770,551
Total bonds	498,379,132	13,536,638	(3,208,651)	508,707,119
Equity securities:				
Preferred stocks:				
Energy	1,485,000	72,600	-	1,557,600
Financial services	47,192,720	550,822	(407,008)	47,336,534
Industrials	602	9,063	-	9,665
Technology	1,281,800	-	(76,550)	1,205,250
Utilities	500,000	7,600	-	507,600
Total preferred stocks	50,460,122	640,085	(483,558)	50,616,649
Common stocks:				
Consumer discretionary	114,724,790	69,240,819	-	183,965,609
Consumer staples	105,973,917	180,447,864	-	286,421,781
Energy	68,048,743	11,871,700	(448,637)	79,471,806
Financial services	208,226,824	141,602,138	(2,623,178)	347,205,784
Health care	92,121,085	60,860,169	(2,296,445)	150,684,809
Industrials	94,333,166	112,494,783	(54)	206,827,895
Technology	108,044,495	121,248,542	-	229,293,037
Total common stocks	791,473,020	697,766,015	(5,368,314)	1,483,870,721
Total equity securities	841,933,142	698,406,100	(5,851,872)	1,534,487,370
Grand Total	$ 1,340,312,274	$ 711,942,738	$ (9,060,523)	$ 2,043,194,489

Note B - Investments (Continued)

The amortized cost (or cost), gross unrealized gains, gross unrealized losses and fair value of available-for-sale securities at December 31, 2016 are as follows:

December 31, 2016	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:				
U.S. treasury and agencies securities	$ 23,988,694	$ 8,116	$ (127,545)	$ 23,869,265
U.S. political subdivisions	1,434,469	71,899	-	1,506,368
Special revenue	8,934,846	234,135	(1,248)	9,167,733
Loan-backed securities	35,984,972	357,266	(344,412)	35,997,826
Industrial and miscellaneous	386,291,151	10,596,736	(5,320,805)	391,567,082
Total bonds	456,634,132	11,268,152	(5,794,010)	462,108,274
Equity securities:				
Preferred stocks:				
Financial services	38,176,746	217,391	(1,292,093)	37,102,044
Industrials	1,232,202	8,357	(110,600)	1,129,959
Utilities	7,267,861	28,000	(460,076)	6,835,785
Total preferred stocks	46,676,809	253,748	(1,862,769)	45,067,788
Common stocks:				
Consumer discretionary	98,653,391	45,224,228	(985,479)	142,892,140
Consumer staples	85,468,651	122,018,759	-	207,487,410
Energy	81,261,149	20,669,493	(329,515)	101,601,127
Financial services	174,104,293	113,559,484	(1,243,943)	286,419,834
Health care	84,781,592	55,371,752	(2,204,203)	137,949,141
Industrials	87,057,414	70,389,501	-	157,446,915
Technology	124,735,388	74,800,725	-	199,536,113
Total common stocks	736,061,878	502,033,942	(4,763,140)	1,233,332,680
Total equity securities	782,738,687	502,287,690	(6,625,909)	1,278,400,468
Grand Total	$ 1,239,372,819	$ 513,555,842	$ (12,419,919)	$ 1,740,508,742

The amortized cost and fair value of bonds as of December 31, 2017, by contractual maturity, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 17,766,307	$ 17,819,327
Due after one year through five years	123,208,985	126,284,641
Due after five years through ten years	198,440,130	203,737,237
Due after ten years	122,749,992	124,688,923
Loan-backed securities	36,213,718	36,176,991
	$ 498,379,132	$ 508,707,119

Note B - Investments (Continued)

The gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at December 31, 2017 are as follows:

	Less than 12 months		12 months or more		Total	
2017	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds	$ 108,364,038	$ 2,047,887	$ 72,603,763	$ 1,160,764	$ 180,967,801	$ 3,208,651
Preferred stocks	9,086,253	219,459	1,711,534	264,099	10,797,787	483,558
Common stocks	27,156,143	3,070,519	17,617,500	2,297,795	44,773,643	5,368,314
Grand Total	$ 144,606,434	$ 5,337,865	$ 91,932,797	$ 3,722,658	$ 236,539,231	$ 9,060,523

The gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at December 31, 2016 are as follows:

