



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Dhandho Holdings Corp. and subsidiaries:

We have audited the accompanying consolidated financial statements of Dhandho Holdings Corp. and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statement of net loss and comprehensive loss, changes in stockholders' equity, and cash flows for the year 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 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 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 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 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 opinion.



To the Board of Directors and Stockholders of
Dhandho Holdings Corp. and subsidiaries
Page 2

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dhandho Holdings Corp. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BDO Puerto Rico, P.S.C.

San Juan, Puerto Rico

April 26, 2016

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2018
Stamp E195704 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2015

	<u>2015</u>
ASSETS	
Investments in securities available for sale:	
Bonds - (amortized cost of \$46,283,397)	\$ 44,989,764
Common stocks - at fair value (cost of \$87,442,182)	87,832,562
Preferred stocks - at fair value (cost of \$9,147,253)	<u>9,024,472</u>
Total investments in securities available for sale	141,846,798
Investment in partnership, at cost	<u>2,000,000</u>
Total investments	143,846,798
Cash and cash equivalents	42,426,761
Premiums receivable	20,485,286
Reinsurance receivables and recoverables	2,519,313
Investment income due and accrued	410,485
Deferred tax assets	2,848,096
Income taxes receivable	1,913,511
Deferred policy acquisition cost	1,656,449
Due from related parties	610,526
Property and equipment - net	7,971,265
Intangible assets	5,296,350
Goodwill	2,427,047
Other assets	<u>1,549,709</u>
Total assets	<u>\$ 233,961,596</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
Losses and loss adjustment expenses	\$ 65,507,969
Commissions payable	1,756,227
Unearned premiums	23,330,736
Advance premiums	904,735
Accounts payable and other liabilities	1,298,400
Taxes, licenses and fees, excluding federal income taxes	4,418,625
Accounts payable to former stockholder of Stonetrust Companies	1,000,000
Security deposits	2,010,323
Note and mortgage payable	<u>5,976,561</u>
Total liabilities	<u>106,203,576</u>
Stockholders' equity:	
Common stock, no par value, 1,004 shares authorized, issued and outstanding	151,978,990
Accumulated deficit	(22,095,907)
Accumulated other comprehensive loss	<u>(2,125,063)</u>
Total stockholders' equity	<u>127,758,020</u>
Total liabilities and stockholders' equity	<u>\$ 233,961,596</u>

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



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2015</u>
Revenues:	
Premiums earned, net of ceded reinsurance premiums incurred of \$3,327,677 and \$3,865,244, respectively	\$ 59,378,853
Net investment income	1,706,313
Rental income	356,827
Management fees	44,407
Other income	337,199
Total revenues	<u>61,823,599</u>
Losses and expenses:	
Losses incurred	38,302,758
Loss adjustment expenses incurred	5,558,641
Underwriting and operating expenses	23,925,240
Net realized capital loss	1,500,249
Loss on impairment of investments	15,603,076
Bad debt expense	236,266
Interest expense	284,425
Total losses and expenses	<u>85,410,655</u>
Loss before income tax	(23,587,056)
Income tax benefit	<u>1,713,274</u>
Net loss	(21,873,782)
Comprehensive loss:	
Unrealized holding losses arising during the period	(19,699,149)
Reclassification adjustment for loss included in net loss	17,103,325
Change in derivative instrument	<u>(35,158)</u>
Other comprehensive loss before taxes	(2,630,982)
Income tax benefit	<u>505,919</u>
Accumulated other comprehensive loss, net	<u>(2,125,063)</u>
Comprehensive loss	<u>\$ (23,998,845)</u>

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



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Common Stock</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Stockholders' Equity</u>
Balance, December 31, 2014	\$ 151,278,990	\$ (222,125)	\$ -	\$ 151,056,865
Issuance of common stock	700,000	-	-	700,000
Net loss	-	(21,873,782)	-	(21,873,782)
Other comprehensive loss - net	<u>-</u>	<u>-</u>	<u>(2,125,063)</u>	<u>(2,125,063)</u>
Balance, December 31, 2015	<u>\$ 151,978,990</u>	<u>\$ (22,095,907)</u>	<u>\$ (2,125,063)</u>	<u>\$ 127,758,020</u>

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



**DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (21,873,782)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization expense	1,097,726
Deferred income taxes	(88,836)
Bad debt expense	236,266
Net amortization on investments	248,408
Loss on impairment on investment securities	15,603,076
Realized loss on investments	1,500,249
Loss on disposition of fixed assets	527,427
Changes in operating assets and liabilities:	
Premiums receivable	1,671,632
Reinsurance receivables and recoverables	534,098
Deferred policy acquisition costs	13,033
Income taxes receivable	(314,365)
Accrued investment income	(48,107)
Due from affiliates	(812,897)
Other assets	(267,564)
Losses and loss adjustment expenses	12,007,742
Unearned and advance premiums	(1,708,199)
Ceded reinsurance payable	(63,951)
Insurance related taxes and assessments	1,186,370
Commissions and other liabilities	(1,786,527)
Net cash provided by operating activities	<u>7,661,799</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments available-for-sale	(153,736,538)
Proceeds from sales, maturities and prepayments of investments available-for-sale	42,266,385
Purchase in investment in partnership	(2,000,000)
Purchase of property and equipment	(1,685,510)
Net cash used in by investing activities	<u>(115,155,663)</u>
CASH FLOWS FROM FINANCING ACTIVITIES -	
Proceeds from mortgage loan	2,000,000
Payments on mortgage loan	(23,440)
Net cash provided by financing activities	<u>1,976,560</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(105,517,304)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>147,944,065</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>42,426,761</u>

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



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Dhandho Holdings Corp. (the “Company” or “DHC”) is a holding corporation organized under the laws of the Commonwealth of Puerto Rico on October 31, 2014. The Company is owned 73.358% by Dhandho Holdings, L.P., and 26.742% by Dhandho Holdings Qualified Purchaser, L.P., both limited partnerships organized under the laws of the State of Delaware. The Company’s main business purpose is to make equity investments in privately and publicly held businesses.

On December 31, 2014, the Company acquired 100% of the outstanding common stocks of Stonetrust Management Services, LLC (“SMS”) and Stonetrust Holding Company, LLC and its Subsidiaries (collectively Stonetrust companies). Stonetrust companies are engaged in providing statutory workers’ compensation and employers’ liability insurance coverage in Louisiana, Mississippi, Arkansas, Oklahoma and Texas. The acquisition was completed on December 31, 2014 for a total purchase price of \$35,000,000. See Note 2.

