ALPS Property & Casualty Insurance Company

Statutory Financial Statements
and Supplementary Schedules
(With Independent Auditor's Report Thereon)
December 31, 2017 and 2016

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Directors
ALPS Property & Casualty Insurance Company
d/b/a Attorneys Liability Protection Society, A Risk Retention Group

Report on the Financial Statements
We have audited the accompanying statutory financial statements of ALPS Property & Casualty Insurance Company, which comprise the statutory statements of admitted assets, liabilities, capital and surplus as of December 31, 2017 and 2016; the related statutory statements of operations, changes in capital and surplus, and cash flows for the years then ended; and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with the accounting practices prescribed or permitted by the Montana Commissioner of Securities and Insurance; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of statutory 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 statutory 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 statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory 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 statutory 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 statutory financial statements.

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

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America
As described in Note 2 to the statutory financial statements, ALPS Property & Casualty Insurance Company prepared these financial statements using accounting practices prescribed or permitted by the Montana Commissioner of Securities and Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America are material and are described in Note 2.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of ALPS Property & Casualty Insurance Company as of December 31, 2017 and 2016, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting
In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of ALPS Property & Casualty Insurance Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 2.

Report on Supplementary Information
Our audits were conducted for the purpose of forming an opinion on the basic statutory financial statements taken as a whole. The accompanying summary investment schedule as of December 31, 2017, and investment risks and reinsurance interrogatories as of December 31, 2017, and for the year then ended (supplementary information) are presented for purposes of additional analysis and are not a required part of the basic statutory financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. The effects on the supplementary information of the variances between the statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplementary information does not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of ALPS Property & Casualty Insurance Company as of December 31, 2017, and for the year then ended. The supplementary information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements, or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the statutory financial statements taken as a whole.

RSM US LLP

Omaha, Nebraska
April 26, 2018

ALPS Property & Casualty Insurance Company

Statutory Statements of Admitted Assets, Liabilities, Capital and Surplus
December 31, 2017 and 2016

	2017	2016
Admitted Assets		
Invested assets and cash:		
Bonds	**$ 99,711,457**	$ 90,761,290
Common stocks	**7,301,883**	7,326,900
Other invested assets	**3,145,842**	-
Receivable for securities	**1,010**	819
Cash and short-term investments	**14,016,530**	8,211,797
Total invested assets and cash	**124,176,722**	106,300,806
Other admitted assets:		
Premiums receivable	**3,193,932**	3,053,851
Accrued investment income	**1,173,673**	1,199,033
Reinsurance receivable	**443,057**	428,518
Deferred tax assets	**2,102,788**	3,342,828
Deductible receivable	**68,686**	14,097
Receivable from affiliates	**-**	14,523
Total other admitted assets	**6,982,136**	8,052,850
Total admitted assets	**$ 131,158,858**	$ 114,353,656
Liabilities, Capital and Surplus		
Liabilities:		
Reserve for loss and loss adjustment expense	**$ 56,566,142**	$ 52,726,429
Unearned premiums	**15,229,060**	14,073,231
Ceded reinsurance premium payable	**4,171,707**	3,415,678
Funds held under reinsurance treaties	**11,557,293**	2,078,295
Advanced premiums	**2,017,258**	2,172,003
Accrued taxes and licenses payable	**132,638**	191,718
Other expenses payable	**229,594**	242,580
Remittances and items not allocated	**265,824**	218,627
Due to broker	**-**	922,934
Due to parent, subsidiaries and affiliates	**271,957**	-
Amounts withheld or retained by company for the account of others	**10,099**	3,895
Total liabilities	**90,451,572**	76,045,390
Capital and surplus:		
Certificates of contribution	**185,009**	256,324
Common stock, $1 par; 5,000,000 shares authorized, issued and outstanding	**5,000,000**	5,000,000
Paid-in and contributed surplus	**700,652**	700,652
Surplus notes	**10,166,787**	10,504,413
Unassigned surplus	**24,654,838**	21,846,877
Total capital and surplus	**40,707,286**	38,308,266
Total liabilities, capital and surplus	**$ 131,158,858**	$ 114,353,656

See notes to statutory financial statements.

ALPS Property & Casualty Insurance Company

Statutory Statements of Operations
Years Ended December 31, 2017 and 2016

	2017	2016
Underwriting income:		
Gross premiums written	**$ 48,388,079**	$ 45,756,642
Reinsurance ceded	**(15,847,559)**	(15,115,327)
Net premiums written	**32,540,520**	30,641,315
Change in unearned premiums	**(1,155,829)**	(409,040)
Net premiums earned	**31,384,691**	30,232,275
Underwriting expenses:		
Losses incurred	**13,294,217**	8,638,884
Loss adjustment expenses incurred	**7,036,452**	11,846,162
Other underwriting expenses, net of reinsurance ceding commission of $165,833 and $163,703, respectively	**10,865,480**	9,851,094
Total losses and underwriting expenses	**31,196,149**	30,336,140
Underwriting income (loss)	**188,542**	(103,865)
Realized loss on investments, net of income tax benefit of $71,232 and $168,416, respectively	**(138,277)**	(326,926)
Investment income, net of investment expense of $834,360 and $1,014,524, respectively	**3,719,055**	3,407,971
Other income	**186,021**	184,078
Income before federal income taxes	**3,955,341**	3,161,258
Provision for federal income taxes	**(579,606)**	(451,320)
Net income	**$ 3,375,735**	$ 2,709,938

See notes to statutory financial statements.

ALPS Property & Casualty Insurance Company

Statutory Statements of Changes in Capital and Surplus
Years Ended December 31, 2017 and 2016

	Common Stock		Paid-In and Contributed	Certificates of	Surplus	Unassigned	
	Shares	Amount	Surplus	Contribution	Notes	Surplus	Total
Balance, December 31, 2015	5,000,000	$ 5,000,000	$ 1,058,101	$ 339,716	$ 11,272,280	$ 18,324,744	$ 35,994,841
Net change in unrealized gains	-	-	-	-	-	289,367	289,367
Surplus refunds	-	-	-	(83,392)	-	-	(83,392)
Adjustment to paid-in surplus	-	-	(357,449)	-	357,449	-	-
Repayment of surplus notes	-	-	-	-	(1,125,316)	-	(1,125,316)
Net change in nonadmitted assets	-	-	-	-	-	1,356,495	1,356,495
Net change in deferred taxes	-	-	-	-	-	(833,667)	(833,667)
Net income	-	-	-	-	-	2,709,938	2,709,938
Balance, December 31, 2016	5,000,000	5,000,000	700,652	256,324	10,504,413	21,846,877	38,308,266
Net change in unrealized gains	-	-	-	-	-	946,279	946,279
Surplus refunds	-	-	-	(71,315)	-	-	(71,315)
Repayment of surplus notes	-	-	-	-	(337,626)	-	(337,626)
Net change in nonadmitted assets	-	-	-	-	-	578,651	578,651
Net change in deferred taxes	-	-	-	-	-	(1,316,057)	(1,316,057)
Dividends to stockholders	-	-	-	-	-	(776,647)	(776,647)
Net income	-	-	-	-	-	3,375,735	3,375,735
Balance, December 31, 2017	**5,000,000**	**$ 5,000,000**	**$ 700,652**	**$ 185,009**	**$ 10,166,787**	**$ 24,654,838**	**$ 40,707,286**

See notes to statutory financial statements.

