

# FCCI Mutual Insurance Holding Company and Subsidiaries

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Consolidated Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

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## 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, 2018 and 2017, 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, 2018 and 2017, 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**

April 1, 2019

Atlanta, Georgia

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**FCCI Mutual Insurance Holding Company and Subsidiaries**  
**Consolidated Balance Sheets as of December 31, (in thousands)**

	2018	2017
<b>Assets</b>		
Investments:		
Securities available for sale, at fair value		
Fixed maturity securities (amortized cost of \$1,468,330 at 2018 and \$1,456,040 at 2017)	\$ 1,460,956	1,484,260
Common stocks (cost of \$304,591 at 2018 and \$287,291 at 2017)	304,603	316,767
Other invested assets, at amortized cost	3,973	4,932
Total investments	1,769,532	1,805,959
Cash and cash equivalents	38,744	17,136
Accrued investment income	11,304	11,611
Amounts due from policyholders, net	329,782	321,324
Reinsurance recoverable and prepaid reinsurance premium	73,331	74,394
Amounts due from Florida Special Disability Trust Fund	1,878	2,207
Deferred policy acquisition costs	56,349	53,660
Land, building and equipment, net	48,230	44,304
Income tax receivable	439	-
Deferred income taxes, net	18,594	6,003
Goodwill	24,151	24,151
Other assets	14,727	13,111
Total assets	\$ 2,387,061	2,373,860
<b>Liabilities and Members' Equity</b>		
Liabilities:		
Loss and loss adjustment expenses	\$ 998,908	997,988
Unearned premiums	364,553	351,873
Accrued expenses and other liabilities	140,605	118,894
Accrued policyholder dividends	8,509	9,102
Premiums refundable and loss fund deposits	1,852	2,240
Income tax payable	-	3,348
Debt	131,750	131,750
Total liabilities	1,646,177	1,615,195
Commitments and Contingencies (Note 15)		
Members' Equity:		
Accumulated earnings	746,477	721,934
Accumulated other comprehensive income (loss)	(5,593)	36,731
Total members' equity	740,884	758,665
Total liabilities and members' equity	\$ 2,387,061	2,373,860

See accompanying notes to consolidated financial statements.

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

	2018	2017
<b>Revenues</b>		
Net premiums earned	\$ 794,450	770,916
Net investment income	53,142	45,133
Net realized gain	1,946	16,961
Service fees and other income	2,635	2,773
Total revenues	852,173	835,783
<b>Expenses</b>		
Losses and loss adjustment expenses incurred	541,685	528,189
Policy acquisition expenses	142,908	136,709
General, administrative and other expenses	121,853	112,374
Policyholder dividends	9,880	8,955
Total expenses	816,326	786,227
Income before income taxes	35,847	49,556
Income tax expense	4,210	18,166
Net income attributable to members	\$ 31,637	31,390

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)**

	2018	2017
Net income attributable to members	\$ 31,637	31,390
Other comprehensive income, net of taxes:		
(Decrease) increase in unrealized gains on investments, net of taxes of (\$15,173) and \$13,827	(47,940)	24,838
Reclassification adjustments for realized gains in net income, net of taxes of \$468 and \$6,360	(1,478)	(10,601)
Adoption of new accounting pronouncement (ASU 2018-02)	7,094	-
	(42,324)	14,237
Total comprehensive (loss) income	\$ (10,687)	45,627

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 (Loss)	Total Members' Equity
<b>December 31, 2016</b>	\$ 690,544	22,494	713,038
Comprehensive income:			
Net income	31,390	-	31,390
Change in unrealized gains on available-for-sale securities net of taxes	-	14,237	14,237
<b>December 31, 2017</b>	721,934	36,731	758,665
Comprehensive income:			
Net income	31,637	-	31,637
Change in unrealized gains on available-for-sale securities net of taxes	-	(49,418)	(49,418)
Adoption of new accounting pronouncement (ASU 2018-02)	(7,094)	7,094	-
<b>December 31, 2018</b>	\$ 746,477	(5,593)	740,884

See accompanying notes to consolidated financial statements.

