WeiserMazars LLP

First Surety Corporation

Statutory Financial Statements and Supplementary Information
Years Ended December 31, 2015 and 2014

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First Surety Corporation

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Independent Auditors' Report

To the Board of Directors of
First Surety Corporation

We have audited the accompanying financial statements of the First Surety Corporation (the "Company"), which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2015, and the related statutory statements of income, changes in capital and surplus and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the West Virginia Offices of the Insurance Commissioner ("WVOIC"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the First Surety Corporation as of December 31, 2015, and the results of its operations and its cash flows for the year then ended, in accordance with accounting practices prescribed or permitted by the WVOIC as described in Note 2.

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Prior Period Financial Statements
The financial statements of the Company as of December 31, 2014, were audited by other auditors whose report dated May 29, 2015, expressed an unmodified opinion on those statements on the basis of accounting as described in Note 2.

Basis of Accounting
We draw attention to Note 2 of the financial statements, which describes the basis of accounting. As described in Note 2 to the financial statements, the financial statements are prepared by the Company in accordance with accounting practices prescribed or permitted by the WVOIC, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the WVOIC. Our opinion is not modified with respect to this matter.

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Summary Investment Schedule, Investment Risk Interrogatories, and Reinsurance Summary Supplemental Filings are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Restriction on Use
Our report is intended solely for the information and use of the board of directors and management of the Company and the WVOIC and is not intended to be and should not be used by anyone other than these specified parties.

WeiserMazars LLP

July 28, 2016

First Surety Corporation

Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus
December 31, 2015 and 2014

	2015	2014
Admitted Assets		
Bonds, at amortized cost	$ 7,376,902	$ 6,839,065
Equity securities	1,030,433	1,193,727
Cash and short-term investments	4,265,496	1,899,024
Total cash and invested assets	12,672,831	9,931,816
Accrued interest and dividends	61,955	47,327
Premiums receivable	27,170	33,197
Electronic data processing equipment, net of accumulated depreciation	933	1,493
Other receivable	27,150	98,042
Indemnity funds	7,382,450	9,070,229
Current federal income tax recoverable	505,258	-
Net deferred tax asset	85,718	140,707
Total Admitted Assets	$ 20,763,465	$ 19,322,811
Liabilities, Capital and Surplus		
Liabilities		
Losses and loss adjustment expenses	$ 1,817,042	$ 1,390,383
Unearned premiums	431,992	18,361
Advanced premiums	159,638	123,880
Ceded premiums payable	-	420,000
Other expenses payable	479,148	188,310
Taxes, licenses and fees payable	12,164	8,914
Amounts withheld for account of others	5,409,022	2,176,280
Payable to affiliates	19,827	60,620
Derivatives	29,015	17,257
Indemnity funds held	7,382,450	9,070,229
Total Liabilities	15,740,298	13,474,234
Capital and Surplus		
Common capital stock, stated value $1,000 per share; 1,000 shares authorized, issued and outstanding	1,000,000	1,000,000
Gross paid in and contributed surplus	4,522,086	4,522,086
Unassigned funds	(498,919)	326,491
Total Capital and Surplus	5,023,167	5,848,577
Total Liabilities, Capital and Surplus	$ 20,763,465	$ 19,322,811

The accompanying notes are an integral part of these financial statements.

First Surety Corporation

Statutory Statements of Income

Years Ended December 31, 2015 and 2014

	2015	2014
Underwriting income:		
Premiums earned	$ 896,742	$ 997,195
Deductions:		
Loss and loss expenses incurred	(986,359)	(163,707)
Change in ceded losses outstanding	84,700	-
Other underwriting expenses incurred	(713,980)	(680,748)
Net underwriting (loss) income	(718,897)	152,740
Investment income:		
Net investment income earned	241,975	201,385
Net realized capital gains, net of tax of $2,051 and $23,027	3,982	36,017
Total investment income	245,957	237,402
Other expense:		
Net loss from premium balances charged off	(459,634)	-
Other expenses	(241,519)	(138,290)
Total other expense	(701,153)	(138,290)
Net (loss) income before federal income taxes	(1,174,093)	251,852
Federal income tax benefit (expense)	411,798	(19,518)
Net (loss) income	$ (762,295)	$ 232,334

The accompanying notes are an integral part of these financial statements.

First Surety Corporation

Statutory Statements of Changes in Capital and Surplus
Years Ended December 31, 2015 and 2014

	2015	2014
Capital and Surplus, beginning of year	$ 5,848,577	$ 6,068,509
Net (loss) income	(762,295)	232,334
Change in unrealized capital loss	(85,045)	(40,607)
Change in net deferred income tax	(53,728)	103,174
Change in non-admitted assets	248,658	(316,833)
Dividends declared	(173,000)	(198,000)
Net change in capital and surplus	(825,410)	(219,932)
Capital and Surplus, end of year	$ 5,023,167	$ 5,848,577

The accompanying notes are an integral part of these financial statements.