ALPS Property & Casualty Insurance Company

Statutory Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Premiums collected, net of reinsurance	**$ 33,001,723**	$ 29,011,295
Benefits and loss-related payments	**(8,406,752)**	(7,749,325)
Commissions and expenses paid	**(19,047,143)**	(18,810,642)
Investment income, net	**4,101,200**	3,680,233
Miscellaneous income	**186,021**	184,079
Federal income taxes paid	**(508,374)**	(282,903)
Net cash flows from operating activities	**9,326,675**	6,032,737
Cash flows from investing activities:		
Proceeds from sales, maturities and repayments of bonds	**15,946,445**	18,199,260
Proceeds from sale of stocks	**17,560,217**	260,087
Purchase of bonds	**(25,856,474)**	(30,556,563)
Purchase of stocks	**(16,776,843)**	(177,792)
Purchase of other invested assets	**(3,000,000)**	-
Net cash flows from investing activities	**(12,126,655)**	(12,275,008)
Cash flows from financing activities:		
Surplus notes, capital and surplus repaid	**(337,626)**	(1,125,316)
Dividends to stockholders	**(776,647)**	-
Miscellaneous proceeds (applications)	**9,718,986**	(1,065,353)
Net cash flows from financing activities	**8,604,713**	(2,190,669)
Net change in cash and short-term investments	**5,804,733**	(8,432,940)
Cash and short-term investments at beginning of year	**8,211,797**	16,644,737
Cash and short-term investments at end of year	**$ 14,016,530**	$ 8,211,797
Supplemental disclosures of noncash transactions:		
Change in payables for securities	**$ (922,934)**	$ 594,557

See notes to statutory financial statements.

Note 1. Organization

ALPS Property & Casualty Insurance Company (the Company) is a wholly owned subsidiary of ALPS Corporation, a stock corporation and parent holding company organized under Montana law. In addition to owning 100 percent of the outstanding shares of the Company, ALPS Corporation also owns 100 percent of the outstanding shares of the following entities: (i) ALPS Insurance Agency, Inc. (AIA), a Montana corporation that provides insurance underwriting, claims adjusting, insurance producer services and other insurance-related services; (ii) The Florence Missoula, LLC, a Montana limited liability company that owns and manages the Florence building, located in Missoula, Montana; and (iii) ALPS Risk and Insurance Services, Inc. (ARIS), a Montana corporation that formerly provided captive startup and management services. During 2016, ALPS Corporation discontinued and commenced to liquidate and wind up ARIS business operations.

The Company has entered into the following agreements with its affiliated entities: (i) Administrative Services and Cost Sharing Agreement, (ii) Insurance Services Agreement, (iii) Investment Management Agreement, (iv) Tax Allocation Agreement and (v) Facilities Use Agreement.

Under the Administrative Services and Cost Sharing Agreement, ALPS Corporation provides the Company with the following services: corporate officers, corporate services, financial and accounting, legal and regulatory, reinsurance, human resources, actuarial, policy form development and filing, information technology, production, mailroom, strategic planning, executive management, travel and transportation services, and investment management services. ALPS Corporation leases to the Company furniture, software and equipment.

Under the Insurance Services Agreement, AIA provides the Company with underwriting, claims, sales, marketing and insurance producer services.

Under the Investment Management Agreement, Peak Investment Management, Ltd. (Peak), formerly owned by ALPS Corporation, provided the Company with investment management services as a registered investment advisor. Effective September 30, 2016, the Company and Peak mutually agreed to terminate the Investment Management Agreement. Effective October 1, 2016, the Company entered into a new Investment Management Agreement with two unaffiliated registered investment advisors that now provide investment management services to the Company.

The Company is a party to a written Tax Allocation Agreement approved by the Company's Board of Directors, which sets forth the manner in which the total consolidated federal income tax for all entities is allocated to each entity that is a party to the consolidation. The written agreement provides that the consolidated tax liability shall be allocated pursuant to Reg. § 1.1502-33(d)(3) and 1.552-1(a)(1) to each member of the consolidated group, on a separate return basis, in accordance with a fraction, the numerator of which is the taxable income of each respective group member and the denominator of which is the aggregate taxable income of all members of the consolidated group. The estimated allocated tax liability of each group member is settled on a quarterly basis, with any final adjustments made within ninety (90) days after the filing of the group's consolidated income tax return.

Under the Facilities Use Agreement, The Florence Missoula, LLC leases office space to the Company.

The Company is a Montana corporation, admitted in and regulated by the State of Montana as a casualty insurance company. The Company issues policies of professional liability insurance, employment practices liability insurance and cyber risk liability insurance to attorneys and law firms. From the date it commenced business on March 1, 1988, until 2013, the Company was structured and operated exclusively as a risk retention group pursuant to the provisions of the federal Liability Risk Retention Act (LRRA).

Note 1. Organization (Continued)

As of December 31, 2017, the Company operates exclusively as a fully licensed and admitted insurance company in 45 states, the District of Columbia and the U.S. Virgin Islands. The Company relinquished its status and eligibility as a risk retention group effective as of July 8, 2016, and the Company no longer issues policies of insurance as a risk retention group in any jurisdiction.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Montana Commissioner of Securities and Insurance, which requires insurance companies domiciled in the state of Montana to prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual*, subject to any deviations prescribed or permitted by the Montana Commissioner of Securities and Insurance. The Company does not employ any permitted practices in the preparation of its statutory financial statements.

These statutory accounting practices (SAP) comprise a comprehensive basis of accounting other than accounting practices generally accepted in the United States of America (GAAP) and differ in some respects. The more significant of these differences are as follows:

- Certain assets designated as “nonadmitted” are excluded from the statutory statement of admitted assets, liabilities, capital and surplus. The change in nonadmitted assets is credited directly to or charged directly against unassigned surplus. Under GAAP, these nonadmitted assets are included in the balance sheet, subject to realizability.

- Investments in bonds with an NAIC rating of 1 or 2 are carried at amortized cost, whereas bonds with an NAIC rating of 3 through 6 are written down to fair value (if less than amortized cost) by charging statutory surplus. Under GAAP, bonds are classified as held-to-maturity, available-for-sale or trading. Bonds classified as held-to-maturity are carried at amortized cost; bonds classified as available-for-sale are stated at fair value, with the resulting unrealized gains and losses, net of applicable income taxes, credited or charged to surplus; and bonds held for trading purposes are carried at fair value, with the resulting unrealized gains and losses reported in earnings.

  The fair value of investments on a statutory basis is determined by the Securities Valuation Office (SVO), whereas for GAAP, the fair value of investments is determined based on the exit price.

  For loan-backed and structured securities, if the Company determines that it intends to sell a security or no longer has the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security shall be written down to fair value. For statutory purposes, if the Company subsequently changes its assertion, and does not intend to sell the security and has the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, the Company will continue to carry that security at the lower of cost or market, with any future decreases in fair value charged through operations until the security is disposed. For GAAP purposes, once the Company alters its assertion, that security's amortized cost basis will not be decreased for future reductions in fair value unless a subsequent other-than-temporary impairment is determined to have occurred.

  Also, for GAAP purposes, other-than-temporary impairment losses related to non-loan-backed and structured securities are bifurcated between credit and noncredit, whereas for statutory purposes, the total other-than-temporary impairment loss is reported in earnings.

Note 2. Summary of Significant Accounting Policies (Continued)

- Cash and short-term investments in the statutory statements of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with maturities of three months or less at the time of purchase. Further, GAAP requires the presentation of a reconciliation of net income to cash flows from operating activities.

- Commissions and other costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs, to the extent recoverable, are deferred and amortized to income as premiums are earned. Commissions allowed by reinsurers on business ceded are reported as income when received rather than being deferred and amortized with deferred policy acquisition costs, as required under GAAP.