	Less than 12 months		12 months or more		Total	
2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds	$ 123,962,989	$ 3,323,655	$ 92,056,995	$ 2,470,355	$ 216,019,984	$ 5,794,010
Preferred stocks	25,434,575	1,502,045	8,838,422	360,724	34,272,997	1,862,769
Common stocks	54,098,704	3,287,569	27,559,245	1,475,571	81,657,949	4,763,140
Grand Total	$ 203,496,268	$ 8,113,269	$ 128,454,662	$ 4,306,650	$ 331,950,930	$ 12,419,919

The Company held 222 investments with gross unrealized losses totaling $9,060,523 at December 31, 2017. The Company held 234 investments with gross unrealized losses totaling $12,419,919 at December 31, 2016. Those unrealized losses are a result of general economic conditions. The Company has the ability to hold all bonds until maturity and has the intent to hold all stocks until the security is no longer in an unrealized loss position. The Company performed other than temporary impairment analysis on all securities scheduled above and this analysis does not warrant any other than temporary write-downs. Accordingly, the Company believes the declines in the above schedules are temporary in nature.

Included in other investment are ownership interests in several limited liability partnerships and companies. Investments accounted for under the cost method due to the Company's minor ownership percentage and its inability to influence the financial and operational activities of the entity, the amount totaled $29,956,978 and $20,051,961 at December 31, 2017 and 2016, respectively. Investments accounted for under the equity method were recorded at $26,965,483 and $21,056,149 at December 31, 2017 and 2016, respectively. The carrying value is based on its underlying audited U.S. GAAP equity value of the Company. The Company has no unfunded commitment related to these investments as of December 31, 2017. There is no redemption period notice on these investments.

Note B - Investments (Continued)

Proceeds from the sale, maturity and paydown of investments in bonds during 2017 were $169,042,649; gross gains of $5,640,254 and gross losses of $731,301 were realized. Proceeds from the sale, maturity and paydown of investments in bonds during 2016 were $198,776,651; gross gains of $6,965,908 and gross losses of $662,647 were realized on these sales.

Proceeds from the sale of common stock during 2017 were $213,509,234; gross gains of $68,734,807 and gross losses of $8,963,547 were realized. Proceeds from the sale of common stock during 2016 were $83,222,695; gross gains of $18,805,156 and gross losses of $1,074,448 were realized on those sales.

Proceeds from the sale of preferred stock during 2017 were $106,171,564; gross gains of $1,504,780 and gross losses of $324,913 were realized. Proceeds from the sale of preferred stock during 2016 were $44,280,612; gross gains of $1,495,811 and gross losses of $96,217 were realized on those sales.

The Company transferred $16,579,227 of other investments as part of the dividend described in Note G. No gains or losses were realized on the transfer. The Company recognized a foreign currency loss of $26,289 during 2017. The Company recognized an impairment loss of $10,000,000 related to other investments. Proceeds from the sale of other investments during 2016 were $1,957,139; gross gains of $550,806 and no gross losses were realized on these sales.

There were no sales of investments in real estate during 2017 or 2016.

Major categories of the Company's 2017 and 2016 net investment income are summarized as follows:

	2017	2016
Investment income:		
Debt securities	$ 24,846,582	$ 23,083,919
Equity securities	35,815,837	27,372,171
Cash and short-term	74,648	29,189
Investments in affiliates	10,381,630	-
Real estate	-	310,057
Other invested assets	(1,911,543)	91,171
Interest from IRS proceeds	-	49,755,153
Miscellaneous	128,889	(3,951,709)
Gross investment income	69,336,043	96,689,951
Investment expenses	11,425,097	10,390,246
Net investment income	$ 57,910,946	$ 86,299,705

Investments having an aggregate fair value of $63,474,539 and $65,690,050 at December 31, 2017 and 2016, respectively, were deposited with insurance regulatory agencies as required by law.

Note B - Investments (Continued)

The following table presents the fair value measurements for the investments as of December 31, 2017:

2017	Level 1	Level 2	Level 3	Total Fair Value
Bonds	$ -	$ 508,707,119	$ -	$ 508,707,119
Preferred Stocks	50,616,649	-	-	50,616,649
Common stocks	1,483,870,721	-	-	1,483,870,721
Total	$ 1,534,487,370	$ 508,707,119	$ -	$ 2,043,194,489

The following table presents the fair value measurements for the investments as of December 31, 2016:

2016	Level 1	Level 2	Level 3	Total Fair Value
Bonds	$ -	$ 462,108,274	$ -	$ 462,108,274
Preferred Stocks	45,067,788	-	-	45,067,788
Common stocks	1,233,332,680	-	-	1,233,332,680
Total	$ 1,278,400,468	$ 462,108,274	$ -	$ 1,740,508,742

At the end of each reporting period, the Company evaluates 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.

