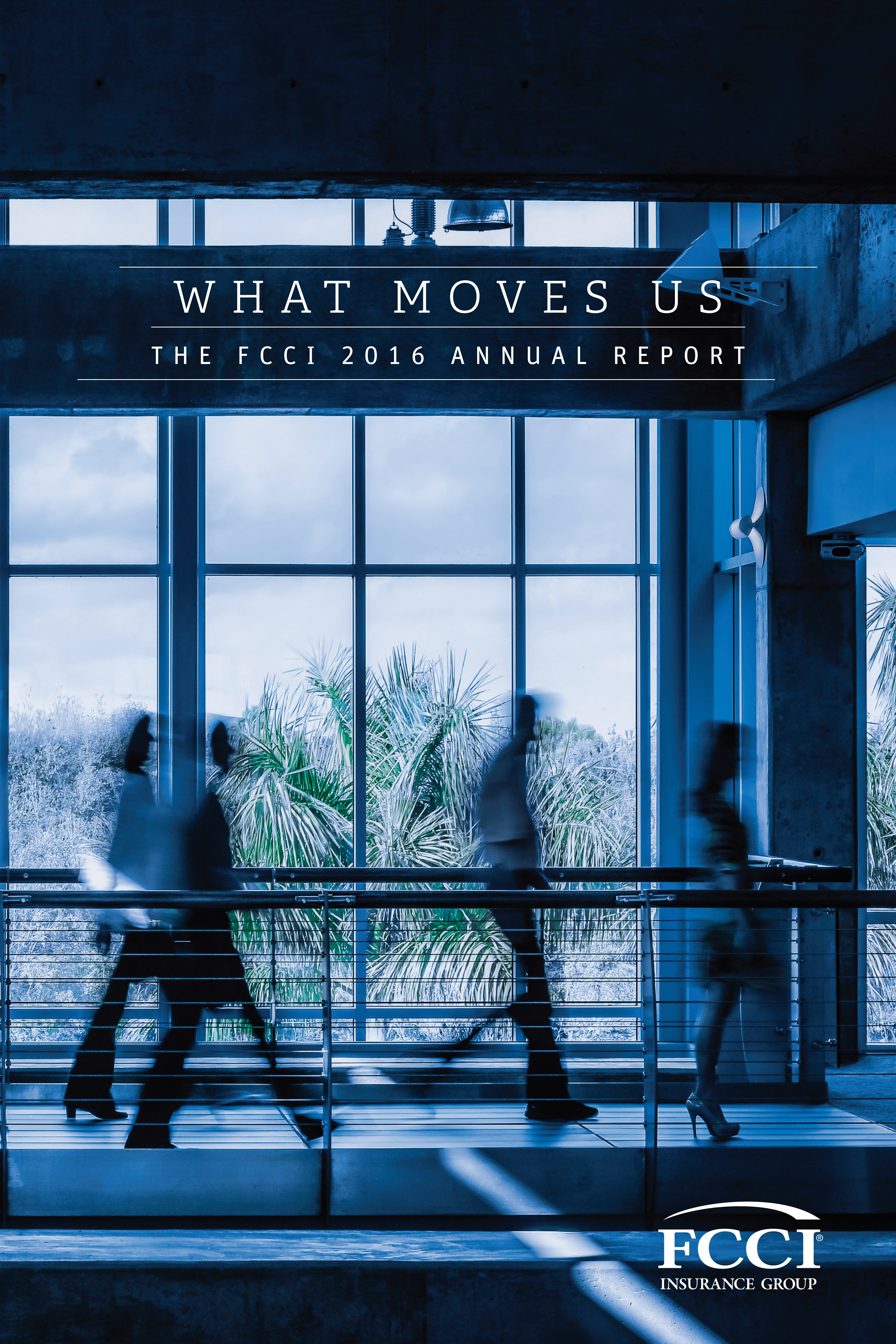
WHAT MOVES US

THE FCCI 2016 ANNUAL REPORT



FCCI®
INSURANCE GROUP

FCCI Insurance Group

FCCI Insurance Group is a multi-line commercial property and casualty insurance provider. In partnership with independent agents, we offer coverage and services our policyholders can depend on to help prevent loss, handle claims, restore operations and provide for injured workers.

Our Mission

FCCI teammates are empowered to deliver commercial insurance products and exceptional customer service to meet the needs of our valued agency partners and policyholders. We keep our promises so businesses can thrive, manage risks and face the future with confidence.

Our Core Values

FCCI's core values of loyalty, integrity, vision, excellence and service reflect the values of the company's founders. We've been keeping our promises to businesses, employees and customers since 1959.

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About the Theme

What Moves Us is about what makes FCCI the company it is, what makes FCCI teammates special and what makes our agency partner and policyholder relationships run a little deeper than most in the insurance industry.

It's about what makes us strong and resilient, what makes us ethical and compassionate and what makes FCCI an insurance carrier that stands for long-term stability rather than short-term profits. It's about how we weather our storms, help our policyholders weather theirs and keep our promises to our partners.

We care about the service we provide, helping our customers, supporting our teammates in need and giving back to our communities.

FCCI teammates work a little harder and care a little more. We do the right thing, and we do what we say we're going to do. We care about the service we provide, helping our customers, supporting our teammates in need and giving back to our communities.

This is what makes FCCI a company with a heart and a carrier that provides more than coverage. This is who we are and what we're made of.

We're FCCI, and this is ***What Moves Us***.

Always Moving Forward

It's been said a million times over, but it continues to hold true: it is not in the easy times that we learn and grow and strengthen our characters, it is in the tougher times.

We have much to celebrate, and we are always moving forward.

While successful in many ways, 2016 was certainly the most challenging year I've faced since becoming president & CEO in 2011. But it's a year we can look back on as a year of growth and development, of reinforcing the importance of relationships, of improving technology and processes, and of reaffirming the principles that FCCI was founded on and that have brought us so far.

Craig Johnson joined FCCI as Vice President and Controller in 2003 and was named President & Chief Executive Officer in 2011. Craig was elected as Chairman of the Board of Directors in 2016.

We have much to celebrate, and we are always moving forward. We hired 163 new teammates in 2016, growing our staff to 818 by the close of the year. It is exciting to see so many new faces in our offices, and the blend of experienced industry veterans and motivated young professionals is energizing. First and foremost in my mind and in the minds of my FCCI leadership team is maintaining FCCI's unique culture as we grow. We often refer to it as "family with accountability," and it is truly what moves us to do our best in our service to our customers.

Over the past six years, we have seen a steady rise in our direct written premium. For 2016, we reached a premium record of $787 million, an increase of $42 million over the prior year and a tangible indicator that we are earning and retaining a growing amount of our policyholders' and agents' business. To us, that means we are accomplishing our mission of helping businesses thrive, manage risks and face the future with confidence.

We have also continued to strengthen our balance sheet. Our cash and investments total well over $1.6 billion, and our total assets are more than $2.2 billion. This puts us in the strongest financial position in our history, and it is the foundation of our long-term financial strength and stability. Our GAAP equity and statutory surplus also remain healthy at $713 million and $572 million, respectively. Although these are slight decreases from the previous year, they are both healthy amounts for our company and reflect continued strength.

However, for the first time in my tenure at FCCI, we did not make a profit and our combined ratio of 111.2% is well above what we had planned for the year. After beginning 2016 with five of the best months in the company's history, we began to face some challenges that negatively impacted our overall results. These included legal changes that raised the limits on attorneys' fees in workers' compensation cases and also increased the length of time injured workers are eligible for temporary disability benefits; industry-wide impacts from the increase in auto losses and severity due in part to distracted driving; and storm-related losses that were more than double what we've experienced in previous years. We also experienced increased cost for prior-year claims.

This reinforces what we have always known: doing the right thing and putting people first is good business.

These challenges are being met head-on with the same principles that we have successfully implemented for decades: employ the best people, maintain strong agency relationships, underwrite with discipline, reserve and invest with prudence, and empower those closest to our customers to make timely, informed decisions.

I am happy to say that due to FCCI's philosophy to close claims fairly and quickly, we were less affected by the Florida workers' compensation case law than we could have been. This reinforces what we have always known: doing the right thing and putting people first is good business.

Auto losses are up across the industry, due in part to more severe accidents caused by distracted driving. For the sake of everyone's safety on the road, I hope we can all work together to reduce distracted driving. In April 2017, FCCI teammates will have the opportunity to participate in our "I PROMISE to Drive Cell Phone-Free" campaign, and we'd be happy to help our agents, policyholders, friends and families organize the same type of pledge campaign to bring awareness to distracted driving.

We were, of course, impacted by the many weather events of 2016. We always hope the storms don't hit, but we are humbly grateful to serve our policyholders and keep our promises when they do. You'll see more in the following pages about some of those weather events, the resulting damage, and the response from our claims teams.

I could not be more proud of my FCCI teammates and the commitment they showed in 2016. I've seen them come together to reinforce the importance of our relationships, strengthen our resolve and our adherence to our founding principles, and continue to be charitable and giving. Each member of the FCCI team is accountable for executing FCCI's strategy and values in their role, and they go above and beyond to serve our customers and to give back to our communities.

In 2016, we exceeded our goal for volunteer hours, achieving a record 2,604 company-paid hours donated to organizations that help the less fortunate and strengthen and support our communities. This charitableness is an important part of the FCCI culture. It makes us who we are, and it's what moves us in our daily lives.

As always, thank you for your trust and partnership, and for the privilege of allowing us to be your insurance carrier and earn your business every day. We are always moving forward with your needs in mind.

Craig Johnson

Chairman of the Board, President & Chief Executive Officer

The more things change, the more they stay the same. FCCI has outgrown a number of buildings over the years, and these photos show groundbreakings on new FCCI headquarters in Sarasota, Florida in 1984 and in 1999.

So what does FCCI stand for?

The short answer is that FCCI was founded as Florida Contractors and Construction Industries in 1959 and was renamed Florida Construction, Commerce & Industry in 1977.

We have now evolved beyond both of those names, but the FCCI acronym and the original founders' reputation for accountability, integrity, fairness and service remain with us and will continue to guide our business practices and our future.

> FCCI was founded as Florida Contractors and Construction Industries.

Today, FCCI stands for comprehensive coverage, exceptional service, and an ongoing promise to be the best carrier we can be.

What FCCI Stands For

If there is one question FCCI teammates get asked most often, it is: What does FCCI stand for? The answer lies in our history and in our principles.

In 1959, FCCI was founded as the Florida Contractors and Construction Industries self-insurance fund. The name reflected the original founders – a group of contractors and construction company owners – and their need for an affordable and reliable way to obtain workers' compensation insurance. They were willing to go the extra mile to promote safety and responsible business practices, and they wanted their premiums and dividends to be representative of that willingness to do the right thing.

FCCI stayed Florida Contractors and Construction Industries for 18 years. During that time, the business grew, mostly by word of mouth, until there was a sizable number of Florida business owners outside the construction industry who were asking to be insured by the FCCI fund. In 1977, the FCCI Trustees made the decision to begin insuring those businesses, and the name was changed to Florida Construction, Commerce & Industry.

> FCCI was built on taking care of people and looking for better ways to provide insurance coverage. We still stand for that today.

FCCI's first official logo debuted in 1977 after the name change to Florida Construction, Commerce & Industry.