First Surety Corporation

Statutory Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Premiums collected	$ 1,171,212	$ 537,899
Net investment income	314,791	289,974
Other expenses	(701,154)	(40,289)
Losses paid	(586,811)	(83,067)
Commissions, expenses paid	(323,169)	(561,945)
Federal income taxes paid	(95,511)	(42,545)
Net cash from operating activities	(220,642)	100,027
Cash flows from investing activities		
Proceeds from investments sold, matured, or repaid	2,647,460	3,110,814
Cost of investments acquired	(3,200,484)	(4,963,637)
Net cash from investing activities	(553,024)	(1,852,823)
Cash flows from financing and miscellaneous sources		
Dividends paid	(173,000)	(198,000)
Amounts withheld for account of others	3,313,138	218,768
Net cash from financing and miscellaneous sources	3,140,138	20,768
Net change in cash and short-term investments	2,366,472	(1,732,028)
Cash and short-term investments, beginning of year	1,899,024	3,631,052
Cash and short-term investments, end of year	$ 4,265,496	$ 1,899,024

The accompanying notes are an integral part of these financial statements.

1. Nature of Business

First Surety Corporation ("FSC" or "Company") is a West Virginia domiciled property and casualty company with licenses ("multi-line") in West Virginia, Indiana (not including surety) and Ohio. FSC primarily writes only the surety line of insurance targeting energy, primarily coal and oil & gas industries, surety markets in the Eastern United States.

During 2015, 10% of FSC stock was acquired by Gary Richards and B and C, LLC, 5% each, resulting in Jacobs Financial Group, Inc. ("JFG") holding the remaining 90% of the stock.

2. Significant Accounting Policies

Basis of Presentation
The accompanying statutory financial statements have been prepared in accordance with the accounting practices prescribed or permitted by the West Virginia Offices of the Insurance Commissioner ("WVOIC"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States ("GAAP"), referred to as Statutory Accounting Practices ("SAP"). Prescribed SAP include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules of the State of West Virginia. The NAIC Accounting Practices and Procedures Manual, ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of West Virginia, subject to any deviations prescribed or permitted by the WVOIC. There are no differences from NAIC SAP reflected in these financial statements.

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

Under SAP, net income and capital and surplus will vary from GAAP. The more significant variances from GAAP, as they pertain to FSC are as follows:

- Investments - Under NAIC SAP, bonds are generally carried at amortized cost. In accordance with GAAP, investments in bonds other than those intended to be held-to-maturity are recorded at estimated fair value, with unrealized gains and losses recorded as either a separate component of surplus (for bonds classified as available-for-sale), or as a direct change to income (for bonds classified as trading securities).

- Federal income taxes - Under NAIC SAP, deferred income taxes are calculated similarly to those under GAAP to reflect differences in the values of assets and liabilities for tax versus financial reporting purposes. Under both GAAP and NAIC SAP, deferred tax asset will not be realized. However, under NAIC SAP, deferred taxes recorded are subject to an additional admissibility test in accordance with Statement of Statutory Accounting Principles.

- For statutory purposes, certain assets such as deferred tax assets in excess of admissibility limitations, past due agent balances, furniture and equipment, and prepaid expenses, are considered non-admitted and are excluded from assets and capital and surplus. Changes in non-admitted assets are recorded directly to capital and surplus.

- The statutory statement of cash flow does not classify cash flow consistent with GAAP, and a reconciliation of net income to net cash provided by operating activities is not provided.

- Under NAIC SAP, net realized gains on sales of investments are reported net of applicable income taxes, whereas they are reported gross of tax under GAAP.

Recognition of Premium Revenue
Surety premiums are earned pro rata over the term of the policies for annual rated policies, except for specific earning provisions contained in surety contracts among FSC and principals. The reserve for unearned premiums represents the portion of premiums written relating to the unexpired terms of coverage. Unearned premiums are determined using the monthly pro rata method and are reported net of related ceded unearned premiums.

Losses and Loss Adjustment Expenses
The liability for unpaid losses and loss adjustment expenses ("LAE") included supplemental amounts for losses incurred but not reported ("IBNR"), calculated based upon loss projections utilizing certain actuarial assumptions and industry data. In establishing its liability for losses and LAE, FSC utilizes the findings of an independent consulting actuary.

Management believes that the amount recorded as the net liability for losses and LAE represent its best estimates of such amounts. However, because of the relatively small population of insured risks, lack of historical loss data for FSC, and other risk factors, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. Accordingly, such ultimate amounts could be significantly in excess of or less than the amounts indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Reinsurance
The Company accounts for reinsurance in accordance with the accounting guidance concerning the accounting and reporting for reinsurance of short-duration contracts. Management believes the Company's reinsurance arrangements qualify for reinsurance accounting.

Ceded losses recoverable are estimated using techniques and assumptions consistent with those used in estimating the reserves for losses and loss adjustment expenses. As changes in the estimated ultimate liability for loss and loss adjustment expenses are determined, the estimated ultimate amount recoverable from reinsurers may also change. As adjustments to these estimates become necessary, such adjustments are reflected in current operations. At December 31, 2015, ceded losses recoverable totaled $84,700. There were no ceded losses recoverable at December 31, 2014.

Premiums Receivable
Premiums receivable are premiums in the course of collection. These balances are presented net of non-admitted amounts. FSC routinely evaluates the collectability of such receivables and accounts specifically identified as uncollectible are charged to operations in the year the determination is made. As of December 31, 2015 and 2014, FSC had non-admitted premiums receivable of $68,870 and $307,923 that were greater than 90-days outstanding. Management has taken appropriate steps to minimize the uncollectible premiums receivable and has determined that no additional provision for uncollectible premiums receivable balances is necessary as of December 31, 2015 and 2014. During 2015, FSC charged off $459,634 in receivables that had not been collected due to bankruptcy or stressed financial conditions of the principals. As part of this write off, $71,629 of commission payable related to the uncollectible receivables was removed and recorded as income to FSC. Additionally, no significant amounts were charged off during the year ended December 2014.