Note C - Insurance Activity

Certain premiums and losses are ceded to other insurance companies under quota share reinsurance arrangements and various excess of loss reinsurance agreements. The Company utilizes ceded excess of loss and quota share reinsurance to limit its exposure to variation in severity and frequency of claims. These reinsurance agreements do not relieve the Company from its primary obligation to policyholders, as it remains liable to its policyholders to the extent that any reinsurer does not meet its obligations for reinsurance ceded under the reinsurance contracts. Funds held of $26,524,341 and $16,881,823 were on deposit with various insurance companies at December 31, 2017 and 2016, respectively, under the terms of the reinsurance agreements.

The effect of reinsurance on premiums written and earned for 2017 and 2016 is as follows:

	2017		2016	
	Written	Earned	Written	Earned
Direct	$ 1,062,187,498	$ 1,022,353,437	$ 1,238,473,371	$ 1,218,325,954
Assumed	260,047,536	202,789,268	140,358,605	130,832,870
Ceded	(337,597,746)	(331,500,125)	(570,721,536)	(571,688,773)
Net	$ 984,637,288	$ 893,642,580	$ 808,110,440	$ 777,470,051

Note C - Insurance Activity (Continued)

Reinsurance recoveries of $241,770,877 and $557,149,826 were recognized against losses incurred during the years ending December 31, 2017 and 2016, respectively.

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

	2017	2016
Beginning reserves - gross	$ 1,097,687,466	$ 1,012,271,237
Less reinsurance	354,157,333	297,707,349
Net beginning reserves	743,530,133	714,563,888
Incurred related to:		
Current year	614,398,000	474,693,000
Prior years	(5,117,022)	61,684,370
Total incurred	609,280,978	536,377,370
Paid related to:		
Current year	210,808,000	182,424,125
Prior years	389,473,471	324,987,000
Total paid	600,281,471	507,411,125
Net reserves at end of year	752,529,640	743,530,133
Plus reinsurance	212,788,912	354,157,333
Gross reserves at end of year	$ 965,318,552	$ 1,097,687,466

The reconciliation above shows favorable loss and loss adjustment expense reserve development of approximately $5.1 million emerged during 2017 in the reserves for unpaid losses and loss adjustment expenses recorded at December 31, 2016. The reconciliation also shows that unfavorable loss and loss adjustment expense reserve development of approximately $61.7 million emerged during 2016 in the reserves for loss and loss adjustment expenses recorded at December 31, 2015. The 2017 favorable development is spread across numerous lines of business and represents approximately 0.01% of the net reserves of $743,530,133 recorded at December 31, 2016. The adverse loss development which emerged in 2016 is primarily attributed to the commercial auto liability, private passenger auto liability and other liability lines of business which experienced approximately $18.4 million, $6.3 million and $10.2 million of adverse development, respectively. The loss development attributed to commercial auto liability is primarily related to books of business that have been discontinued by the Company.

Note C - Insurance Activity (Continued)

The reconciliation of the net incurred and paid losses development tables to the liability for losses and LAE on the balance sheet as of December 31, 2017 is as follows:

	2017
Net outstanding liabilities	*(in thousands)*
Homeowners' insurance	$ 24,708
Commercial auto liability	280,682
Other liability - occurrence	118,906
Assumed reinsurance	151,458
Other insurance lines	156,153
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	731,907
Reinsurance recoverable	
Homeowners' insurance	5,573
Commercial auto liability	59,561
Other liability - occurrence	39,233
Assumed reinsurance	14
Other insurance lines	108,409
Total reinsurance recoverable on unpaid losses and loss adjustment expenses	212,790
Unallocated loss adjustment expenses	20,622
Total gross liability for unpaid losses and loss adjustment expenses	$ 965,319

* "Other insurance lines" in the above table represents reserves from a variety of different business segments. No individual segment consists of more than 5% of net reserves with a majority of those remaining reserves originating from accident years prior to 2013.