When FCCI expanded beyond Florida in 1990, consideration was given to changing the company name again, but the idea was rejected. FCCI would stay true to our humble origins and not change our name again, regardless of expansion.

FCCI Insurance Group has evolved far beyond what the FCCI acronym originally stood for. We've gone from a handful of policyholders in one state to nearly 19,000 in 18 states; from providing workers' compensation coverage in the construction industry to providing comprehensive property and casualty coverage and surety across many industries; and from a word-of-mouth self-insurance fund to a financially strong mutual insurance holding company built on the relationships and teamwork of more than 800 teammates and 600 independent agencies.

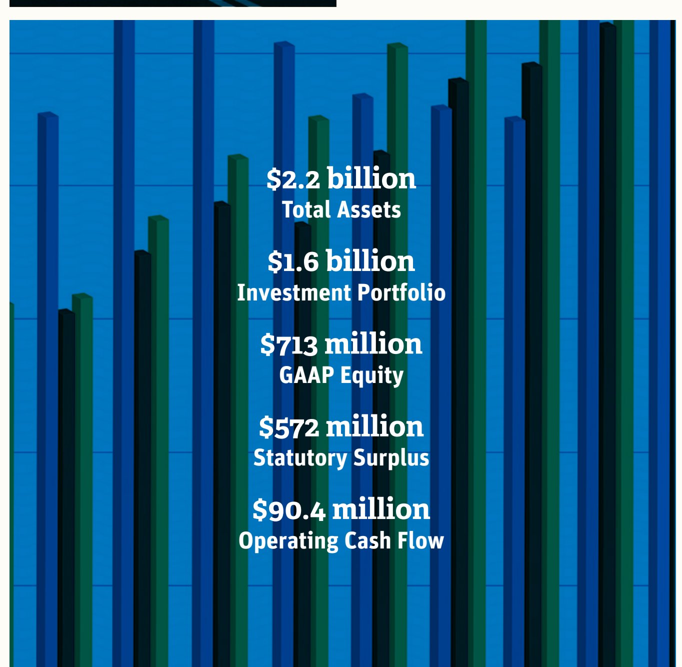
We couldn't have achieved that growth and success without retaining the legacy and reputation of our founding principles. FCCI was built on taking care of people and looking for better ways to provide insurance coverage. We still stand for that today.

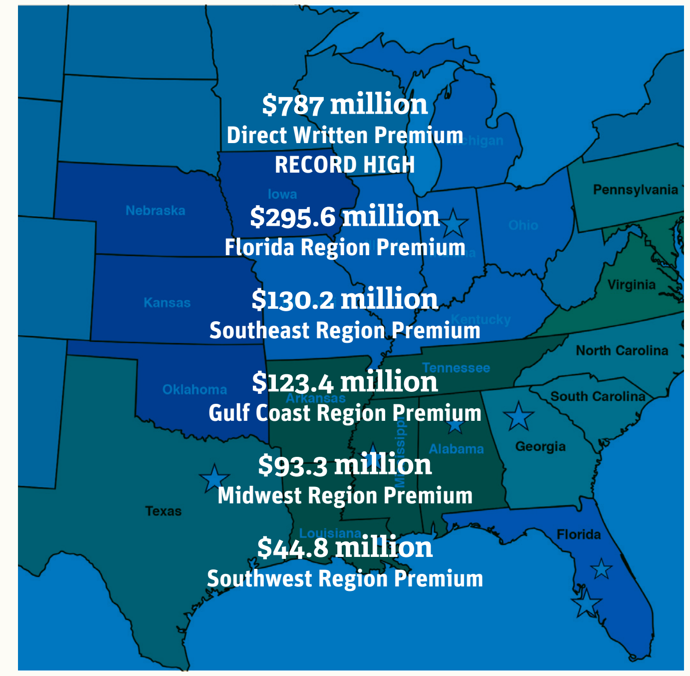
What Represents Success

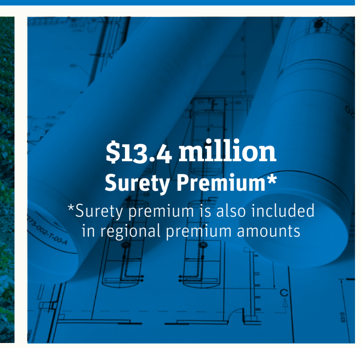
Every year, we highlight statistics and achievements that represent the successes of the last 12 months. But when we reflect on the year as a whole, it is often the less quantifiable elements that bring the most satisfaction and keep us motivated to strive for improvement.

This is just a small piece of what represents success at FCCI.

Being part of a strong team, doing fulfilling work, forming strong relationships, making someone's day better, giving back and improving the world around us are often the real wins that move us. These are some highlights of 2016, but this is just a small piece of what represents success at FCCI.







"Our success is a direct result of investment in the relationships with our valued agency partners. They continue to favor us with more of their trust and business, and we never stop working to earn their trust."

Lisa Weiland
EVP, Chief Operations Officer

What It Means to be a Team

On August 24, 2016, three tornados touched down in Indiana. One damaged numerous structures in Kokomo, leaving 15-20 people injured and more than 7,500 without power.

On August 24, 2016, Matt Selley, a Senior Commercial Lines Underwriter in FCCI's Midwest Region, was leaving an oncology appointment and heading home to Kokomo, Indiana, with his wife Diana. After being diagnosed with lymphoma in March, he had spent the summer undergoing chemotherapy treatments and had just received the news that his cancer was in remission.

However, Matt and Diana's celebratory mood was put on hold as the sky darkened and they began to hear reports of tornados in the area. As they reached their neighborhood, they had to navigate downed trees, power lines and debris. A tornado had touched down less than 200 yards away, and they arrived home to a large tree limb on the roof of their house. Fortunately, their children, Hailee, 16, and Caleb, 14, were fine, and there was only minor damage to their home, but they had lost power and were facing a mess of tree limbs and debris to clean up.

As a field employee, Matt needed to let his colleagues know that he was without power and might be offline for several days. He contacted Greg Kramer, Midwest Region Senior Vice President; Colleen Conroy, Managing Director, Underwriting; and his supervisor Stephanie Winegar, Underwriting Director.

"My Midwest teammates and leadership have been very supportive during my entire treatment, but their response after the tornado hit was nothing short of a blessing," says Matt. "Greg asked me if we had a generator. I told him we didn't, and he said, 'Let me make some calls.'" Greg, Colleen, Stephanie and the Midwest team went to work and by later that same evening, Judy Chapin, Product Management Manager, had offered her generator, and a group of teammates including Craig Evans, Underwriting Director, and Sheila Kemp, Senior HR Business Partner, had organized supply donations.

The next day, Paul Barbish, Senior Commercial Lines Underwriter; Steve Holsclaw, Claims Manager; and Wendy Dean, Claims Managing Director, drove an hour north of the Midwest Regional office in Indianapolis to Matt's home in Kokomo with the generator, gas, batteries, chargers, groceries, and other essentials. They donned FCCI hard hats and placed an "FCCI Insurance Group CAT Team" magnet on their vehicle to help them get through road blocks. It almost worked! They made it to Matt's neighborhood but had to walk the rest of the way.

"I was attempting to do some clean up in the yard, but couldn't do as much as I wanted to," said Matt. "When I looked up and saw them walking down the street with their FCCI hard hats and supplies, I was overcome with emotion. My teammates didn't have to do anything, but they took their own time to go shopping, get all of this for us, and drive more than an hour to bring it to us – and then they stayed and helped with the clean up! This is beyond anything I expected, but it's what the Midwest team and the FCCI family is all about."

Heroes in hard hats: Paul Barbish, Steve Holsclaw and Wendy Dean arrive to help Matt and his wife Diana (center) deal with tornado damage. The hard hats and FCCI CAT Team vehicle magnet helped them through a few road barriers on the way.

> "I am so proud of our team. One of our own was in need and the team responded in a wonderful fashion. It is a true testament to our culture and family values."
> Greg Kramer
> Senior Vice President, Midwest Region

Thanks to their thoughtful preparation and their partnership with FCCI, Jim and Helen Crockett of The Crockett Group are ready to weather any storm that comes — and help their clients do the same.

"I'm thankful for the partnership we've had with FCCI over the years. I know I can count on them to help us better serve our clients. Hurricane Matthew could have been devastating for us. There was an extensive amount of planning and preparation that had to be done in advance in order for us to provide for and take care of our clients. Even though the storm didn't hit us directly, we were prepared and knew that FCCI was as well."

Helen Crockett, President, The Crockett Insurance Group

What It Takes to Be Prepared

The number of storms and natural disasters in 2016 was above average and beyond anyone's expectations. Starting in January with Winter Storm Jonas, which brought a record amount of snowfall to the Northeast, and continuing throughout the year with earthquakes, tornados, wildfires, floods and, of course, hurricanes.

Across our 18 states, our teammates, agents and policyholders face a variety of weather concerns. When you have a business to run and clients counting on you, you're on high alert. Long-time agency partners Helen and Jim Crockett, President and Vice President, respectively, of The Crockett Insurance Group in Vero Beach, Florida, know exactly what it's like to prepare a business for a storm. In October 2016, Hurricane Matthew had ravaged the Caribbean and was moving closer and closer to the coast of Florida. The Crockett Group has an emergency preparation plan in place, and the additional partnership and assistance from FCCI helped them make sure they were ready to weather the storm themselves and assist their customers if necessary.

FCCI provides links to emergency services online and alerts agents of binding restrictions when a storm is coming near. This has helped Helen, Jim and their staff share information with their clients and inform them whether coverage can be bound. The Crockett Group has a checklist they go through to prepare for a hurricane, and receiving notifications and updates from FCCI helps them focus on the tasks they need to complete, such as purchasing water for staff and clients who may not have access to it; preparing the office by wrapping computer equipment in airtight containers; and notifying clients of the company's plans and how to reach agents if they need to make a claim.

Hurricane Matthew made landfall in South Carolina on October 8 as a Category 1 hurricane.

Hurricane Matthew made landfall in South Carolina on October 8 as a Category 1 hurricane. Although significantly slowed from its peak as a Category 5 storm in the Caribbean, Matthew brought winds up to 107 mph and storm surges up to 8 feet that caused damage and flooding in Florida, Georgia, South Carolina and North Carolina.

Helen and Jim were relieved that they and their clients didn't suffer many losses, but they knew that with the preparation and contact between FCCI and The Crockett Group they were ready to respond if needed.

Robert Pendarvis of B&D Group (left) is thankful he can count on both Cooper Hurst (right) of Arthur J. Gallagher and FCCI when disaster strikes.

Pictured right: After the flood, only a shell of the B&D Group office remained.

"The flooding of south Louisiana in August of 2016 was historic. As a native of Baton Rouge, I have experienced hurricanes my whole life, but for our area, this was by far the worst natural disaster to date. FCCI is an organization whose relationship we value and respect. Their response to this disaster was proof and validation of their commitment to their agents and customers. Placing business with FCCI brings about peace of mind. They will fulfill not only their legal commitment, but also their moral obligation."

Cooper Hurst, Producer, Arthur J. Gallagher

What Brings Peace of Mind

In August 2016, Louisiana was hit with the worst natural disaster in the U.S. since Hurricane Sandy four years prior. Prolonged rainfall caused flooding that damaged many homes and businesses and left motorists stranded on the interstate for days until the water level subsided.