Other Assets and Liabilities
At December 31, 2015, other assets consist of amounts owed to FSC related to contractual deposits made in excess of the reinsurance written, amounting to $27,111, from its reinsurance contract. At December 31, 2014, other assets consist of amounts owed to FSC related to a no-claims bonus of $98,000 from its reinsurance contract. Additionally, FSC has a collateral account with an insured where FSC bears the risk of market to market value fluctuations. Changes in market value of the account are payable or receivable to FSC. At December 31, 2015, FSC owed $373,081 to the collateral account which is recorded within other expenses payable. At December 31, 2014, FSC owed $100,462 to the collateral account which is recorded within other expenses payable. The change in the value of the collateral account is included as a component of other income.

Federal Income Taxes
The Company calculates its federal income tax liability based upon the statutory rates in effect during the year. Deferred income tax assets included in the statutory basis balance sheet are limited to the amount admitted in accordance with NAIC SAP. The net change in deferred income taxes is recorded as a separate component of surplus. The Company considers uncertain tax positions during the preparation of its income tax provision and management does not believe there are any significant income tax uncertainties.

The Company files its federal income tax return on a consolidated basis with its parent corporation, JFG, and the other subsidiaries of JFG (See Note 5), with the method of sharing of the tax liability among the members of the group being determined by a WV Insurance Commissioner approved tax sharing agreement. Pursuant to the tax sharing agreement, JFG collects from or refunds to the Company and other members of the group the amount of taxes or benefits determined as if the Company and each other member of the group file a separate return, provided that in the event of operating losses, the Company could utilize such loss or deduction on a stand-alone basis.

Electronic Data Processing Equipment and Software
Electronic data processing equipment is limited to three percent of capital and surplus and is reported at cost net of accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the underlying assets not to exceed three years. Application software, furniture, fixtures, and other equipment are non-admitted and charged against surplus.

Fair Value of Investments
NAIC SAP defines fair value, establishes a framework and hierarchy for measuring fair value, and requires disclosures about fair value measurements. NAIC SAP establishes a three level hierarchy that prioritizes the inputs to valuation techniques to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset. Classification of assets within the hierarchy considers the markets in which the assets are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available.

The levels of the hierarchy and those investments included in each are as follows:

Level 1 - Inputs to the valuation methodology are quoted prices for identical assets traded in active markets to which FSC has the ability to access.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset and market corroborated inputs.

Level 3 - Inputs to the valuation methodology are unobservable for the asset and are significant to the fair value measurement.

Fair values are based on quoted market prices when available (Level 1). When market prices are not available, fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). These valuation techniques involve some level of management estimation and judgment. The Company recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

Other-Than-Temporary Impairment
An investment is considered impaired when the fair value of the investment is less than its cost or amortized cost, as applicable. When an investment is impaired, FSC must make a determination as to whether the impairment is other-than-temporary ("OTTI").

Factors considered in identifying OTTI include: (1) for debt securities, whether the Company intends to sell the investment or whether it is more likely than not that the Company will be required to sell the security prior to an anticipated recovery in value; (2) the likelihood of the recoverability of principal and interest for debt securities (i.e., whether there is a credit loss) or cost for equity securities; (3) the length of time and extent to which the fair value has been less than amortized cost for debt securities or cost for equity securities; and (4) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

Investments in Bonds
Investments in bonds at December 31, 2015 and 2014, consist of State and Municipality bonds and obligations of U.S. Government sponsored agencies. Bonds are carried at amortized cost except where otherwise required by the NAIC Valuation of Securities Manual. Amortization is calculated using the effective interest method. Unrealized losses, which are deemed other-than-temporary are charged to income when incurred. Realized capital gains or losses are determined using the specific identification method and are reflected in the statutory statements of income in the period of sale.

Investments in loan-backed and structured securities that are designated by the NAIC as highest-quality and high-quality are reported at amortized cost; all other bonds are reported at the lower of amortized cost or market. These bonds are carried at amortized cost using the interest method considering anticipated prepayments at the date of purchase. Significant changes in future anticipated cash flows from the original purchase assumptions are accounted for using the prospective adjustment method with Public Securities Association standard prepayment rates.

Investments in Equity Securities
Investments in equity securities at December 31, 2015 and 2014, consist of common stocks and preferred stocks. Equity investments are carried at fair value, with unrealized gains and losses included as a component of surplus.

Indemnity Funds and Amounts Withheld for Account of Others
In most instances, FSC requires insureds to post collateral for bonds. Such collateral is in the form of cash (or its equivalent) or bonds and is held in an account in the name of FSC, subject to collateral maintenance agreements with each insured. Collateral held in the form of cash, cash equivalents and investments are carried as an indemnity funds asset and an offsetting indemnity funds held liability on the accompanying statutory financial statements. Cash and cash equivalents held by FSC is included as a component of cash. The collateral accounts are used to offset losses when the insured experiences a loss.

Cash and Short-Term Investments
FSC considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Short-term investments include certificates of deposit with a maturity of 90 days or more, but less than one year from the purchase date. Certificates of deposit are carried at their amortized cost on the statement of admitted assets, which approximates fair value. The Federal Deposit Insurance Corporation ("FDIC") insures amounts on deposit with each financial institution up to limits prescribed by law. FSC holds funds with financial institutions in excess of the FDIC insured amount; however, FSC has not experienced any losses in such accounts and management believes it is not exposed to a significant credit risk on cash and cash equivalents.

