Carolina Mutual Insurance, Inc.

Financial Statements

Years Ended December 31, 2016 and 2015

DIXON HUGHES GOODMAN LLP

Table of Contents

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Audit Committee
Carolina Mutual Insurance, Inc.
High Point, North Carolina

We have audited the accompanying financial statements of Carolina Mutual Insurance, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, changes in policyholders' equity, and cash flows for the years then ended, and the related notes to the 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 accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

High Point, North Carolina
May 11, 2017

Carolina Mutual Insurance, Inc.
Balance Sheets
December 31, 2016 and 2015

	2016	2015
ASSETS		
Invested assets:		
Held-to-maturity securities, at amortized cost	**$ 64,240,036**	$ 63,866,476
Total invested assets	**64,240,036**	63,866,476
Cash and cash equivalents	**12,922,241**	9,763,290
Accrued investment income	**361,579**	419,614
Premiums receivable	**11,323,094**	9,133,791
Reinsurance recoverable on unpaid losses	**-**	24,000
Prepaid reinsurance premiums	**394,257**	387,509
Deferred policy acquisition costs	**1,462,570**	1,254,708
Deferred income tax asset	**559,000**	1,106,000
Total assets	**$ 91,262,777**	$ 85,955,388
LIABILITIES AND POLICYHOLDERS' EQUITY		
Liabilities:		
Loss and loss adjustment expenses reserves	**$ 26,569,851**	$ 28,425,556
Unearned premiums	**14,117,248**	12,794,641
Advance premiums	**837,259**	766,611
Accounts payable, commissions and accrued expenses	**1,103,588**	772,177
Income taxes payable	**369,054**	1,312,473
Reinsurance premiums payable	**120,567**	86,057
Payable to affiliate	**383,210**	340,225
Total liabilities	**43,500,777**	44,497,740
Policyholders' equity	**47,762,000**	41,457,648
Total liabilities and policyholders' equity	**$ 91,262,777**	$ 85,955,388

See accompanying notes.

Carolina Mutual Insurance, Inc.
Statements of Operations
Years Ended December 31, 2016 and 2015

	2016	2015
Revenues:		
Premiums earned	$ 33,139,446	$ 29,895,068
Ceded reinsurance premiums earned	(1,700,082)	(1,762,938)
Net premiums earned	31,439,364	28,132,130
Investment income:		
Investment income, net of expenses	977,584	898,820
Realized capital (losses) gains	(12,764)	16,888
Total revenues	32,404,184	29,047,838
Losses and expenses:		
Losses and loss adjustment expenses	13,534,887	13,460,035
Policy acquisition and other underwriting expenses	9,279,154	8,137,372
Total losses and expenses	22,814,041	21,597,407
Income before income tax expense	9,590,143	7,450,431
Income tax expense	3,285,791	3,036,329
Net income	$ 6,304,352	$ 4,414,102

See accompanying notes.

Carolina Mutual Insurance, Inc.
Statements of Changes in Policyholders' Equity
Years Ended December 31, 2016 and 2015

Balance, December 31, 2014	$ 37,043,546
Net income	4,414,102
Balance, December 31, 2015	41,457,648
Net income	6,304,352
Balance, December 31, 2016	$ 47,762,000

See accompanying notes.

Carolina Mutual Insurance, Inc.
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Net income	**$ 6,304,352**	$ 4,414,102
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities		
Deferred taxes	**547,000**	46,000
Amortization of bond premiums and discounts	**500,274**	572,926
Realized losses (gains) on redemption of investments	**12,764**	(16,888)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accrued investment income	**58,035**	(41,505)
Premiums receivable	**(2,189,303)**	(1,242,241)
Reinsurance recoverable on unpaid losses	**24,000**	48,000
Prepaid reinsurance premiums	**(6,748)**	(24,067)
Deferred policy acquisition costs	**(207,862)**	(118,113)
Increase (decrease) in:		
Loss and loss adjustment expenses reserves	**(1,855,705)**	(1,448,172)
Unearned premiums	**1,322,607**	1,616,653
Advance premiums	**70,648**	(147,601)
Accounts payable, commissions and accrued expenses	**331,411**	403,910
Income taxes payable	**(943,419)**	1,111,674
Reinsurance premiums payable	**34,510**	(466,633)
Payable to affiliate	**42,985**	20,795
Net cash provided by operating activities	**4,045,549**	4,728,840
Cash flows from investing activities:		
Purchases of held-to-maturity securities	**(41,686,270)**	(37,533,910)
Proceeds from matured and called held-to-maturity securities	**40,799,672**	32,382,453
Net cash used in investing activities	**(886,598)**	(5,151,457)
Net increase (decrease) in cash and cash equivalents	**3,158,951**	(422,617)
Cash and cash equivalents, beginning of period	**9,763,290**	10,185,907
Cash and cash equivalents, end of period	**$ 12,922,241**	$ 9,763,290
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	**$ 3,651,469**	$ 1,878,925