Stonetrust Commercial Insurance Company (“SCIC”), formerly known as Amicus Mutual Insurance Company, was formed in March 2000 as a Louisiana-domiciled mutual insurance company. SCIC received its Certificate of Authority, effective June 30, 2000, to write workers’ compensation business in Louisiana. Operations began July 1, 2000 as the successor to Louisiana Associated Commercial Employers Self Insurers Fund (“LACE-SIF”).

Effective January 1, 2006, after a vote of approval by its members, SCIC was converted from a mutual insurance company to a stock insurance company wholly owned by a mutual insurance holding company parent (“Stonetrust Commercial Mutual Insurance Holding Company”). Pursuant to the conversion, Stonetrust Commercial Mutual Insurance Holding Company was owned by the company’s policyholders. In addition, effective January 1, 2006, the name was changed from Amicus Mutual Insurance Company to Stonetrust Commercial Insurance Company.

During 2014, SCIC formed Stonetrust Realty, LLC (“SR”), a wholly-owned subsidiary, for the purpose of acquiring and holding real estate.

Effective December 31, 2014, Stonetrust Commercial Mutual Insurance Holding Company entered into a sponsored demutualization transaction and was renamed Stonetrust Holding Company and converted to a stock company. Immediately following the demutualization, Stonetrust Holding Company and its subsidiaries, SCIC, SR and SMS were acquired by the Company.

Effective December 31, 2015, Stonetrust Holding Company was converted to a Louisiana limited liability company. Upon conversion all the common stock owned by the Company were exchanged for all members units of the limited liability company. Stonetrust Holding Company, LLC is authorized to issued new class of membership units. For U.S Federal tax the LLC will continue to be treated as a Corporation.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

SMS is a limited liability company organized under the laws of the State of Louisiana in January 2006. Up to December 31, 2014, SMS was a general managing agency contracted to manage and administer 100% of the insurance operations of SCIC. Effective January 2015, the contract between SMS and SCIC was cancelled and all employees and operations of SMS were transferred to SCIC.

Dhandho India Private Limited (“DIPL”) is a private limited company organized under the laws of India in May 2015. During 2015, DIPL served as the main technical support services provider to the Company, providing research and development in information technology related to asset management and insurance services. Coverage HQ Agency LLC (“HQ Agency”) is a limited liability company organized under the laws of Puerto Rico in October 2015. Coverage HQ Holdings, LLC (“HQ Holdings”) is a limited liability company organized under the laws of Puerto Rico in November 2015. HQ Agency and HQ Holdings are engaged in the investment and insurance business. The operations of these subsidiaries were not significant during the year ended December 31, 2015.

Basis of presentation and consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) using the accrual bases of accounting and include the accounts of DHC and its wholly-owned subsidiaries, principally the Stonetrust Companies. All significant intercompany accounts and transactions are eliminated in the consolidation.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers cash balances and short-term investments with original maturities of ninety days or less to be cash equivalents.

Premiums

Premiums are recognized when earned over the premium paying period of the related workers’ compensation policies. Unearned premiums are established to cover the unexpired portion of premiums written. Premiums are billed and collected according to policy terms predominantly in the form of installments during the policy period. Workers’ compensation premiums are determined based upon the payroll of the insured, the applicable premium rates and, where applicable, an experience-based modification factor, debits, credits, and discounts applied by SCIC underwriters based upon individual risk characteristics. Audit of policyholders’ records are conducted after policy expiration to make a final determination of applicable premiums. As of December 31, 2015, \$2,414,257, were included in premiums receivable for estimated additional amounts of premiums to be billed to SCIC’s policyholders.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Premiums collected in advance of the next succeeding policy year are deferred from income recognition and are recorded as advance premiums in the accompanying consolidated balance sheet.

Premium receivables consist of amounts due in the normal course of collection from policyholders located within the states SCIC serves. Receivables for premiums are not secured, other than by security deposits received by SCIC. The portions of premium that are unbilled and will be earned in the future are reported as unearned premiums.

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb probable losses on existing accounts receivable that may become uncollectible based on evaluations of their collectability and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the receivables outstanding and the related allowance may change as a result of future developments. As of December 31, 2015 the allowance for doubtful accounts had a balance of \$571,400. The potential for additional loss is not believed to be material to the Company's financial position.

Investments

The Company classifies its investments as available-for-sale or held-to-maturity based upon its intent and ability to hold the investment, and the nature of the securities purchased. The classification is made at the acquisition date of the security and reassessed each year.

Debt securities for which the Company has the intent and ability to hold to maturity are reported at amortized cost, adjusted for amortization of premiums or discounts and other-than-temporary declines in fair value. Debt and equity securities classified as available-for-sale are reported at estimated fair value, adjusted for other than temporary declines in fair value, with unrealized gains and losses reported as a separate component of stockholder's equity. Realized gains and losses are determined on the specific identification method. Also, see Note 4 for further disclosure regarding fair value.

Investment in partnership is comprised of investments in a pooled investment fund. Partnership where the Company's ownership is minor and the Company does not have significant operating or financial influence is recorded using cost method of accounting.

Management evaluates securities for other-than-temporary impairment ("OTTI") periodically and more frequently when economic or market conditions warrant such evaluation. The accounting guidance on OTTI specifies that (a) if an entity does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery; the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security and it is more likely than not that the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

Net investment income consists primarily of interest and dividends. Interest is recognized on the accrual basis and dividends are recorded as earned at the ex-dividend date. Accrual of interest income is suspended for bonds that are in default or when the receipt of interest payment is in doubt. Realized capital gains and losses are determined under the specific identification basis and are recorded in earnings.

Losses and loss adjustment expenses incurred and payable

Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported (“IBNR”). Loss reserves are estimates and are inherently uncertain; they do not and cannot represent an exact measure of ultimate liability. SCIC performs a comprehensive review of its loss reserves at the end of each quarter. Estimating loss reserves is a complex process that involves a combination of actuarial techniques and methods and management judgment to establish the most reasonable estimate of loss reserves. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in the period determined. SCIC does not discount its liabilities for unpaid losses and loss adjustment expenses.

Property and equipment

Property and equipment is stated at cost. Depreciation and amortization are provided under the straight-line method over the estimated useful lives of the related assets. Major additions and betterments are charged to the property accounts, while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. When property is retired or otherwise disposed of, the cost of the asset and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in current earnings.

Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Recoverability of assets to be held and used (the fair value) is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of assets. Management has concluded that there are no impairment losses to be recognized as of December 31, 2015.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Reinsurance

The Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with reinsurers. Amounts recoverable from reinsurance are estimated in a manner consistent with the claims liability associated with the reinsurance policy. All reinsurance contracts in place transfer underwriting risks to reinsurers (see Note 11).