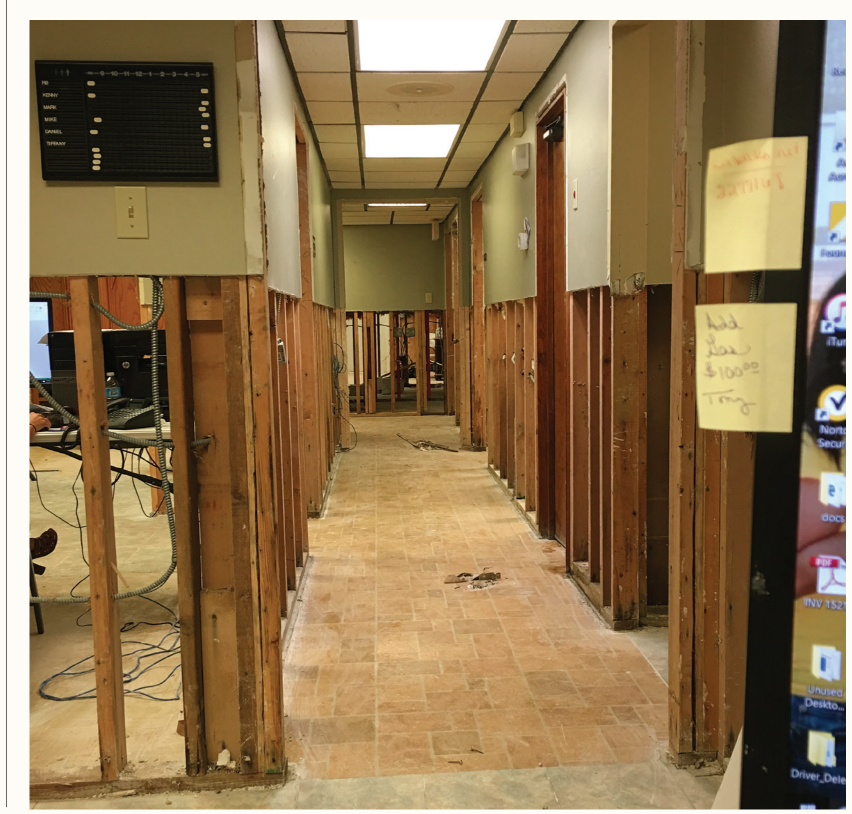
In Baton Rouge, the corporate office of B&D Group, a family-run electric, plumbing, heating and air company, was flooded with 36 inches of water. The building suffered major damage, and they completely lost the use of their fleet of vehicles.

To make matters worse, Robert Pendarvis, President of B&D Group, was also dealing with a flooded home. The stress of getting everything up and running again was an emotional strain.

The structure was not covered by flood insurance but, fortunately, B&D Group had coverage on their vehicles through FCCI. With the help of their agent, Cooper Hurst of Arthur J. Gallagher, the FCCI claims team worked with Robert to secure new vehicles quickly. The entire fleet was replaced within a couple of weeks, and B&D Group was back on the road.

Robert was extremely pleased with the claim service FCCI offered during their time of need. Cooper assured him that the claim would be handled quickly and fairly, and it was.

"Appraisers were sent out immediately, and I was kept in close contact at all times," said Robert. "I couldn't have asked for anything better. Our fleet of vehicles was promptly replaced, and I'm more than pleased with how Cooper and FCCI handled everything."



What Partnership Means

Like FCCI, Bud Hornbeck of Lutgert Insurance and Theo Etzel of Conditioned Air invest in people.

There is no secret recipe for success in business and in life, but Theo Etzel, CEO and partner of Conditioned Air, a commercial and residential air conditioning company based in Naples, Fla., has discovered what works for him.

Theo was moved to share his business and leadership philosophy in a book, *Invest Your Heartbeats Wisely*, in which he outlines the benefits of living, conducting business and treating others in an honorable way. His underlying message is that each person is only given so many heartbeats in his or her lifetime, and where you spend those heartbeats – your time, care and money – should be worthy of this limited currency. And as a leader and an employer, Theo strives to be worthy of having others spend their heartbeats with him. He believes in hiring and working with people who have a similar appreciation for living and working with integrity, and his approach has led Conditioned Air to grow from a $2.7 million local operation to a $45 million regional operation.

FCCI has written the Conditioned Air account with Chairman's Club member Bud Hornbeck of Lutgert Insurance since 2013. Bud values the relationships he has with both Conditioned Air and FCCI, and credits similar values for the strong partnerships. "FCCI, Conditioned Air and Lutgert Insurance are the same in the way we operate our businesses. Clients come first, and integrity and honesty are principles that drive each of our organizations."

Much like Theo, at FCCI we choose to invest our heartbeats in people. We seek to employ the best teammates and to partner with top-notch agencies like Lutgert Insurance so we can provide exceptional service to our policyholders. We depend on shared values to help build lasting relationships and move us to mutual success.

With gratitude and appreciation,

we thank all of our agents for their partnership in 2016 and beyond. We are honored to present our Chairman's and President's Clubs members and to congratulate them for consistently delivering results while conducting business honorably and ethically.

Chairman's Club

Fausto Alvarez Jr.
Brown & Brown of Florida
Miami Lakes, Fla.

Danny Anderson
Insurance Office of America
Longwood, Fla.

Michael Brown
Ben Brown Insurance Agency
Sarasota, Fla.

John Brownlee
Brownlee Agency
Tifton, Ga.

Randy Cannady
JL Hubbard Insurance & Bonds
Forsyth, Ill.

T. Jason Cloar
Brown & Brown of Florida
Fort Myers, Fla.

John Graham
Sterling Risk Advisors
Atlanta, Ga.

Brad Havemeier
Gulfshore Insurance
Naples, Fla.

Bud Hornbeck II
Lutgert Insurance
Naples, Fla.

Tim Leman
Gibson Insurance Group
South Bend, Ind.

Jon Loftin
MJ Insurance
Indianapolis, Ind.

Greg Marsh
Keyes Coverage
Tamarac, Fla.

Cynthia Payne
CHAPP, Inc.
Dundee, Fla.

Mike Rogers
Associates Insurance Agency
Temple Terrace, Fla.

Ronnie Tubertini
SouthGroup Insurance & Financial Services
Ridgeland, Miss.

Jerry Veazey Jr.
Fisher Brown Bottrell Insurance
Jackson, Miss.

Mark Webb
Lykes Insurance
Fort Myers, Fla.

Mike Welch
Commercial Insurance Marketing
Sarasota, Fla.

President's Club

Arthur J. Gallagher Risk Management Services
Baton Rouge, La.

Atlas Insurance Agency
Sarasota, Fla.

BB&T Insurance Services
Maitland, Fla.

BancorpSouth Insurance Services
Gulfport, Miss.

Bernard Williams & Company
Savannah, Ga.

Brown & Brown of Florida
Fort Lauderdale, Fla.

Energy Insurance Agency
Lexington, Ky.

Frank H Furman Insurance
Pompano Beach, Fla.

Guaranty Insurance/INSURICA Management Network
San Antonio, Texas

HUB International Florida
Jacksonville, Fla.

The Horton Group
Orland Park, Ill.

ONI Risk Partners
Indianapolis, Ind.

Ross & Yerger Insurance
Jackson, Miss.

Sihle Insurance Group
Altamonte Springs, Fla.

Smith Insurance Agency/Insurance & Risk Managers
Brookhaven, Miss.

South Risk Management
Columbia, S.C.

Stahl & Associates Insurance
St. Petersburg, Fla.

Yates Insurance Agency
Atlanta, Ga.

Ben Peetz wears a number of hats. He's the Assistant Fire Chief for the Napoleon Volunteer Fire Department, an Agribusiness Risk Control Consultant at FCCI, and an FCCI Hero.

What We Care About

It might be 2 a.m.

It might be 10° F outside.

He might have already worked a full day.

But if his pager goes off, Ben Peetz gets up and goes.

Ben is an Agribusiness Risk Control Consultant in our Midwest Region. It's his job to look for ways to keep people and businesses safe. But he doesn't stop there.

Ben is also a volunteer firefighter in his home community of Napoleon, Ind. Responding to emergencies is a way of life for Ben. He grew up in a firefighting family. His father and brother are both members of the same volunteer fire department where Ben has been a member for more than 20 years – not counting all the years he rode along with his dad as a kid. "What we do is often not fun or glamorous, and we see people at some of the worst instances in their lives, but each of us who does this feels a special calling to be there for others in their time of need," says Ben.

As a volunteer firefighter, Ben can be called at any time to respond to the community's needs. The calls range from fires to medical emergencies to vehicle accidents. In addition to missing meals and sleep, he's had to leave numerous family events over the years to help someone in need. He does all of this with no compensation for his time, and generally spends his own money for fuel, equipment and other costs not afforded by the fire department.

In order to be fully prepared to serve, Ben goes through countless hours of training. On his own time, Ben has trained for, studied for and earned a variety of certifications including: Emergency Medical Responder, Firefighter, Fire Officer, Fire Instructor, Fire Inspector, and Hazardous Materials Responder. He also performs maintenance and inspections on the trucks and equipment, instructs new recruits, documents incidents and applies for grants. And he is currently serving as Assistant Fire Chief. Does all of this training benefit the agents and policyholders Ben works with as an FCCI Risk Control Consultant? We certainly believe it does.

Each year, FCCI teammates are given four hours of paid time off to volunteer at the organization of their choice. In 2016, Ben used his four hours to represent his fire department in a 9/11 Memorial Stair Climb fundraiser for the National Fallen Firefighters Foundation. The event was held in Lucas Oil Stadium in Indianapolis, Ind., and each participant climbed the number of stairs equivalent to the 110-story climb to the top of the World Trade Center in honor of the 343 firefighters lost in the 9/11 tragedy. In 2015, Ben used his four hours to provide fire prevention training and education to preschool children during National Fire Prevention Week. For these activities and for the many hours and sacrifices Ben has given to helping others, he was named an FCCI Hero in the fall of 2016. Ben was recognized with an award and a donation made in his name to the Napoleon Volunteer Fire Department.

Ben is a perfect example of what FCCI cares about. In 2016, FCCI teammates volunteered a record 2,604 company-paid hours to community organizations, greatly exceeding our goal of 2,300 hours! The organizations vary widely, but they all have one thing in common – they were specifically chosen by FCCI teammates as their way to give back.

A Selection of the Organizations Where FCCI Teammates Volunteered in 2016:

- A Million Thanks
- All Faiths Food Bank
- American Diabetes Association
- Argus Foundation
- Atlanta Community Food Bank
- Baton Rouge Food Bank
- Bikes for Tykes
- Children First
- Community Youth Development
- Copperhead Charities
- Elisa's Greatest Wishes
- FAIA
- Georgia Fruit & Vegetable Association
- Girls, Inc.
- Goodwill
- Habitat for Humanity
- Indiana State University Foundation
- Insurance Industry Charitable Foundation/ Insurance Council of Texas Education Foundation
- IOA Foundation
- Jonathan's Place
- Kids Chance of Maryland
- Mayors' Feed the Hungry
- Meals on Wheels Plus
- Midwest Food Bank
- Mote Marine Laboratory
- Pediatric Brain Tumor Foundation
- Rotary Club
- Salvation Army
- Sarasota Manatee Association for Riding Therapy
- Southeastern Guide Dogs
- Suncoast Charities for Children
- Teen Court of Sarasota
- United Way
- Volunteer East Tennessee
- VA Medical Centers
- Westcoast Black Theatre Troupe
- Wreaths Across America

What Leadership Means

Charles R. Baumann, CPA/CFF; Roy A. Yahraus; John Joseph "Jack" Cox; Lisa Krouse, Esq.; Craig Johnson, CPA, MBA; G.W. Jacobs, Esq.; Robert W. Flanders

"The growth and development of people is the highest calling of a leader."