See accompanying notes.

Notes to Financial Statements

1. Nature of Business and Significant Accounting Policies

Nature of Business

Carolina Mutual Insurance, Inc. ("CMI" or the "Company") was incorporated on June 5, 2011 as a mutual insurance company under the statutes of the state of North Carolina. Upon approval by the North Carolina Department of Insurance ("NCDOI"), CMI merged with the North Carolina Mutual Employers Fund effective November 1, 2011. CMI provides workers' compensation insurance primarily to policyholders located in North Carolina, however the Company has begun expansion into several states including Virginia, Tennessee, Kentucky and Georgia. The Company wrote 84% and 91% of its premiums in North Carolina for the years ended December 31, 2016 and 2015, respectively.

CMI is subject to the rules and regulations of the NCDOI as well as the regulatory agencies of the states that they have expanded into as noted above.

The Company has cash and cash equivalents on deposit with regulatory authorities of $3,324,023 and $3,116,036 as of December 31, 2016 and 2015, respectively.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The significant accounting policies followed by the Company are summarized below.

Held-to-Maturity Securities - The Company classifies all marketable debt securities as held to maturity as it has the positive intent and ability to hold the securities to maturity. Realized gains and losses are included in earnings and are recognized when investments are redeemed using the specific identification method. Securities classified as held to maturity are carried at amortized cost. For securities classified as held to maturity, declines in fair value below amortized cost that are other-than-temporary are included in operations.

Cash and Cash Equivalents - Cash equivalents include money market instruments and certificates of deposit with original maturities of three months or less and are recorded at cost, which approximates estimated fair value.

Premiums Receivable - Premiums receivable are uncollateralized policyholder obligations due under normal policy terms, requiring payment within a specified period from the invoice date.

Deferred Policy Acquisition Costs - Policy acquisition costs consist of commissions, premium taxes and other underwriting expenses. Policy acquisition costs that vary with and are directly related to the successful acquisition of new and renewal business are deferred and amortized ratably over the terms of the related policies.

Loss and Loss Adjustment Expenses Reserves - Loss and loss adjustment expenses (LAE) reserves represent the estimated ultimate net cost of all reported and unreported losses incurred but unpaid through December 31 and the estimated LAE related to those claims. Loss and LAE reserves are estimated using individual case-basis valuations and statistical analyses. These estimates are subject to the effects of trends in loss severity and frequency. Insurance losses and LAE expected to be paid after one year are discounted at an effective discount rate of 10.2% and 9.8% as of December 31, 2016 and 2015, respectively, commensurate with the risk involved. These discount factors are developed using Internal Revenue Service tables.

Although considerable variability is inherent in such estimates, management believes that the loss and LAE reserves are adequate. Such estimates are continually reviewed and adjusted as necessary, as experience develops or new information becomes known; such adjustments are reflected in current operations.

The liability has been stated gross of reinsurance amounts recoverable from other insurance companies. The amount recoverable from other insurance companies is reported as an asset on the balance sheets. Loss and LAE reserves are reported net of anticipated recovery for subrogation of approximately $107,000 and $181,000 as of December 31, 2016 and 2015, respectively.

Income Taxes - The Company uses the asset and liability method of accounting for income taxes. Under that method, deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and the tax bases of assets and liabilities, and are measured using the enacted tax rates expected to be in effect when such amounts are realized or settled. Deferred tax assets are also provided for operating loss carryforwards.

