Amtrust Financial Services, Inc.
Form 10-K
April 04, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to .
Commission File Number: 001-33143

AMTRUST FINANCIAL SERVICES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	04-3106389
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
59 Maiden Lane, 43rd Floor New York, New York	10038
(Address of Principal Executive Offices)	(Zip Code)

(212) 220-7120
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, $0.01 par value per share	The NASDAQ Stock Market LLC
Series A Preferred Stock, $0.01 par value per share	New York Stock Exchange, Inc.
Depositary Shares, each representing 1/40th of a share of 7.25% Non-Cumulative Preferred Stock, Series B	New York Stock Exchange, Inc.
Depositary Shares, each representing 1/40th of a share of 7.625% Non-Cumulative Preferred Stock, Series C	New York Stock Exchange, Inc.
Depositary Shares, each representing 1/40th of a share of 7.50% Non-Cumulative Preferred Stock, Series D	New York Stock Exchange, Inc.
Depository Shares, each representing 1/40th of a share of 7.75% Non-Cumulative Preferred Stock, Series E	New York Stock Exchange, Inc.
Depository Shares, each representing 1/40th of a share of 6.95% Non-Cumulative Preferred Stock, Series F	New York Stock Exchange, Inc.
7.25% Subordinated Notes due 2055	New York Stock Exchange, Inc.
7.50% Subordinated Notes due 2055	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer o	Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
As of June 30, 2016, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the common stock held by non-affiliates was $1,971,230,482.
As of March 24, 2017, the number of common shares of the registrant outstanding was 171,077,584.
Documents incorporated by reference: Portions of the Proxy Statement for the 2017 Annual Meeting of Stockholders of the registrant to be filed subsequently with the SEC are incorporated by reference into Part III of this report.

Explanatory Note

As previously disclosed, on March 14, 2017, the Audit Committee of our Board of Directors, in consultation with management and our current and former independent registered public accounting firms, concluded that our previously issued Consolidated Financial Statements for fiscal years 2015 and 2014, along with each of the four quarters included in fiscal year 2015 as well as the first three quarters of fiscal year 2016, needed to be restated.

Accordingly, within this report, we have included restated audited results as of and for the years ended December 31, 2015 and 2014, as well as restated unaudited quarterly financial data for fiscal year 2015 and the first three quarters of 2016, which we refer to as the "Restatement." Our consolidated financial statements as of and for the years ended December 31, 2015 and 2014 included in this report have been restated from the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015. In Note 3. "Restatement of Previously Issued Consolidated Financial Statements," we have included information regarding the Restatement and specific changes to our previously issued financial statements. Additionally, in Note 29. "Quarterly Financial Data (Unaudited)," we have included restated unaudited interim financial data for the four quarters included in fiscal year ended 2015 and the first three quarters of 2016. In each case, we have also provided details of the adjustments to the previously issued financial information as a result of the Restatement.

Background of the Restatement

The restatement of our financial statements and related disclosures primarily relates to the correction of two errors reported in our historical consolidated financial statements. In accordance with accounting guidance presented in ASC 250-10 and SEC Staff Accounting Bulletin No. 99, Materiality, management assessed the materiality of these errors and concluded that they were material to the Company's previously issued financial statements. The two primary errors relate to: (1) upfront recognition of the portion of warranty contract revenue associated with administration services, instead of recognizing the revenue over the life of the contract, and (2) bonuses that were expensed in the year paid but that should have been accrued as earned based on ASC 270, Interim Reporting and ASC 450, Contingencies. We also identified other adjustments described in Note 3. “Restatement of Previously Issued Consolidated Financial Statements” that we have corrected as part of this Restatement.

The impact of the Restatement on the Consolidated Statements of Income primarily resulted in decreased service and fee income, increased acquisition costs and other underwriting expenses, and decreased interest expense, which ultimately resulted in decreases to net income. The impact of the Restatement on the Consolidated Balance Sheets primarily resulted in an increase of premiums receivable and other assets, a reduction of deferred policy acquisition costs and property plant and equipment, an increase in accrued expenses and other liabilities, and a decrease in shareholders’ equity. The impact of the Restatement adjustments on the Consolidated Statements of Cash Flows resulted in an increase of net cash provided by operating activities in both 2015 and 2014, an increase of net cash provided by investing activities in 2015 and 2014, and a decrease in net cash provided by financing activities in 2015 and 2014.