John Maxwell

FCCI has a long-standing commitment to developing the skills of our leaders. In the minds and hearts of our Board and CEO, the training, development and ongoing support of FCCI leaders at every level is paramount in achieving business goals, planning for succession, recruiting and retaining strong talent and profitably growing the business.

We have a practical, engaging and long-term leadership development focus. The strategy includes a cascading approach with specially designed curriculum for each level of leadership, starting with the CEO and continuing through the executive, experienced and emerging levels of leadership.

Of course, learning does not start or end at the leadership level. Several years ago in a biannual All Teammate Engagement Survey, teammates clearly communicated a need for greater focus on career and individual development. Based on that feedback and in conjunction with other corporate initiatives, FCCI's School of Excellence was launched in 2013.

A select team of FCCI business leaders steer the activities of the School of Excellence as well as the business curriculum in a given year. Continuously adding to and refining the School of Excellence curriculum over the last three years has showcased FCCI's many available learning opportunities for our teammates. It has also created an infrastructure for the FCCI of tomorrow as we move toward our 2025 Vision.

Leadership, like insurance, is a relationship business. FCCI leaders work to build strong relationships within teams, among their colleagues and with our customers. As a guide to leadership and relationship building, FCCI teammates are encouraged to read John Maxwell's *The 21 Irrefutable Laws of Leadership*. From the *Law of the Big Mo: Momentum is a Leader's Best Friend*, the *Law of Connection: Leaders Touch a Heart Before They Ask for a Hand* and all of the 21 Laws, we learn that leadership requires vision, perseverance and care.

In a year when FCCI both celebrated successes and faced challenges, and as a country we both grieved the loss of many iconic figures in American pop culture and cheered a historic win in the World Series by the Chicago Cubs, we recognize that legacies must be nurtured to continue. Above all, it is about the *Law of Navigation: Anyone Can Steer the Ship, but it Takes a Leader to Chart the Course*.

"There is no point at which you can say, 'Well, I'm successful now. I might as well take a nap.'"
Carrie Fisher, 1956-2016

Executive Officers

Craig Johnson, CPA, MBA
Chairman of the Board, President & CEO

Lisa Krouse, Esq., SPHR, SHRM-SCP
Board Member, EVP, Chief HR & Corporate Communications Officer

Chris Shoucair, MST, CPA
EVP, Chief Financial Officer & Treasurer

Lisa Weiland
EVP & Chief Operations Officer

Thomas A. Koval, Esq.
EVP & Chief Legal Officer

Christina D. Welch, Esq., CPCU
EVP, Chief Risk & Compliance Officer

Officers

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SVP, Corporate Claims

Rob Davis, FCAS, MAAA
AVP, Actuary

Bonnie S. Dezii, AIC, SCLA
AVP, Claims

Ann Driscoll
VP, Human Resources

Warren Edwards, CIC
SVP & Chief Regional Officer

Jeff Frazee
SVP & Chief Information Officer

Carey A. Geaglone, CPCU, MBA, ARe, AIS, AIT, ARM
SVP, Insurance Operations

James L. Harms, CPCU, CIC
SVP, Southwest Region

Courtney V. Hart
VP, Regional Operations

Michelle Jalbert, CPA
VP, Controller & Assistant Treasurer

Gregory L. Kramer
SVP, Midwest Region

David Leblanc-Simard, FCAS, MAAA, ASA, CFA
SVP & Chief Actuary

Brian Makowski, CPA, CGMA, CIA
AVP, Insurance Operations

Jim Martin, J.D.
VP, Corporate Claims

Jon Miller, CPCU, AIC
VP, Claims, Florida Region

Michael S. Noble, CPCU, AAI
SVP, Southeast Region

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SVP, Marketing, Business Development & Strategy

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AVP, Claims, Gulf Coast Region

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SVP, Corporate Underwriting

Tracy L. Stoeckel, CPCU
VP, Underwriting, Florida Region

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AVP, Agribusiness

Jose Torres
VP, Insurance Operations

David C. York, CPCU
SVP, Florida Region

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FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Financial Statements
As of and for the Years Ended December 31, 2016 and 2015

Independent Auditor's Report

Board of Directors and Members
FCCI Mutual Insurance Holding Company and Subsidiaries
Sarasota, Florida

We have audited the accompanying consolidated balance sheets of FCCI Mutual Insurance Holding Company and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 consolidated financial statements.

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

Opinion

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

BDO USA, LLP

March 31, 2017
Atlanta, Georgia

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Balance Sheets as of December 31, (in thousands)

		2016	2015
Assets			
Investments:			
Securities available for sale, at fair value			
Fixed maturity securities (cost of $1,335,786 at 2016 and $1,284,705 at 2015)	$	1,354,075	1,309,843
Common stocks (cost of $237,849 at 2016 and $222,538 at 2015)		255,552	221,705
Other invested assets, at amortized cost		5,759	5,652
Total investments		1,615,386	1,537,200
Cash and cash equivalents		32,483	25,686
Accrued investment income		10,318	10,655
Amounts due from policyholders, net		299,150	288,929
Reinsurance recoverable and prepaid reinsurance premium		79,714	77,452
Amounts due from Florida Special Disability Trust Fund		3,372	2,397
Deferred policy acquisition costs		47,043	46,390
Land, building and equipment, net		43,201	43,395
Income tax receivable		28,365	-
Deferred income taxes, net		16,873	20,485
Goodwill		24,151	24,151
Other assets		14,967	13,659
Total assets	$	2,215,023	2,090,399
Liabilities and Members' Equity			
Liabilities:			
Loss and loss adjustment expenses	$	924,487	787,260
Unearned premiums		331,005	325,197
Accrued expenses and other liabilities		103,821	112,790
Accrued policyholder dividends		8,295	6,168
Premiums refundable and loss fund deposits		2,627	2,876
Income tax payable		-	5,936
Debt		131,750	131,750
Total liabilities		1,501,985	1,371,977
Commitments and Contingencies (Note 15)			
Members' Equity:			
Accumulated earnings		690,544	703,232
Accumulated other comprehensive income		22,494	15,190
Total members' equity		713,038	718,422
Total liabilities and members' equity	$	2,215,023	2,090,399

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income for the Years Ended December 31, (in thousands)

		2016	2015
Revenues			
Net premiums earned	$	745,080	675,723
Net investment income		43,342	44,916
Net realized gain		191	8,362
Service fees and other income		2,800	2,953
Total revenues		791,413	731,954
Expenses			
Losses and loss adjustment expenses incurred		598,812	445,304
Policy acquisition expenses		122,595	117,998
General, administrative and other expenses		98,464	99,094
Policyholder dividends		9,757	7,744
Total expenses		829,628	670,140
(Loss) income before income taxes		(38,215)	61,814
Income tax (benefit) expense		(25,527)	18,244
Net (loss) income attributable to members	$	(12,688)	43,570

See accompanying notes to consolidated financial statements.

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Statements of Comprehensive (Loss) Income for the Years Ended December 31, (in thousands)

		2016	2015
Net (loss) income attributable to members	$	(12,688)	43,570
Other comprehensive (loss) income, net of taxes:			
Increase (decrease) in unrealized gains on investments, net of taxes of $4,455 and $11,469		7,424	(19,112)
Reclassification adjustments for realized gains in net income, net of taxes of $71 and $3,136		(120)	(5,226)
		7,304	(24,338)
Total comprehensive (loss) income	$	(5,384)	19,232

See accompanying notes to consolidated financial statements.

Consolidated Statements of Members' Equity for the Years Ended December 31, (in thousands)

		Accumulated Earnings	Accumulated Other Comprehensive Income	Total Members' Equity
December 31, 2014	$	659,662	39,528	699,190
Comprehensive income:				
Net income		43,570	-	43,570
Change in unrealized loss on available-for-sale securities net of taxes		-	(24,338)	(24,338)
December 31, 2015		703,232	15,190	718,422
Comprehensive income:				
Net loss		(12,688)	-	(12,688)
Change in unrealized gains on available-for-sale securities net of taxes		-	7,304	7,304
December 31, 2016	$	690,544	22,494	713,038

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows for the Years Ended December 31, (in thousands)

		2016	2015
Cash flow from operating activities:			
Net (loss) income	$	(12,688)	43,570
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense		5,189	4,995
Deferred tax benefit		(771)	(2,451)
Net realized losses on equipment sold and retired		5	279
Net realized gains on investments		(191)	(8,352)
Net amortization of discounts and premiums on fixed maturity securities		8,952	8,322
Changes in assets and liabilities:			
Decrease (increase) in:			
Accrued investment income		337	584
Amounts due from policyholders		(10,221)	(29,494)
Reinsurance recoverables and prepaid reinsurance premium		(2,262)	11,533
Amounts due from Florida Special Disability Trust Fund		(975)	160
Deferred policy acquisition costs		(653)	(5,324)
Other assets		(1,149)	(581)
Income tax recoverable		(34,301)	-
Increase (decrease) in:			
Loss and loss adjustment expenses		137,227	49,729
Unearned premiums		5,808	36,959
Accrued expenses and other liabilities		(5,778)	5,439
Accrued policyholder dividends		2,127	670
Premiums refundable and loss fund deposits		(249)	(340)
Income tax payable		-	(4,876)
Net cash provided by operating activities		90,407	110,822
Cash flow from investing activities:			
Sales and maturities of investments		391,725	411,527
Purchases of investments		(470,334)	(527,115)
Proceeds from sales of property and equipment		248	312
Purchases of property and equipment		(5,249)	(5,309)
Net cash used in investing activities		(83,610)	(120,585)

Consolidated Statements of Cash Flows for the Years Ended December 31, (in thousands)

		2016	2015
Cash flow from financing activities:			
Proceeds from credit facility	$	288,000	191,750
Principal payments on credit facility		(288,000)	(191,750)
Net cash provided by financing activities		-	-
Net increase (decrease) in cash and cash equivalents		6,797	(9,763)
Cash and cash equivalents, beginning of year		25,686	35,449
Cash and cash equivalents, end of year	$	32,483	25,686
Cash paid during the year for:			
Interest	$	2,776	2,662
Income taxes	$	8,891	25,209

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements (in thousands)

1. Nature of Operations

FCCI Mutual Insurance Holding Company and subsidiaries (the Company) was created on August 27, 1998 when the policyholders of FCCI Mutual Insurance Company voted to reorganize into a mutual holding company. The Company is engaged in the commercial property and casualty insurance business. In connection with the reorganization, FCCI Group, Inc. was formed as an intermediate holding company for the purpose of holding investments in insurance operations. FCCI Mutual Insurance Company became FCCI Insurance Company, a stock insurance company by issuing 5 million shares of common stock to FCCI Group, Inc. No cash or other consideration was paid in connection with the reorganization.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include the accounts, after intercompany eliminations, of the Company as summarized below:

- FCCI Group, Inc. (FGI)
  - FCCI Services, Inc. (FSI)
    - FCCI Agency, Inc. (FAI)
  - FCCI Insurance Company (FCCI)
    - FCCI Insurance Group, Inc. (FIG)
      - Monroe Guaranty Insurance Company (MGI)
      - National Trust Insurance Company (NTI)
      - FCCI Commercial Insurance Company (FCIC)
      - FCCI Advantage Insurance Company (FAIC)
      - Brierfield Insurance Company (BIC)
      - FCCI Tax Credit, LLC (FTC)

All of the above are wholly owned subsidiaries.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments that are readily convertible to known amounts of cash. Only investments with original maturities of three months or less qualify as cash equivalents.