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

	2018	2017
Cash flow from operating activities:		
Net income	\$ 31,637	31,390
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	5,022	4,839
Deferred tax expense	3,050	3,404
Net realized losses on equipment sold and retired	379	119
Net realized gains on investments	(1,991)	(16,956)
Net amortization of investments	8,337	9,410
Changes in assets and liabilities:		
Decrease (increase) in:		
Accrued investment income	307	(1,293)
Amounts due from policyholders	(8,458)	(22,174)
Reinsurance recoverables and prepaid reinsurance premium	1,063	5,320
Amounts due from Florida Special Disability Trust Fund	328	1,165
Deferred policy acquisition costs	(2,688)	(6,617)
Other assets	(224)	1,808
Income tax recoverable	(3,787)	-
Increase (decrease) in:		
Loss and loss adjustment expenses	920	73,501
Unearned premiums	12,680	20,868
Accrued expenses and other liabilities	19,170	11,448
Accrued policyholder dividends	(593)	807
Premiums refundable and loss fund deposits	(388)	(387)
Income tax payable	-	31,713
Net cash provided by operating activities	64,764	148,365

## FCCI Mutual Insurance Holding Company and Subsidiaries

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

	2018	2017
Cash flow from investing activities:		
Sales and maturities of investments	\$ 508,104	387,851
Purchases of investments	(541,933)	(545,502)
Proceeds from sales of property and equipment	336	368
Purchases of property and equipment	(9,663)	(6,429)
Net cash used in investing activities	(43,156)	(163,712)
Cash flow from financing activities:		
Proceeds from credit facility	56,000	264,000
Principal payments on credit facility	(56,000)	(264,000)
Net cash provided by financing activities	-	-
Net increase (decrease) in cash and cash equivalents	21,608	(15,347)
Cash and cash equivalents, beginning of year	17,136	32,483
Cash and cash equivalents, end of year	\$ 38,744	17,136
Cash paid during the year for:		
Interest	\$ 3,374	2,917
Income taxes paid/(received)	\$ 4,469	(17,505)

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 (loss). 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 consultants 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 income.

## FCCI Mutual Insurance Holding Company and Subsidiaries

Notes to Consolidated Financial Statements (in thousands)

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

- 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.
- 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.
- 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 consultants 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 successful acquisition of insurance policies such as commissions and premium taxes 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 applicable. 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.

## FCCI Mutual Insurance Holding Company and Subsidiaries

### 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 under *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 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. The adoption of this guidance did not have any effect on the Company's results of operations, financial position or liquidity. All required additional disclosures have been added to the liability for Loss and Loss Adjustment Expenses note.

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 ending 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 ending 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 ending December 31, 2022 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 related 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 ending December 31, 2022 and early adoption was 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.

## FCCI Mutual Insurance Holding Company and Subsidiaries

### Notes to Consolidated Financial Statements (in thousands)

In February 2018, the FASB issued ASU No. 2018-02 (Topic 220), *Income Statement - Reporting Comprehensive Income*. The updated guidance gives the Company the option to reclassify stranded tax effects in accumulated other comprehensive income (AOCI) resulting from the Tax Cuts and Jobs Act of 2017 from AOCI to accumulated earnings. Current guidance requires the effect of a change in tax laws or rates on deferred tax balances to be reported in income from continuing operations in the accounting period of enactment, even if the related income tax effects were originally charged directly to AOCI. The updated guidance was effective for fiscal year ended December 31, 2018. The Company adopted the updated guidance during 2018. The adoption of this guidance did not affect the Company's results of operations, financial position or liquidity.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal Use Software*. The updated guidance allows capitalization of implementation costs incurred in connection with a cloud computing arrangement that is a service contract. However, the guidance specifies that the capitalized costs should be presented as prepaid expenses and amortized over the life of the hosting arrangement. The updated guidance is effective for fiscal year ending December 31, 2021 and early adoption is permitted. The Company is currently evaluating the effect the updated guidance will have on the Company's financial statements.

#### Subsequent Events

The Company has evaluated events subsequent to December 31, 2018, and through the financial statements issuance date of April 1, 2019. The following events occurring subsequent to the balance sheet date merited recognition or disclosure in these statements.

On March 1, 2019, the Company renewed its line of credit in the amount of \$25,000 with Bank of America. The new maturity date is March 1, 2021.