Note C - Insurance Activity (Continued)

The following is information about incurred and cumulative paid losses and LAE, net of reinsurance, and total incurred-but-not-reported (IBNR) liabilities plus expected development on reported claims, net of reinsurance and the cumulative number of reported claims as of December 31, 2017, by category:

Homeowners' insurance (in thousands)

Accident Year	Incurred	Cumulative Paid	Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2013	$ 24,592	$ 24,332	$ 28	3,640
2014	36,197	34,808	83	5,714
2015	43,467	40,877	655	4,257
2016	40,528	36,874	293	2,752
2017	55,231	38,627	6,100	6,340
Total	$ 200,015	$ 175,518	$ 7,159	

Commercial auto liability insurance (in thousands)

Accident Year	Incurred	Cumulative Paid	Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2013	$ 131,317	$ 119,087	$ 1,080	11,602
2014	173,682	142,564	4,279	13,935
2015	154,307	113,077	(2,917)	15,739
2016	111,604	60,332	5,955	14,267
2017	158,202	26,634	70,662	8,651
Total	$ 729,112	$ 461,694	$ 79,059	

Other liability - occurrence (in thousands)

Accident Year	Incurred	Cumulative Paid	Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2013	$ 34,380	$ 29,527	$ (156)	67
2014	43,928	33,294	1,196	162
2015	40,705	22,172	1,090	356
2016	32,675	9,589	(542)	522
2017	61,530	3,131	21,542	801
Total	$ 213,218	$ 97,713	$ 23,130	

Note C - Insurance Activity (Continued)

Assumed reinsurance (in thousands)

Accident Year	Incurred	Cumulative Paid	Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2013	$ 74,398	$ 69,943	$ 793	N/A
2014	59,581	52,521	1,447	N/A
2015	44,564	33,306	8,462	N/A
2016	69,082	40,991	20,628	N/A
2017	101,862	42,166	38,073	N/A
Total	$ 349,487	$ 238,927	$ 69,403	

Methodology for Determining Losses and Loss Adjustment Expense Reserves
Loss reserves are management's best estimate of ultimate losses and are based on the analysis performed by consulting actuaries. They analyze each portion of the Company's business in a variety of ways and use multiple actuarial methodologies in performing these analyses, including; the Bornhuetter-Ferguson (paid and incurred) method, paid development method, and incurred development method. The selected ultimate losses are within the consulting actuary's range of reasonable levels.

Methodology for Determining Incurred But Not Reported Reserves
Using generally accepted actuarial reserving techniques, management projects an estimate of ultimate losses and LAE at each reporting date. The IBNR reserve is the difference between the projected ultimate losses and LAE incurred and the sum of case losses and LAE reserves and inception-to-date paid losses and LAE.

Significant Changes in Methodologies and Assumptions
There were no significant changes in methodologies or assumptions from 2016.

Methodology for Determining Cumulative Number of Reported Claims
The amounts reported for the cumulative number of reported claims include open and closed claims by accident year at the claimant level. Claim count data for assumed reinsurance contracts is unavailable.

Note D - Income Taxes

The components of income taxes are as follows:

	2017	2016
Current income taxes		
Federal	$ 17,436,508	$ 6,207,906
State	3,485,476	7,598,228
Prior year true-up	3,111,291	16,303,331
2001-2002 tax settlement	1,582,623	(48,966,246)
Current income taxes	25,615,898	(18,856,781)
Deferred income taxes	(66,185,335)	31,372,982
Total income taxes	$ (40,569,437)	$ 12,516,201

Federal income tax expense differs from the statutory federal income tax rate of 35%, primarily due to interest on tax exempt bonds, dividends received deduction, net operating loss, in 2016, an adjustment to prior period relating to an IRS examination and, in 2017, due to the impact of the Act on deferred taxes. The impact of the enacted rate on the deferred tax liability is a $72,153,834 decrease and is included in the change in deferred tax for the year ended December 31, 2017.