The Company limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers under general reinsurance contracts known as “treaties” or by negotiation on an individual risk basis. Amounts recoverable from reinsurance are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Deferred policy and acquisition costs

Deferred policy acquisition costs represent the cost of writing business that vary with, and are primarily related to, the successful production of insurance business (principally commissions and premium taxes). Policy acquisition costs are deferred and recognized as expense as related premiums are earned.

Goodwill and other intangibles

Goodwill represents the excess of the purchase price of an acquired business over the amount assigned to the assets acquired and liabilities assumed. The Company evaluates goodwill on an annual basis, or more frequently if management believes indicators of impairment exist. Such indicators could include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competitions, or (3) an adverse action or assessment by a regulator. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts the two-step quantitative goodwill impairment test. The first step of the impairment test involves comparing the fair value of the applicable reporting unit with its carrying value. The Company estimates the fair values of its reporting units using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes the comparable companies’ data. If the carrying amount of a reporting unit exceeds the reporting unit’s fair value, management performs the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit’s goodwill with the carrying value of that goodwill. The amount, by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Tradenames are initially measured based on their fair values. Tradenames were categorized as an intangible asset with indefinite life since management expects to continue using the SCIC tradename indefinitely and the tradename renovation process is expected to be easily achievable.

Definite-lived intangible assets, such as product customer relationships, are amortized on a straight-line basis over their estimated or contractual useful lives. The Company continually evaluates the reasonableness of the useful lives of these assets.

Based on current facts, estimates and assumptions used, the Company determined that goodwill and intangible assets were not impaired at December 31, 2015.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized.

The Company follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Fair value measurement

The fair value of a financial instrument is the amount that would be received in an assets sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 - Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

Concentration of Credit Risk

SCIC provides workers' compensation insurance primarily to employers and individuals within the states it serves. The Company extends credit to policyholders using practices common to the insurance industry.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits, investment securities, reinsurance recoverable and receivables, and balances due from agents and insureds. The Company invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Management continually evaluates its investment portfolio to manage concentrations in individual securities, issuers of securities, and types of securities, industries, and geographic regions. The Company generally limits its exposure to credit risk from balances on deposit in financial institutions in excess of the federally insured limits. Management believes the credit risk associated with these deposits is minimal.

All demand deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The money market funds are not insured by the FDIC.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Comprehensive (Loss)/Income

Comprehensive income is defined as the change in equity of a business enterprise during a period of transactions and other events and circumstances, except those resulting from investment by owners and distributions to owners. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and derivative instruments, are reported as a separate component of the stockholder's equity section in the balance sheet, such items, along with net income, are components of comprehensive income.

Loss Portfolio Transfer

Under the terms of a Loss Portfolio Transfer ("LPT") agreement, SCIC acquired the outstanding amounts due under the claim reserves of LACE-SIF for all loss years as valued by LACE-SIF's independent actuary as of December 31, 2000. In addition, the transfer agreement moved all loss-related liabilities (such as the liability for assessments by the Second Injury Fund and the Office of Workers' Compensation) and placed SCIC into the place of LACE-SIF to settle all claims and estimated excess policy recoveries. Estimated amounts remaining to be paid under the LPT as of December 31, 2015 totaled \$5,538.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the 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 results could differ from those estimates.

The most significant estimates susceptible to change are those used in determining the reserves for losses and loss adjustment expenses, recoverability of deferred assets, the estimate of additional premium to be billed to policyholders and valuation of investment in subsidiaries. Although considerable variability is inherent in these estimates, management believes that the estimates are adequate. The estimates are continually revised and adjusted as necessary. Such adjustments are reflected in current operations.

Adoption of New Accounting Policies

During fiscal year 2015, various Accounting Standard Updates issued by the FASB became effective none of which had an impact on the Company's consolidated financial statements.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Recently Issued Accounting Guidance Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued new guidance on how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance does not apply to contracts within the scope of other standards (for example, insurance contracts or lease contracts). In August 2015, the FASB deferred the effective date of this new guidance by one year. This guidance is now effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The guidance is not expected to have a material impact on the Company’s consolidated financial condition, results of operations or cash flows.

In April 2015, the FASB issued guidance simplifying the presentation of debt issuance costs, requiring debt issuance costs related to debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. The guidance is effective for fiscal years beginning after December 15, 2015. Early application is permitted for financial statements that have not been previously issued. This guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2015, the FASB issued guidance on disclosures for investments in certain entities that calculate NAV per share or its equivalent. Under this amendment, investments for which fair value is measured at NAV using the practical expedient should not be categorized in the fair value hierarchy. The guidance is effective for periods beginning after December 15, 2016. Early adoption is permitted. This guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2015, the FASB issued new guidance which requires insurance entities to provide additional disclosures related to claims liabilities related to short-duration contracts. The additional disclosure requirements include: (1) the claims development information by accident year, net of reinsurance, for the number of years for which claims incurred remain outstanding but not to exceed the most recent 10 years; (2) a reconciliation of claims development information and the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses; and (3) information about the claims frequency and the amount of the incurred-but-not-reported liabilities for each accident year presented. In addition, a description of the methodologies and assumptions used to determine the amounts disclosed and significant changes in methodologies and assumptions are required. The roll forward of the liability for unpaid claims and claims adjustment expenses, currently required only for annual periods, will also be required for interim periods. The guidance will be effective for annual periods beginning after December 15, 2016 and interim periods thereafter. This guidance is not expected to have a material impact on the Company’s consolidated financial statements.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

In January 2016, the FASB issued updated guidance to address the recognition, measurement, presentation, and disclosure of certain financial instruments. The updated guidance requires equity investments, except those accounted for under the equity method of accounting, that have readily determinable fair value to be measured at fair value with changes in fair value recognized in net income. Equity investments that do not have readily determinable fair values may be remeasured at fair value either upon the occurrence of an observable price change or upon identification of impairment. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. The updated guidance is effective for periods beginning after December 15, 2019 and will require recognition of a cumulative effect adjustment at adoption. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), on February 25, 2016. It is expected to be effective for periods beginning after December 15, 2018 for public entities, and for periods beginning after December 15, 2019 for nonpublic entities. Early application is permitted. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Lessor accounting remains substantially unchanged with the exception that no leases entered into after the effective date will be classified as leveraged leases. For example, the vast majority of operating leases should remain classified as operating leases, and lessors should continue to recognize lease income for those leases on a generally straight-line basis over the lease term. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

During the year ended December 31, 2015, the FASB issued other accounting standard updates that were not relevant to the Company's operations.