- Reserves for losses and loss adjustment expenses ceded to reinsurers have been reported as reductions of the related reserves rather than as assets, as would be required by GAAP.

- Deferred federal income taxes are provided for the tax effects of certain income and expense items recognized for income tax purposes in different years than for financial reporting purposes. The change in the deferred tax asset or liability is reflected in surplus. GAAP requires the change to be reported in income. Admittance testing may result in a charge to capital and surplus for nonadmitted portions of the deferred tax asset. State taxes are not considered for statutory purposes in calculating a deferred tax asset or liability; however, they are considered for GAAP purposes.

  Both statutory and GAAP guidance requires a valuation allowance be established where the deferred tax asset is reduced to its realizable value, if based on the weight of available evidence it is more likely than not that some portion or all of a gross deferred tax asset will not be realized. Changes in valuation allowance are reported in a manner similar to which changes in deferred tax assets and liabilities are reported, as noted above.

- Surplus notes are included in surplus for statutory purposes, but are considered liabilities for GAAP. Interest expense is not recognized for statutory purposes until it is approved by the state of domicile, whereas for GAAP, the interest is accrued monthly.

- Receivables over 90 days outstanding are not admitted in the statutory financial statements and are charged to surplus, whereas for GAAP, the Company assesses the collectibility of premiums receivable, and any charge is reflected in the income statement.

- Comprehensive income is not reflected in accordance with the requirements of GAAP. Instead, changes in unrealized gains and losses on investments are charged directly to unassigned surplus.

- Statutory financial statements are prepared in a form and using language and groupings substantially the same as the annual statements of the Company filed with the National Association of Insurance Commissioners (NAIC) and state regulatory authorities, which differ from the presentation and disclosure of financial statements presented in accordance with GAAP.

Note 2. Summary of Significant Accounting Policies (Continued)

A reconciliation of net income and capital and surplus between amounts presented in conformity with GAAP and amounts presented herein is as follows for the years ended December 31:

	Net Income		Capital and Surplus	
	2017	2016	2017	2016
Amounts stated in conformity with GAAP	$ 2,210,377	$ 1,762,593	$ 35,135,109	$ 31,661,054
Other investment adjustments	-	-	(3,532,325)	(2,625,469)
Deferred policy acquisition costs	(245,349)	143,011	(1,678,097)	(1,432,748)
Nonadmitted assets	-	-	(257,663)	(836,314)
Deferred income taxes	1,426,964	782,393	850,866	998,464
Surplus note fees	(16,257)	21,941	22,609	38,866
Surplus notes	-	-	10,166,787	10,504,413
Amounts stated in conformity with SAP	$ 3,375,735	$ 2,709,938	$ 40,707,286	$ 38,308,266

Risk and uncertainties: Certain risks and uncertainties are inherent in the Company's day-to-day operations and in the process of preparing its statutory financial statements. The more significant of those risks and uncertainties, as well as the Company's method for mitigating the risks, are presented below and throughout the notes to the statutory financial statements.

Estimates: The preparation of the statutory financial statements in conformity with SAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. For example, significant estimates and assumptions are utilized in the valuation of investments, valuation of allowances for deferred income tax assets and doubtful accounts, and calculation of loss and loss adjustment expenses. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized, which could have a material impact on the statutory financial statements.

Reinsurance: Reinsurance contracts do not relieve the Company from its obligations to insureds. Failure of reinsurers to honor their obligation could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Management believes that any liability arising from this contingency would not be material to the Company's financial position.

Investment risks: The Company is exposed to risks that issuers of securities owned by the Company will default or that interest rates will change and cause a decrease in the value of its investments. With mortgage-backed securities, the Company is also exposed to prepayment risk, default risks on the underlying mortgages and devaluation of the underlying collateral. If interest rates decline, the velocity at which these securities pay down the principal will increase. Management mitigates these risks by conservatively investing in high-grade securities and by matching maturities of its investments with the anticipated payouts of its liabilities.

Note 2. Summary of Significant Accounting Policies (Continued)

Loss reserves: The Company estimates loss and loss adjustment expenses based on the accumulation of case estimates for direct claims and incidents reported, net of applicable policy deductibles and deduction of amounts for reinsurance ceded on reported claims and incidents. The liability for loss adjustment expenses (LAE) is provided by estimating future expenses to be incurred in settlement of the claims provided for in the reserves for losses, net of reinsurance ceded. Actual results could differ from these estimates.

External factors: The Company is regulated by the state of Montana, as well as states in which it does business. Such regulations, among other things, limit the amount of dividends and impose restrictions on the amount and type of investments. The Company may also be required to seek state approval for rates for policies written in each respective state. Certain states may impose requirements on the coverage provided and restrictions on the amount of rate increases the Company seeks on policies written in that state.

Risk-based capital: The National Association of Insurance Commissioners (NAIC) has developed risk-based capital (RBC) standards for property and casualty insurers that relate an insurer's reported statutory surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to protect the Company from various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC capital deficiency, if any. The Company continues to monitor internal capital levels to ensure that they are in excess of the minimum capital requirements for all RBC action levels. Management believes that the Company's capital levels are sufficient to support the level of risk inherent in its operations.

Concentrations of credit risk: The credit quality of the bond and short-term investment portfolio at December 31, 2017 and 2016, is presented in the following table:

		2017		2016	
		Statement Amount	Percentage	Statement Amount	Percentage
NAIC—1	Highest quality	$ 105,349,458	95%	$ 88,292,115	94%
NAIC—2	High quality	4,111,040	4%	3,229,657	4%
NAIC—3	Medium quality	204,460	0%	1,067,120	1%
NAIC—4	Low quality	-	0%	514,082	1%
NAIC—5	Lower quality	136,648	0%	-	0%
NAIC—6	In or near default	70,500	0%	160,804	0%
		$ 109,872,106	99%	$ 93,263,778	100%

Bonds with ratings from AAA to BBB, as assigned by Standard & Poor's Corporation, are generally considered investment-grade securities. Some securities issued by the United States government or an agency thereof are not rated but are considered to be investment grade. The NAIC regards United States Treasuries and agencies and all A ratings as Class 1 (highest quality), BBB ratings as Class 2 (high quality), BB ratings as Class 3 (medium quality), B ratings as Class 4 (low quality), C ratings as Class 5 (lower quality), and D ratings as Class 6 (in or near default).

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue recognition: Premiums are recognized as revenue on a daily pro rata basis over the policy period. Unearned premiums are established to cover the unexpired portion of policies written and are computed on a pro rata basis. Advanced premiums are deferred until the effective date of the policy, at which time they are recognized as revenue on a pro rata basis over the term of the policy. The cost of reinsurance ceded is recognized ratably over the term of the underlying direct policies.

Loss and loss adjustment expenses: Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and, while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in the period determined.

Cash and short-term investments: The Company considers all highly liquid investments with a maturity of one year or less at the date of acquisition and all nonnegotiable certificates of deposit to be part of cash and short-term investments. From time to time, certain bank accounts that are subject to limited Federal Deposit Insurance Corporation (FDIC) coverage exceed their insured limits, sometimes by substantial amounts. The Company periodically reviews the risk this poses, and has determined it to be minimal. The Company has not experienced any losses in such accounts as a result of this concentration and believes it is not exposed to any significant credit risk on cash balances.

Investments: Investments, excluding residential and commercial mortgage-backed securities not guaranteed by federal or federally sponsored agencies, are stated at carrying values prescribed by the NAIC's SVO. Accordingly, non–loan-backed bonds rated 1 and 2 by the NAIC are stated at amortized cost using the scientific-interest method, with bonds containing call provisions being amortized to the call or maturity date, whichever results in a lower asset value.