At December 31, 2015 and 2014, bonds and cash with an aggregate amortized cost of $1,166,567 and $1,179,504, respectively, were pledged to regulatory authorities in accordance with statutory requirements. Included in cash and cash equivalents is $5,409,022 as collateral for the bonds FSC is insuring. This cash is restricted. At December 31, 2015, restricted assets including indemnity funds represented 32% of total admitted assets.

Subsequent Events
The Company has evaluated subsequent events through July 28, 2016, the date these financial statements were available for issuance.

The Company received notice on October 1, 2014 of a complaint filed in The Circuit Court of Kanawha County, West Virginia by Omega Facility Services, Solutions & Surety, LLC, Jeffery R. Brown, Susan L. Brown against the Company and affiliated companies and officers. The Company filed its answer to the complaint and denies all substantive allegations and does not believe that this matter will have any adverse effect on the Company. This case was settled in 2016 and has been dismissed with prejudice.

On July 31, 2015, the Company entered into an agreement to sell 15% of the Company to Applied Mechanics Corp. The transaction is still pending approval by the WVOIC.

3. Insurance Activity

FSC currently writes only the surety line of business; predominately coal permit reclamation surety for the years ended December 31, 2015 and 2014.

The majority of bonds have partial offsetting collateral accounts in FSC's name, such as cash, investments and letters of credit. In the event of nonperformance on the bond, FSC recovers losses from the applicable collateral account up to the funds available. The effect of these recoveries on the financial statements results in a decrease to incurred losses and loss adjustment expenses when received.

Effective April 1, 2009, FSC entered into a reinsurance agreement with various syndicates at Lloyds's of London and one Bermuda based reinsurer for its coal reclamation surety bonding programs. The agreement has been renewed annually with various syndicates at Lloyd's of London, with the most recent

renewal effective October 1, 2014 (through the extended period ending December 31, 2015). The reinsurance agreement is an excess of loss contract, which protects the Company against losses up to certain limits over stipulated amounts and can be terminated by either party under certain circumstances with 30 days written notice; however, the Company's right to termination is subject to replacement with a new agreed contract. The contract calls for a premium rate of 35%, subject to a minimum premium of $490,000. Under the terms of this reinsurance contract, the Company is entitled to a No Claims Bonus from the reinsurers for each claim year in which no claims are received. The bonus is 20% of the annual reinsurance premium and is to be recorded upon the completion of each contract year. For the contract year ended September 30, 2014, the Company recorded a No Claims Bonus of $98,000. For the contract year ended December 31, 2015 (a three month extension was agreed upon making the contract year cover October 1, 2014 through December 31, 2015), the Company did not record a No Claims Bonus due to the recording of a claim reserve in excess of the minimum amount specified in the contract.

Deposits are made to the reinsurers quarterly in arrears in equal amounts of $140,000. The Company recorded $490,000 of ceded premium written at October 1, 2014 and $42,889 of ceded premium written during 2015. This amount is reflected on the balance sheet as $27,111 deposits receivable from reinsurers, which is the total amount of the deposits from the contract year of $560,000 less the total ceded written during the contract period of $532,889.

Activity in the liability for losses and LAE is summarized as follows:

	2015	2014
Reserve for unpaid losses – beginning of year	$ 1,390,383	$ 1,309,743
Incurred related to:		
Current year	165,957	163,707
Prior years	820,402	-
Total incurred	986,359	163,707
Paid related to:		
Current year	(475,000)	(83,067)
Prior years	-	-
Total paid	(475,000)	(83,067)
Reserve for unpaid losses, end of year	1,901,742	1,390,383
Reinsurance recoverable on known case loss reserves	(84,700)	-
Reserve for net unpaid losses, end of year	$ 1,817,042	$ 1,390,383

As a result of changes in estimates of insured events of prior years, the Company increased losses and loss adjustment expenses incurred by $820,402 in 2015 due to a combination of higher than expected claim frequency, unfavorable loss settlements, and higher than expected changes in loss case reserves on open claims.

Premium activity for 2015 and 2014 is summarized as follows:

	Direct	Ceded	Net
2015			
Premiums written	$ 1,353,262	$ (42,889)	$ 1,310,373
Change in unearned premium	(32,764)	(380,867)	(413,631)
Net premiums earned	$ 1,320,498	$ (423,756)	$ 896,742
2014			
Premiums written	$ 1,352,720	$ (392,000)	$ 960,720
Change in unearned premium	34,025	2,450	36,475
Net premiums earned	$ 1,386,745	$ (389,550)	$ 997,195

4. Investments

The amortized cost and fair value of investments in bonds, as of December 31, 2015, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. Government sponsored entities mortgage backed securities	$ 3,413,686	$ 59,274	$ (24,114)	$ 3,448,846
State and municipal securities	3,963,216	23,361	(56,751)	3,929,826
Totals	$ 7,376,902	$ 82,635	$ (80,865)	$ 7,378,672

The amortized cost and fair value of investments in bonds, as of December 31, 2014, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. Government sponsored entities mortgage backed securities	$ 4,182,305	$ 108,954	$ (7,604)	$ 4,283,655
State and municipal securities	2,656,760	3,751	(28,761)	$2,631,750
Totals	$ 6,839,065	$ 112,705	$ (36,365)	$ 6,915,405