2. BUSINESS COMBINATION

All entities acquired in 2014 were accounted for in accordance with GAAP relating to business combinations.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

On December 31, 2014, the Company completed the acquisition of Stonetrust Commercial Mutual Holding Insurance Company, owner of 100% equity interest in SCIC, which provides statutory workers' compensation and employers' liability insurance coverage to businesses in five (5) states of the United States of America (the "Acquisition"). The Acquisition also included SR and SMS, both Louisiana limited liability companies. Stonetrust Realty owns the real estate used by Stonetrust companies. SMS was the Managing General Agent of Stonetrust.

Prior to consummating the Acquisition, Stonetrust Commercial Mutual Holding Insurance Company, was converted into a stock holding company pursuant to a Plan of Conversion and Reorganization filed with the Louisiana Department of Insurance.

The total consideration for the Acquisition was \$35 million including an amount due to a former stockholder as explained below, of which \$24 million was allocated to the purchase price of all of the authorized shares of capital stock of Stonetrust Holding Company ("Stonetrust Holding") and its subsidiaries (including SCIC and SR), and \$11 million was allocated to the purchase price of all of the issued and outstanding membership interests of SMS.

In addition to the \$35 million of consideration, the Company also contributed \$30 million to Stonetrust Holding for the benefit of Stonetrust (the "Capital Contribution"). The Capital Contribution was made simultaneously with the closing of the transaction.

The purchase consideration for Stonetrust companies was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the acquisition date. Goodwill amounting to \$2,427,047 was recognized equal to the excess of the purchase price over the net fair value of identifiable assets acquired and liabilities assumed. Factors contributing to the recognition of goodwill include strategic and synergistic benefits that are expected to be realized as a result of the acquisition. These benefits include insurance market diversification.

As part of the acquisition of Stonetrust, the Company agreed to pay \$2.2 million to a former Stonetrust stockholder. This amount will be paid in 220,000 partnership units of Dhandho Holdings Qualified Purchaser LP ("Qualified Purchaser"), one of the Company's stockholders. In consideration for the partnership units issued by Qualified Purchaser, the Company will issue 14.4546 common shares with an estimated value of \$2.2 million to Qualified Purchaser. The partnership units that will be issued to the Stonetrust former stockholder are subject to certain hold back provisions and are subject to certain future events as defined in the Acquisition agreement.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

In accordance with the Acquisition agreement the partnership units will be issued to the Stonetrust former stockholder as follows:

<u>Date</u>	<u>Number of Units</u>	<u>Valued NAV of \$10/unit</u>
January 1, 2015	70,000	\$ 700,000
December 31, 2015	50,000	500,000
December 31, 2016	50,000	500,000
December 31, 2017	50,000	500,000
Total	<u>220,000</u>	<u>\$ 2,200,000</u>

On January 1, 2015 Qualified Purchaser issued 70,000 partnership units to the Stonetrust former stockholder with a value of \$700,000. In consideration for this payment the Partnership received 4.60 common shares of DHC with a value of \$700,000.

The Company exercised its hold back rights with respect to the partnership units to be issued on December 31, 2015 because certain of the representations made by the former Stonetrust stockholder did not materialize. Since these partnership units will not be issued in the future, the Company re-evaluated the fair value of the Stonetrust net assets acquired resulting in a decrease in goodwill of \$500,000.

The partnership units to be issued in calendar years 2016 and 2017 are subject to the same hold back provisions which will be evaluated at the end of such years. The value of these partnership units amounts to \$1 million at December 31, 2015 and is included as amount payable to former stockholder of Stonetrust companies in the accompanying consolidated balance sheet.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. INVESTMENTS

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of investment securities available-for-sale by major security type as of December 31, 2015 are as follows:

	2015			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Loss	
U.S. Treasury securities and obligations of U.S. Government Corporation and agencies	\$ 1,719,942	\$ 9,468	\$ (333)	\$ 1,729,077
State and political subdivisions	21,815,575	720,713	(6,693)	22,529,595
Industrial and miscellaneous	17,843,920	20,083	(1,920,088)	15,943,915
Mortgage-backed securities	4,903,960	30,977	(147,760)	4,787,177
Total bonds	<u>46,283,397</u>	<u>781,241</u>	<u>(2,074,874)</u>	<u>44,989,764</u>
Common stocks	87,442,182	5,793,250	(5,402,870)	87,832,562
Preferred stocks	9,147,253	93,129	(215,910)	9,024,472
	<u>96,589,435</u>	<u>5,886,379</u>	<u>(5,618,780)</u>	<u>96,857,034</u>
Total	<u>\$ 142,872,832</u>	<u>\$ 6,667,620</u>	<u>\$ (7,693,654)</u>	<u>\$ 141,846,798</u>

The gross unrealized losses and estimated fair value pertaining to investment securities available-for-sale that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more, are as follows:

	December 31, 2015			
	Less Than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government Corporations and Agencies	\$ (333)	\$ 149,942	\$ -	\$ -
State and political subdivisions	(5,697)	1,111,745	(996)	98,146
Industrial and miscellaneous	(1,920,088)	14,898,626	-	-
Mortgage-backed securities	(47,640)	3,107,232	(100,120)	830,146
Total bonds	<u>(1,973,758)</u>	<u>19,267,545</u>	<u>(101,116)</u>	<u>928,292</u>
Common stocks	(5,399,264)	52,896,796	(3,567)	3,182
Preferred stocks	(215,949)	4,927,723	-	-
Total	<u>\$ (7,588,971)</u>	<u>\$ 77,092,064</u>	<u>\$ (104,683)</u>	<u>\$ 931,474</u>

The amortized cost of bonds and notes as of December 31, 2015 has been reduced by net amortization of premiums of \$248,408 to derive the amortized cost of bonds and notes in the accompanying consolidated financial statements.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

The assessment of other-than-temporary impairment is performed periodically. Factors considered in determining whether a loss is temporary include the length of time and the extent to which fair value has been below cost, the severity of the impairment, the cause of the impairment and the financial condition and near-term prospects of the issuer, activity in the market of the issuer which may indicate adverse credit conditions, and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Company's review for impairment generally entails identification and evaluation of investments that have indications of possible impairment; analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period; discussion of evidential matter, including and evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and documentation of the results of these analyses.

For equity securities, management considers the various factors described above, including its intent and ability to hold the equity security for a period of time sufficient for recovery to amortized cost. Where management lacks the intent or ability, the security's decline in fair value is deemed to be other-than-temporary and is recorded in earnings. During the year ended December 31, 2015, the Company recorded other-than-temporary impairment adjustments for equity securities of \$15,436,954.