Income taxes are provided for the tax effects of transactions reported in the financial statements. Deferred income taxes are provided for the estimated tax effects of differences between the financial statement carrying amounts and the tax bases of recognized assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized.

Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Company's financial statements. The Company has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2016. Interest and penalties related to income tax assessments, if any, are reflected in income tax expense in the accompanying statements of operations.

Premium Revenue - Premiums from policyholders are recognized as earned on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums on the balance sheet. The Company estimates, based on historical experience, premiums earned or refunded as a result of payroll audits performed at the end of the policy term. There were no amounts estimated to be refundable as of December 31, 2016 or 2015. The Company performs ongoing risk and credit evaluations of its insured members and generally does not require collateral. Premiums collected before the effective date of a policy are recorded as a liability (advance premiums) until the policy becomes effective.

GAAP require management to determine if unearned premiums are adequate to cover anticipated losses and other expenses. If unearned premiums are not expected to be sufficient to cover such costs, a premium deficiency is recognized for the difference by first reducing any unamortized deferred acquisition costs and then establishing a liability if the deficiency exceeds unamortized deferred acquisition costs. Anticipated investment income is not used in determining any premium deficiency. The Company had no such deficiency at December 31, 2016 and 2015.

Reinsurance - Reinsurance premiums, losses, and LAE are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contract.

Risks and Uncertainties

The Company provides workers' compensation insurance primarily in the states of North Carolina, Virginia, Tennessee, Kentucky and Georgia. The Company's business could be impacted by negative effects of economic and political forces in these states, pricing pressure on new and renewal business, the ability to effectively manage expenses, market competition, and federal and state legislation or governmental regulations of insurance companies. Also, the Company is subject to regulatory requirements, as discussed in Note 9.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Company has evaluated the recognition and disclosure of subsequent events for its financial statements through May 11, 2017, the date which the financial statements were available to be issued. There were no subsequent events through the evaluation date that merit disclosure or which would have a material impact on the financial position of the Company.

Recent and Future Accounting Pronouncements

Management's Responsibility to Evaluate Going Concern

The Company adopted Accounting Standards Update ("ASU") No. 2014-15 ("ASU 2014-15"), *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU adds management responsibility to evaluate going concern uncertainties, and requires for going concern disclosures to be included, if applicable. The adoption of ASU 2014-15 is effective for fiscal years ending after December 15, 2016 and interim periods within fiscal years beginning after December 15, 2016. Management has completed its assessment for the year ended December 31, 2016 and there were no items noted which would require disclosure.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. ASU 2016-13 is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The update broadens the information that an entity must consider in developing its expected credit loss estimates, and is meant to better reflect an entity's current estimate of all expected credit losses. In addition, this update amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The update is effective for annual periods beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact that the recently issued accounting standard will have on the Company's financial position and results of operations, but does not expect it to have a material impact.

2. Securities Held to Maturity

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair values of fixed maturity investments held to maturity at December 31, are as follows:

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and agencies	$ 25,991,269	$ 7,116	$ (372,111)	$ 25,626,274
Political subdivisions	4,948,427	11,900	(48,605)	4,911,722
Special revenue and assessments	15,683,251	59,757	(161,365)	15,581,643
Industrial and miscellaneous	15,876,286	40,503	(57,185)	15,859,604
Mortgage-backed securities	1,740,803	44,406	(1,158)	1,784,051
Total	$ 64,240,036	$ 163,682	$ (640,424)	$ 63,763,294

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and agencies	$ 23,275,965	$ 28,287	$ (92,043)	$ 23,212,209
Political subdivisions	3,730,773	16,559	(10,648)	3,736,684
Special revenue and assessments	16,918,450	66,154	(107,377)	16,877,227
Industrial and miscellaneous	17,632,532	33,030	(129,103)	17,536,459
Mortgage-backed securities	2,308,756	52,506	(2,840)	2,358,422
Total	$ 63,866,476	$ 196,536	$ (342,011)	$ 63,721,001

Proceeds from redemption or maturities of fixed maturity investments in 2016 and 2015 were $40,799,672 and $32,382,453, respectively. The Company reported gross gains of $29,730 and gross losses of $42,494 on those redemptions and maturities during 2016. The Company reported gross gains of $17,045 and gross losses of $157 on redemptions and maturities during 2015.