The Restatement presents the effect of an adjustment to opening retained earnings as of January 1, 2014, which adjustment reflects the impact of the Restatement on periods prior to 2014. The cumulative effect of those adjustments decreased previously reported stockholders' equity by $88.4 million as of December 31, 2013.

We have not amended our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the Restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Annual Report on Form 10-K, and the financial statements and related financial information contained in such previously filed reports should no longer be relied upon. We intend to amend our Forms 10-Q for the quarterly periods ended March 31, June 30, September 30, 2015 and 2016 to reflect the restatement adjustments applicable to the periods presented therein.

Internal Control Considerations

As previously disclosed, in assessing the effectiveness of our internal control over financial reporting as of December 31, 2016, management identified certain material weaknesses. Specifically, management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2016 due to ineffective assessment of the risks of material misstatement in financial reporting and insufficient resources in our corporate accounting and corporate financial reporting groups. The foregoing control deficiencies contributed to the restatement of our consolidated financial statements for fiscal years 2015 and 2014, and our unaudited quarterly financial information for each of the four quarters in fiscal year 2015 and for the first three quarters in fiscal year 2016. As a result of these deficiencies, we now believe our internal control over financial reporting was not effective as of December 31, 2015. For a description of the material weaknesses identified by management and management's plan to remediate such material weaknesses, see Part II, Item 9A. "Controls and Procedures."

Additional information on the Restatement can be found in the following sections of this report:

- Item 1A. “Risk Factors”;
- Item 6. “Selected Financial Data”;
- Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations”;
- Item 8. “Financial Statements and Supplementary Data”, including Note 3. “Restatement of Previously Issued Consolidated Financial Statements” and Note 29. “Quarterly Financial Data (Unaudited)”; and
- Item 9A. “Controls and Procedures.”

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AMTRUST FINANCIAL SERVICES, INC.

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PART I

Note on Forward-Looking Statements

This Form 10-K contains certain forward-looking statements that are intended to be covered by the safe harbors created by The Private Securities Litigation Reform Act of 1995. When we use words such as “anticipate,” “intend,” “plan,” “believe,” “estimate,” “expect,” or similar expressions, we do so to identify forward-looking statements. Examples of forward-looking statements include the plans and objectives of management for future operations, including those relating to future growth of our business activities and availability of funds, projections of the impact of potential errors or misstatements in our financial statements, estimates of the impact of material weaknesses in the internal control over financial reporting, and the anticipated timing of filings of restated financials and periodic SEC filings, and are based on current expectations that involve assumptions that are difficult or impossible to predict accurately and many of which are beyond our control. Actual results may differ materially from those expressed or implied in these statements as a result of significant risks and uncertainties, including, but not limited to, non-receipt of expected payments from insureds or reinsurers, changes in interest rates, a downgrade in the financial strength ratings of our insurance subsidiaries, the effect of the performance of financial markets on our investment portfolio, the amounts, timing and prices of any share repurchases made by us under our share repurchase program, development of claims and the effect on loss reserves, accuracy in projecting loss reserves, the cost and availability of reinsurance coverage, the effects of emerging claim and coverage issues, changes in the demand for our products, our degree of success in integrating acquired businesses, the effect of general economic conditions, state and federal legislation, regulations and regulatory investigations into industry practices, the impact of known or potential errors or misstatements in our financial statements, our ability to timely and effectively remediate the material weaknesses in our internal control over financial reporting discussed herein and implement effective internal control over financial reporting and disclosure controls and procedures in the future, our ability to regain compliance with Nasdaq and NYSE continued listing standards and rules, risks associated with conducting business outside the United States, the impact of Brexit, developments relating to existing agreements, disruptions to our business relationships with Maiden Holdings, Ltd. or National General Holdings Corp., breaches in data security or other disruptions with our technology, heightened competition, changes in pricing environments, and changes in asset valuations. Additional information about these risks and uncertainties, as well as others that may cause actual results to differ materially from those projected, is contained in “Item 1A. Risk Factors” in this Annual Report on Form 10-K. The projections and statements in this report speak only as of the date of this report and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Item 1. Business

Legal Organization

AmTrust Financial Services, Inc. is a Delaware corporation that was acquired by its principal stockholders in 1998 and began trading on the NASDAQ Global Select Market on November 13, 2006. References to “AmTrust,” the “Company,” “we,” “our,” or “us” in this Annual Report on Form 10-K and in other statements and information publicly disseminated by AmTrust Financial Services, Inc., refer to the consolidated operations of the holding company.