For debt securities that are not deemed to be credit impaired, management performs additional analysis to assess whether it intends to sell or more-likely-than-not would be required to sell the investment before the expected recovery of the amortized cost basis. In most cases, management has asserted that it has no intent to sell and that it believes it is more-likely-than-not that it will not be required to sell the investment before recovery of its amortized cost basis.

For debt securities, a critical component of the evaluation for other-than-temporary impairments is the identification of credit impaired securities where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. During the year ended December 31, 2015, the Company recorded an impairment charge of \$166,122, related to certain debt securities.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

The amortized cost and estimated fair values of investment securities as of December 31, 2015, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage backed securities provide for periodic payments throughout their lives so they are listed in a separate category.

	2015	
	Amortized Cost	Estimated Fair Value
Due in 1 year or less	\$ 15,525,808	\$ 15,298,417
Due after 1 year through 5 years	13,059,929	11,890,317
Due after 5 years through 10 years	9,092,453	9,069,773
Due after 10 years through 20 years	2,989,609	3,160,307
Due after 20 years	711,638	783,773
	<u>41,379,437</u>	<u>40,202,587</u>
Mortgage-backed securities	<u>4,903,960</u>	<u>4,787,176</u>
	<u>\$ 46,283,397</u>	<u>\$ 44,989,763</u>

In accordance with regulatory provisions, the Company has pledged bonds with a fair market value of \$3,248,795 to various regulatory agencies as of December 31, 2015. Additionally, at December 31, 2015, the Company has pledged bonds with a fair market value of \$500,679, as collateral as required by the Company's counterparty in relation to the interest rate swap transaction described in Note 13.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Components of net investment income were as follows for each of the year ended December 31, 2015:

	<u>2015</u>
Interest on bonds	\$ 1,321,807
Dividends on equity securities	798,731
Interest on short-term investments, cash, and other	<u>21,812</u>
	2,142,350
Less: investment expenses	<u>(436,037)</u>
Net investment income	<u>\$ 1,706,313</u>

4. FAIR VALUE MEASUREMENT

The following table provides information as of December 31, 2015, about the Company's financial assets measured at fair value at the reporting date:

	<u>2015</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Treasury securities and obligations of U.S. Government Corporations and Agencies	\$ -	\$ 1,729,077	\$ -
State and political subdivisions	-	22,529,595	-
Industrial and miscellaneous	-	15,943,915	-
Mortgage-backed securities	-	<u>4,787,176</u>	-
Total bonds	<u>\$ -</u>	<u>\$ 44,989,763</u>	<u>\$ -</u>
Common stocks	<u>\$ 87,832,562</u>	<u>\$ -</u>	<u>\$ -</u>
Preferred stocks	<u>\$ 8,924,472</u>	<u>\$ -</u>	<u>\$ 100,000</u>
Derivative instrument - liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (134,421)</u>

The Company's investments in common stock and preferred stock are exchanged-listed stocks that are actively traded. Unadjusted quoted prices for these securities are provided to the Company principally by independent pricing services that meet Level 1 criteria. In addition, the Company has certain preferred stocks, which are not actively traded and therefore are included in Level 3.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

The Company's available for sale debt securities are carried on a recurring basis at estimated fair value and are obtained from independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. These securities are considered Level 2.

The Company's derivative instruments are measured on a recurring basis through a model used by the primary lender. These instruments are considered Level 3 as they are valued using a discounted cash flow model.

The change in carrying values associated with Level 3 financial instruments for the year ended December 31, 2015, are as follows:

Only Level 3 Instruments - December 31, 2015							
	Balance at January 1, 2015	Purchases	Sales/Calls Redemptions	Realized Gain	Unrealized Gain/(Loss)	Transfers in and/or Out of Level 3	Balance at December 31, 2015
Preferred stock	\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ 100,000
Interest Rate Swap	\$ (99,263)	\$ -	\$ -	\$ -	\$ (35,158)	\$ -	\$ (134,421)

Significant Unobservable Input

The table below presents qualitative information for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2015.

Fund	2015		
	Fair Value	Valuation Technique	Unobservable Input
Interest Rate Swap	\$ (134,421)	Discounted cash flow	Not applicable
Preferred stock	\$ 100,000	Acquisition cost	Not applicable



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments at December 31, 2015.

	2015	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 42,426,761	\$ 42,426,761
Bonds	\$ 44,989,764	\$ 44,989,764
Common stocks	\$ 87,832,562	\$ 87,832,562
Preferred stocks	\$ 9,024,472	\$ 9,024,472
Premiums receivable, net	\$ 20,485,286	\$ 20,485,286
Note and mortgage payable	\$ 5,976,561	\$ 5,976,561
Derivative instrument - liability	\$ (134,421)	\$ (134,421)

The following methods were used to estimate the fair value of all other financial instruments:

Cash and cash equivalents - carrying values of cash and cash equivalents approximates fair values.

Bonds - fair values are obtained from independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows.

Common and preferred stocks - fair values generally represent quoted market prices for the securities.

Derivative instruments - interest rate swap is valued using discounted cash flows models.

Note and mortgage payable - carrying value reported in the consolidated balance sheets for these financial instruments approximates fair value due to the variable interest rate.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

5. CASH AND SHORT-TERM INVESTMENTS

As of December 31, 2015, cash and cash equivalents consists of the following:

	<u>2015</u>
Overnight and demand deposits	\$ 14,797,472
Money market funds	<u>27,629,289</u>
Total cash and cash equivalents	<u>\$ 42,426,761</u>

6. PROPERTY AND EQUIPMENT

As of December 31, 2015, property and equipment consisted of the following:

	<u>2015</u>	
	<u>Estimated Useful</u>	
	<u>Life (in years)</u>	<u>Amount</u>
Building	39	\$ 3,629,659
Building improvements	5-7	677,267
Informations systems	5	3,059,646
Office and computer equipments	3-7	257,204
Less: accumulated depreciation and amortization		<u>(625,878)</u>
Net depreciable assets		6,997,898
Land		930,274
Construction in process		43,093
Total		<u>\$ 7,971,265</u>

Construction-in-progress consists of construction cost incurred in connection with improvements to the rental properties which are deferred until completed and put in service. Upon completion and placed in service they are reclassified to rental property and depreciation over its useful life. During the year ended December 31, 2015, the Company wrote-off \$527,427 of architect fees recorded as construction in process for improvements that management decided not to complete.