### 3. Investments

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

2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Treasury and US government agencies and corporations	\$ 45,446	16	(546)	44,916
State and political subdivisions	402,597	9,885	(2,261)	410,221
Mortgage-backed and asset-backed securities	637,004	755	(12,371)	625,388
Corporate bonds	312,721	2,340	(4,704)	310,357
Foreign government and foreign corporate bonds	70,562	299	(787)	70,074
Total fixed maturity securities	1,468,330	13,295	(20,669)	1,460,956
Common stock	304,591	8,205	(8,193)	304,603
Total available-for-sale securities	\$ 1,772,921	21,500	(28,862)	1,765,559

2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Treasury and US government agencies and corporations	\$ 56,085	125	(346)	55,864
State and political subdivisions	586,425	24,965	(618)	610,772
Mortgage-backed and asset-backed securities	429,535	1,969	(3,853)	427,651
Corporate bonds	308,147	6,405	(1,010)	313,542
Foreign government and foreign corporate bonds	75,848	979	(396)	76,431
Total fixed maturity securities	1,456,040	34,443	(6,223)	1,484,260
Common stock	287,291	29,476	-	316,767
Total available-for-sale securities	\$ 1,743,331	63,919	(6,223)	1,801,027

The amortized cost and fair value of fixed maturity securities as of December 31, 2018 by contractual maturities are as follows:

	Amortized Cost <sup>(1)</sup>	Fair Value <sup>(1)</sup>
Due in one year or less	\$ 52,157	51,938
Due after one year through five years	560,178	556,241
Due after five years through ten years	579,148	571,145
Due after ten years	276,847	281,632
Total fixed maturities	\$ 1,468,330	1,460,956

(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 for asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) are generated using sector level or CUSIP level prepayment, default, and loss severity assumptions. For residential mortgage-backed securities (RMBS), cash flows are generated using a probabilistic behavioral prepayment and credit model. 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.

## FCCI Mutual Insurance Holding Company and Subsidiaries

### 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	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<b>2018</b>						
Available for sale:						
Bonds	\$ 4,899	245,721	3,399	113,924	8,298	359,645
Mortgage-backed and asset-backed securities	4,835	313,077	7,536	196,100	12,371	509,177
Common stock	8,193	172,944	-	-	8,193	172,944
	<u>\$ 17,927</u>	<u>731,742</u>	<u>10,935</u>	<u>310,024</u>	<u>28,862</u>	<u>1,041,766</u>
	Less Than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<b>2017</b>						
Available for sale:						
Bonds	\$ 1,037	150,015	1,333	89,340	2,370	239,355
Mortgage-backed and asset-backed securities	743	108,880	3,110	118,670	3,853	227,550
	<u>\$ 1,780</u>	<u>258,895</u>	<u>4,443</u>	<u>208,010</u>	<u>6,223</u>	<u>466,905</u>

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, 2018 was \$697, representing a 4.3% decline, on a mortgage-backed security.

During 2018, the Company did not recognize any other-than-temporary impairment losses. During 2017, the Company recognized \$291 of other-than-temporary impairment losses due to issuer-specific credit and quality events, consistent with management's criteria for recognizing other-than-temporary declines in fair value. The security impaired during 2017 was sold during 2017.

For fixed maturity securities, 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, 2018. For equity securities, the Company evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on these 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, 2018. 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, 2018 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:

	2018	2017
Bonds	\$ 46,438	40,435
Equity securities	11,768	10,414
Other invested assets	86	62
Cash, cash equivalents and short-term investments	847	352
Gross investment income	<u>59,139</u>	<u>51,263</u>
Investment expenses	(5,997)	(6,130)
Net investment income	<u>\$ 53,142</u>	<u>45,133</u>

Proceeds from sales or maturities of fixed maturity securities during 2018 and 2017 were \$507,295 and \$331,326, respectively. Proceeds from sales of equity securities during 2018 and 2017 were \$809 and \$56,525, respectively.

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

	2018	2017
Fixed maturity securities:		
Gross gains	\$ 3,452	1,242
Gross losses	(1,400)	(841)
Equity securities:		
Gross gains	97	17,416
Gross losses	-	(396)
Other invested assets:		
Gross losses	(203)	(174)
Cash, cash equivalents and short-term investments:		
Gross gains	-	5
OTTI charges incurred on fixed maturity securities	-	(291)
Net realized investments gain	<u>\$ 1,946</u>	<u>16,961</u>

## FCCI Mutual Insurance Holding Company and Subsidiaries

### Notes to Consolidated Financial Statements (in thousands)

During 2018, the Company did not recognize any impairment write-downs. A Security was disposed of due to reorganization in the 4th quarter of 2018 that had previously incurred an OTTI charge of \$469 in 2016. During 2017, one security incurred an OTTI charge of \$291. The impaired security was sold in 2017.

At December 31, 2018 and 2017, bonds, cash, and cash equivalents with fair values of \$18,247 and \$17,435, 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, 2018 and 2017.

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	\$ 229	225	225	-

### Other Invested Assets

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 \$378 and \$656 as of December 31, 2018 and 2017, respectively, including its cost of \$2,392. Amortization was \$277 and \$298 for years ending December 31, 2018 and 2017, respectively. During each year 2018 and 2017, the Company recognized \$693 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 one year 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, 2018.