Loan-backed bonds rated 1 and 2 by the NAIC are stated at amortized cost using the scientific-interest method, including anticipated prepayments.

All bonds rated 3 through 6 are carried at the lower of amortized cost or fair value with the change run through capital and surplus, net of applicable taxes.

Short-term investments are stated at amortized value using the scientific-interest method. Non–investment-grade short-term investments are stated at the lower of amortized cost or fair value.

Prepayment assumptions for single-class and multiclass mortgage-backed/asset-backed securities were obtained from broker-dealer survey values or internal estimates. The retrospective adjustment method is used to value all loan-backed securities.

Common stocks and mutual funds are stated at fair value, with unrealized gains and losses being reported in unassigned surplus, net of applicable taxes.

Investments in joint ventures, partnerships and limited liability companies are stated at the underlying audited GAAP equity value, with unrealized gains and losses being reported in unassigned surplus, net of applicable taxes.

Note 2. Summary of Significant Accounting Policies (Continued)

The assessment of other-than-temporary impairments is performed on a case-by-case basis. Factors considered by management in determining whether an other-than-temporary impairment exists (in other than loan-backed or structured investment securities) include the financial condition, business prospects and creditworthiness of the issuer, the length of time and extent to which fair value has been less than cost for equity securities or amortized cost for fixed-income securities, and the Company's intent and ability to retain such investments until the fair value recovers. If it is determined that the decline in fair market value is other than temporary, the carrying amount of the investment is written down to fair value as its new basis, and the amount of the write-down is recorded as a realized loss.

For loan-backed or structured securities, factors considered by management in determining whether an other-than-temporary impairment exists include the Company's stated intent to not sell, the Company's ability to hold such investments until the fair value recovers, and the discounted cash flows of the security based on the yield at the date of acquisition. If the Company intends to sell or if the Company does not have the ability and intent to hold the security for a period of time sufficient to recover its amortized cost basis, an other-than-temporary impairment exists, and the security is written down to fair value with the amount of the write-down recorded as a realized loss. If the Company does not intend to sell the security and has the ability and intent to hold the security for a period of time sufficient to recover the amortized cost basis, the Company calculates the cash flows expected to be collected. In this calculation, the Company compares the present value of cash flows expected to be collected, discounted at the security's effective interest rate at the date of purchase, to the amortized cost basis. If the present value of cash flows is less than the amortized cost basis, a realized loss is recorded for the difference. The present value of cash flows then becomes the new cost basis.

The Company may, from time to time, sell invested assets subsequent to the statutory statement of admitted assets, liabilities, capital and surplus date that were considered temporarily impaired at the statutory statement of admitted assets, liabilities, capital and surplus date for several reasons. For all subsequent sales of invested assets that were considered temporarily impaired at the statutory statement of admitted assets, liabilities, capital and surplus date, the Company contemporaneously documents its rationale for its change in intent or ability to hold to recovery. The rationale for the change in the Company's ability and intent generally focuses on changes in the economic facts and circumstances related to the invested asset subsequent to the statutory statement of admitted assets, liabilities, capital and surplus date, significant unforeseen changes in the Company's liquidity needs, or changes in tax laws or the regulatory environment.

Accrued investment income: Investment income is accrued when earned. The Company does not admit investment income due and accrued over 90 days past due.

Income taxes: Current income taxes incurred are recognized in the statutory statements of operations based on tax returns for the current year and tax contingencies for the current and all prior years, to the extent not previously provided.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the statutory financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Gross deferred tax assets and liabilities are measured using enacted tax rates and are considered for admitted asset status according to the admissibility tests as set forth by the NAIC. Changes in deferred tax assets and deferred tax liabilities, including changes attributable to changes in tax rates, are recognized as a component of policyholders' surplus.

Note 2. Summary of Significant Accounting Policies (Continued)

Gross deferred income tax assets are reduced by a valuation allowance if the Company determines it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Adjusted deferred income tax assets are limited to (1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse during a time frame corresponding with IRS tax loss carryback provisions, not to exceed three years, plus (2) the lesser of the remaining gross deferred income tax assets expected to be realized within three years of the statutory statement of admitted assets, liabilities, capital and surplus date or 15 percent of capital and surplus (subject to certain limitations), excluding any net deferred income tax assets, electronic data processing equipment and operating software, and any net positive goodwill, plus (3) the amount of remaining gross deferred income tax assets that can be offset against existing deferred income tax liabilities. The remaining deferred income tax assets in excess of the above are nonadmitted. Deferred income taxes do not include amounts for state taxes.

Note 3. Investments

At December 31, 2017 and 2016, the amortized cost and the estimated fair value of the Company's investment securities are as follows:

	December 31, 2017			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bonds:				
U.S. government and agencies	$ 223,675	$ -	$ 1,015	$ 222,660
State, municipal and other governments	76,977,321	3,378,480	206,279	80,149,522
Corporate securities	5,819,811	25,414	14,437	5,830,788
Commercial mortgage-backed securities	4,009,737	10,733	14,353	4,006,117
Residential mortgage-backed securities	5,944,019	281,251	21,285	6,203,985
Other asset-backed securities	6,837,305	7,505	14,100	6,830,710
Total fixed maturities	99,811,868	$ 3,703,383	$ 271,469	$ 103,243,782
Adjustments for bonds carried at NAIC fair value:				
State, municipal and other governments	(100,411)			
	$ 99,711,457			
Equity securities	$ 6,519,358	$ 798,007	$ 15,482	$ 7,301,883
Other invested assets	$ 3,000,000	$ 145,842	$ -	$ 3,145,842

Note 3. Investments (Continued)

	December 31, 2016			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bonds:				
U.S. government and agencies	$ 110,081	$ -	$ 16	$ 110,065
State, municipal and other governments	71,927,891	2,458,557	1,864,277	72,522,171
Corporate securities	5,306,893	23,704	23,895	5,306,702
Commercial mortgage-backed securities	2,612,967	900	8,093	2,605,774
Residential mortgage-backed securities	5,854,494	429,146	2,821	6,280,819
Other asset-backed securities	6,200,908	369,065	8,745	6,561,228
Total fixed maturities	92,013,234	$ 3,281,372	$ 1,907,847	$ 93,386,759
Adjustments for bonds carried at NAIC fair value:				
State, municipal and other governments	(1,251,944)			
	$ 90,761,290			
Equity securities	$ 6,680,756	$ 1,291,158	$ 645,014	$ 7,326,900

The following tables present the estimated fair value and the gross unrealized losses, aggregated by investment category and length of time that individual investment securities have been in an unrealized loss position, at December 31, 2017 and 2016:

	December 31, 2017					
	Less Than 12 Months		Greater Than or Equal to 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Bonds:						
U.S. government agencies	$ 222,660	$ 1,015	$ -	$ -	$ 222,660	$ 1,015
State, municipal and other governments	6,441,167	50,499	3,805,748	155,780	10,246,915	206,279
Corporate securities	3,569,124	13,410	163,295	1,027	3,732,419	14,437
Commercial mortgage-backed securities	3,045,288	14,353	-	-	3,045,288	14,353
Residential mortgage-backed securities	2,367,253	20,138	56,175	1,147	2,423,428	21,285
Other asset-backed securities	3,492,476	12,570	249,378	1,530	3,741,854	14,100
	19,137,968	111,985	4,274,596	159,484	23,412,564	271,469
Equity securities	580,398	15,482	-	-	580,398	15,482
Total	$ 19,718,366	$ 127,467	$ 4,274,596	$ 159,484	$ 23,992,962	$ 286,951