Depreciation expense for the period ended December 31, 2015 amounted to \$625,281.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

7. DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs represent those costs that are incremental and directly related to the successful acquisition of new or renewal of existing insurance contracts. The Company defers incremental costs that result directly from the acquisition or renewal of an insurance contract. These costs are deferred and expensed over the life of the related policies. Major categories of the Company's deferred policy acquisition costs are as follows:

	<u>2015</u>
Agents' commissions	\$ 814,195
Premium related taxes and assessments	<u>842,254</u>
Total deferred policy acquisition costs	<u>\$ 1,656,449</u>

The following summarizes the activity in the deferred policy acquisition costs:

	<u>2015</u>
Balance, beginning of year	\$ 1,669,482
Policy acquisition costs deferred	6,655,685
Amortization during the year	<u>(6,668,718)</u>
Balance, end of year	<u>\$ 1,656,449</u>

8. OTHER INTANGIBLE ASSETS

The following table reflects the components of other intangible assets as of December 31, 2015:

	<u>2015</u>		
	<u>Gross</u>		<u>Net</u>
	<u>Carrying</u>	<u>Accumulated</u>	<u>Carrying</u>
	<u>Amount</u>	<u>Amortization</u>	<u>Amount</u>
Definite-lived intangible asset - Distribution channel	<u>\$ 4,724,446</u>	<u>\$ (472,445)</u>	\$ 4,252,001
Indefinite-lived intangible asset - Tradenames			<u>1,044,349</u>
Total intangible assets			<u>\$ 5,296,350</u>



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

The following table represents the total estimated amortization of intangible assets with definite lives for each of the next five (5) years:

Year Ending December 31,	Amount
2016	\$ 472,445
2017	472,445
2018	472,445
2019	472,445
2020	472,445
Thereafter	1,889,776
	<u>\$ 4,252,001</u>

As of December 31, 2015, the weighted average remaining life of the intangible assets is approximately 9 years. No significant events or circumstances have occurred that would reduce the fair value of the reporting unit below its carrying amount.

9. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Unpaid losses and loss adjustment expenses at December 31, 2015 consists of the following:

	<u>2015</u>
Unpaid losses	\$ 59,716,565
Unpaid loss adjustment expenses	<u>5,791,404</u>
Total	<u>\$ 65,507,969</u>



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Activity in the liability for unpaid losses and loss adjustment expenses (LAE) is summarized as follows as of December 31, 2015:

	<u>2015</u>
Reserves for loss and LAE, gross - at January 1	\$ 53,500,227
Amounts recoverable from reinsurers on unpaid losses	<u>3,041,461</u>
Reserves for loss and LAE, net - at January 1	<u>50,458,766</u>
Net incurred related to:	
Current year	38,009,369
Prior years	<u>5,852,030</u>
Total incurred	<u>43,861,399</u>
Net paid related to:	
Current year	9,529,523
Prior years	<u>21,765,276</u>
Total incurred	<u>31,294,799</u>
Reserves for loss and LAE, net - at December 31	63,025,366
Amounts recoverable from reinsurers on unpaid losses	<u>2,482,603</u>
Reserves for loss and LAE, gross - at December 31	<u>\$ 65,507,969</u>

The estimated cost of loss and LAE attributable to insured events of prior years' increased by \$5,852,030 during 2015. Increases or decreases of this nature occur as the result of claim settlements during current year and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of unpaid losses and LAE.

SCIC has purchased annuities from life insurers under which claimants are payees under structured settlement agreements. These annuities have been used to reduce unpaid losses by approximately \$1,622,000 as of December 31, 2015. SCIC remains liable should the insurers of these annuities fail to perform under the terms of the annuities.

The liability for unpaid losses and loss adjustment expenses as of December 31, 2015 was reviewed by SCIC's internal actuary who concluded that such amounts were reasonable to cover SCIC's obligation for all unpaid losses and loss adjustment expenses.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

10. SECURITY DEPOSITS

Security deposits are additional funds available to satisfy policyholder obligations to the Company, if necessary, and are non-interest bearing and refundable upon termination from the Company after all expenses are settled for the policyholder. As of December 31, 2015, policyholder security deposits amount to \$1,998,136.

11. REINSURANCE ACTIVITY

A Summary of SCIC's reinsurance arrangements follows:

<u>Period Covered</u>	<u>Company Retention</u>	<u>Per Loss Occurrence Coverage</u>
12/01/00 - 3/31/02	\$500,000	Statutory in excess of \$500,000
4/01/02 - 3/31/03	See Below	See Below
4/01/03 - 3/31/04	See Below	See Below
4/01/04 - 3/31/05	500,000	\$9,500,000 in excess of \$500,000
4/01/05 - 12/31/05	500,000	\$14,500,000 in excess of \$500,000
1/01/06 - 12/31/06	750,000	\$14,250,000 in excess of \$750,000
1/01/07 - 12/31/07	1,000,000	\$14,000,000 in excess of \$1,000,000
1/01/08 - 12/31/08	1,000,000	\$49,000,000 in excess of \$1,000,000
1/01/09 - 12/31/09	750,000	\$49,250,000 in excess of \$750,000
1/01/10 - 12/31/10	1,000,000	\$99,000,000 in excess of \$1,000,000
1/01/11 - 12/31/11	1,000,000	\$49,000,000 in excess of \$1,000,000
1/01/12 - 12/31/12	1,000,000	\$29,000,000 in excess of \$1,000,000
1/01/13 - 12/31/13	750,000	\$29,250,000 in excess of \$750,000
1/01/14 - 12/31/14	750,000	\$39,250,000 in excess of \$750,000
1/01/15 - 12/31/15	750,000	\$39,250,000 in excess of \$750,000

SCIC entered into a reinsurance treaty providing coverage effective April 1, 2002 through March 31, 2003, for an initial layer of 50% of \$500,000 in excess of \$500,000 per occurrence and an additional layer of \$9,000,000 in excess of the first \$1,000,000 layer.

SCIC entered into reinsurance treaties providing coverage effective April 1, 2003 through March 31, 2004, for a specific layer of \$750,000 in excess of \$250,000 per occurrence limited to the SCIC's retention of the greater of \$1,000,000 or 7.15% of gross net earned premium and an additional layer for the same period of \$9,000,000 in excess of the first \$1,000,000 layer.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

The reinsurance contracts do not relieve SCIC from its obligations to policyholders. SCIC evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. As of December 31, 2015, SCIC has approximately \$2,482,603 of reinsurance recoverables based on its actuarially determined ultimate losses and loss adjustment expenses payable, which are unsecured. As of December 31, 2015, amounts due from reinsurers for claims actually paid were \$36,710.

The effects of reinsurance on premiums written and earned for 2015 are as follows:

	2015	
	Written	Earned
Direct	\$ 59,856,939	\$ 61,734,758
Assumed - assigned risk pools	971,954	971,772
Ceded	(3,327,677)	(3,327,677)
Net	<u>\$ 57,501,216</u>	<u>\$ 59,378,853</u>

As of December 31, 2015, SCIC has unsecured aggregate reinsurance recoverables amounting to \$2,217,000, for unpaid losses and loss adjustment expenses from authorized reinsurers that exceed 3% of policyholders' surplus.