The summary of the amortized cost and fair value of the Company's investment in bonds at December 31, 2015 by contractual maturity is shown below:

	Amortized Cost	Fair Value
Maturity:		
In 2016	$ -	$ -
In 2017-2020	482,763	474,571
In 2021-2025	2,015,713	1,981,744
Due after 2025	1,464,740	1,473,511
Total	3,963,216	3,929,826
Mortgage backed securities	3,413,686	3,448,846
Total Bonds	$ 7,376,902	$ 7,378,672

The actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

The cost and fair value of investments in equity securities, as of December 31, 2015 and 2014, are summarized as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2015:				
Common stocks	$ 1,050,456	$ 48,816	$ (162,649)	$ 936,623
Preferred stocks	95,127	-	(1,317)	93,810
Totals	$ 1,145,583	$ 48,816	$ (163,966)	$ 1,030,433

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2014:				
Common stocks	$ 1,069,004	$ 26,039	$ (54,926)	$ 1,040,117
Preferred stocks	154,826	1,414	(2,630)	153,610
Totals	$ 1,223,830	$ 27,453	$ (57,556)	$ 1,193,727

The following table presents the fair value and gross unrealized losses aggregated by investment category and length of time securities have been in a continuous unrealized loss position, as of December 31, 2015 and 2014:

	Less than 12 months		Greater than 12 months	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
At December 31, 2015:				
Obligations of U.S. Government sponsored entities mortgage backed securities	$ 1,899,174	$ (19,355)	$ 200,005	$ (4,759)
State and municipal securities	1,372,958	(27,695)	1,209,419	(29,056)
Common stocks	402,573	(54,651)	291,797	(107,998)
Preferred stocks	54,960	(151)	38,850	(1,166)
Totals	$ 3,729,665	$ (101,852)	$ 1,740,071	$ (142,978)

	Less than 12 months		Greater than 12 months	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
At December 31, 2014:				
Obligations of U.S. Government sponsored entities mortgage backed securities	$ 783,855	$ (6,328)	$ 170,584	$ (1,276)
State and municipal securities	1,118,550	(13,128)	709,319	(15,633)
Common stocks	373,111	(25,236)	129,503	(29,690)
Preferred stocks	100,770	(2,630)	-	-
Totals	$ 2,376,286	$ (47,322)	$ 1,004,406	$ (46,599)

At December 31, 2015, 24 securities are in an unrealized loss position. The Company considers both quantitative and qualitative factors when evaluating individual securities for other-than-temporary impairment, including but not limited ot the amount of length and time a security is in an unrealized loss position, general credit quality of the issuer including third party credit ratings, and any adverse changes in estimated cash flows. Based on the above factors and because the Company has the intent and ability to hold these investments until a market price recovery, which may be maturity, the Company does not consider these investments to be other-than-temporality impaired at December 31, 2015.

During 2015, the proceeds from sales and maturities of investment securities totaled $2,647,460. There were gross realized gains of $138,416, and gross realized losses of $132,383 from the sales and maturities in 2015.

During 2014, the proceeds from sales and maturities of investment securities totaled $3,110,814. There were gross realized gains of $135,358, and gross realized losses of $76,314 from the sales and maturities in 2014.

FSC has derivative liabilities, in the form of covered calls, which are measured at fair value on a recurring basis. These transactions do carry some market risk, specifically equity risk, as stock prices and implied volatility of the underlying securities change. These derivatives carry no credit risk and cash requirements are minimal since they generally create cash inflow for the Company. The options are written for income generation purposes. The covered call options allow some appreciation on the underlying stock while also recognizing a realized gain if the calls are exercised. They may also be purchased back at the discretion of the portfolio manager prior to the call either expiring or being exercised.

These options are carried at fair market value and an unrealized gain or loss is incurred monthly as a result and then realized when the derivative is expired, repurchased, or exercised. The call derivatives as of December 31, 2015 and 2014, are reported as a liability of $29,015 and $17,257 with a fair market value adjustment of $32,821 and $13,710 applied to the underlying investments, respectively. The book carrying value and fair value of the Company's options as of December 31 were as follows:

	Notional Amount	Number of Contracts	Book Carrying Value	Fair Value
2015	$ 615,250	68	$ (29,015)	$ (29,015)
2014	$ 453,500	65	$ (17,257)	$ (17,257)

The following table presents the level within the NAIC SAP fair value hierarchy of the Company's financial assets at December 31, 2015:

Class of Security	Level 1	Level 2	Level 3	Total
Equity securities	$ 1,030,433	$ -	$ -	$ 1,030,433
Obligations of U.S. Government sponsored entities mortgage backed securities	-	3,448,846	-	3,448,846
State and municipal securities	-	3,929,826	-	3,929,826
Totals	$ 1,030,433	$ 7,378,672	$ -	$ 8,409,105

The following table presents the level within the NAIC SAP fair value hierarchy of the Company's financial assets at December 31, 2014:

Class of Security	Level 1	Level 2	Level 3	Total
Equity securities	$ 1,193,727	$ -	$ -	$ 1,193,727
Obligations of U.S. Government sponsored entities mortgage backed securities	-	4,283,655	-	4,283,655
State and municipal securities	-	2,631,750	-	2,631,750
Totals	$ 1,193,727	$ 6,915,405	$ -	$ 8,109,132

5. Service Agreements and Related Party Transactions

On February 3, 2006, the Company entered into certain contracts with affiliated companies for specified services. JFG is a West Virginia based holding company engaged in providing investment advisory and surety services. Other wholly-owned subsidiaries of JFG include Jacobs & Company ("J&C") and FS Investments, Inc. and its wholly owned subsidiary, Triangle Surety Agency, Inc. ("TSA").