Business Overview

AmTrust underwrites and provides property and casualty insurance products, including workers' compensation, commercial automobile, general liability and extended service and warranty coverage, in the United States and internationally to niche customer groups that we believe are generally underserved within the broader insurance market.

Our business model focuses on achieving superior returns and profit growth with the careful management of risk. We pursue these goals through geographic and product diversification, as well as an in-depth understanding of our insured exposures. Our product mix includes, primarily, workers' compensation, extended warranty and other commercial property/casualty insurance products. Our workers' compensation and property/casualty insurance policyholders in the United States are generally small and middle market businesses. Our extended warranty customers are manufacturers, distributors and retailers of commercial and consumer products. We have also built a strong and growing distribution of extended warranty and specialty risk products, including liability and other property/casualty products, in Europe. The majority of our products are sold through independent third-party brokers, agents, retailers or administrators. Our strategy is to target small to middle size customer markets throughout the U.S. and Europe where our proprietary technology platform enables us to efficiently manage the high volume of policies and claims that result from serving large numbers of small policyholders and warranty contract holders. The technology we have developed offers a level of service that is a competitive advantage in these high volume, lower risk markets by enhancing our ability to service, underwrite and adjudicate claims. Additionally, our ability to maintain and analyze high volumes of loss data over a long historical period allows us to better manage and forecast the underlying risk inherent in the portfolio. Since our inception in 1998, we have

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grown both organically and through an opportunistic acquisition strategy. We believe we approach acquisitions conservatively, and our strategy is to take relatively modest integration and balance sheet risk. Our acquisition activity has involved the purchase of companies, renewal rights to established books of insurance portfolios, access to distribution networks and the hiring of established teams of underwriters with expertise in our specialty lines.

We are committed to driving long-term stockholder value and industry-leading returns on equity by continuing to execute on our lower risk, lower volatility business model and leveraging technology to help maintain a more efficient cost structure, consistently generate solid underwriting profits and ensure strong customer service and retention rates. Additionally, we are focused on further enhancing our economies of scale by opportunistically expanding our geographic reach and product set, growing our network of agents and other distributors, developing new client relationships and executing our acquisition strategy. We are also focused on maintaining our disciplined approach to capital management while maximizing an appropriate risk-adjusted return on our growing investment portfolio. We continue to carefully monitor and maintain appropriate levels of reserves and seek to minimize our reinsurance recoverable exposure in order to maintain a strong balance sheet. We intend to expand our business and capital base to take advantage of profitable growth opportunities while maintaining or improving our A.M. Best ratings. Our principal insurance subsidiaries are rated “A” (Excellent) by A.M. Best Company (“A.M. Best”), which is the third highest of 16 rating levels.

Competition

The insurance industry, in general, is highly competitive and there is significant competition in the commercial business insurance sector. Competition in the insurance business is based on many factors, including coverage availability, claims management, safety services, payment terms, premium rates, policy terms, types of insurance offered, overall financial strength, financial ratings assigned by independent rating organizations, such as A.M. Best, and reputation. Some of the insurers with which we compete have greater financial, marketing and management resources than we do. We also compete with new market entrants. Our competitors include other insurance companies, state insurance pools and self-insurance funds. We generally target niche sectors and clients where the market is not as competitive as the broader market and where we have particular expertise and provide differentiated offerings compared to our competitors.

More than one hundred insurance companies participate in the workers’ compensation market. The insurance companies with which we compete vary by state and by the industries we target. We believe our competitive advantages include our efficient underwriting and claims management practices and systems and our A.M. Best rating of “A” (Excellent). In addition, we believe our lower processing costs allow us to competitively price our insurance products.

We believe the niche markets in the Specialty Risk and Extended Warranty sector in which we do business are less competitive than most other insurance sectors (including workers’ compensation insurance). We believe our Specialty Risk and Extended Warranty teams are recognized for their knowledge and expertise in the targeted markets. Nonetheless, we face significant competition, including several internationally well-known insurers that have greater financial, marketing and management resources and experience than we have. We believe that our competitive advantages include our ownership of both a U.S. warranty provider and a U.K. warranty provider, which enables us to directly administer the business, the ability to provide technical assistance to non-affiliate warranty providers, experienced underwriting, resourceful claims management practices and good relations with warranty administrators in the European Union, Asia and the United States.