Note 3. Investments (Continued)

	December 31, 2016					
	Less Than 12 Months		Greater Than or Equal to 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Bonds:						
U.S. government agencies	$ 111,065	$ 16	$ -	$ -	$ 111,065	$ 16
State, municipal and other governments	22,397,153	1,265,048	518,934	599,229	22,916,087	1,864,277
Corporate securities	4,051,875	23,895	-	-	4,051,875	23,895
Commercial mortgage-backed securities	1,119,490	5,478	303,557	2,615	1,423,047	8,093
Residential mortgage-backed securities	19,466	324	209,333	2,497	228,799	2,821
Other asset-backed securities	1,271,216	8,745	-	-	1,271,216	8,745
	28,970,265	1,303,506	1,031,824	604,341	30,002,089	1,907,847
Equity securities	903,686	199,302	1,051,851	445,712	1,955,537	645,014
Total	$ 29,873,951	$ 1,502,808	$ 2,083,675	$ 1,050,053	$ 31,957,626	$ 2,552,861

The majority of the unrealized losses on fixed-income securities are due to interest rate changes and market segments that are experiencing temporary declines. The Company periodically examines its investment portfolio to determine if any investments are other-than-temporarily impaired. The Company asserts that it has the intent and ability to hold securities in an unrealized loss position long enough to allow the cost basis of these securities to be recovered. These conclusions are supported by a detailed analysis of each security by the Company's asset managers. It is possible that the Company could recognize other-than-temporary impairments in the future on some securities if future events, information and the passage of time cause it to conclude that declines in the value are other than temporary.

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

	Book Value	Fair Value
Due in one year or less	$ 724,225	$ 727,439
Due after one year through five years	18,254,531	18,712,622
Due after five years through 10 years	17,099,080	18,016,189
Due after 10 years through 20 years	43,800,941	45,577,980
Due after 20 years	19,832,680	20,209,552
Total	$ 99,711,457	$ 103,243,782

Note 3. Investments (Continued)

Major categories of net investment income are summarized as follows:

	Years Ended December 31	
	2017	2016
Fixed-income securities	$ 4,246,105	$ 4,057,662
Equity securities	262,684	328,664
Short-term investments	44,626	36,169
	4,553,415	4,422,495
Less investment expenses:		
Surplus note interest	478,392	428,225
Other investment expense	355,968	586,299
	834,360	1,014,524
Net investment income	$ 3,719,055	$ 3,407,971

Proceeds from the sales of investment securities during 2017 and 2016 were $27,813,946 and $5,443,636, respectively**.** Realized gains (losses) on investments recognized in the statutory statements of operations during the years presented are summarized as follows:

	Years Ended December 31	
	2017	2016
Gross realized gains:		
Fixed-income securities	$ 89,216	$ 158,542
Equity securities	1,304,079	20,132
Total	1,393,295	178,674
Gross realized losses:		
Fixed-income securities, including other-than-temporary impairments	(920,705)	(91,763)
Equity securities, including other-than-temporary impairments	(682,099)	(582,253)
Total	(1,602,804)	(674,016)
Tax on net realized capital gains (losses)	71,232	168,416
Net realized capital gains (losses), net of tax	$ (138,277)	$ (326,926)

In 2017, certain fixed-income securities became other-than-temporarily impaired and were written down to their fair value, which resulted in realized losses of $439,500 and are included in the table above. In 2016, certain equity securities became other-than-temporarily impaired and were written down to their fair value, which resulted in realized losses of $567,119 and are included in the table above.

The Company has placed in trust with the Montana Commissioner of Securities and Insurance investments with a carrying value of $2,822,686 and $2,815,404 at December 31, 2017 and 2016, respectively. Deposits with various other states at December 31, 2017 and 2016, had a carrying value of $2,066,382 and $1,817,713, respectively.

Note 4. Losses and Loss Adjustment Expense Reserves

The following table provides a reconciliation of the beginning and ending reserve balances for losses and loss adjustment expenses (LAE), net of reinsurance recoverable, for the years ended December 31, 2017 and 2016:

	2017	2016
Reserve for losses and LAE, beginning of year (net of reinsurance recoverable of $37,793,465 and $37,150,573 in 2017 and 2016, respectively)	$ 52,726,429	$ 49,623,606
Add provision (reduction) for losses and LAE, net of reinsurance, applicable to claims reported in:		
Current year	21,366,983	20,482,166
Prior years	(1,036,314)	2,880
Total incurred losses during the current year	20,330,669	20,485,046
Payments for losses and LAE, net of reinsurance, reported in:		
Current year	3,959,068	3,114,655
Prior years	12,531,888	14,267,568
Net claim payments during the year	16,490,956	17,382,223
Reserve for losses and LAE, end of year (net of reinsurance recoverable of $60,036,139 and $37,793,465 in 2017 and 2016, respectively)	$ 56,566,142	$ 52,726,429

Reserves for incurred losses and LAE attributable to claims reported to the Company in prior years have increased (decreased) by approximately $(1,036,000) and $3,000 during 2017 and 2016, respectively. These changes are generally the result of ongoing analysis of claim files. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Note 5. Reinsurance

The Company utilizes reinsurance contracts to reduce its exposure to losses in all aspects of its insurance business. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not relieve the Company from its primary liability to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers.

Amounts recoverable from reinsurers are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Management believes the recoverables are appropriately established. The Company generally strives to diversify its credit risks related to reinsurance ceded. There were no disputes with reinsurers at December 31, 2017 or 2016.

The Company holds letters of credit in the amount of approximately $7,705,620 and $7,608,000 at December 31, 2017 and 2016, respectively, to secure recoverable balances from unauthorized reinsurers.

The Company has no uncollectible reinsurance recoverables that were written off during the year.

Note 5. Reinsurance (Continued)

The Company has unsecured aggregate recoverables for losses, paid and unpaid, loss adjustment expenses, and unearned premium with the following individual reinsurers, authorized or unauthorized, exceeding 3 percent of policyholders' surplus at December 31:

	AM Best Rating	2017	2016
Aspen Insurance	A	$ 4,980,000	$ 2,676,000
Axa	NR	2,909,000	-
AXIS Reinsurance Co.	A+	5,685,000	3,695,000
Endurance Reinsurance	A	1,610,000	1,315,000
Everest Reinsurance Co.	A+	2,533,000	2,756,000
JRG Reinsurance Co.	A	5,650,000	5,848,000
Lawyer's Reinsurance Co.	A	4,494,000	2,386,000
Lloyd's Syndicate Number 1084	A	1,264,000	-
Lloyd's Syndicate Number 2623	A	3,162,000	1,624,000
Lloyd's Syndicate Number 4472	A	2,270,000	-
Navigators Ins Co	A	3,879,000	3,177,000
Odyssey	A	1,363,000	-
Protective Insurance Co.	A+	1,794,000	1,699,000
Transatlantic Reinsurance Co.	A+	9,005,000	8,016,000
		$ 50,598,000	$ 33,192,000

A summary of the impact of ceded reinsurance on written, earned and unearned premiums, and loss and loss adjustment expenses incurred for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Premiums written:		
Direct	$ 48,388,079	$ 45,756,642
Ceded	(15,847,559)	(15,115,327)
Net premiums written	$ 32,540,520	$ 30,641,315
Premiums earned:		
Direct	$ 46,902,314	$ 44,876,559
Ceded	(15,517,623)	(14,644,284)
Net premiums earned	$ 31,384,691	$ 30,232,275
Unearned premiums:		
Direct	$ 22,025,630	$ 20,539,835
Ceded	(6,796,570)	(6,466,604)
Net unearned premiums	$ 15,229,060	$ 14,073,231
Losses and loss adjustment expenses incurred:		
Direct	$ 49,737,268	$ 35,559,319
Ceded	(29,406,599)	(15,074,273)
Net losses and loss adjustment expenses incurred	$ 20,330,669	$ 20,485,046