12. DUE FROM RELATED PARTIES

The Company regularly enters into transactions with related parties, at terms and conditions agreed upon by management of the Company and related parties. These amounts are payable and received in the normal course of business and related to operating transactions and cash flows needs. As of December 31, 2015, the Company due from (to) related parties was as follows:

	Due From	Due To	Total
Dhandho Holdings, L.P.	\$ 251	\$ (20,000)	\$ (19,749)
Dhandho Funds	630,275	-	630,275
Total due from/(to) related parties	<u>\$ 630,526</u>	<u>\$ (20,000)</u>	<u>\$ 610,526</u>

The balance is non-interest bearing and has no specific repayment terms.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

13. NOTE AND MORTGAGE PAYABLE

Note and mortgage payable at December 31, 2015 consist of:

	<u>2015</u>
Note payable	\$ 4,000,000
Mortgage payable	1,976,561
Total	<u>\$ 5,976,561</u>

On December 14, 2006, SCIC issued a surplus note in the amount of \$4,000,000 in exchange for cash. The note was underwritten by FIN Financial Capital Markets and is administered by Wilmington Trust Company as registrar/paying agent. Each payment of principal and interest may be made only with the prior approval of the Louisiana Insurance Department and only to the extent SCIC has sufficient surplus to make such payment. In the event of a liquidation proceeding, holders of indebtedness, policy claims and prior claims would have greater priority under both the Liquidation Act and terms of the note and, accordingly, would have the right to be paid in full before any payments of interest and principal are made to note holders.

The terms of the surplus note are as follows:

Date Issued:	December 14, 2006
Interest rate:	Fixed at 8.9% until December 15, 2011 (3 month LIBOR + 4.0% floating rate thereafter)
Carrying value of note:	\$ 4,000,000
Date of maturity:	December 15, 2036

On December 15, 2011, SCIC entered into an interest rate swap agreement in connection with the note payable. The swap has a notional amount of \$4,000,000 used to minimize the interest rate exposure on the Floating Rate Surplus Note. The interest swap is used to fix the variable interest rate on the associated debt. The agreement provides for quarterly settlements with maturity date on September 15, 2021. The interest rate to be received on this swap agreement is the 90 days LIBOR plus 4%, (4.51% as of December 31, 2015) and the fixed interest rate to be paid is 6.36%.

As of December 31, 2015, the fair value of this instrument is \$134,421 and is presented as a liability in the accompanying consolidated balance sheet.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

The mortgage is due in 59 monthly installments of \$15,366 including interest at 4.5% and a final payment of \$1,493,743. The mortgage note is collateralized by land and commercial building owned by SR. Future maturities of the mortgage payable during the next years follow:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ 95,969
2017	100,694
2018	105,386
2019	110,296
2020	1,564,216
Total	<u>\$ 1,976,561</u>

14. EMPLOYEES' SAVINGS PLAN

SCIC sponsors a defined contribution 401(K) plan, which covers all employees who are at least 21 years of age and has six (6) months of service with the SCIC. SCIC contributes 3% of eligible employees compensation into the plan and has the option to contribute additional amounts, if so decided. For the year ending December 31, 2015, SCIC contributed \$165,981 to the plan.

15. RENTAL INCOME

SR's main activity consists of leasing its real estate facilities to third parties and to SCIC under operating lease agreements. The leases are generally for a period of five (5) years with an option to renew for an additional period. Rental income earned from tenants during the year ended December 31, 2015 amounted to \$507,072, including \$147,655 from SCIC.

FASB's authoritative guidance on Leases requires rental income to be recorded on a straight-line basis over the non-cancellable terms of the leases. Certain lease agreements contain escalation clauses. Tenant receivable at December 31, 2015 includes \$9,113 for the difference between rental income billed under the contractual terms and the revenue recognized on the straight-line basis.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Future rental commitment under the operating leases as of December 31, 2015 follows:

Year Ending December 31,	Amount
2016	\$ 476,905
2017	448,506
2018	263,946
2019	80,070
2020	80,070
Thereafter	233,538
	<u>\$ 1,583,035</u>

16. INCOME TAXES

FASB issued authoritative guidance on accounting for uncertainty in income taxes that prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken on income tax returns. Under the authoritative accounting guidance, income tax benefits are recognized and measured based upon a two-step model: 1) a tax position must be more likely than not to be sustained based solely on its technical merits in order to be recognized, and 2) the benefit is measured as the largest dollar amount of that position that is more likely than not to be sustained upon settlement. The difference between the benefit recognized in accordance with this model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit. No adjustment was required upon adoption of this accounting guidance.

The Company and its subsidiaries are subject to routine audits by the Puerto Rico and U.S. taxing agencies; however, there are currently no audits for any tax periods in progress. The Company and its subsidiaries remain subject to income tax examinations for Puerto Rico and U.S. income taxes generally for calendar years 2013 through 2015.

DHC operates under the provisions of a Tax Exemption Agreement from the Commonwealth of Puerto Rico signed on November 21, 2014 as amended. Under the provisions of the Tax Exemption Agreement, DHC was granted a partial tax exemption from certain Puerto Rico taxes, including income taxes, and municipal taxes, among others applicable to its consulting and investment income and eligible property. The exemption period is twenty (20) years. All income generated from the eligible activity is taxed for income tax purpose at a flat rate of 4%. The percentage of exemption for municipal license taxes is 60%.

DHC has other subsidiaries organized under the laws of the Commonwealth of Puerto Rico. These subsidiaries are limited liability companies ("LLC"), which are exempt from taxes; the earnings that are subject to tax liability pass-through to the sole stockholder, DHC.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

The Component of income tax expense for the year ended December 31, 2015, are as follows:

	<u>2015</u>
Federal:	
Current	\$ (1,364,414)
Deferred	(97,906)
U.S. State	(250,954)
Total	<u>\$ (1,713,274)</u>

For federal income tax purposes, SMS is treated as a partnership. All profits and losses are passed through to the sole stockholder.