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 \$2,615 and \$3,093 as of December 31, 2018 and 2017, respectively, including its adjusted costs of \$4,665. Amortization was \$478 and \$554 for years ending December 31, 2018 and 2017, respectively. During each year 2018 and 2017, the Company recognized \$523 of federal tax credits. The investment is amortized over thirteen years from the initial date of acquisition using the proportion amortization method. The Company has seven 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, 2018.

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 \$980 and \$1,183 as of December 31, 2018 and 2017, respectively, including its costs of \$8,557. Impairment of \$203 and \$174 was recognized during 2018 and 2017, respectively. During 2016, the Company received \$7,227 of federal renewable energy tax credits. There are no remaining future federal tax credits pending as of December 31, 2018. The Company is scheduled to receive additional tax benefits from operations and cash distributions from the project for the next three 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, 2018.

The Company's future capital contributions as of December 31, 2018 are as follows:

	Amount
2019	\$ 30
2020	53
	<u>\$ 83</u>

### 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 marketplace 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.

## FCCI Mutual Insurance Holding Company and Subsidiaries

### 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:

2018	Total	Quoted Prices in	Significant	Significant
		Active Markets for	Observable	Unobservable
		Identical Assets	Inputs	Inputs
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
US Treasury and US government agencies and corporations	\$ 44,916	44,916	-	-
State and political subdivisions	410,221	-	410,221	-
Mortgage-backed and asset-backed securities	625,388	-	625,388	-
Corporate bonds	310,357	-	310,357	-
Foreign government and foreign corporate bonds	70,074	-	70,074	-
Total fixed maturity securities	1,460,956	44,916	1,416,040	-
Common stock <sup>(1)</sup>	297,143	297,143	-	-
Total investment securities	\$ 1,758,099	342,059	1,416,040	-

(1) The Company holds \$7,460 of other common stock carried at its contractually specified redemption value.

2017	Total	Quoted Prices in	Significant	Significant
		Active Markets for	Observable	Unobservable
		Identical Assets	Inputs	Inputs
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
US Treasury and US government agencies and corporations	\$ 55,864	55,864	-	-
State and political subdivisions	610,772	-	610,772	-
Mortgage-backed and asset-backed securities	427,651	-	427,651	-
Corporate bonds	313,542	-	313,542	-
Foreign government and foreign corporate bonds	76,431	-	76,431	-
Total fixed maturity securities	1,484,260	55,864	1,428,396	-
Common stock <sup>(1)</sup>	309,439	309,439	-	-
Total investment securities	\$ 1,793,699	365,303	1,428,396	-

(1) The Company holds \$7,328 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:

	2018	2017
Premiums in course of collection	\$ 45,251	38,698
Premiums deferred not yet due	281,544	280,629
Premiums due on retrospectively rated policies	5,252	4,791
Amounts due on deductible policies	1,398	1,320
Amounts due from policyholders, gross	333,445	325,438
Allowance for doubtful accounts	(3,663)	(4,114)
Amounts due from policyholders, net	\$ 329,782	321,324

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.

## FCCI Mutual Insurance Holding Company and Subsidiaries

### Notes to Consolidated Financial Statements (in thousands)

#### 5. Deferred Policy Acquisition Costs

Deferred policy acquisition costs are summarized as follows as of and for the years ended December 31:

	2018	2017
January 1,	\$ 53,660	47,043
Capitalized costs	129,459	125,325
Amortized costs	(126,770)	(118,708)
December 31,	\$ 56,349	53,660

#### 6. Land, Building and Equipment

The major components of land, building and equipment as of December 31 are as follows:

	2018	2017
Land	\$ 4,269	4,269
Building and improvements	49,452	50,400
Furniture and equipment	17,127	17,688
Software in use	47,146	38,821
Software under development	5,420	6,468
Land, building and equipment, at cost	123,414	117,646
Accumulated depreciation and amortization	(75,184)	(73,342)
Land, building and equipment, net	\$ 48,230	44,304

Depreciation and amortization expense for land, building and equipment for the years ended December 31, 2018 and 2017 amounted to \$5,022 and \$4,839, 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, is reported as a component of other assets in the consolidated balance sheets and is fully amortized as of December 31, 2018. 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, 2018, 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:

	2018		2017	
	Goodwill	Other Intangibles <sup>(1)</sup>	Goodwill	Other Intangibles <sup>(1)</sup>
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 <sup>(2)</sup>	(1,309)	(4,949)	(1,309)	(4,455)
Goodwill and other intangible assets, net	\$ 24,151	-	24,151	494

(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, 2018 and 2017.