Note 6. Equity

The Company was originally organized as a mutual insurer and obtained its operating surplus through surplus contributions from its insured policyholders. The original surplus contributions were evidenced by Certificates of Surplus Contribution. Effective January 1, 2001, the Company demutualized and converted to a stock insurer. Under the Plan of Demutualization approved by the Company's Board of Directors and the Montana Commissioner of Securities and Insurance, each holder of a Certificate of Surplus Contribution (Certificate) elected to either (1) convert the Certificate to shares of Class A common stock; (2) donate the Certificate to a bar foundation designated by the holder; or (3) receive annual cash payments until the amount of the Certificate was repaid, without interest, with payments made only in years following a year in which the Company had positive net income. An exception to this, where payments may be made in years following a year in which the Company had a net loss, is in the event of death of the certificate holder or the certificate holder's retirement from the practice of law. The amount of surplus contributions returned as cash refunds during 2017 and 2016 was $71,315 and $83,392, respectively.

Dividends on common stock are declared by the Company's Board of Directors. Under the insurance regulations of the state of Montana, dividends are classified into two types: ordinary and extraordinary. Ordinary dividends require 15-day advance notice to the Montana Commissioner of Securities and Insurance prior to payment. Extraordinary dividends, those which in total exceed 10 percent of the current year-end policyholders' surplus, require approval from the Commissioner 30 days prior to payment. For the year ended December 31, 2017, dividends in excess of $4,070,729 would be considered extraordinary.

Ordinary dividends in the amount of $776,647 were declared and paid by the Company during the year ended December 31, 2017. The Company did not pay or declare any dividends during the year ended December 31, 2016.

Note 7. Surplus Notes

The Company has issued the following surplus debentures or similar obligations as of December 31, 2017:

Date Issued	Interest Rate	Par Value	Carrying Value	Principal and/or Interest Paid Current Year	Total Principal and/or Interest Paid	Unapproved Principal and/or Interest	Date of Maturity
10/14/2005	LIBOR + 3.55%	$ 9,900,000	$ 9,900,000	$ 576,892	$ 6,448,822	$ 24,109	10/15/2035
12/23/2005	Fed fund rate	266,787	266,787	237,626	10,499,732	15,879	None
			$ 10,166,787				

The Company has issued the following surplus debentures or similar obligations as of December 31, 2016:

Date Issued	Interest Rate	Par Value	Carrying Value	Principal and/or Interest Paid Current Year	Total Principal and/or Interest Paid	Unapproved Principal and/or Interest	Date of Maturity
10/14/2005	LIBOR + 3.55%	$ 10,000,000	$ 10,000,000	$ 428,226	$ 5,871,930	$ 38,866	10/15/2035
12/23/2005	Fed fund rate	504,413	504,413	770,614	10,262,106	48,984	None
			$ 10,504,413				

Note 7. Surplus Notes (Continued)

The Company received cash in exchange for a surplus note in the amount of $10,000,000 issued to Merrill Lynch International on October 14, 2005. This note is administered by US Bank, National Association, as trustee, and has the following repayment conditions and restrictions: payment of interest to be made quarterly in arrears on the 15th of March, June, September and December and only with the prior approval of the Montana Commissioner of Securities and Insurance. A principal payment in the amount of $100,000 was paid by the Company during the year ended December 31, 2017.

The Company's parent, ALPS Corporation, transferred a liability on December 23, 2005, to the Company as a result of ALPS Corporation's redemption of its Class A common stock. This liability was then simultaneously converted to a surplus note under the approval of the Montana Commissioner of Securities and Insurance. Payment to shareholders of redeemed shares of ALPS Corporation common stock (transferred liability) is based upon the amount of the total value of the shares on the redemption date and is subject to a repayment schedule of between one and seven years. Payments to shareholders are issued on a quarterly basis in the months January, April, July and October and are issued only upon prior approval of the Montana Commissioner of Securities and Insurance. Obligation under this note is subordinated in payment to other indebtedness due to creditors and policyholders of the Company. During 2017 and 2016, new redemptions of stock were $237,626 and $357,449, respectively.

Note 8. Affiliated Companies and Related-Party Transactions

The Company rents office space and equipment from The Florence Missoula, LLC. The Company purchases administrative and support services from ALPS Corporation. The Company retains AIA to provide claims, underwriting, sales, marketing and insurance producer services for and on behalf of the Company. The Company also retained Peak to provide investment management services to the Company, but effective as of October 1, 2016, the Company retained a new independent investment advisor. Peak no longer provides investment management services to the Company. The amounts charged to the Company for administrative and support, rent, claims, underwriting, sales, marketing, insurance producer, and investment management services were as follows:

	Years Ended December 31	
	2017	2016
Administrative services	$ 4,006,387	$ 3,699,793
Investment management services	107,078	445,308
Rent	237,720	236,017
Claims	1,018,665	1,063,932
Underwriting	908,288	865,670
Commissions	2,879,917	2,700,957
	$ 9,158,055	$ 9,011,677

At December 31, 2017, the Company reported net amounts due to affiliates of $271,957. At December 31, 2016, the Company reported net amounts due from affiliates of $14,523. For the years ended December 31, 2017 and 2016, the Company has expensed $809,130 and $448,806, respectively, related to its participation in the ALPS Corporation Long-term Cash Incentive Plan.

Note 9. Federal Income Tax

At December 31, 2017 and 2016, the income tax expense represents amounts paid to ALPS Corporation under the Tax Allocation Agreement. The Company is not subject to state income taxes.

Note 9. Federal Income Tax (Continued)

At December 31, the components of the net adjusted admitted deferred income tax asset were as follows:

	2017		
	Ordinary	Capital	Total
Gross deferred tax assets	$ 2,363,532	$ 98,973	$ 2,462,505
Statutory valuation allowance	-	-	-
Adjusted gross deferred tax assets	2,363,532	98,973	2,462,505
Deferred tax assets nonadmitted	(183,950)	-	(183,950)
Net admitted deferred tax assets	2,179,582	98,973	2,278,555
Deferred tax liabilities	1,896	173,871	175,767
Net adjusted deferred tax asset	$ 2,177,686	$ (74,898)	$ 2,102,788

	2016		
	Ordinary	Capital	Total
Gross deferred tax assets	$ 3,228,840	$ 861,432	$ 4,090,272
Statutory valuation allowance	-	-	-
Adjusted gross deferred tax assets	3,228,840	861,432	4,090,272
Deferred tax assets nonadmitted	(529,419)	(218,025)	(747,444)
Net admitted deferred tax assets	2,699,421	643,407	3,342,828
Deferred tax liabilities	-	-	-
Net adjusted deferred tax asset	$ 2,699,421	$ 643,407	$ 3,342,828

	Change		
	Ordinary	Capital	Total
Gross deferred tax assets	$ (865,308)	$ (762,459)	$ (1,627,767)
Statutory valuation allowance	-	-	-
Adjusted gross deferred tax assets	(865,308)	(762,459)	(1,627,767)
Deferred tax assets nonadmitted	345,469	218,025	563,494
Net admitted deferred tax asset	(519,839)	(544,434)	(1,064,273)
Deferred tax liabilities	1,896	173,871	175,767
Net adjusted deferred tax asset	$ (521,735)	$ (718,305)	$ (1,240,040)

For 2017 and 2016, the Company determined a valuation allowance was not necessary.