The Company reported amounts due to affiliates of $19,828 and $60,620 as of December 31, 2015 and 2014, respectively. Remittances of amounts due JFG, TSA and J&C under the various agreements that have been in effect from time-to-time are generally settled within 30 days.

The Company has a General Agency Agreement with TSA that was approved by the Commissioner with an effective date of June 1, 2007, whereby TSA receives commission on premium written in the amount of 15% on renewal business and 30% on new business written. The Company incurred expense in the aggregate amount of $234,281 and $241,331 under such agreements in 2015 and 2014, respectively.

The Company has an investment management agreement with J&C, approved by the West Virginia Insurance Commissioner, whereby the affiliate receives investment advisory fees based on established fee schedules. The Company incurred investment management expense pursuant to such agreement in the amount of $51,375 and $52,222 in 2015 and 2014, respectively.

The Company received approval by the Commissioner for an Expense Sharing Agreement among the parent company and its affiliates that specifically addressed cost allocations and reimbursement of expenses. This agreement was effective on June 1, 2007. Amounts paid by the Company under the Expense Sharing Agreements amounted to $24,975 and $19,565 for the years ended December 31, 2015 and 2014, respectively.

JFG entered into a Tax Sharing Agreement with the Company and other affiliates effective January 1, 2006 as approved by the Commissioner. In 2015 and 2014, payments made to JFG under such Tax Sharing Agreement amounted to $80,529 and $73,906, respectively

The Company's office space is leased on a month-to-month basis under an arrangement through JFG whereby the cost incurred by JFG for the Company's office space is allocated to the Company for reimbursement. For some months in 2014 and 2015, the Company paid its allocated rent directly to the leaseholder, but that practice has discontinued. Allocated and direct rent amounted to $11,473 and $10,500 for the years ended December 31, 2015 and 2014.

6. EDP Equipment, Software and Other Fixed Assets

The composition of EDP equipment, software and other fixed assets were as follows at December 31, 2015 and 2014:

	2015	2014
Electronic data processing equipment	$ 25,914	$ 26,767
Automobile	20,292	20,292
Furniture	13,781	13,781
Gross EDP equipment, software and other	59,987	60,840
Less: Accumulated depreciation	(59,054)	(56,980)
Net EDP equipment, software and other	933	3,860
Less: Non-admitted portion	-	(2,367)
Net EDP equipment and software	$ 933	$ 1,493

Depreciation expense charged to operations and included in underwriting expenses was $2,927 and $4,435 in 2015 and 2014, respectively.

7. Federal Income Taxes

Current federal income taxes incurred by the Company are determined by applying statutory tax rates to taxable income as determined according to the provisions of the Internal Revenue Code, which apply to property and casualty insurance companies.

The provision for federal income taxes consists of the following components:

Deferred federal income taxes arise from temporary differences between the valuation of assets and liabilities as determined for financial reporting purposes and income tax purposes. The amount of gross deferred tax asset calculated is then reduced for any valuation allowance and an admissibility test. In accordance with SSAP 101, the admissibility test is based on the realization threshold table and other limitations.

The components of the net deferred tax assets (liabilities) by tax character at December 31, 2015 and 2014, are as follows:

	December 31, 2015			December 31, 2014		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	$ 142,428	$ -	$ 142,428	$ 196,156	$ -	$ 196,156
Statutory valuation allowance	-	-	-	-	-	-
Adjusted gross deferred tax assets	142,428	-	142,428	196,156	-	196,156
Deferred tax assets non-admitted	(56,710)	-	(56,710)	(55,449)	-	(55,449)
Total deferred tax assets admitted	85,718	-	85,718	140,707	-	140,707
Deferred tax liabilities	-	-	-	-	-	-
Net admitted deferred tax asset	$ 85,718	$ -	$ 85,718	$ 140,707	$ -	$ 140,707
Net change during year in deferred tax assets non-admitted			$ 1,261			$ (2,654)

The amount of each component pursuant to SSAP 101, paragraph 11, by tax character, are as follows:

	December 31, 2015			December 31, 2014		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Can be recoerved through loss carrybacks (a)	$ -	$ -	$ -	$ -	$ -	$ -
Lesser of:						
Adjusted gross DTA expected to be recognized following the balance sheet date (b.i)	85,718	-	85,718	140,707	-	140,707
Adjusted gross DTA allowed per limitation threshold (b.ii)	-	-	-	-	-	-
Adjusted gross DTA offset agaisnt existing DTL (C)	-	-	-	-	-	-
DTA amitted as a resilt of the aplication of SSAP 101/10R (1+b.i+C)	$ 85,718	$ -	$ 85,718	$ 140,707	$ -	$ 140,707

The ratio and amount of adjusted capital and surplus used to determine the recovery period and threshold limitation are as follows:

	December 31, 2015	December 31, 2014
Ratio % used to determine recovery period and threshold limitation amount	1618%	1654%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation amount	$ 5,023,167	$ 5,848,577

The Company has not considered any tax planning strategies in the calculation of deferred tax assets.