#### 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. Liability for loss and LAE are estimates of the unpaid portion of losses that have occurred, including incurred but not reported (IBNR) losses, as a result 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.

**FCCI Mutual Insurance Holding Company and Subsidiaries**

**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:

	2018	2017
January 1, gross	\$ 997,988	924,487
Less:		
Reinsurance recoverable, unpaid losses	69,191	66,098
Florida Special Disability Trust Fund recoverable (Note 9)	2,207	3,372
Salvage and subrogation recoverables	7,547	8,925
Retroactive reinsurance reserves assumed	2,134	1,502
Liability for loss and LAE on deductible policies	1,320	1,243
January 1, net	915,589	843,347
Incurred related to:		
Current year	547,620	556,206
Prior years	(5,935)	(28,017)
	541,685	528,189
Paid related to:		
Current year	201,944	189,983
Prior years	333,473	265,964
	535,417	455,947
December 31, net	921,857	915,589
Plus:		
Reinsurance recoverable, unpaid losses	64,540	69,191
Florida Special Disability Trust Fund recoverable (Note 9)	1,878	2,207
Salvage and subrogation recoverables	7,405	7,547
Retroactive reinsurance reserves assumed	1,830	2,134
Liability for loss and LAE on deductible policies	1,398	1,320
December 31, gross	\$ 998,908	997,988

Incurred loss and LAE represents the sum of paid losses and changes in the liability for loss and LAE in the calendar year. The liability for loss and LAE developed favorably in 2018 and 2017 by \$5,935 and \$28,017, respectively, due to better than anticipated experience on prior accident years.

The liability for loss and LAE are calculated by line of business and accident year and are established net of salvage, subrogation, and second injury funds.

Many factors affect the ultimate cost of claims, such factors include, but are not limited to, inflation, changes in laws and regulations, litigation and jury awards, changes in claimants' medical conditions and changes in medical technologies and procedures. There is inherent uncertainty in the estimate since many claims will not be settled for several years.

The Company regularly updates its loss and LAE liability estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes to the liability for losses and LAE are reflected in the results of operations in the period the estimates are changed. The Company uses generally accepted actuarial models to determine estimates of ultimate liabilities.

The tables that follow present, by accident year, cumulative incurred losses and allocated loss adjustment expenses on a historical basis. The information is presented, net of reinsurance and excludes unallocated loss adjustment expenses. Also provided are the historical average annual percentage payout of incurred losses by age, net of reinsurance, as supplementary information. Although the claim for which liabilities are established may not be paid for several years, the Company does not discount loss and LAE liabilities in its financial statements for the time value of money in accordance with GAAP. The information contained in the years preceding the current calendar year is unaudited. The IBNR amounts include the estimate for incurred but not reported liabilities and for expected development on reported cases. The cumulative number of reported losses includes the number of direct reported occurrence count, both open and closed, by major line of business and accident year.

**FCCI Mutual Insurance Holding Company and Subsidiaries**

**Notes to Consolidated Financial Statements (in thousands)**

**Liability Lines**

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance										Cumulative Number of Reported Claims
	For the Years Ended December 31,										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR	
	<i>Unaudited</i>										
2010	\$120,003	\$114,719	\$107,702	\$102,660	\$102,453	\$101,999	\$101,916	\$102,429	\$103,263	\$2,703	5,527
2011		120,314	119,176	110,619	110,183	111,879	111,826	111,056	113,368	3,485	5,830
2012			116,055	121,830	118,350	116,250	117,236	115,223	118,700	5,051	5,389
2013				129,759	121,278	119,006	119,210	119,273	123,837	8,768	6,064
2014					164,669	161,965	169,151	169,430	173,095	15,098	6,746
2015						193,491	200,107	200,705	208,061	24,990	7,941
2016							251,559	247,710	248,361	37,969	8,901
2017								244,503	236,417	54,800	8,518
2018									239,605	97,271	7,807
								Total	\$1,564,707		

Accident Year	Cumulative Paid and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31,									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	
	<i>Unaudited</i>									
2010	\$22,679	\$52,360	\$70,266	\$81,428	\$86,335	\$91,186	\$94,928	\$98,157	\$98,828	
2011		24,243	61,297	76,369	88,414	94,605	99,662	103,181	107,117	
2012			26,808	60,233	79,426	89,599	97,325	105,460	109,814	
2013				26,553	58,973	76,667	93,313	101,602	105,890	
2014					31,351	77,179	108,812	128,524	143,913	
2015						36,906	102,334	129,317	158,841	
2016							43,040	102,008	153,656	
2017								38,727	113,066	
2018									44,052	
								Total	1,035,177	
								All outstanding liabilities before 2010, net of reinsurance	26,535	
								Liabilities for loss and loss adjustment expenses, net of reinsurance	\$556,065	