The amortized cost and estimated fair value of fixed maturity investments at December 31, 2016, by contractual maturity, are shown below.

Years to Maturity	Amortized Cost	Estimated Fair Value
1 year or less	$ 13,918,649	$ 13,906,230
After 1 through 5	30,684,326	30,532,589
After 5 through 10	14,353,873	14,036,126
After 10 years	3,542,385	3,504,298
Mortgage-backed securities	1,740,803	1,784,051
	$ 64,240,036	$ 63,763,294

Actual maturities may differ from contractual maturities, as the issuers of the securities may have the right to call or prepay obligations with or without penalty.

The following tables show the Company's investments' estimated fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31:

	2016					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Fixed maturities						
U.S. government obligations	$ 10,871,095	$ (283,455)	$ 9,678,229	$ (88,656)	$ 20,549,324	$ (372,111)
Political subdivisions	1,993,842	(34,462)	1,210,548	(14,143)	3,204,390	(48,605)
Special revenue	7,972,235	(148,934)	3,010,800	(12,431)	10,983,035	(161,365)
Industrial and miscellaneous	3,380,955	(14,508)	3,668,750	(42,677)	7,049,705	(57,185)
Mortgage-backed Securities	-	-	428,284	(1,158)	428,284	(1,158)
Total securities	$ 24,218,127	$ (481,359)	$ 17,996,611	$ (159,065)	$ 42,214,738	$ (640,424)

	2015					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Fixed maturities						
U.S. government obligations	$ 13,195,610	$ (38,777)	$ 5,584,783	$ (53,266)	$ 18,780,393	$ (92,043)
Political subdivisions	-	-	1,247,916	(10,648)	1,247,916	(10,648)
Special revenue	9,179,337	(97,345)	1,511,250	(10,032)	10,690,587	(107,377)
Industrial and miscellaneous	7,681,310	(56,046)	3,683,333	(73,057)	11,364,643	(129,103)
Mortgage-backed Securities	561,158	(2,840)	-	-	561,158	(2,840)
Total securities	$ 30,617,415	$ (195,008)	$ 12,027,282	$ (147,003)	$ 42,644,697	$ (342,011)

The evaluation of securities for other-than-temporary impairments is a quantitative and qualitative process, which is subject to risks and uncertainties, and is intended to determine whether declines in the estimated fair value of investments should be recognized in current-period earnings. The evaluation includes changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads, and the duration of a decline in fair value as compared to the investment's expected recovery period.

A total of 50 and 61 securities had unrealized losses at December 31, 2016 and 2015, respectively. The Company's unrealized losses on its fixed maturity investments were caused by interest rate increases. Since the decline in estimated fair value is attributable to changes in interest rates and not credit quality, and the Company has the intent and ability to hold these investments through a recovery of the unrealized losses, even if not until maturity of the individual securities, the Company does not consider these investments other-than-temporarily impaired.

Major categories of investment income, net of expenses, are summarized as follows:

	2016	**2015**
Income		
Fixed maturity investments	**$ 1,053,490**	$ 977,056
Cash and short-term investments	**8,136**	2,614
	1,061,626	979,670
Investment expenses	**(84,042)**	(80,850)
Investment income, net	**$ 977,584**	$ 898,820

3. Fair Value of Financial Assets and Liabilities

Valuation Hierarchy

Accounting Standards Codification Topic 820 clarifies the definition of fair value, establishes a hierarchy for measuring estimated fair value, and expands disclosures about measurement methodology and its effects on estimated fair value. It does not change which assets or liabilities are measured at estimated fair value.

The hierarchy established by this standard consists of three levels to indicate the quality of the estimated fair value measurements as described below:

Level 1 - Quoted Prices in Active Markets for Identical Assets and Liabilities: Unadjusted quoted prices for identical assets or liabilities in active markets that are readily and regularly obtainable.

Level 2 - Significant Other Observable Inputs: Quoted prices in markets that are not active or inputs that are observable either directly or indirectly. These inputs can include quoted prices for similar but not identical assets or liabilities other than quoted prices in Level 1.