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

Acceptance Casualty Insurance Company
Claimguard, Inc.
Equity American General Agency, Inc.
Harco Insurance Services, Inc.
Harco Transportation Services, Inc.
Goose Creek Capital, Inc.
Occidental Fire & Casualty Company of NC
Transguard General Agency, Inc.
Wilshire Insurance Company
IAT Urban renewal, LLC
Service Insurance Company
Pillar Insurance Agency, Inc.
Safe Insurance Management Group, Inc.
Berkshire Investments LLC
Acceptance Indemnity Insurance Company
Equity American Financial Services, Inc.
Equity Holdings
Harco National Insurance Company
IAT Reinsurance Company, Ltd.
IAT Insurance Group, Inc.
Transguard Insurance Company of America, Inc.
Vanguard Insurance Agency, Inc.
National Association of Independent Truckers, LLC
Bay Area Insurance Services, Inc.
Bay Area Claims Service, Inc.
CAIC Holding Company, Inc.
Commercial Alliance Insurance Company

In accordance with the Company's tax allocation agreement with its subsidiaries, each member of the consolidated group computes their federal income taxes on the basis of a separate return calculation.

Note D - Income Taxes (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	2017	2016
Deferred tax assets:		
Unearned premium	$ 17,289,796	$ 23,518,992
Loss discounting	7,754,143	13,886,608
Federal tax net operating loss carryovers	-	15,865,550
Other than temporary impairments	9,523,050	31,265,981
Deferred compensation	12,587,949	21,993,559
338(h)(10) basis adjustment	203,465	410,977
Bad debt reserve	8,915	83,194
AMT tax credits	17,649,440	14,991,439
Gross deferred tax assets	65,016,758	122,016,300
Deferred tax liabilities:		
Deferred acquisition expenses	22,170,346	26,135,559
Net unrealized capital gains	148,925,117	175,021,389
Accrued dividends	888,540	1,392,745
Bond discounts	352,670	477,333
Deferred interest income	-	15,712,915
Deferred investment gains	878,746	4,950,776
Depreciation	32,090	72,739
Gross deferred tax liabilities	173,247,509	223,763,456
Net deferred tax liability	$ (108,230,751)	$ (101,747,156)

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 Company measured its deferred tax items at an effective tax rate of 35%. On December 22, 2017, the Act was signed into law. Among other things, the Act reduced the Company's corporate federal tax rate to a flat 21%. As a result, the Company's deferred tax items are measured at an effective tax rate of 21% as of December 31, 2017.

Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized. Based upon projections for future taxable income over the periods in which deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefit of these deductible differences and no valuation allowance is necessary at December 31, 2017 and 2016.

At December 31, 2017 and 2016, the Company had $0 and $15,865,550, respectively, of unused federal operating loss carryforwards available to offset against future taxable income that expire in 2031.

Note E - Deferred Policy Acquisition Costs

Changes in deferred policy acquisition costs in 2017 and 2016 are as follows:

	2017	2016
Balance, beginning of year	$ 74,673,023	$ 60,918,559
Acquisition costs deferred	62,097,248	27,207,893
Amortization charged to earnings	(31,197,194)	(13,453,429)
Balance, end of year	$ 105,573,077	$ 74,673,023

Note F - Property and Equipment and Real Estate

The components of property and equipment and real estate are as follows as of December 31:

	2017	2016	Depreciable Lives
Land	$ -	$ 11,722,471	Not applicable
Depreciable real property	-	27,572,658	27 years
Leasehold improvements	6,361,133	7,791,531	5 years
Furniture and equipment	2,931,576	2,834,072	5 years
Software	59,255,919	59,064,381	3 years
Hardware	17,654,389	17,654,386	3 years
Vehicles	175,998	4,690,246	7 years
	86,379,015	131,329,745	
Less accumulated depreciation	83,492,598	93,732,105	
Total property and equipment and real estate, net	$ 2,886,417	$ 37,597,640	

Depreciation expense for the years ended December 31, 2017 and 2016 was $1,459,712 and $1,912,890, respectively.

Note G - Related Parties

The Company is a wholly owned subsidiary of Goose Creek Capital, Inc. (GCC) a privately held company. Peter R. Kellogg, is the ultimate controlling person owning 100% of the Class A voting shares of GCC. As discussed in Note H – Shareholder’s Equity, the Class A shares accrue an annual dividend of $0.50 per share or $50,003 annually. Dividends accrued and payable were $200,010 and $200,010 at December 31, 2017 and 2016, respectively.