Average Annual Percentage Payout of Incurred Loss by Age, Net of Reinsurance										
Years	1	2	3	4	5	6	7	8	9	
	19.48%	28.61%	16.16%	11.50%	6.46%	4.87%	3.46%	3.30%	0.65%	

**FCCI Mutual Insurance Holding Company and Subsidiaries**

Notes to Consolidated Financial Statements (in thousands)

**Workers' Compensation**

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance									IBNR	Cumulative Number of Reported Claims
	For the Years Ended December 31,										
	2010	2011	2012	2013	2014	2015	2016	2017	2018		
<i>Unaudited</i>											
2010	\$191,202	\$186,742	\$188,866	\$190,807	\$190,594	\$191,338	\$190,401	\$189,708	\$189,205	\$3,193	13,663
2011		193,401	183,604	189,469	188,813	190,272	188,957	190,784	190,460	4,296	13,756
2012			183,517	170,628	165,571	166,257	167,406	169,445	169,252	4,503	12,387
2013				186,661	173,015	172,470	173,654	173,295	173,118	6,551	11,597
2014					162,497	153,189	155,746	154,251	152,546	7,156	10,785
2015						175,710	173,426	174,287	174,213	9,739	10,602
2016							221,211	189,891	183,741	14,322	10,334
2017								184,367	152,670	22,656	9,465
2018									171,987	34,924	8,372
									Total	\$1,557,192	

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance								
	For the Years Ended December 31,								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
<i>Unaudited</i>									
2010	\$62,689	\$132,395	\$159,108	\$170,510	\$179,466	\$181,994	\$183,319	\$183,369	\$183,965
2011		66,118	133,691	162,493	173,415	177,172	180,842	181,997	183,207
2012			57,982	121,518	142,092	148,608	154,089	160,189	162,113
2013				61,971	122,886	146,279	158,843	161,622	163,770
2014					53,734	109,576	131,062	137,892	140,166
2015						52,179	120,750	141,680	153,991
2016							61,748	122,199	149,637
2017								49,434	102,364
2018									49,198
								Total	1,288,411
								All outstanding liabilities before 2010, net of reinsurance	63,976
								Liabilities for loss and loss adjustment expenses, net of reinsurance	\$332,757

Years	Average Annual Percentage Payout of Incurred Loss by Age, Net of Reinsurance								
	1	2	3	4	5	6	7	8	9
	33.07%	36.07%	13.70%	5.74%	2.61%	2.03%	0.82%	0.34%	0.32%

**FCCI Mutual Insurance Holding Company and Subsidiaries**

Notes to Consolidated Financial Statements (in thousands)

**Other Lines**

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance									IBNR	Cumulative Number of Reported Claims
	For the Years Ended December 31,										
	2010	2011	2012	2013	2014	2015	2016	2017	2018		
<i>Unaudited</i>											
2010	\$36,291	\$35,169	\$34,954	\$35,102	\$34,973	\$34,952	\$34,884	\$34,888	\$34,874	\$ -	6,173
2011		48,121	45,677	45,583	45,384	45,243	45,184	45,161	45,159	-	6,802
2012			46,384	44,575	43,500	43,150	43,056	43,202	43,213	-	6,247
2013				52,318	50,991	49,866	49,305	49,023	48,958	-	6,953
2014					58,360	54,469	54,714	53,986	53,932	2	7,873
2015						72,566	69,251	67,016	67,050	15	8,987
2016							80,793	75,777	74,834	338	10,180
2017								101,953	103,141	1,808	10,555
2018									107,659	8,648	10,244
								Total	\$578,820		

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance								
	For the Years Ended December 31,								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
<i>Unaudited</i>									
2010	\$27,159	\$32,968	\$34,028	\$34,941	\$34,954	\$34,962	\$34,898	\$34,897	\$34,894
2011		39,131	44,875	45,008	45,209	45,197	45,172	45,163	45,161
2012			34,432	42,370	42,678	42,973	42,962	43,096	43,205
2013				39,725	48,439	48,623	49,109	49,019	48,958
2014					41,811	51,962	54,090	53,968	53,898
2015						55,789	66,842	66,832	66,732
2016							58,527	73,066	74,167
2017								76,439	98,454
2018									80,324
								Total	545,793
								All outstanding liabilities before 2010, net of reinsurance	8
								Liabilities for loss and loss adjustment expenses, net of reinsurance	\$33,035