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

	2015	2014
Deferred tax assets:		
Discounting of unpaid losses and LAE	$ 5,710	$ 5,024
Unearned premium	40,231	9,672
Premiums receivable	23,416	104,694
Prepaid expense	22,071	24,961
State licenses	51,000	51,000
Other	-	805
Total deferred tax assets	142,428	196,156
Non-admitted deferred tax assets	(56,710)	(55,449)
Admitted deferred tax asset	$ 85,718	$ 140,707

The change in net deferred income taxes, before consideration of the change in non-admitted assets, is comprised of the following at December 31,2015:

	2015	2014	Change
Adjusted gross deferred tax assets	$ 142,428	$ 196,156	$ (53,728)
Total deferred tax liabilities	-	-	-
Net deferred tax assets	$ 142,428	$ 196,156	$ (53,728)

The provision for federal income taxes incurred is different from that which would be obtained by applying the Federal income tax rate to statutory income before income taxes. The items primarily causing this difference include tax advantage investments and the change in non-admitted deferred tax assets.

As of December 31, 2015 and 2014, the Company did not have any net operating loss carryforwards available to offset against future taxable income. Tax years 2012 through current are subject to examination by the Internal Revenue Service.

The Company files a consolidated income tax return with Jacobs Financial Group, Inc., Jacobs & Company, FS Investments, Inc., Triangle Surety Agency, Inc., and Crystal Mountain Water, Inc. As the Company files a consolidated income tax return with other affiliates, the tax sharing agreement referenced above includes a provision in which the Company is entitled to a refund of tax previously paid to Jacobs Financial Group, Inc. in the event of a net operating loss, net capital loss or carryback arising within the statutory period for such carryover or carryback, the amount of carryback potential that may be considered in calculating the admitted deferred tax asset may not exceed the amount the Company could reasonably expect to have refunded by JFG. Accordingly, no federal income taxes recoverable through loss carrybacks were recorded in the determination of admitted deferred tax assets.

8. Commitment and Contingencies

During 2013, the Company and one of its surety principals entered into a contractual arrangement whereby the Company would hold collateral for use in paying future claims and expenses and upon the Company's determination that its liability had been fully extinguished, the company would return the amount of the deposits less any paid claims or expenses. While the Company holds the collateral, the Company will pay 1.35% annual simple interest to the principal. The Company receives any appreciation and earnings in excess of the contractual deposit, less payments, and interest paid to the principal. This deposit and the earning or expenses associated with the deposit is not included in the calculation of the Company's investment income. The earnings on this account are included in other income on the statement of income.

9. Other Underwriting Expenses

The significant components of other underwriting expenses incurred during 2015 and 2014, were as follows:

	2015	2014
Net commissions and brokerage	$ 234,281	$ 241,331
Salaries and related items	175,297	175,326
Legal, auditing and actuary	102,403	96,332
Advisory	84,394	59,932
Taxes, licenses and fees	50,358	49,818
Other miscellaneous expenses	48,348	34,596
Rent	11,472	14,628
Depreciation	2,927	4,435
Director's fees	4,500	4,350
Other underwriting expenses incurred	$ 713,980	$ 680,748

10. Capital and Surplus

The laws of the state of West Virginia require the Company to have a minimum paid-in capital of $1,000,000 and maintain additional surplus funds of at least $1,000,000.

Under West Virginia Code, dividends to stockholders are allowed to be paid from that part of the Company's available surplus funds which were derived from realized net profits on the business, and whose fair market value of all dividends or distributions made within the preceding twelve months does not exceed the lesser of ten percent of the Company's surplus as regards policyholders as of the thirty-first of December next preceding or the net income from Company operations from the previous and second and third previous calendar year years not including capital gains. During 2015, the Company declared and paid $173,000 of dividends, consisting of $75,000 on February 11 and $98,000 on March 13. Subsequently the WV Insurance Commissioner determined $75,000 were paid before the allowable date of payment and were not approved for payment by the West Virginia Insurance Commissioner and therefore were extraordinary dividends As a result the Company was assessed a $5,000 penalty during 2015. During 2014, the Company declared and paid $198,000 of ordinary dividends.

There are no differences between net income and capital and surplus as reported in the 2015 and 2014 Annual Statement filed with the WVOIC and corresponding amounts reported in these financial statements.

11. Vulnerability Due to Concentration in Products, Markets and Customers

The Company is licensed to write surety in West Virginia and Ohio and has focused its primary efforts towards coal permit bonds. All of the Company's surety business as of December 31, 2015 and 2014, has been in West Virginia and Ohio. Such business accounts for approximately 93% and 96% of the Company's 2015 and 2014 written premium, respectively. Furthermore, the Company provides surety bonds to five groups of companies with each group sharing common ownership interests in 2015 and four groups in 2014. These groups account for approximately 9%, 14%, 19%, 15%, and 16% of the Company's 2015 written premium and 15%, 14%, 19%, and 15% of the Company's 2014 written premium. For such reasons, the company is vulnerable to risks associated with adverse changes in market conditions that coal industry, regulatory environment, or loss of significant customer(s). With respect to the regulatory environment, WV Department of Environmental Protection ("DEP") rules require a surety company providing surety to comply with permit requirements to be listed on the U.S. Treasury's list of approved sureties ("T-Listing") or diligently pursue such listing and obtain such listing within 4 years. DEP issued a letter dated June 16, 2010 to WVOIC stating it interprets the rule to require an insurer to submit its application for T-Listing at the earliest possible time after it is able to satisfy all of the Treasury Department's minimum requirements, aggressively pursue approval, and obtain the T-Listing within four years after it has satisfied minimum requirements. FSC has diligently and continuously pursued the requisites necessary to file for a T-list and in 2010 filed its application with the U.S. Treasury. FSC will continue to diligently pursue such listing until it is granted. FSC has kept DEP informed of its diligent continuous efforts to obtain a T-listing.