Note G - Related Parties (Continued)

On October 1, 2017, the Board of Directors of GCC authorized the reorganization of the Company and its other subsidiaries aligning all insurance related entities and investments under a common holding company system led by IAT Insurance Group, Inc. (IIG), a wholly owned subsidiary of the Company. The reorganization was accomplished through a series of dividends and capital contributions by the Company and its affiliates. The reorganization included the following transactions: 1) Equity Holdings, Inc. (EH) paid a dividend in kind totaling $18,583,664 transferring its investments in certain equity fund limited partnerships to IIG, 2) EAFS paid a dividend in kind totaling $123,149,237 transferring its 100% ownership of Bay Area Insurance Services Inc. and its investments in Access Holdco LLC, Insight Catastrophe Group LLC and Slaine Holdings LLC to IIG, 3) IIG paid dividends in kind transferring its 100% ownership of EH and EAFS totaling $5,993,055 and $126,299,818, respectively, to the Company, 4) the Company then paid a dividend in kind transferring EH and EAFS to GCC, 5) the Company paid a dividend in kind totaling $132,209,515 transferring certain assets determined by the Board not to be related to the organization's insurance businesses to GCC.

During 2017, GCC reimbursed the Company expenses totaling $13,409,639 for expenditures paid by the Company during the formation of GCC. This expense reimbursement is reflected in selling, general and administrative expenses for the year ended December 31, 2017.

On December 31, 2016, the Company entered into a retroactive management services agreement effective January 1, 2016 with GCC whereby GCC agrees to reimburse the Company for certain expenses not related to the Company's insurance operations. Expenses totaling $12,800,678 under this agreement are reported as due from affiliates as of December 31, 2016.

During 2017, the Company paid expenses on behalf of its parent, GCC, totaling $16,963,146. These amounts are included in amounts due from affiliates at December 31, 2017.

Kellogg Family Loans

During 2008, loans totaling $26,600,000 were made to the Kellogg Family. In accordance with the loan agreements, interest accrues at an annual rate of 2.8% or the minimum rate allowed by the United States Internal Revenue Service. There were no payments in 2016. Payments of $17,347,226 were received on these loans in 2017. The balance of these loans, $4,828,960, was included in the dividend paid to GCC discussed above. The total balance of these loans, including accrued interest was $21,926,770 at December 31, 2016.

During 2013, an invested asset held by the Kellogg Family on behalf of the Company was sold by the Company. The proceeds from the sale, $1,656,000, were received by the Kellogg Family as a loan from the Company. This loan accrued interest at an annual rate of 2.8%. Payments totaling $1,508,454 were received in 2017. The remaining balance of this loan, $324,010, including accrued interest, was included in the dividend paid by the Company to GCC discussed above. The loan balance was $1,806,959 at December 31, 2016.

Note G - Related Parties (Continued)

In 2009, loans in the amounts of $6,000,000 and $5,115,000 were made to E&A Property Holdings, LLC, a real estate holding company owned by Lee Kellogg and Justin Sandrian. These loans accrued annual interest at the rates of 1.27% and 0.95%, respectively. The balance of these loans, $11,145,634, including accrued interest, was included in the dividend paid by the Company to GCC discussed above. These loans totaled $11,143,420 at December 31, 2016.

Loans to Unconsolidated affiliates
As of December 31, 2017 and 2016, the Company reported $12,461,946 and $12,127,999 as amounts due from other affiliates, respectively. The affiliates and the amount due from them are as follows:

	2017	2016
Iron Family Holdings	$ 12,461,946	$ -
Bermuda Partners LP	-	3,000,000
Berkshire Investments LLC	-	3,000,000
Hudson Guild Farm	-	6,127,999
Total	$ 12,461,946	$ 12,127,999

During 2017, the Company loaned an additional $6,200,817 to Berkshire Investments LLC. This loan and the remaining loans to unconsolidated affiliates were transferred to GCC as part of the dividend discussed above.

On December 27, 2017, the Company made loans of $6,232,788.60 and $6,229,157.02 to Daniel Brooks Clark and Iron Family Holdings, LLC (Debtors), respectively, owners of minority interests in Slaine Holdings LLC (Slaine) of which the Company has a 9.17% invested capital interest. Debtors, as collateral guaranteeing repayment of the loans, have pledged their capital interests in Slaine to the Company.

Note H - Shareholder's Equity

The Company had outstanding 100,005 units of $1 Class A shares as of December 31, 2017 and 2016. In addition, the Company had outstanding 20,000 units of $1 Class B shares as of December 31, 2017 and 2016.