As of December 31, 2015, the Company's net deferred tax asset consists of the following components:

	<u>2015</u>
Deferred tax asset:	
Unearned and advance premium	\$ 1,648,012
Discounting of unpaid losses and LAE	1,000,672
Other than temporary impairment	949,605
Allowance for doubtful accounts	194,276
Unrealized loss in investments	936,752
Capital loss carryforward	511,084
Tax loss carryforward	838,085
Other	181,015
Gross deferred tax assets	<u>6,259,501</u>
Valuation allowance	(2,437,523)
Gross deferred tax assets after valuation allowance	<u>3,821,978</u>
Deferred tax liability:	
Deferred policy acquisition costs	563,193
Property and equipment	390,349
Other	20,340
Gross deferred tax liabilities	<u>973,882</u>
Deferred tax asset, net	<u>\$ 2,848,096</u>



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

U.S. GAAP requires the Company to evaluate the recoverability of its deferred tax assets and establish a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (a likelihood of more than 50%). In making this evaluation, the Company is required to consider all available evidence, both positive and negative, including objectively verifiable evidence of taxable income in the immediate ensuing years. At December 31, 2015 management recorded a valuation allowance of \$2,437,523.

DHC and its subsidiaries have carryforward losses available for reduce future taxable income in Puerto Rico and United States of America as follows:

	<u>Amount</u>	<u>Expiration Date</u>
U.S. Federal Tax:		
Ordinary tax loss	\$ 1,863,000	2035
Capital loss	\$ 1,309,000	2020
 Puerto Rico:		
Ordinary tax loss	\$ 1,002,000	2022
Capital loss	\$ 1,649,000	2022

The Company recognizes any interest and penalties related to uncertain tax positions in income tax expense; however, there were none during the year ended December 31, 2015.

17. EQUITY AND STATUTORY RESULTS

A comparison of U.S. GAAP and statutory net income and total equity of SCIC as of and for the year ended December 31, 2015, is as follows:

	<u>2015</u>	
	<u>U.S. GAAP</u>	<u>Statutory</u>
Net loss -		
Year ended December 31, 2015	<u>\$ (3,878,045)</u>	<u>\$ (3,991,660)</u>
 Total equity/capital and surplus -		
December 31, 2015	<u>\$ 48,656,689</u>	<u>\$ 48,431,657</u>

SCIC is required by the State of Louisiana Department of Insurance to maintain a minimum capital and surplus of \$5,000,000 and is required to obtain prior approval from the State of Louisiana Department of Insurance to pay dividends or any other distributions to its shareholders.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

The Louisiana Department of Insurance also imposes minimum risk-based capital requirements that were developed by the National Association of Insurance Commissioner (“NAIC”). The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of the enterprise’s regulatory total adjusted capital, also defined by the NAIC. Enterprises below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. At December 31, 2015, SCIC’s calculation indicated that it exceeded the minimum risk-based capital requirements.

18. COMMITMENTS AND CONTINGENCIES

Commitments

On December 18, 2014, the Company entered into a lease agreement with an unrelated third party for their administrative office facilities for a period of three (3) years commencing January 1, 2015 and ending on December 31, 2017. Rent expense for the year ended December 31, 2015 amounted to \$36,725.

The future minimum rental commitments under the term of the lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ 25,780
2017	26,912
	<u>\$ 52,692</u>

The Company has a commitment to invest \$10 million in Tandem Fund III, L.P. a private limited liability partnership of which \$2 million are invested at December 31, 2015.

As of December 31, 2015, SR has commitments under construction contracts amounting to \$392,920.

Contingencies

Losses and loss adjustment expenses payable consist of case based estimates of the likely loss exposure to SCIC from all known and open claims, including incurred but not reported (“IBNR”) attributable to open years. Such estimates are made by SCIC based on an actuarial study prepared SCIC internal actuary, using comparative payment histories after evaluating the nature of the claimants’ injuries. The estimate of the total incurred loss is continually revised as additional information becomes available.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Management believes the provision for losses and loss adjustment expenses payable as of December 31, 2015 is adequate to cover the ultimate liabilities. However, it is more than reasonably possible that a change in these estimates will occur in the near term and that the amount ultimately paid may prove to be more or less than the current estimates of liability and that difference may be significant.

SCIC is subject to guaranty fund and other assessments. In the case of premium-based assessments and loss-based assessments, the assessment is accrued either at the time the premiums were written or at the time losses are incurred. SCIC has accrued a liability for guaranty fund and other assessments of \$3,684,268 at December 31, 2015. The liability is included in the taxes, licenses and fees liability. The asset is included in the guaranty funds receivable or on deposit asset and is expected to be realized over the next seven years. The amounts represent management's best estimates based on current information and may change due to many factors, including SCIC's share of the ultimate cost of insolvencies and changes in the assessment rates.

Lawsuits arise against the Company in the normal course of business. Contingent liabilities arising from litigation and other matters are not considered material in relation to the financial position of the Company.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued April 26, 2016, and determined that no events occurred that required further disclosure, other than the matter described below.

As described in Note 3, on January 2016, the Company sold certain equity securities and realized a loss of \$14,518,134. This loss was recorded as other-than-temporary loss during the year ended December 31, 2015.

On April 6, 2016, the Governor of the Commonwealth of Puerto Rico ("Commonwealth") signed into law Act 21 known as "Puerto Rico Emergency Moratorium and Financial Rehabilitation" ("the Act"). The Act has four primary objectives:

- 1) Authorizes the Governor to declare a moratorium on debt service payments for a temporary period as defined in the Act for the debt of the Commonwealth of Puerto Rico, the Government Development Bank ("GDB"), the Economic Development Bank for Puerto Rico ("EDB"), public corporations or any other government instrumentalities.
- 2) Amends GDB's Enabling Act to include provisions for the appointment of a trustee for the GDB, and create bridge bank provisions and related procedures that are intended to provide an alternative to GDB's liquidation and resolution under existing law.



DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

- 3) Amends the enabling Act of the EDB and provide updated receivership provisions, clarifies the receiver's powers, and establish priority of expenses and unsecured claims in a receivership.
- 4) Creates the Fiscal Agency and Financial Authority. This will be structured as an independent public corporation and public instrumentality of the Commonwealth with a board of directors of which one member is appointed by the Governor. The main purpose of the Authority is to act as fiscal agent, financial advisor and reporting agent of the Commonwealth and its public corporations, instrumentalities, municipalities and political subdivisions and to assist such entities with the fiscal and economic emergency of the Commonwealth. The Authority will also oversee all matters related to the restructuring or adjustment of any covered obligation, or otherwise coordinate and implement liability management transactions for any covered obligation.

The Act became effective immediately after its approval by the Governor of Puerto Rico and its provision remains in effect until January 2017.

As of December 31, 2015 the Company has investments in certain bonds of the Commonwealth of Puerto Rico amounting to approximately \$337,499. These bonds were considered impaired at December 31, 2015 and therefore their cost was written down to their market value at such date. However due to the provisions of the Act as explained above the future collection of the scheduled debt service payments of the bonds is uncertain at the date of the issuance of the financial statements.