Investments

The Company purchases equity and fixed maturity securities with the intent, expectation, and capability to hold them indefinitely or until maturity. However, since securities may be sold prior to maturity they are classified as available-for-sale and are reported at fair value, with net unrealized gains and losses, net of deferred income tax, reported as accumulated other comprehensive income. Fair values are based on quoted market prices from independent pricing services when available or broker pricing if the security class lacks liquidity. A decline in fair value of any security below cost that is deemed to be other-than-temporary results in a charge to income. All holdings are continuously monitored to assess future prospects for individual securities as part of the Company's portfolio management, including the identification of other-than-temporary decline in fair values.

All securities in an unrealized loss position as of the reporting date are evaluated for other-than-temporary impairment. The Company does not define an arbitrary finite period as temporary. Rather, the Company believes the time frame should be related more closely to reasonable levels of liquidity in bond markets and the business cycle for equity holdings. In addition to issuer specific discrete credit events, management identifies fixed maturity securities as candidates for potential other-than-temporary impairment if they have been in an unrealized loss position for thirteen consecutive months and the fair values are at least 20% below book value as of the balance sheet date. These securities are evaluated by management utilizing data and information from the Company's external investment consultant and investment manager to determine if the unrealized loss position is due to credit issues rather than market volatility, in which case an other-than-temporary impairment loss will be recognized in the income statement. This evaluation includes an analysis of expected future cash flows and projections of the probability and severity of defaults. In addition, if events indicate that the Company will not hold securities until the fair value recovers from an unrealized loss position, the Company will recognize an other-than-temporary impairment in the consolidated statement of earnings.

Equity securities are evaluated for other-than-temporary impairment using the following procedures:

1. Single issuer equity securities (not mutual funds) whose fair value is adversely affected by a precipitating event that is of an extended duration (e.g., bankruptcy, major court action, and serious product liability exposure) will be immediately considered for other-than-temporary impairment treatment.
2. On at least a quarterly basis, mutual funds or single issuer equity securities that have been in an unrealized loss position for thirteen consecutive months and whose fair values have declined by more than one standard deviation (based on historical performance for the associated equity sector) will be considered for other-than-temporary impairment treatment.
3. Single issuer equity securities and mutual funds identified above for consideration for other-than-temporary impairment treatment are evaluated by management utilizing data and information from the Company's external investment consultant and investment manager to determine whether the full recovery of cost is expected in the near term.

Realized gains and losses on the sales of securities are recognized based on the specific identification method, except for mutual fund equities which are based on the weighted average cost method. Premiums and discounts on securities are amortized using the interest method over their contractual lives or expected average lives for loan-backed securities. Interest rate adjustments associated with changes in projected cash flows on mortgage and asset-backed securities are accounted for using the retrospective method.

Deferred Policy Acquisition Costs

Costs that are directly associated with the acquisition of insurance policies such as commissions, premium-related taxes, and assessments are deferred and amortized as the related premiums are earned. Indirect costs to acquire insurance policies are recorded as an expense as incurred. The Company considers anticipated investment income in determining whether a premium deficiency exists.

Land, Building and Equipment

Land is stated at cost. Buildings and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 3-39 years. Improvements, which increase the life of an asset, are capitalized and depreciated over the remaining estimated useful life of the asset.

Capitalized Software Costs

Capitalized software costs are accounted for in accordance with Accounting Standards Codification (ASC) 350-40, *Internal Use Software*, and are recorded at cost less accumulated amortization. Upon successful testing of the system, amortization is charged to expense over the estimated useful life of the software, generally seven years.

Goodwill

Goodwill represents the excess of costs over fair value of assets of acquired businesses and is determined to have an indefinite useful life and is not amortized, but instead tested for impairment at least annually in accordance with ASC 350-20, *Goodwill*.

Impairment of Long-Lived Assets

In accordance with ASC 360, *Property, Plant and Equipment*, long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Company first compares undiscounted future cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques under ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Recognition of Revenue

Premiums are earned on a pro rata basis over the policy term, generally one year. The policy period for contract surety business is determined based on the estimated completion date of the contract. Premiums applicable to the unexpired terms of effective policies are recorded as unearned premiums. Premiums for certain lines of business, such as workers' compensation, are subject to revision based upon final determination of the exposure base, which occurs after the policy period. Retrospectively rated policy premiums are increased or decreased, subject to certain policy limitations, based upon the estimated loss experience of the insured during the policy period and subsequent calendar years. Service fees and commission income are earned pro rata over the term of the contract period or when the services are performed, if applicatble. Reinsurance commission income is recognized pro rata over the term of the related insurance contract.

Loss and Loss Adjustment Expenses

The liability for loss and loss adjustment expenses (LAE) represents the ultimate estimated liability for reported claim costs (including LAE) that have not settled, and an estimate, based on experience, for claims that have been incurred but not yet reported. The liability for loss and LAE is estimated by management based upon actuarial reviews of the Company's historical loss development experience and industry data. The Company does not discount the liability for loss and LAE.

Policyholder Dividends

At the sole discretion of the Boards of Directors of the insurance companies, and within regulatory guidelines, insureds with participating insurance contracts may be eligible to share in the profitability of the policy in the form of a dividend, based on the insured's individual loss experience. An estimated provision for policyholder dividends is accrued as the related premiums are earned based on historical profitability and published dividend tables. Changes in estimates are recognized in the period determined.

Reinsurance

Premiums and loss and LAE ceded under reinsurance contracts are reported as a reduction to premiums earned and loss and LAE incurred, respectively. Loss and LAE reserve amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsurance contract.

Notes to Consolidated Financial Statements (in thousands)

Florida Special Disability Trust Fund
Amounts due from the Florida Special Disability Trust Fund (SDTF) relate to recoverable amounts for certain claims costs related to injuries that aggravate or accelerate a preexisting injury or physical impairment. The receivable is comprised of three components: amounts paid by the Company which has been submitted to the SDTF pending reimbursement, amounts paid by the Company which have not yet been submitted to the SDTF, and amounts not yet paid by the Company.

Income Taxes
The Company files a consolidated federal income tax return. Deferred income taxes are recognized for assets and liabilities that have different values for financial statement and tax reporting purposes using enacted federal and state tax rates. A valuation allowance is recorded, as deemed necessary, to reduce a net deferred tax asset to the amount expected to be realized.

The Company's federal income tax return is consolidated with all of the entities noted in *Note 2. Summary of Significant Accounting Policies*, with the exception of FCCI Tax Credit, LLC.

Concentrations of Business Risks
The Company is inherently subject to various business risks. Following is a description of the most significant risks facing property and casualty insurers:

Catastrophic Loss Risk is the risk of losses due to geographic concentrations of property policies within storm-prone regions and accumulation of lives within a single location. The Company maintains reinsurance coverage to mitigate the risk of catastrophic losses.

Legal/Regulatory Risk is the risk that the legal or regulatory environment in which an insurer operates will change and create additional loss costs or expense not anticipated by the insurer in pricing its products. Regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those currently recorded in the consolidated financial statements. As the Company writes a significant amount of insurance business in the state of Florida, these risks might have a more significant effect on the Company than on a more geographically diversified insurance company.

Credit Risk is the risk that issuers of securities owned by the Company will default or other parties, including policyholders, reinsurers, and the SDTF that owe the Company money, will not pay. The Company minimizes this risk by adhering to a conservative investment strategy, closely monitoring premiums receivable, and contracting with reinsurance companies that meet certain rating criteria and other qualifications.

Interest Rate Risk is the risk that interest rates will change and cause a decrease in the value of an insurer's investments. To the extent that liabilities come due more quickly than assets mature, an insurer would have to sell assets prior to maturity and potentially recognize a loss in a rising interest rate environment. The Company mitigates this risk by attempting to match the duration of its assets with the duration of its liabilities and by maintaining working lines of credit.

Use of Estimates
The preparation of consolidated financial statements requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates. Significant estimates include the liability for loss and LAE, amounts recoverable from reinsurers, deferred income tax assets and liabilities, the deferral of policy acquisition costs, amounts due from the Florida SDTF, accrued policyholder dividends, guaranty fund assessments, final premium audits, allowance for doubtful accounts, and retrospectively rated premiums.

Going Concern
Based upon its evaluation of relevant conditions and events, management does not have substantial doubt about the Company's ability to continue as a going concern.

Recently Issued Accounting Standards
In August 2014, the FASB issued ASU No. 2014-15 (Topic 205-40), *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. Under ASU 2014-15, the Company is required to assess its ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about the entity's ability to continue as a going concern, including management's plan to alleviate the substantial doubt. ASU 2014-15 is effective for the year ended December 31, 2016. The adoption of this guidance did not have any effect on the Company's results of operations, financial position or liquidity.

In May 2015, the FASB issued ASU No. 2015-09 (Topic 944), *Financial Services-Insurance: Disclosure about Short-Duration Contracts*. The updated accounting guidance requires enhanced disclosures to provide additional information about insurance liabilities for short-duration contracts. The updated guidance is effective for the year ended December 31, 2017 and early adoption is permitted. The Company is currently evaluating the effect the updated guidance will have on the Company's financial statement disclosures.

In January 2016, the FASB issued ASU No. 2016-01 (Topic 825-10), *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The updated accounting guidance requires changes to the reporting model for financial instruments. The primary change for the Company is expected to be the requirement for equity investments (except for those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The updated guidance is effective for the year ended December 31, 2019 and early adoption is not permitted. The Company is currently evaluating the effect the updated guidance will have on the company's financial statements.

In February 2016, the FASB issued ASU No. 2016-02 (Topic 842), *Leases*. The FASB issued this updated accounting guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference for the Company is the recognition of lease assets and lease liabilities for leases classified as operating leases. The updated guidance is effective for the year ended December 31, 2020 and early adoption is permitted. The Company is currently evaluating the effect the updated guidance will have on the Company's financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 (Topic 326), *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments.* The updated guidance applies a new credit loss model requiring entities to estimate credit losses expected over the life of an exposure or pool of exposures. The expected credit losses and subsequent adjustments will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset. This update amends the current other-than-temporary impairment model for available-for-sale securities by requiring recognition of impairments related to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. The length of time a security has been in an unrealized position will no longer impact the determination of whether a credit loss exists. This update is effective for the year ended December 31, 2021 and early adoption is permitted for the year ending December 31, 2019. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU No. 2017-04 (Topic 350), *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment.* The updated guidance eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge by comparing a reporting unit's fair value with its carrying amount and recognizing an impairment charge for the excess of the carrying amount over estimated fair value (i.e., Step 1 of current guidance). The updated guidance is effective for fiscal year ended December 31, 2020 and early adoption is permitted for the year ended December 31, 2017. The Company does not believe the adoption of this update will have an impact on the future financial statements and related disclosures.