Our Specialty Program segment employs a niche strategy of targeting smaller businesses, which helps to differentiate our offerings from those of our competitors. Most of our competing carriers pursue larger risks. We do not compete for high exposure business and underwrite lower hazard classes of business where service and execution are the basis for attracting and retaining business as opposed to providing the lowest price. Our competitive A.M. Best rating and financial size allow us to compete favorably for target business.

Underwriting and Claims Management Philosophy

We believe that proactive and prompt claims management is essential to reducing losses and lowering loss adjustment expenses and enables us to more effectively and accurately measure reserves. To this end, we utilize our proprietary technology and extensive database of loss history in order to appropriately price and structure policies, maintain lower levels of loss, enhance our ability to accurately predict losses, and maintain lower claims costs than the industry as a whole. We believe a strong underwriting foundation is best accomplished through careful risk selection and continuous evaluation of underwriting guidelines relative to loss experience. We are committed to a consistent and thorough review of each new underwriting opportunity and our portfolio as a whole, and, where permissible and appropriate, we customize the terms, conditions and exclusions of our coverage in order to manage risk and enhance profitability.

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Business Segments

We manage our business through three segments, Small Commercial Business, Specialty Risk and Extended Warranty, and Specialty Program, which are based on the products we provide and the markets we serve.

The following table provides our gross written premium by segment for the years ended December 31, 2016, 2015 and 2014:

(Amounts in Thousands)	2016	2015	2014 As restated
Small Commercial Business	$4,020,184	$3,320,650	$2,999,714
Specialty Risk and Extended Warranty	2,521,324	2,158,921	1,987,524
Specialty Program	1,407,762	1,319,966	1,105,199
Total	$7,949,270	$6,799,537	$6,092,437

Additional financial information regarding our segments is presented in Note 28. “Segments” to our audited consolidated financial statements appearing elsewhere in this Form 10-K.

Small Commercial Business

This segment provides workers’ compensation insurance to small businesses that operate in low and medium hazard classes and commercial package and other property and casualty insurance products to small businesses, with average annual premiums of approximately $9,000. We are authorized to write our Small Commercial Business products in all 50 states. We distribute our policies through a network of over 9,500 select retail and wholesale agents who are paid commissions based on the annual policy premiums written. Workers’ compensation insurance pricing and coverage options are generally mandated and regulated on a state by state basis and provide coverage for the statutory obligations of employers to pay medical care expenses and lost wages for employees who are injured in the course of their employment. Commercial package products provide a broad array of insurance to small businesses, including commercial property, general liability, inland marine, automobile, workers’ compensation and umbrella coverage.

We believe the small business component of the workers’ compensation market is generally less competitive than the broader insurance market because the smaller policy size and low average premiums needed by these types of policyholders generally do not fit the underwriting and profitability criteria of many of our competitors. Our highly customized and proprietary technology platform enables us to individually underwrite, manage and control losses in a cost-effective manner for a large number of small policies while still providing quality customer service and responsive claims management to our clients and the agents that distribute our products. We believe these factors have been key to our ability to achieve high retention and renewal rates.

Some of our commonly written small business risks include:

- restaurants;
- retail;
- office and professional;
- service industries;
- schools;
- hospitality;
- light manufacturing;
- wholesale operations;
- auto service;
- surety;
- lumber;

- community banks;
- artisan contractors; and
- not-for-profits.

We are focused on continuing to broaden our market share by enhancing our current agent relationships as well as developing new agent relationships. Our on-line rating and submission system permits agents and brokers to easily determine in real-time if the risk and pricing parameters for a prospective workers' compensation client meet our underwriting criteria and delivers an application for underwriting approval to us in a paperless environment. Our underwriting system will not allow business to be

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placed if it does not fit within our guidelines. These same types of efficiencies also exist for our commercial package product business. Our system handles most clerical duties, so that our underwriters can focus on making decisions on risk submissions.

We administer all Small Commercial Business claims in house. Our claims management process is structured to provide prompt service and personal attention with a designated adjuster assigned to each case. Our system guides the insured and other involved parties through the claims adjudication process in an effort to allow them to return to normal business operations as soon as possible. We seek to limit the number of claim disputes with all parties through early intervention in the claims process. We use a proprietary system of internet-based tools and applications that enable our claims staff to concentrate on investigating submitted claims, to seek subrogation opportunities and to determine the actual amount of damages involved in each claim. This system allows the claims process to begin as soon as a claim is submitted.