Note 9. Federal Income Tax (Continued)

A summary of the Company's adjusted admitted gross deferred tax asset calculation by component and character for the years ended December 31, 2017 and 2016, is as follows:

	2017		
	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks	$ -	$ -	$ -
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitation	2,177,686	98,973	2,276,659
Adjusted gross deferred tax assets expected to be realized following the balance sheet date	2,177,686	98,973	2,276,659
Adjusted gross deferred tax assets allowed per limitation threshold	5,790,675	-	5,790,675
Adjusted gross deferred tax assets offset by gross deferred tax liabilities	1,896	-	1,896
Net adjusted admitted deferred tax assets	$ 2,179,582	$ 98,973	$ 2,278,555

	2016		
	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks	$ -	$ -	$ -
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitation	2,699,421	643,407	3,342,828
Adjusted gross deferred tax assets expected to be realized following the balance sheet date	2,699,421	643,407	3,342,828
Adjusted gross deferred tax assets allowed per limitation threshold	5,244,816	-	5,244,816
Adjusted gross deferred tax assets offset by gross deferred tax liabilities	-	-	-
Net adjusted admitted deferred tax assets	$ 2,699,421	$ 643,407	$ 3,342,828

Under Statement of Statutory Accounting Principles (SSAP) No. 101, *Income Taxes*, the following thresholds were used in the calculations of admissibility:

	Years Ended December 31	
	2017	2016
Percentage used to determine recovery period and threshold limitation amount	348%	373%
Adjusted capital and surplus used to determine recovery period and threshold limitation	$ 38,604,498	$ 34,965,438

Note 9. Federal Income Tax (Continued)

The components of net deferred federal income tax assets were as follows:

	December 31		
	2017	2016	Change
Gross deferred federal income tax assets:			
Discounting unpaid losses	$ 616,560	$ 1,014,900	$ (398,340)
Unearned premium reserve	724,344	1,104,676	(380,332)
AMT credit	1,007,148	1,109,264	(102,116)
Investments	98,973	861,432	(762,459)
Other	15,480	-	15,480
Total deferred federal income tax assets	2,462,505	4,090,272	(1,627,767)
Gross deferred federal income tax liabilities:			
Ordinary	(1,896)	-	(1,896)
Capital	(173,871)	-	(173,871)
Total deferred federal income tax liabilities	(175,767)	-	(175,767)
Net deferred federal income tax asset	2,286,738	4,090,272	(1,803,534)
Deferred federal income tax assets nonadmitted	(183,950)	(747,444)	563,494
Net admitted deferred federal income tax asset	$ 2,102,788	$ 3,342,828	$ (1,240,040)
Increase (decrease) in deferred federal income tax assets nonadmitted	$ (563,494)	$ (1,357,963)	

The Company's current income tax differs from the amount obtained by applying the federal statutory rate of 34 percent to income before income taxes due primarily to dividend received deductions, tax-exempt interest and nondeductible impairments of securities.

On December 22, 2017, the president of the United States signed into law the Tax Cuts and Jobs Act tax reform legislation. This legislation makes significant changes in U.S. tax law, including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The legislation reduced the U.S. corporate tax rate from the current rate of 35 percent to 21 percent. As a result of the enacted law, the Company was required to revalue deferred tax assets and liabilities to the enacted rate. This revaluation resulted in a one-time, noncash charge to surplus of $792,000.

At December 31, 2017, the Company did not have an operating loss carryforward available to offset against future taxable income.

At December 31, 2017, the Company had alternative minimum tax credits of $1,007,148 available for recoupment in the event of future net income.

At December 31, 2017, the Company had $282,903 in taxes paid for 2016 and $719,648 for 2015, both of which are recoverable through carrybacks.

Note 10. Nonadmitted Assets

A summary of assets nonadmitted is as follows:

	Years Ended December 31	
	2017	2016
Balance of nonadmitted assets—beginning of the year	$ 836,314	$ 2,192,809
Increase (decrease) in nonadmitted assets:		
Deductible receivables	(968)	(58,099)
Reinsurance recoverables	(42,768)	44,318
Prepaid expenses	28,579	15,249
Deferred tax assets	(563,494)	(1,357,963)
Net increase (decrease)	(578,651)	(1,356,495)
Balance of nonadmitted assets—end of the year	$ 257,663	$ 836,314

Note 11. Fair Value of Financial Instruments and Fair Value Measurements

The fair values of investment securities, including short-term investments and cash, are estimated based on prices received from third-party securities dealers. Cash and short-term investments' carried values approximate their fair values.

The Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives the highest priority to fair values determined using unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to fair values determined using unobservable inputs (Level 3). An asset's or liability's classification is determined based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1: Valuations are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2: Valuations are derived from inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3: Valuations are derived from techniques that require significant unobservable inputs. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Note 11. Fair Value of Financial Instruments and Fair Value Measurements (Continued)

Cash, short-term investments, uncollected premiums, reinsurance recoverable, and accounts payable and accrued expenses: The carrying amounts reported are at cost for these financial instruments, which approximates their fair value due to the short duration to maturity.

Investment securities: The fair values of bonds are based on market values prescribed by the NAIC's SVO. The Company uses amortized cost as a substitute for fair value in accordance with prescribed guidance for certain investments for which the NAIC did not provide a value. The fair values for common stocks are based on market values prescribed by the SVO.

All other financial instruments are specifically exempted from fair value disclosure requirements because they qualify as insurance-related products.

The estimated carrying amounts and fair values of the Company's financial instruments classified by the fair value hierarchy as of December 31, 2017 and 2016, are as follows:

	December 31, 2017				
Assets	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Bonds	$ 672,838	$ 102,570,944	$ -	$ 103,243,782	$ 99,711,457
Common stocks	6,035,870	-	-	6,035,870	6,035,870
Cash and short-term investments	14,016,530	-	-	14,016,530	14,016,530
Total	$ 20,725,238	$ 102,570,944	$ -	$ 123,296,182	$ 119,763,857

	December 31, 2016				
Assets	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Bonds	$ 1,490,863	$ 91,895,896	$ -	$ 93,386,759	$ 90,761,290
Common stocks	6,136,663	-	-	6,136,663	6,136,663
Cash and short-term investments	8,211,797	-	-	8,211,797	8,211,797
Total	$ 15,839,323	$ 91,895,896	$ -	$ 107,735,219	$ 105,109,750

The following summarizes financial instruments measured at fair value as of December 31, 2017 and 2016, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2017			
Assets	Level 1	Level 2	Level 3	Total Fair Value
Bonds:				
State, municipal and other governments	$ -	$ 411,608	$ -	$ 411,608
Common stocks	$ 6,035,870	$ -	$ -	$ 6,035,870

	December 31, 2016			
Assets	Level 1	Level 2	Level 3	Total Fair Value
Bonds:				
State, municipal and other governments	$ -	$ 1,642,780	$ -	$ 1,642,780
Common stocks	$ 6,136,663	$ -	$ -	$ 6,136,663

Note 12. Commitments and Contingencies

The Company is not aware of any pending or threatened litigation or any unasserted claims or assessments that management considers to be probable of assertion and that, if asserted, would have at least a reasonable possibility of an unfavorable outcome, the risk of which has not been adequately insured against or provision for which has not been adequately reserved.

Note 13. Subsequent Events

All of the effects of subsequent events that provide additional evidence about conditions that existed at the statutory financial statement date, including the estimates inherent in the process of preparing the statutory financial statements, are recognized in the statutory financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the statutory financial statement date but arose after, but before the statutory financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the statutory financial statements from being misleading.