Years	Average Annual Percentage Payout of Incurred Loss by Age, Net of Reinsurance								
	1	2	3	4	5	6	7	8	9
	79.22%	17.70%	1.40%	0.73%	-0.07%	0.04%	0.02%	0.00%	-0.01%

Reconciliation of the net incurred loss and paid loss tables above to the liability for loss and LAE as of December 31, 2018 is as follows:

	2018
Net liability for unpaid loss and loss adjustment expenses:	
Liability Lines	\$ 556,065
Workers' Compensation	332,757
Other Lines	33,035
December 31, net	\$ 921,857

**FCCI Mutual Insurance Holding Company and Subsidiaries**
**Notes to Consolidated Financial Statements (in thousands)**
**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:

	2018	2017
Amounts paid by the Company submitted to the SDTF pending reimbursement	\$ 85	72
Amounts paid by the Company not yet submitted to the SDTF	260	280
Amounts not yet paid by the Company	1,533	1,855
	<u>\$ 1,878</u>	<u>2,207</u>

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

For the years ended December 31, 2018 and 2017, assessments were \$1,163 and \$1,616, respectively, and the Company collected \$702 and \$1,436, 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 reinsurance 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:

	2018	2017
Recoverable for loss and LAE reserves	\$ 64,540	69,191
Recoverable for paid loss and LAE	3,661	603
Prepaid reinsurance premium	5,130	4,600
	<u>\$ 73,331</u>	<u>74,394</u>

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

	Direct	Assumed	Ceded	Net
<b>2018</b>				
Written premiums	\$ 837,548	6,498	37,217	806,829
Earned premiums	824,544	6,593	36,687	794,450
<b>2017</b>				
Written premiums	\$ 821,801	7,139	29,439	799,501
Earned premiums	800,936	6,955	36,975	770,916

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

	Direct	Assumed	Ceded	Net
<b>2018</b>	\$ 554,609	4,767	17,691	541,685
<b>2017</b>	538,570	4,412	14,793	528,189

**11. Income Tax**

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

	2018	2017
Current income tax expense		
Federal	\$ 535	13,431
State	625	1,331
Total current income tax expense	1,160	14,762
Deferred income tax expense (benefit)		
Federal	4,015	2,459
State	(965)	945
Total deferred income tax expense	3,050	3,404
Total income tax expense	<u>\$ 4,210</u>	<u>18,166</u>

**FCCI Mutual Insurance Holding Company and Subsidiaries**
**Notes to Consolidated Financial Statements (in thousands)**

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

	2018	2017
Deferred income tax assets:		
Discount of liability for loss and LAE	\$ 20,007	7,635
Discount of unearned and advance premiums	17,368	16,812
Deferred compensation	4,484	4,497
Unrealized loss on investment securities	2,385	1,496
Net state operating loss carryforwards	1,982	3,278
Accrued policyholder dividends	1,957	2,105
Allowance for doubtful accounts	776	989
Subsequent injury tax	338	403
Other	2,576	5,415
Total gross deferred income tax assets	51,873	42,630
Less: valuation allowance	(1,973)	(2,213)
Total net deferred income tax assets	<u>49,900</u>	<u>40,417</u>
Deferred income tax liabilities:		
Deferred policy acquisition costs	13,547	12,901
Loss reserve discount 8-year transition	10,075	-
Unrealized gain on investment securities	615	15,367
Other	7,069	6,146
Total deferred income tax liabilities	<u>31,306</u>	<u>34,414</u>
Net deferred income tax asset	<u>\$ 18,594</u>	<u>6,003</u>

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 \$1,982 related to net operating losses in the state of Indiana, the Company will need to generate future Indiana taxable income of approximately \$33,731 prior to the expiration of the net operating loss carryforwards in 2019 to 2025. Indiana taxable income for the years ended December 31, 2018 and 2017 was \$20 and \$24, 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, 2018. 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 (21% for 2018 and 35% for 2017) to the expense recorded for the years ended December 31:

	2018	Effective Tax Rate	2017	Effective Tax Rate
Expected tax	\$ 7,528	21.00%	17,345	35.00%
Tax-exempt interest	(2,726)	(7.60)	(5,266)	(10.63)
Permanent benefit of tax rate change	(1,123)	(3.13)	-	-
Tax credits	(617)	(1.72)	(615)	(1.24)
Additional current and deferred adjustments	343	0.96	(76)	(0.15)
State income taxes, net of federal benefit	(269)	(0.75)	1,479	2.98
Provision to return adjustment	(182)	(0.51)	37	0.07
Effect of tax rate change on deferreds	-	-	3,597	7.26
Other, net	1,256	3.49	1,665	3.36
Actual income tax expense	<u>\$ 4,210</u>	<u>11.74%</u>	<u>18,166</u>	<u>36.65%</u>

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, 2018, the Company has no accrued interest or penalties related to unrecognized tax positions.