Level 3 - Significant Unobservable Inputs: Unobservable inputs that are supported by little or no market activity and are significant to the determination of estimated fair value of the assets and liabilities. Unobservable inputs reflect the entity's assumptions about the assumptions that market participants would use in the pricing of the asset or liability.

As of December 31, 2016 and 2015, the Company held no financial assets or liabilities reported at estimated fair value measured on a recurring or a non-recurring basis.

4. Deferred Policy Acquisition Costs

Deferred policy acquisition costs consist of amounts paid for commissions and premium taxes that relate directly to and vary directly with the successful acquisition of new and renewal business. All deferred policy acquisition costs are related to 12-month policies.

The policy acquisition costs that the Company has capitalized and is amortizing over the effective periods of the related policies are as follows for the years ended December 31:

	2016	2015
Deferred policy acquisition costs, beginning of year	**$ 1,254,708**	$ 1,136,595
Deferred policy acquisition costs capitalized	**3,657,651**	3,377,938
Deferred policy acquisition costs amortized	**(3,449,789)**	(3,259,825)
Deferred policy acquisition costs, end of year	**$ 1,462,570**	$ 1,254,708

5. Loss and Loss Adjustment Expenses

Activity related to the loss and LAE reserves is summarized as follows:

	2016	2015
Balances at January 1	**$ 28,426,000**	$ 29,874,000
Less reinsurance recoverables	**24,000**	72,000
Net balances at January 1	**28,402,000**	29,802,000
Incurred related to:		
Current year	**20,410,000**	19,768,000
Prior years	**(6,875,000)**	(6,308,000)
Total incurred	**13,535,000**	13,460,000
Paid related to:		
Current year	**6,209,000**	5,549,000
Prior years	**9,158,000**	9,311,000
Total paid	**15,367,000**	14,860,000
Net balances at December 31	**26,570,000**	28,402,000
Plus reinsurance recoverables	**-**	24,000
Balances at December 31	**$ 26,570,000**	$ 28,426,000

The Company realized approximately $6,875,000 and $6,308,000 in favorable development on prior accident years during the years ended December 31, 2016 and 2015, respectively. This decrease represents 24% and 21% of loss and LAE reserves of approximately $28,426,000 and $29,874,000 as of December 31, 2015 and 2014, respectively. Increases and decreases of this nature occur as a result of claim settlements, and receipt and evaluation of additional information regarding unpaid claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of loss and LAE reserves.

6. Income Taxes

The provision for income taxes for the years ended December 31 consisted of the following:

	2016	2015
Current income tax expense	**$ 2,738,791**	$ 2,990,329
Deferred income tax expense	**547,000**	46,000
Income tax expense	**$ 3,285,791**	$ 3,036,329

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for income tax purposes. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31 are as follows:

	2016	2015
Deferred tax assets (liabilities)		
Loss and LAE reserves	**$ 35,000**	$ 611,000
Unearned premiums	**1,017,000**	922,000
Deferred policy acquisition costs	**(497,000)**	(427,000)
Capital loss carryforward	**4,000**	-
Total net deferred tax assets	**$ 559,000**	$ 1,106,000

The effective income tax rate for 2016 and 2015 differs from the statutory federal income tax rate primarily due to the true-up impact of prior years' over-accruals of $530,963 and 231,751, respectively.

The Company only files income tax returns in the federal jurisdiction. Tax years ended 2013 and after remain subject to examination by tax authorities, generally, for a period of three years after the returns were filed.

The Company analyzed filing positions in the federal jurisdiction where it is required to file income tax returns on all open tax years in this jurisdiction. The Company did not have any uncertain tax positions and consideration of uncertain tax positions had no effect on the Company's financial condition or results of operations.

7. Reinsurance

Certain premiums and losses are ceded to other insurance companies under various excess of loss reinsurance agreements. The ceded reinsurance agreements are intended to provide the Company with the ability to maintain its exposure to losses within its equity resources. 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 to it under reinsurance contracts. Therefore, the Company is subject to credit risk with respect to the obligations of its reinsurers, and any failure on the part of these reinsurers could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company limits the maximum net loss it can sustain for a single claim through the purchase of excess of loss coverage. For 2016 and 2015, the specific excess insurance covered claims in excess of $1,000,000, up to statutory limits. The ceded excess exposure is treated as the risk and liability of the assuming reinsurance carrier.