Subsequent Events
The Company has evaluated events subsequent to December 31, 2016, and through the financial statements issuance date of March 31, 2017. The following events occurring subsequent to the balance sheet date merited recognition or disclosure in these statements.

On January 20, 2017, the Company renewed its line of credit (LOC) in the amount of $20,000 with the Northern Trust Company. The new maturity date is January 19, 2018.

On February 17, 2017 the Company renewed its 1-month fixed rate credit facility of $24,000 with the Federal Home Loan Bank of Atlanta. The new maturity date is March 17, 2017.

On March 1, 2017, the Company renewed its LOC in the amount of $25,000 with Bank of America. The new maturity date is March 1, 2019.

3. Investments
The amortized cost and fair value of available for sale securities as of December 31 are as follows:

2016		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Treasury and US government agencies and corporations	$	62,874	305	(271)	62,908
State and political subdivisions		494,457	18,439	(3,383)	509,513
Mortgage-backed and asset-backed securities		461,234	2,200	(4,604)	458,830
Corporate bonds		237,244	5,971	(842)	242,373
Foreign government and foreign corporate bonds		79,977	1,175	(701)	80,451
Total fixed maturity securities		1,335,786	28,090	(9,801)	1,354,075
Common stock		237,849	21,299	(3,596)	255,552
Total available-for-sale securities	$	1,573,635	49,389	(13,397)	1,609,627

2015		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Treasury and US government agencies and corporations	$	48,202	405	(334)	48,273
State and political subdivisions		509,588	29,127	(81)	538,634
Mortgage-backed and asset-backed securities		396,793	2,670	(2,224)	397,239
Corporate bonds		265,243	3,869	(7,709)	261,403
Foreign government and foreign corporate bonds		64,879	1,224	(1,809)	64,294
Total fixed maturity securities		1,284,705	37,295	(12,157)	1,309,843
Common stock		222,538	16,784	(17,617)	221,705
Total available-for-sale securities	$	1,507,243	54,079	(29,774)	1,531,548

The amortized cost and fair value of fixed maturity securities as of December 31, 2016 by contractual maturities are as follows:

		Amortized Cost(1)	Fair Value(1)
Due in one year or less	$	61,459	61,670
Due after one year through five years		546,637	549,656
Due after five years through ten years		341,207	345,315
Due after ten years		386,483	397,434
Total fixed maturities	$	1,335,786	1,354,075

(1) Includes principal paydowns on mortgage and asset-backed securities using estimated maturities.

Mortgage and asset-backed securities are classified in the maturity distribution based upon the average life of their projected cash flows. Projected cash flows are generated on a security level basis using a variety of date sources and systems to gather prepayment, default and loss severity assumptions which are then applied using a deterministic approach for asset-backed securities (ABS) and commercial mortgage-backed securities (CMB) or using a probabilistic behavioral model for residential mortgage-backed securities (RMBS). The Company also uses a six-month average actual cumulative prepayment rate (CPR), cumulative default rate (CDR), and severity in determining projected cash flows for the life of each bond. CPR, CDR, and severity information is obtained from various data providers including Bloomberg, Intex, Polypaths, and the AFT Prepayment and Credit Model when available. When actual severity cannot be obtained or calculated from these sources, the Company uses assumptions based on market research. Actual maturities and projected cash flows may differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

Notes to Consolidated Financial Statements (in thousands)

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, are as follows:

		Less Than 12 Months		12 Months or More		Total	
2016		Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available for sale:							
Bonds	$	4,213	202,602	984	11,093	5,197	213,695
Equity securities		1,009	23,806	2,587	326	3,596	24,132
Mortgage-backed and asset-backed securities		3,913	221,176	691	19,677	4,604	240,853
	$	9,135	447,584	4,262	31,096	13,397	478,680

		Less Than 12 Months		12 Months or More		Total	
2015		Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available for sale:							
Bonds	$	5,488	200,299	4,445	31,298	9,933	231,597
Equity securities		12,559	105,977	5,058	30,891	17,617	136,868
Mortgage-backed and asset-backed securities		1,279	184,362	945	24,809	2,224	209,171
	$	19,326	490,638	10,448	86,998	29,774	577,636

The Company's other-than-temporary impairment assessment includes reviewing the extent and duration of declines in fair values of investments, the seniority and duration for the securities, historical and projected company financial performance, company specific news and other developments, the outlook for industry sectors, credit ratings and macro-economic changes, including government policy initiatives. The largest single unrealized loss at December 31, 2016 was $764, representing a 3.7% decline, on an equity security.

During 2016, the Company recognized $551 of other-than-temporary impairment losses on two fixed maturity securities, due to issuer-specific credit and quality events, consistent with management's criteria for recognizing other-than-temporary declines in fair value. One of the securities was sold during third quarter 2016 and the other security was still held by the Company at December 31, 2016. During 2015, the Company did not recognize any other-than-temporary impairment losses.

For fixed maturity securities, other than the security still held at December 31, 2016 for which other-than-temporary impairment was recognized, the Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Because management has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, management does not consider these securities to be other-than-temporarily impaired at December 31, 2016. For equity securities, the Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on those evaluations and the Company's ability and intent to hold these investments until recovery of cost in the near term, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2016. Management bases this conclusion on its current understanding, which includes the opinions of their outside investment consultants and outside investment manager, of the issuers of these securities, as described above.

It is possible that the Company could recognize other-than-temporary impairment losses on some securities owned at December 31, 2016 if future events, information and the passage of time cause the Company to determine that a decline in value is other-than-temporary.

Net investment income is summarized as follows for the years ended December 31:

		2016	2015
Bonds	$	38,382	42,235
Equity securities		9,128	7,671
Cash, cash equivalents and short-term investments		109	5
Gross investment income		47,619	49,911
Investment expenses		(4,277)	(4,995)
Net investment income	$	43,342	44,916

Proceeds from sales or maturities of fixed maturity securities during 2016 and 2015 were $310,336 and $329,779, respectively. Proceeds from sales of equity securities during 2016 and 2015 were $81,389 and $81,748, respectively.

Net realized gains on investments sold or impaired were comprised of the following for the years ended December 31:

		2016	2015
Fixed maturity securities:			
Gross gains	$	2,792	2,964
Gross losses		(1,040)	(825)
Equity securities:			
Gross gains		9,922	6,367
Gross losses		(3,733)	(154)
Other invested assets			
Gross losses		(7,199)	-
Cash, cash equivalents and short-term investments:			
Gross gains		-	10
OTTI charges incurred on fixed maturity securities(1)		(551)	-
Total realized investments gain	$	191	8,362

(1) $469 of the OTTI charges in 2016 related to one security the Company held in its investment portfolio as of December 31, 2016.

The Company recorded $551 and $0 impairment write-downs during 2016 and 2015, respectively. One of the securities incurred $82 of OTTI and was sold during the third quarter of 2016 and realized $17 in gains from the subsequent sale. The second security incurred $469 of the OTTI charges in 2016 and the Company still held it in its investment portfolio as of December 31, 2016.

At December 31, 2016 and 2015, bonds, cash, and cash equivalents with fair values of $18,177 and $17,408, respectively, were pledged to various state and federal regulatory authorities.

The Company maintains a diversified portfolio and there were no concentrations in any one investment in excess of 13% of members' equity at December 31, 2016 and 2015.

The Company does not engage in direct subprime residential mortgage lending. The Company's exposure to subprime mortgage-related risk is limited to investments within the fixed maturity income investment portfolio, which contains securities collateralized by mortgages that have characteristics of subprime lending. Such characteristics include an interest rate above prime to borrowers who do not qualify for prime rate loans, borrowers with low credit ratings (FICO scores), unconventionally high initial loan-to-value ratios, and borrowers with less than conventional documentation of their income and/or net assets.

The Company minimizes subprime mortgage related risk exposure by holding securities that carry an aggregate credit rating of B and by monitoring the underlying collateral performance on an ongoing basis.

The following chart summarizes the actual cost, book/adjusted carrying value, and the fair value of subprime mortgage-related risk exposure:

		Actual Cost	Book/Adjusted Carrying Value	Fair Value	Other-Than-Temporary Impairment Losses Recognized to Date
Residential mortgage-backed securities	$	383	377	377	-

Other Invested Assets

In January 2014, the FASB issued ASU 2014-01 (Topic 323) *Investments-Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects*. The objective of this update is to provide guidance on accounting for investments by a reporting entity that invests in affordable housing projects that qualify for the low-income housing tax credit. During 2015, the Company adopted ASU 2014-01 and accounts for its investments in low-income housing using the proportional amortization method.

FCCI, MGIC and NTI, entered into an Operating Agreement to form FTC for the purpose of investing in low-income housing property that will provide the Company with low-income housing tax credits in the state of Georgia. This agreement was approved by the Florida Department of Financial Services - Office of Insurance Regulation on November 22, 2010 and the Indiana Department of Insurance on November 12, 2010.

The Company's carrying value of the investment is $954 and $1,160 as of December 31, 2016 and 2015, respectively, including its cost of $2,392. Amortization was $206 and ($36) for years ending December 31, 2016 and 2015, respectively. During each year 2016 and 2015 the Company recognized $650 of state tax credits. The investment is being amortized over ten years from the initial date of acquisition using the proportional amortization method. The Company has three years of remaining unexpired tax credits and has fulfilled its one year holding period requirement as of September 27, 2011. Each low-income property is subject to an annual regulatory review and the properties maintain their qualifying status as of December 31, 2016.

During 2015, FCCI Group, Inc., a company within the FCCI Insurance Group, entered into an Operating agreement with a third party for the purpose of investing in low-income housing property that will provide the Company with federal low-income housing tax credits and other tax benefits from operations.

The Company's carrying value of the investment is $3,647 and $4,492 as of December 31, 2016 and 2015, respectively, including its adjusted costs of $4,665. Amortization was $655 and $363 for years ending December 31, 2016 and 2015, respectively. During 2016 and 2015, the Company recognized $523 and $405 of federal tax credits. The investment is amortized over twelve years from the initial date of acquisition using the proportion amortization method. The Company has nine years of remaining unexpired federal tax credits. Each low-income property is subject to an annual regulatory review and the properties maintain their qualified status as of December 31, 2016.

During 2016, FCCI Group, Inc., entered into an operating agreement with a third party for the purpose of investing in solar renewable energy projects that will provide the Company with federal renewable energy or solar tax credits and other tax benefits from operations.

The Company's carrying value of the investment is $1,158 as of December 31, 2016, including its costs of $8,357. Impairment of $7,199 was recognized during 2016. During 2016, the Company received $7,058 of federal solar tax credit and $1,879 of additional tax benefits from operations. All federal renewable energy tax credits were received during 2016 and there are no remaining future federal tax credits pending as of December 31, 2016. The Company is scheduled to receive cash distributions from the project for the next five years. The investment will be analyzed for impairment on an annual basis. There is a five year compliance period from the place in service date which was December 22, 2016. The project is subject to review and the facilities were developed, constructed and leased in a manner that qualifies for the energy credit under the applicable section of the tax code. The project has maintained its qualified status as of December 31, 2016.