Note I - Statutory Restrictions

The National Association of Insurance Commissioners (NAIC) has established risk-based capital (RBC) requirements to help state regulators monitor the financial strength and stability of property and casualty insurers by identifying those companies that may be inadequately capitalized. Under the NAIC's requirements, each insurer must maintain its total capital above a calculated threshold or take corrective measures to achieve the threshold. Companies below the specific ratios may be subject to various levels of regulatory action or oversight by their domiciliary department. At December 31, 2017, the insurance subsidiaries exceed the minimum RBC requirements.

Note I - Statutory Restrictions (Continued)

The maximum amount of dividends which can be paid by insurers is governed by the Insurance Commissioner of each Company's state of domicile. Under the insurance regulations of the States of Florida (FL), Illinois (IL), Nebraska (NE), North Carolina (NC) and Texas (TX) the maximum amount of dividends which can be paid to the parent without the prior approval of the Insurance Commissioner is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized gains) earned for that same year-end. In addition, Texas insurance regulations requires insurance companies to maintain a minimum of $2,500,000 in capital stock and $2,500,000 of surplus. The maximum dividends that can be paid in 2017 by each insurance subsidiary without the prior approval of the insurance commissioners are:

AIIC (NE)	ACIC (NE)	CAIC (TX)	Harco (IL)	OFC (NC)	SIC (FL)	TGIA (IL)	WIC (NC)
$ 18,163,061	$ 6,723,209	$ 4,617,828	$ 20,406,069	$ 22,398,079	$ 4,731,827	$ 15,443,436	$ 14,021,553

Key statutory balance sheet amounts related to the insurance subsidiaries as of December 31, 2017:

	AIIC (NE)	ACIC (NE)	CAIC (TX)	Harco (IL)
Total admitted assets	$ 330,637,515	$ 162,478,380	$ 104,896,317	$ 606,137,822
Total liabilities	(149,006,910)	(95,246,295)	(58,718,042)	(402,077,135)
Total capital and surplus	$ 181,630,605	$ 67,232,085	$ 46,178,275	$ 204,060,687

	OFC (NC)	SIC (FL)	TGIA (IL)	WIC (NC)
Total admitted assets	$ 474,328,526	$ 60,970,631	$ 389,506,956	$ 334,547,498
Total liabilities	(250,347,732)	(13,652,361)	(235,072,593)	(194,331,967)
Total capital and surplus	$ 223,980,794	$ 47,318,270	$ 154,434,363	$ 140,215,531

Key statutory balance sheet amounts related to the insurance subsidiaries as of December 31, 2016:

	AIIC (NE)	ACIC (NE)	CAIC (TX)	Harco (IL)
Total admitted assets	$ 297,366,846	$ 112,449,821	$ 83,121,940	$ 437,050,033
Total liabilities	(157,533,927)	(56,778,139)	(43,216,162)	(267,874,021)
Total capital and surplus	$ 139,832,919	$ 55,671,682	$ 39,905,778	$ 169,176,012

	OFC (NC)	SIC (FL)	TGIA (IL)	WIC (NC)
Total admitted assets	$ 602,812,300	$ 49,448,690	$ 299,191,980	$ 291,606,987
Total liabilities	(430,121,985)	(7,666,973)	(162,090,049)	(182,530,637)
Total capital and surplus	$ 172,690,315	$ 41,781,717	$ 137,101,931	$ 109,076,350

Note J - Employee Benefit Plans

The Company provides a combined defined contribution savings plan (401k) and profit sharing plan to its employees. 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 the Company. Total contributions made for both components of the plan for the years ended December 31, 2017 and 2016 were $4,398,550 and $6,298,763, respectively.

Note K - Commitments and Contingencies

Operating leases
The Company leases office facilities under several non-cancelable operating lease occupied by the Company. A security deposit of $100,000 is required as part of one of the lease agreements.

Future minimum rentals under all non-cancelable operating leases are as follows:

2018	$	3,397,268
2019		2,884,948
2020		2,474,559
Thereafter		2,734,644
	$	11,491,419

Total rent expense included in the accompanying consolidated statements of operations was $4,802,396 and $4,785,112 for the years ended December 31, 2017 and 2016, respectively.

Required Supplementary Information (Unaudited)

IAT Reinsurance Company, Ltd.