A reconciliation of direct to net premiums, on both a written and an earned basis, for 2016 and 2015 are as follows:

	2016		2015	
	Written	**Earned**	**Written**	**Earned**
Direct premiums	**$ 32,721,280**	**$ 31,326,658**	$ 29,831,758	$ 28,182,103
Ceded premiums	**(1,700,082)**	**(1,700,082)**	(1,762,938)	(1,762,938)
Assumed premiums	**1,740,773**	**1,812,788**	1,793,442	1,712,965
Net	**$ 32,761,971**	**$ 31,439,364**	$ 29,862,262	$ 28,132,130

Loss and LAE recoverables from reinsurers were $0 and $24,000 in 2016 and 2015, respectively. The Company had recoveries of losses and LAE in 2016 and 2015 of $876,669 and $318,650, respectively.

8. Related Party Transactions

The Company has a servicing agent agreement with iSurity, Inc., which assigns responsibility to iSurity, Inc., for various administrative and management services on behalf of the Company. Service agents' fees for the years ended December 31, 2016 and 2015 were $4,602,107 and $4,227,354, respectively; $383,210 and $340,225 are payable at December 31, 2016 and 2015, respectively. These amounts are recorded and included as payable to affiliate in the accompanying balance sheets. This agreement may be terminated in accordance with certain provisions stipulated in the agreement. In the event this contract is terminated, the servicing agent would remain responsible for claims administration on all unsettled claims incurred during the period the servicing agent's contract was in effect. It is the Company's policy to settle all balances within 30 days of notification.

9. Regulatory Matters

Surplus

The Company maintains minimum surplus under the guidelines of the risk-based capital (RBC) requirements promulgated by the National Association of Insurance Commissioners. These guidelines require property and liability insurers to maintain minimum capitalization levels based on a four-part formula. The Company action level requirement at December 31, 2016 and 2015 was $4,456,036 and $3,027,654, respectively. As of December 31, 2016 and 2015, the Company's policyholders' surplus of $44,744,908 and $38,183,568, respectively, was in excess of these amounts.

The Company is subject to compliance with the provisions relating to accounting and financial matters of North Carolina General Statute 58-47-85 (the Statute) and the related regulations that are applicable to insurance companies.

Policyholder Dividends

Under the North Carolina General Statutes, the Company is allowed to pay dividends to policyholders. The dividends must be approved by the Board of Directors, and "extraordinary dividends" cannot be paid until (i) receiving approval from the NCDOI, or (ii) the NCDOI has not disapproved of the dividend within 30 days of the Company notifying the Department of its intent. An "extraordinary dividend" is any dividend that exceeds the lesser of (a) 10% of the Company's statutory surplus at the previous December 31, or (b) the net income, not including realized capital gains, for the 12-month period ending the preceding December 31. As of December 31, 2016, the maximum amount of dividends that were available to be paid without NCDOI approval was approximately $4,474,000.

10. Commitments and Contingencies

Assessments, other than guaranty fund assessments, are accrued either at the time of assessment 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. The Company incurred assessment fees from the NCDOI of $377,934 and $184,528 for the years ended December 31, 2016 and 2015.

All Other Contingencies

Various lawsuits against the Company have arisen in the course of the Company's business. Management does not consider contingent liabilities arising from litigation and other matters to be material in relation to the financial position of the Company.

11. Financial Instruments with Off Balance Sheet Risk

The Company is exposed to credit-related losses in the event that a bond issuer defaults on its obligation. The Company mitigates its exposure to these credit-related losses by maintaining bonds with high credit ratings.

The Company is exposed to credit-related losses in the event that a reinsurer is unable to honor its obligations to the Company. The Company mitigates its exposure to losses from insolvent reinsurers by continuously monitoring credit ratings of all of the Company's reinsurers.

The Company is exposed to concentration of credit risk because of cash deposits in excess of federally insured limits. The Company mitigates its exposure to losses from these cash deposits by monitoring the financial stability of the financial institutions involved.

As of December 31, 2016 and 2015, the Company had investments in mortgage-backed securities with amortized cost of $1,740,803 and $2,308,756, or 2.7% and 3.6%, of its held-to-maturity securities portfolio, respectively.