12. Schedule of Non-admitted Assets

The Company's non-admitted assets as of December 31, 2015 and 2014 consisted of the following items:

	2015	2014
Premiums receivable	$ 68,870	$ 307,923
Net deferred tax asset	56,710	55,449
Prepaid expense	42,029	35,546
State licenses	150,000	150,000
Automobile	-	2,367
Prepaid federal income taxes (to parent)	22,888	37,869
Total non-admitted assets	$ 340,497	$ 589,154

13. Restricted Assets

The following table discloses quantitative information about the Company's restricted assets by category for the years ended December 31, 2015 and 2014. The Company does not hold assets that would be required to be held in a separate account. All restricted assets are fully admitted. Accordingly, no distinction is made between general account and separate account restricted assets in the following tables:

	Total Restricted		Total Restricted to Total	
	2015	2014	2015	2014
Placed under options contracts	$ 609,000	$ 453,500	2.9%	2.3%
Collateral Accounts	7,382,450	9,070,229	35.56%	46.94%
Total	$ 7,991,450	$ 9,523,729	38.49%	49.29%

SUPPLEMENTAL SCHEDULES

First Surety Corporation

Summary Investment Schedule

December 31, 2015

Investment Categories	Gross Investment Holdings	Percentage	Admitted Assets as Reported in the Annual Statement	Percentage
Bonds				
State, territory and possession general obligations	$ 3,963,216	31.27%	$ 3,963,216	31.27%
Mortgage-backed securities				
Pass-through securities Guaranteed by GNMA	3,413,686	26.94%	3,413,686	26.94%
Equity Interests				
Preferred stocks				
Unaffiliated	93,810	0.74%	93,810	0.74%
Publicly traded equity securities (excluding preferred stocks)				
Unaffiliated	936,623	7.39%	936,623	7.39%
Cash and short-term investments	4,265,496	33.66%	4,265,496	33.66%
Total Invested Assets	$ 12,672,831	100.00%	$ 12,672,831	100.00%

1) State the reporting entity's total admitted assets as reported on page two of the annual statement. $13,381,015.

2) State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding (i) U.S. government, U.S. government agency securities and those U.S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, (ii) property occupied by the Company and (iii) policy loans.

	Investment Category	Amount	Percentage of Total Admitted Assets
a.	Wellington Shields & Company Money Market Fund	$ 3,594,771	26.865%
b.	Citibank money Market Fund	193,604	1.447%
c.	Poca Valley Bank	477,121	3.566%

3) State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds			Preferred Stock		
NAIC - 1	$ 3,788,375	28.312%	P/RP - 1	$ 93,810	0.701%
NAIC - 2	7,378,672	55.14%	P/RP - 2		
NAIC - 3			P/RP - 3		
NAIC - 4			P/RP - 4		
NAIC - 5			P/RP - 5		
NAIC - 6			P/RP - 6		

4) Assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets, detail not required √(yes) __(no)

Items 5 through 10 are not applicable.

11) State the amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian currency-denominated investments of $0 supporting Canadian-denominated insurance liabilities of $0.

11.01. Assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets, detail not required √(yes) __(no)

12) State the aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days): $0

12.01. Assets held in investments with contractual sales restrictions less than 2.5% of the reporting entities total admitted assets, detail not required √(yes) __(no)

13) State the amounts and percentages of admitted assets held in the largest 10 equity interests: $0

13.01. Assets held in equity interests less than 2.5% of the reporting entity's total admitted assets, detail not required √(yes) __(no)

14) State the amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under (i) Securities Exchange Commission (SEC) Rule 144a or (ii) SEC Rule 144 without volume restrictions: $0

14.01. Assets held in non-affiliated, privately placed equities less than 2.5% of the reporting entities total admitted assets, detail not required √(yes) __(no)

15) State the amounts and percentages of the reporting entity's total admitted assets held in general partnership interests (included in other equity securities): $0

15.01. Assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets, detail not required √(yes) __(no)

16) State the amounts and percentages of the reporting entity's total admitted assets held in mortgage loans: $0

16.01. Mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets, detail not required √(yes) __(no)

Item 17 is not applicable.

18) Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets √(yes) __(no)

Items 19 through 23 are not applicable.

Supplement for the year 2015 of the **FIRST SURETY CORPORATION**

REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (PART 2)

FOR THE YEAR ENDED DECEMBER 31, 2015

To Be Filed by March 1

NAIC Group Code: 0 NAIC Company Code: 38504....

	(A) Financial Impact		
	1 As Reported	2 Interrogatory 9 Reinsurance Effect	3 Restated Without Interrogatory 9 Reinsurance
A01. Assets	13,381,015		13,381,015
A02. Liabilities	8,357,848		8,357,848
A03. Surplus as regards to policyholders	5,023,167		5,023,167
A04. Income before taxes	(1,174,093)		(1,174,093)

B. Summary of Reinsurance Contract Terms

C. Management's Objectives

D. If the response to General Interrogatory 9.4 (Part 2 Property & Casualty Interrogatories) is yes, explain below why the contracts are treated differently for GAAP and SAP.

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