The Company's future capital contributions as of December 31, 2016 are as follows:

		Amount
2017	$	2,335
2018		30
2019		30
2020		53
	$	2,448

Fair Value Measurements

The Company has adopted the provisions of ASC 820, which defines fair value as the exit price or the amount that would be (1) received to sell an asset or (2) paid to transfer a liability in an orderly transaction between marketplace participants at the measurement date. When determining an exit price, the Company must, whenever possible, rely upon observable market data.

The ASC 820 exit price notion requires the Company's valuation to also consider what a market place participant would pay to buy an asset or receive to assume a liability. Therefore, while the Company can consider pricing data from these outside services, the Company ultimately determines whether the data or inputs used by these outside services are observable or unobservable.

In accordance with ASC 820, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level that is significant to the fair value measurement of the instrument.

Notes to Consolidated Financial Statements (in thousands)

Level 1 and Level 2 Valuation Techniques
All invested assets of the Company measured at fair value are classified as Level 1 or Level 2. Financial assets that fall within Level 1 and Level 2 are priced according to observable data from identical or similar securities that have traded in the marketplace. Also within Level 2 are securities that are valued by outside pricing services because the inputs used in pricing the securities are market observable. The Company has evaluated the pricing methodology and has determined that the inputs are observable.

Level 3 Valuation Techniques
Financial assets that fall within Level 3 of the hierarchy are valued based upon unobservable market inputs, normally because they are not actively traded on a public market. The Company includes broker quotes in this category due to the lack of transparency in the process that brokers use to develop such prices and due to the lack of a binding or completed sale or purchase transaction. The Company holds no Level 3 investments.

Rollforward of Level 3 Items
The Company has no Level 3 assets or liabilities measured at fair value.

Policy on Transfers into and out of Levels 1, 2 and 3
At the end of each reporting period, the Company evaluates whether or not an event has occurred or circumstances have changed that would cause an instrument to be transferred into or out of Levels 1, 2 and 3. The Company had no transfers into or out of Levels 1, 2 or 3 in the current year.

The following tables represent fair value of fixed maturity and equity securities by hierarchy level as of December 31:

			Quoted Prices in Active Markets for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs
2016		**Total**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
US Treasury and US government agencies and corporations	$	62,908	62,908	-	-
State and political subdivisions		499,513	-	499,513	-
Mortgage-backed and asset-backed securities		468,831	-	468,831	-
Corporate bonds		242,372	-	242,372	-
Foreign government and foreign corporate bonds		80,451	-	80,451	-
Total fixed maturity securities		1,354,075	62,908	1,291,167	-
Common stock(1)		248,330	248,330	-	-
Total investment securities	$	1,602,405	311,238	1,291,167	-

(1) The Company holds $7,222 of other common stock carried at its contractually specified redemption value.

			Quoted Prices in Active Markets for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs
2015		**Total**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
US Treasury and US government agencies and corporations	$	48,273	48,273	-	-
State and political subdivisions		538,634	-	538,634	-
Mortgage-backed and asset-backed securities		397,239	-	397,239	-
Corporate bonds		261,403	-	261,403	-
Foreign government and foreign corporate bonds		64,294	-	64,294	-
Total fixed maturity securities		1,309,843	48,273	1,261,570	-
Common stock(1)		214,567	214,567	-	-
Total investment securities	$	1,524,410	262,840	1,261,570	-

(1) The Company holds $7,138 of other common stock carried at its contractually specified redemption value.

4. Amounts Due from Policyholders
Amounts due from policyholders are composed of the following at December 31:

		2016	2015
Premiums in course of collection	$	41,883	33,415
Premiums deferred not yet due		258,545	256,211
Premiums due on retrospectively rated policies		3,755	3,566
Amounts due on deductible policies		1,243	1,101
Amounts due from policyholders, gross		305,426	294,293
Allowance for doubtful accounts		(6,276)	(5,364)
Amounts due from policyholders, net	$	299,150	288,929

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in our amounts due from policyholders balance determined on the basis of historical experience, specific allowances for known troubled accounts, and other currently available evidence.

5. Deferred Policy Acquisition Costs
Deferred policy acquisition costs are summarized as follows as of and for the years ended December 31:

		2016	2015
January 1,	$	46,390	41,066
Capitalized costs		111,841	106,246
Amortized costs		(111,188)	(100,922)
December 31,	$	47,043	46,390

6. Land, Building and Equipment
The major components of land, building and equipment as of December 31 are as follows:

		2016	2015
Land	$	4,269	4,269
Building and improvements		50,234	50,081
Furniture and equipment		16,105	15,253
Software in use		37,748	34,477
Software under development		4,019	4,780
Land, building and equipment, at cost		112,375	108,860
Accumulated depreciation and amortization		(69,174)	(65,465)
Land, building and equipment, net	$	43,201	43,395

Depreciation and amortization expense for land, building and equipment for the years ended December 31, 2016 and 2015 amounted to $5,189 and $4,995, respectively.

7. Goodwill and Other Intangible Assets
The balance sheets include goodwill attributable to the Company's purchase of MGI in November 2000. The original amount of goodwill associated with the acquisition was $18,120. Prior to the adoption of ASC 350, *Intangibles-Goodwill and Other*, in 2002, cumulative amortization of $1,309 was recorded. In addition, the Company purchased Mississippi Insurance Managers (MIM), a managing general agent, through a wholly owned subsidiary in December 2008. The cost of the MIM acquisition was $8,000, and the Company recorded an intangible asset associated with the purchase of $4,949, which is being amortized over ten years and is reported as a component of other assets in the consolidated balance sheets. The purchase contract included a three-year earn-out provision in which the final payout was made in 2011. All amounts paid in connection with this earn-out provision were recorded as an increase to goodwill.

As of December 31, 2016, the Company tested the underlying goodwill and intangible assets for recoverability, and the test indicated that the fair values exceeded the carrying values of the assets.

The following table details goodwill and intangible assets as of December 31:

		2016		2015	
		Goodwill	Other Intangibles(1)	Goodwill	Other Intangibles(1)
Monroe Guaranty Insurance Company	$	18,120	-	18,120	-
Mississippi Insurance Managers, Inc.		7,340	4,949	7,340	4,949
Goodwill and other intangible assets, gross		25,460	4,949	25,460	4,949
Accumulated amortization(2)		(1,309)	(3,960)	(1,309)	(3,465)
Goodwill and other intangible assets, net	$	24,151	989	24,151	1,484

(1) Reported as a component of other assets
(2) Goodwill amortization recorded in 2001 prior to SFAS 142, Goodwill and Other Intangible Assets, now ASC 350-20, Goodwill

Intangible amortization expense was $495 for each of the years ended December 31, 2016 and 2015.

8. Liability for Loss and LAE
The Company establishes a liability for loss and LAE that estimates the future payments of reported and unreported claims for losses and the related loss expenses with respect to insured events that have occurred. The process of establishing this liability is subject to uncertainties that are normal, recurring, and inherent in the property and casualty business. The process requires reliance upon estimates based on available data that reflects past experience, current trends, and other information and the exercise of informed judgment. Changes in the Company's estimate of this liability may be required as information develops that varies from experience, provides additional data, or, in some cases, augments data previously not considered sufficient for use in determining reserves. The effect of these changes, net of reinsurance, is charged (unfavorable development) or credited (favorable development) to income for the periods in which they are determined.

In management's judgment, information currently available has been appropriately considered in estimating the Company's liability for losses and LAE. However, future changes in estimates of the Company's liability for insured events may materially affect results positively or adversely in future periods although such effects cannot be reasonably estimated.

Notes to Consolidated Financial Statements (in thousands)

Activity for the years ended December 31 in the liability for loss and LAE is summarized in the table below:

		2016	2015
January 1, gross	$	787,260	737,531
Less:			
Reinsurance recoverable, unpaid losses		65,380	79,211
Florida Special Disability Trust Fund recoverable (Note 9)		2,397	2,557
Salvage and subrogation recoverables		8,207	7,660
Retroactive reinsurance reserves assumed		1,557	2,112
Liability for loss and LAE on deductible policies		1,101	1,503
January 1, net	$	708,618	644,488
Incurred related to:			
Current year		573,148	465,708
Prior years		25,664	(20,404)
		598,812	445,304
Paid related to:			
Current year		182,901	168,815
Prior years		281,182	212,359
		464,083	381,174
December 31, net	$	843,347	708,618
Plus:			
Reinsurance recoverable, unpaid losses		66,098	65,380
Florida Special Disability Trust Fund recoverable (Note 9)		3,372	2,397
Salvage and subrogation recoverables		8,925	8,207
Retroactive reinsurance reserves assumed		1,502	1,557
Liability for loss and LAE on deductible policies		1,243	1,101
December 31, gross	$	924,487	787,260

The liability for loss and LAE developed unfavorably in 2016 by $25,664 due to increases in expected ultimate losses as a result of higher than anticipated emergence on prior accident years. The liability for loss and LAE developed favorably in 2015 by $20,404, due to reductions in expected ultimate losses primarily because of lower than anticipated emergence on prior accident years.

9. Florida Special Disability Trust Fund

The Florida Special Disability Trust Fund (SDTF) provides for the reimbursement of certain Florida workers' compensation claim costs related to injuries that occurred prior to 1998 and that aggravate or accelerate a preexisting injury or physical impairment. The Company submits claims to the SDTF, a Florida government trust fund for recovery of eligible claim costs. The SDTF is funded on a current basis through quarterly assessments imposed on insurance carriers, self-insurance funds, and self-insurers, based on Florida workers' compensation direct premiums written net of any related policyholder dividends.

The Company's receivable from the SDTF is comprised of the following three components as of December 31:

		2016	2015
Amounts paid by the Company submitted to the SDTF pending reimbursement		567	360
Amounts paid by the Company not yet submitted to the SDTF		354	408
Amounts not yet paid by the Company		2,451	1,629
	$	3,372	2,397

The SDTF accepts submissions for recovery once per year for each subject claim.

For the years ended December 31, 2016 and 2015, assessments were $1,549 and $1,544, respectively, and the Company collected $755 and $1,022, respectively, in reimbursements.

10. Reinsurance

The Company has a reinsurance program that is intended to reduce overall risks, including exposure to large losses and catastrophic events. The Company limits the maximum net loss that can arise from claims by reinsuring certain levels of risks with reinsurers. In the ordinary course of business, the Company assumes premiums, losses, and LAE from involuntary assigned risk pools.

The Company expects those companies with whom resinsurance has been placed to honor their obligations. However, in the event that all or any of the reinsuring companies are unable to meet their obligations for existing paid and unpaid loss recoverables, the Company would be liable for such defaulted amounts.