Subsequent events have been evaluated through April 26, 2018, which is the date the statutory financial statements were available to be issued.

Supplementary Information

ALPS Property & Casualty Insurance Company

Summary Investment Schedule
December 31, 2017

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
Investment Categories	Amount	Percentage	Amount	Percentage
Bonds:				
U.S. Treasury securities	$ 223,675	0%	$ 223,675	0%
Securities issued by states, territories and political subdivisions in the U.S.:				
States, territories and possessions general obligations	1,236,484	1%	1,236,484	1%
Political subdivisions of states, territories, and possessions and political subdivisions general obligations	14,115,965	11%	14,115,965	11%
Revenue and assessment obligations	53,115,455	43%	53,115,455	43%
Industrial development and similar obligations	8,409,006	7%	8,409,006	7%
Mortgage-backed securities (including residential and commercial MBS):				
Pass-through securities:				
Issued by GNMA	795,248	1%	795,248	1%
Issued by FNMA and FHLMC	5,031,043	4%	5,031,043	4%
CMOs and REMICs:				
Issued by GNMA, FNMA and FHLMC	50,998	0%	50,998	0%
All other	4,076,467	3%	4,076,467	3%
Other debt and other fixed-income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	12,412,797	10%	12,412,797	10%
Unaffiliated non-U.S. securities (including Canada)	244,319	0%	244,319	0%
Total bonds	99,711,457	80%	99,711,457	80%
Cash and short-term investments	14,016,530	11%	14,016,530	11%
Equity interests:				
Investments in mutual funds	5,898,370	5%	5,898,370	5%
Publicly traded equity securities:				
Unaffiliated	-	0%	-	0%
Other equity securities:				
Affiliated	1,266,013	1%	1,266,013	1%
Unaffiliated	137,500	0%	137,500	0%
Receivables for securities	1,010	0%	1,010	0%
Other invested assets	3,145,842	3%	3,145,842	3%
Total other invested assets	24,465,265	20%	24,465,265	20%
Total invested assets	$ 124,176,722	100%	$ 124,176,722	100%

ALPS Property & Casualty Insurance Company

Investment Risks Interrogatories
December 31, 2017

1. Reporting entity's total admitted assets as reported: $131,158,858

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

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Ishares DJ Select Dividend Index	Equity	$ 3,535,347	2.7%
2.02	Federal National Mortgage Association, Inc.	Mortgage-backed	3,402,106	2.6%
2.03	Massachusetts Housing Finance Agency Property Acquisition and Disposition Corporation	Municipal	2,897,374	2.2%
2.04	Illinois Housing Development Authority	Municipal	1,957,392	1.5%
2.05	Discover Card Execution Note T 17 A3	Corporate	1,901,945	1.5%
2.06	The Select Sector SDPR Trust	Equity	1,782,625	1.4%
2.07	Federal Home Loan Mortgage Corp.	Mortgage-backed	1,628,937	1.2%
2.08	Virginia Housing Development Authority	Municipal	1,601,916	1.2%
2.09	Michigan State Housing Development Authority	Municipal	1,472,207	1.1%
2.10	Georgia Housing and Finance Authority	Municipal	1,427,175	1.1%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds, short-term investments, and preferred stocks by NAIC designation:

	Bonds		1	2	Preferred Stock	3	4
3.01	NAIC—1	$ 105,349,458	80.3%	0	P/RP—1	$ -	0.0%
3.02	NAIC—2	4,111,040	3.1%	0	P/RP—2	$ -	0.0%
3.03	NAIC—3	204,460	0.2%	0	P/RP—3	$ -	0.0%
3.04	NAIC—4	-	0.0%	0	P/RP—4	$ -	0.0%
3.05	NAIC—5	136,648	0.1%	0	P/RP—5	$ -	0.0%
3.06	NAIC—6	70,500	0.1%	0	P/RP—6	$ -	0.0%

(Continued)

4. Assets held in foreign investments:

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

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

4.02	Total admitted assets held in foreign investments	$ 244,319	0.2%
4.03	Foreign currency–denominated investments	$	0.0%
4.04	Insurance liabilities denominated in that same foreign currency	$	0.0%

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

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

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

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

7. Aggregate unhedged foreign currency exposure:

1	2
$	0.0%

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

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

(Continued)

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

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

10. Ten largest nonsovereign (i.e., nongovernmental) foreign issues:

	Issuer	NAIC Designation		
10.01			$ -	0.0%
10.02			-	0.0%
10.03			-	0.0%
10.04			-	0.0%
10.05			-	0.0%
10.06			-	0.0%
10.07			-	0.0%
10.08			-	0.0%
10.09			-	0.0%
10.10			-	0.0%

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

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

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

		1	2
11.02	Total admitted assets held in Canadian investments	$ -	0.0%
11.03	Canadian currency–denominated investments	-	0.0%
11.04	Canadian-denominated insurance liabilities	-	0.0%
11.05	Unhedged Canadian currency exposure	-	0.0%

(Continued)

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

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

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

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

13. Amounts and percentages of admitted assets held in the 10 largest equity interests:

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

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

	1 Issuer	2	3
13.02	Ishares Select Dividend EFT	$ 3,535,347	2.7%
13.03	SPDR S&P 500 EFT Trust	1,782,625	1.4%
13.04	Lawyers Reinsurance Company	1,266,013	1.0%
13.05	Wisdomtree Europe Hedged	580,398	0.4%
13.06	Federal Home Loan Bank of Des Moines	137,500	0.1%

(Continued)

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

    14.01 Are assets held in nonaffiliated privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

    If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02	Aggregate statement value of investments with contractual restrictions	$ -	0.0%
	Largest three investments with contractual sales restrictions: restrictions:		
14.03		-	0.0%
14.04		-	0.0%
14.05		-	0.0%

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

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

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

	1	2	3
15.02	Aggregate statement value of investments with contractual restrictions	$ -	0.0%
	Largest three investments with contractual sales restrictions: restrictions:		
15.03		-	0.0%
15.04		-	0.0%
15.05		-	0.0%

(Continued)

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

	Description 1	2	3
18.02		$ -	0.0%
18.03		-	0.0%
18.04		-	0.0%
18.05		-	0.0%
18.06		-	0.0%

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

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

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

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

(Continued)

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

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

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

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

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

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

(Continued)

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

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

See accompanying independent auditor's report.

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

Yes [ ] No [X]

7.2. If yes, indicate the number of reinsurance contracts containing such provisions.

Not applicable.

7.3. If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?

Not applicable.

8.1. Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured?

Yes [X] No [ ]

8.2. If yes, give full information

Effective April 13, 2015, the Company entered into a Commutation and Release Agreement with Catalina Safety Reinsurance Ltd., formerly known as American Safety Reinsurance Limited (American Safety). Under the terms of the Commutation Agreement, the Company received a commutation payment from American Safety in the total sum of $4,501,469 in full and final settlement of all sums due from American Safety under nine separate reinsurance agreements to which American Safety was a subscribing reinsurer in varying percentages of participation and covering various treaty years from 2007 through 2011.

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

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

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

c. Aggregate stop-loss reinsurance coverage;

(Continued)

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

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

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

Yes [ ] No [X]

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

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

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

Yes [ ] No [X]

9.3. If yes to 9.1 or 9.2, please provide the following information:

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

Not applicable.

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

Not applicable.

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

Not applicable.

(Continued)

9.4. Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

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

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

Yes [ ] No [X]

9.5. If yes to 9.4, explain why the contract(s) is treated differently for GAAP and SAP.

Not applicable.

See accompanying independent auditor's report.