Incurred and Cumulative Paid Losses and Allocated LAE, Net of Reinsurance

The following is information about incurred and paid claims development, net of reinsurance and by category for years ended December 31:

Homeowners' insurance

	Incurred losses and allocated LAE, net of reinsurance				
Accident Year	2013	2014	2015	2016	2017
2013	$ 25,442	$ 24,491	$ 24,400	$ 24,475	$ 24,592
2014		35,889	37,147	35,437	36,197
2015			40,391	41,791	43,467
2016				37,003	40,528
2017					55,231
Total					200,015

	Cumulative paid losses and allocated LAE, net of reinsurance				
Accident Year	2013	2014	2015	2016	2017
2013	$ 18,490	$ 22,377	$ 23,370	$ 23,913	$ 24,332
2014		26,688	32,569	33,905	34,808
2015			27,543	38,274	40,877
2016				27,653	36,874
2017					38,627
Total					175,518
All outstanding liabilities before 2013, net of reinsurance					211
Liabilities for losses and loss adjustment expenses, net of reinsurance					$ 24,708

Commercial auto liability

	Incurred losses and allocated LAE, net of reinsurance				
Accident Year	2013	2014	2015	2016	2017
2013	$ 120,717	$ 122,225	$ 125,008	$ 130,347	$ 131,317
2014		146,960	161,129	171,981	173,682
2015			147,160	156,176	154,307
2016				134,154	111,604
2017					158,202
Total					729,112

	Cumulative paid losses and allocated LAE, net of reinsurance				
Accident Year	2013	2014	2015	2016	2017
2013	$ 20,172	$ 43,893	$ 71,809	$ 95,100	$ 119,087
2014		21,349	56,100	99,505	142,564
2015			25,881	70,731	113,077
2016				21,253	60,332
2017					26,634
Total					461,694
All outstanding liabilities before 2013, net of reinsurance					13,264
Liabilities for losses and loss adjustment expenses, net of reinsurance					$ 280,682

IAT Reinsurance Company, Ltd.

Incurred and Cumulative Paid Losses and Allocated LAE, Net of Reinsurance (Continued)

Other liability - occurrence

Accident Year	Incurred losses and allocated LAE, net of reinsurance				
	2013	2014	2015	2016	2017
2013	$ 20,654	$ 23,261	$ 29,549	$ 31,799	$ 34,380
2014		28,193	31,713	38,175	43,928
2015			32,142	34,318	40,705
2016				40,280	32,675
2017					61,530
Total					213,218

Accident Year	Cumulative paid losses and allocated LAE, net of reinsurance				
	2013	2014	2015	2016	2017
2013	$ 2,108	$ 6,641	$ 13,915	$ 22,108	$ 29,527
2014		3,725	10,292	19,237	33,294
2015			2,926	10,347	22,172
2016				1,527	9,589
2017					3,131
Total					97,713

All outstanding liabilities before 2013, net of reinsurance	3,401
Liabilities for losses and loss adjustment expenses, net of reinsurance	$ 118,906

Assumed reinsurance

Accident Year	Incurred losses and allocated LAE, net of reinsurance				
	2013	2014	2015	2016	2017
2013	$ 54,963	$ 81,383	$ 73,187	$ 73,909	$ 74,398
2014		42,444	61,267	61,750	59,581
2015			30,654	43,550	44,564
2016				46,722	69,082
2017					101,862
Total					349,487

Accident Year	Cumulative paid losses and allocated LAE, net of reinsurance				
	2013	2014	2015	2016	2017
2013	$ 30,988	$ 51,029	$ 60,076	$ 66,508	$ 69,943
2014		26,534	41,415	47,586	52,521
2015			15,264	28,043	33,306
2016				20,952	40,991
2017					42,166
Total					238,927

All outstanding liabilities before 2013, net of reinsurance	40,898
Liabilities for losses and loss adjustment expenses, net of reinsurance	$ 151,458

IAT Reinsurance Company, Ltd.

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance

The following is the average historical claims duration as of December 31, 2017 by category:

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5
Homeowners' insurance	70.1 %	19.9 %	4.6 %	2.4 %	1.7 %
Commercial auto liability	16.1 %	25.6 %	24.6 %	21.3 %	18.3 %
Other liability - occurrence	6.3 %	17.8 %	23.6 %	27.9 %	21.6 %
Assumed reinsurance	38.4 %	27.4 %	11.5 %	8.5 %	4.6 %

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