The Act "To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018" (the "Act") was enacted December 22, 2017. The Act reduced the US federal corporate income tax rate to 21% from 35% and changed certain other provisions effective January 1, 2018. The enactment date effects of the Act included recording the remeasurement of certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future.

At December 31, 2017, the Company recorded additional tax expense of \$3,597 as provisional amounts under Staff Accounting Bulletin No. 118 of the Securities and Exchange Commission to reflect changes required by the Act. As of December 31, 2018, the Company completed its evaluation of these provisional amounts and recorded an additional \$343 of tax expense in 2018.

## FCCI Mutual Insurance Holding Company and Subsidiaries

### Notes to Consolidated Financial Statements (in thousands)

#### 12. Debt

##### Lines of Credit/Credit Facility

##### Bank of America Line of Credit

The Company has a line of credit (LOC) from Bank of America, in the amount of \$25,000 expiring on March 1, 2019, which was subsequently renewed. Bonds with a carrying value of \$37,032 have been pledged as collateral. There is no balance outstanding on the LOC as of December 31, 2018 and 2017.

##### 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, 2018 and 2017, the Company owned FHLB stock in the amount of \$7,460 and \$7,328, respectively. As of December 31, 2018, the Company's borrowing limit is \$322,481. 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, 2018 are summarized in the following table:

Description	Amount Outstanding	Date Issued	Maturity Date	Interest Rate
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	8/26/2010	3.137%
10-Year Fixed Rate Note	32,000	9/18/2012	9/19/2022	2.300%
5-Year Fixed Rate Note	32,000	6/27/2018	6/27/2023	3.049%
5-Year Fixed Rate Note	24,000	8/2/2018	8/2/2023	2.865%
10-Year Fixed Rate Note	23,750	6/1/2015	6/2/2025	2.862%
	<u>\$ 131,750</u>			

#### 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 2018 and 2017 were \$7,240 and \$6,030, 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 2018 and 2017, the Company recognized expense related to these units of \$1,450 and \$1,532, respectively. As of December 31, 2018 and 2017, the Company has a liability for the Performance Units outstanding of \$9,574 and \$9,181, 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 2018 and 2017, the Company recognized expense related to Appreciation Rights of \$1,340 and \$2,983, respectively. As of December 31, 2018 and 2017, the Company has a liability for the Appreciation Rights outstanding of \$8,688 and \$9,160, 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, 2018 and 2017, the Company's liability for such deferred compensation, not funded by Performance Units, was \$388 and \$917, respectively. During 2018 and 2017, the Company recognized expense related to the deferred compensation plan of \$20 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.

## FCCI Mutual Insurance Holding Company and Subsidiaries

### Notes to Consolidated Financial Statements (in thousands)

#### 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, 2018 and 2017, 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,	2018	2017
Net income	\$ 27,075	26,509
Policyholders' surplus	598,515	594,485

#### 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, 2018 are as follows:

	Amount
2019	\$ 2,214
2020	2,275
2021	2,017
2022	1,940
2023	1,425
Thereafter	2,323
	<u>\$ 12,194</u>

Rent expense for the years ended December 31, 2018 and 2017 was \$2,228 and \$2,085, respectively.

#### 16. Members' Equity

##### Accumulated Other Comprehensive Income (Loss)

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

	Accumulated Other Comprehensive Income (Loss)
<b>December 31, 2016</b>	\$ 22,494
Increase in unrealized gains on investments, net of taxes of \$13,827	24,838
Reclassification adjustments for realized gains in net income, net of taxes of \$6,360	(10,601)
<b>December 31, 2017</b>	36,731
Decrease in unrealized gains on investments, net of taxes of (\$15,173)	(47,940)
Reclassification adjustments for realized gains in net income, net of taxes of \$468	(1,478)
Adoption of new accounting pronouncement (ASU 2018-02)	7,094
<b>December 31, 2018</b>	<u>\$ (5,593)</u>