The following table summarizes reinsurance recoverables and prepaid reinsurance premium as of December 31:

		2016	2015
Recoverable for loss and LAE reserves	$	66,098	65,380
Recoverable for paid loss and LAE		1,481	889
Prepaid reinsurance premium		12,135	11,183
	$	79,714	77,452

The following table summarizes the effect of reinsurance on premiums for the years ended December 31:

		Direct	Assumed	Ceded	Net
2016					
Written premiums	$	786,937	6,767	43,605	750,099
Earned premiums		780,895	6,837	42,652	745,080
2015					
Written premiums		744,792	6,796	40,535	711,053
Earned premiums		707,807	6,668	38,752	675,723

The following table summarizes the effect of reinsurance on loss and LAE incurred for the years ended December 31:

		Direct	Assumed	Ceded	Net
2016	$	606,556	4,105	11,849	598,812
2015		435,160	5,535	(4,609)	445,304

11. Income Tax

The components of income tax expense are as follows for the years ended December 31:

		2016	2015
Current income tax (benefit) expense			
Federal	$	(24,610)	18,879
State		(146)	1,816
Total current income tax (benefit) expense		(24,756)	20,695
Deferred income tax (benefit) expense			
Federal		293	(2,169)
State		(1,064)	(282)
Total deferred income tax benefit		(771)	(2,451)
Total income tax (benefit) expense	$	(25,527)	18,244

The significant components of the net deferred income tax asset as of December 31 are as follows:

		2016	2015
Deferred income tax assets:			
Discount of unearned and advance premiums	$	24,106	23,780
Discount of liability for loss and LAE		12,275	13,854
Deferred compensation		6,350	6,344
Unrealized loss on investment securities		5,024	11,165
Net state operating loss carryforwards		3,186	2,452
Accrued policyholder dividends		3,030	2,244
Allowance for doubtful accounts		2,354	2,012
Subsequent injury tax		529	836
Other		4,238	3,120
Total gross deferred income tax assets		61,092	65,807
Less: valuation allowance		(2,292)	(2,423)
Total net deferred income tax assets		58,800	63,384
Deferred income tax liabilities:			
Unrealized gain on investment securities		18,521	20,281
Deferred policy acquisition costs		17,642	17,397
Other		5,764	5,221
Total deferred income tax liabilities		41,927	42,899
Net deferred income tax asset	$	16,873	20,485

Notes to Consolidated Financial Statements (in thousands)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset of $2,313 related to net operating losses in the state of Indiana, the Company will need to generate future Indiana taxable income of approximately $2,313 prior to the expiration of the net operating loss carryforwards in 2019 to 2025. Indiana taxable income for the years ended December 31, 2016 and 2015 was $46 and $37, respectively. Accordingly, management believes it is not more likely than not that this deferred tax asset will be realized and has recorded a valuation allowance. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the remaining deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2016. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Following is a reconciliation of the provision for federal income tax at the U.S. corporate rate (35% for December 31, 2016 and 2015) to the (benefit) expense recorded for the years ended December 31:

		2016	Effective Tax Rate	2015	Effective Tax Rate
Expected tax	$	(13,375)	35.00%	21,635	35.00%
Tax credits		(7,670)	20.07	-	-
Tax-exempt interest		(4,913)	12.86	(5,377)	(8.70)
State income taxes, net of federal benefit		(786)	2.06	996	1.61
Additional current and deferred adjustments		-	-	413	0.67
Provision to return adjustment		(293)	0.76	(65)	(0.11)
Other, net		1,510	(3.95)	642	1.04
Actual income tax (benefit) expense	$	(25,527)	66.80%	18,244	29.51%

The Company has adopted ASC 740-10-05, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This guidance prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Management has evaluated their tax positions and determined that there are no situations where it is "more likely than not" that a position taken will not be upheld. Therefore, the Company has no liability recorded for uncertainty in income taxes. The Company's policy is to classify interest and penalties related to unrecognized tax positions in income before income taxes. As of December 31, 2016, the Company has no accrued interest or penalties related to unrecognized tax positions.

12. Debt

Lines of Credit/Credit Facility

Northern Trust Line of Credit

The Company has a line of credit (LOC) from Northern Trust Bank of Florida, N.A., in the amount of $20,000 expiring on January 20, 2017. Bonds with a carrying value of $27,743 have been pledged as collateral. There is no balance outstanding on the LOC as of December 31, 2016 and 2015.

Bank of America Line of Credit

The Company has an LOC from Bank of America, in the amount of $25,000 expiring on March 1, 2017. Bonds with a carrying value of $36,995 have been pledged as collateral. There is no balance outstanding on the LOC as of December 31, 2016.

Federal Home Loan Bank Credit Facility

The Company is a member of the Federal Home Loan Bank of Atlanta (FHLB). As a requirement of membership, the Company owns FHLB stock in an amount that is adjusted annually based on the asset size of the Company. In addition to membership stock requirements, the FHLB also requires members to purchase additional FHLB stock in amounts equal to 4.5% of each advance. FHLB shares that are purchased at the time of an advance are automatically redeemed when the advance is repaid (proportionately if the advance is partially repaid). As of December 31, 2016 and 2015, the Company owned FHLB stock in the amount of $7,222 and $7,138, respectively. As of December 31, 2016, the Company's borrowing limit is $250,000. The Company's overall FHLB credit limit can fluctuate based on the Company's financial condition, and all balances must be adequately collateralized.

The Company's FHLB borrowings as of December 31, 2016 are summarized in the following table:

Description		Amount Outstanding	Date Issued	Maturity Date	Interest Rate
1-Month Fixed Rate Credit	$	24,000	12/22/2016	1/20/2017	0.640%
5-Year Fixed Rate Note		32,000	6/27/2013	6/27/2018	1.853%
10-Year Fixed Rate Note		10,000	8/18/2010	8/18/2020	3.165%
10-Year Fixed Rate Note		10,000	8/26/2010	8/26/2020	3.137%
10-Year Fixed Rate Note		32,000	9/18/2012	9/19/2022	2.300%
10-Year Fixed Rate Note		23,750	6/1/2015	6/2/2025	2.862%
	$	131,750			

13. Retirement and Deferred Compensation Plans

Retirement and Savings Plan

The Company has a retirement and profit sharing plan (defined 401(k) contribution plan) for which all employees are eligible to participate. Employees, at their option, may contribute a portion of their eligible earnings to the plan, which may qualify for a matching contribution by the Company. Based on the Company's financial results, an additional discretionary profit sharing contribution may be made to all eligible employees' accounts. All contributions by the Company are restricted to amounts authorized annually by the Board of Directors. Retirement benefits are based on the balance in each employee's account, including the amount vested in employer 401(k) matching contributions and profit sharing contributions. The plan may be cancelled at any time at the option of the Company. The Company's net contributions to the plan for 2016 and 2015 were $6,478 and $6,045, respectively.

Long-Term Incentive Plan

Directors and officers are eligible participants under the Company's Long-Term Incentive Plan (Incentive Plan), which offers two types of performance-based incentive awards, a Full Value Performance Unit Award (Performance Units) and a Performance Unit Appreciation Rights Award (Appreciation Rights).

After satisfaction or lapse of the restrictions, terms, and conditions established by the Incentive Plan with respect to a grant of Performance Unit awards, the Incentive Plan participant will receive a cash payment equal to the number of Performance Units multiplied by a Company Value as of the exercise date as defined in the Incentive Plan. During 2016 and 2015, the Company recognized expense related to these units of $469 and $1,031, respectively. As of December 31, 2016 and 2015, the Company has a liability for the Performance Units outstanding of $8,760 and $9,220, respectively.

Appreciation Rights may be exercised subject to the terms of the Incentive Plan and upon exercise, the Incentive Plan participant will receive the number of Appreciation Rights exercised multiplied by the increase in Company Value as of the exercise date compared to the Company Value on the grant date. During 2016 and 2015, the Company recognized expense related to Appreciation Rights of $763 and $2,271, respectively. As of December 31, 2016 and 2015, the Company has a liability for the Appreciation Rights outstanding of $7,825 and $8,945, respectively.

Directors' Deferred Compensation Plan

Certain members of FGI's Board of Directors have entered into a deferred compensation plan, which includes a deferred compensation payment of three times the Directors' annual fees at retirement subject to certain vesting criteria, which is to be partially funded through a special grant of Performance Units, described above. As of December 31, 2016 and 2015, the Company's liability for such deferred compensation, not funded by Performance Units, was $1,453 and $1,036, respectively. During 2016 and 2015, the Company recognized expense related to the deferred compensation plan of $417 and $13, respectively.

Costs for retirement and deferred compensation plans are allocated to each subsidiary based on the direct written premiums and the level of claims transactions to the totals for the consolidated company.

14. Regulation

The Company and its insurance company subsidiaries are regulated by state insurance departments and are subject to insurance statutes of their domiciliary states. The insurance companies are required to file financial statements with the state insurance departments prepared on an accounting basis prescribed or permitted by such regulators (statutory basis). Included among the applicable insurance laws and regulations with which the insurance companies must comply is the requirement that they maintain sufficient surplus, as defined by the states.

Risk-Based Capital

The National Association of Insurance Commissioners and the domiciliary states utilize risk-based capital (RBC) standards. RBC is a method of measuring the amount of capital and surplus appropriate for an insurer to support its overall business operations in light of its size and risk profile. Under RBC standards, risks specific to insurance companies in such areas as asset risk and underwriting risk are evaluated and compared to the insurance companies' capital and surplus to determine solvency margins. Regulators use RBC standards to initiate actions relating to insurers that show signs of weak or deteriorating financial condition. At December 31, 2016 and 2015, the insurance companies were adequately capitalized under the RBC requirements.

Combined net income and policyholders' surplus of the Company's insurance subsidiaries, as determined in accordance with statutory accounting practices, are as follows:

December 31,		2016	2015
Net (loss) income	$	(15,343)	37,662
Policyholders' surplus		571,988	581,132

15. Commitments and Contingencies

Legal Proceedings

The Company's insurance subsidiaries are party to litigation and workers' compensation administrative proceedings involving claims arising in the normal course of business, none of which, in the opinion of management, will have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

Operating Leases

The Company leases vehicles, office equipment, and office space with terms expiring through 2026. The minimum rentals on these operating leases as of December 31, 2016 are as follows:

		Amount
2017	$	1,892
2018		1,993
2019		1,647
2020		1,626
2021		1,359
Thereafter		4,730
	$	13,247

Rent expense for the years ended December 31, 2016 and 2015 was $2,591 and $2,280, respectively.

16. Members' Equity

Accumulated Other Comprehensive Income

The activity for the years ended December 31 in accumulated other comprehensive income is summarized below:

		Accumulated Other Comprehensive Income
December 31, 2014	$	39,528
Decrease in unrealized gains on investments, net of taxes of $11,469		(19,112)
Reclassification adjustments for realized gains in net income, net of taxes of $3,136		(5,226)
December 31, 2015		15,190
Increase in unrealized gains on investments, net of taxes of $4,455		7,424
Reclassification adjustments for realized gains in net income, net of taxes of $72		(120)
December 31, 2016	$	22,494

Celebrating Service

FCCI thanks John Stafford for his years of service and commitment to carrying forward the vision of our FCCI founders.

We offer a heartfelt thank you to John Stafford, who retired in 2016 from the position of Chairman of the Board. Mr. Stafford joined FCCI's Board of Directors in 1996 and was elected Chairman in 2004. We are grateful to Mr. Stafford for his 19 years of service on our Board, and we wish him and his wife Barbara, as well as their family, the very best.

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