Our workers’ compensation claims adjusters have an average of 23 years of experience and have teams located in nine different states. As of December 31, 2016, we employed 403 workers' compensation adjusters. Each adjuster handles an average monthly pending caseload of approximately 150 cases. Supervision of the adjusters is performed by internal supervisors and a claims manager in each region.

In 2016, approximately 76% of our Small Commercial Business workers’ compensation claims were for medical expenses only, while 24% of claims were for medical expenses and lost wages, compared with 75% and 25%, respectively, in 2015.

As of December 31, 2016, approximately 1.7% of the 31,011 Small Commercial Business workers’ compensation claims reported for accident year 2011 were open, 2.5% of the 39,141 claims reported for accident year 2012 were open, 3.8% of the 52,183 claims reported for accident year 2013 were open, 5.8% of the 74,266 claims reported for accident year 2014 were open, 10.8% of the 87,267 claims reported for accident year 2015 were open and 31.6% of the 83,708 claims reported for accident year 2016 were open.

We maintain Small Commercial Business property and casualty claims operations in several of our domestic offices. As of December 31, 2016, we employed 342 property and casualty claim adjusters. Overall, our property and casualty claims adjusters handle an average monthly pending caseload of approximately 128 claims.

As of December 31, 2016, our Small Commercial Business property and casualty claims were approximately 71% automobile and 9% property and inland marine, with the remaining 20% involving general liability and umbrella losses, compared to 63%, 9% and 28%, respectively, in 2015. At the end of 2016, 35% of the 33,053 claims reported in accident year 2016 remained open, while 22% and 15% of the 27,653 claims and 17,617 claims reported in accident years 2015 and 2014, respectively, remained open (the number of claims for 2015 and 2014 has been adjusted for the impact of acquisitions, but does not include Republic, which we expect would have a minimal impact on the percentages presented).

Our Small Commercial Business property and casualty claims adjusters have an average of 21 years of experience. Supervision of the adjusters is performed by our internal claims management, comprised of a staff that has an average of over 30 years of experience. Increases in reserves over the authority of the claims adjuster must be approved by supervisors up to such supervisor's authority. Above the supervisor limit, the reserve must be approved by the claims manager. If over the claims manager's authority limit, it must be approved by the regional vice president. If above the regional vice president's authority limit, it will be sent to the senior vice president for workers' compensation or commercial package products and/or the Chief Claims Officer.

In addition to growing organically, we have further enhanced our marketing and customer liaison capabilities for small-business workers' compensation and property and casualty insurance by acquiring companies or distribution networks and renewal rights from companies that have long-standing, established agent relationships, underwriting and claims management expertise, and/or infrastructure to provide additional support to our platform. These transactions have also enabled us to further expand our geographic reach and offer additional products.

Specialty Risk and Extended Warranty

In our Specialty Risk and Extended Warranty segment we provide custom designed coverages, such as accidental damage plans and payment protection plans offered in connection with the sale of consumer and commercial goods in the United States and Europe, and certain niche property, casualty and specialty liability risks in the United States and Europe, including general liability, employers' liability and professional and medical liability. Our model is focused on developing coverage plans by evaluating and analyzing historical product and industry data to establish appropriate pricing and contract terms and enhancing the profitability of the plans by limiting the frequency and severity of losses while delivering superior customer service. We own Lloyd's property and casualty insurance syndicates that focus on general insurance and provides access to Lloyd's underwriting platform for small brokers. We believe that our proprietary technology platform and strong industry expertise provide us a

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competitive advantage. We carefully select administrators with extensive industry knowledge and target industries and coverage plans that have demonstrated consistently favorable loss experience. Additionally, we utilize extensive historical claims data and detailed actuarial analysis to ensure our ability to more accurately forecast the frequency and severity of losses and draft restrictive, risk-specific coverage terms with clearly identified coverage restrictions to further reduce the level of losses. Our efficient and proactive claims management process enables us to ensure superior customer service, and if necessary, proactively adjust our premiums based on changes in actual loss experience. Our specialty risk business primarily covers the following risks:

- legal expenses in the event of unsuccessful litigation;
- property damage for residential properties;
- home emergency repairs caused by incidents affecting systems, such as plumbing, wiring or central heating;
- latent defects that materialize on real property after building or completion;
- payment protection to insureds if they become unable to meet financial obligations under finance contracts;
- guaranteed asset protection (“GAP”) to cover the difference between an insurer’s settlement and the asset value in the event of a total loss; and
- general liability, employers’ liability, public liability, negligence of advisers and liability of health care providers and medical facilities.

Our extended warranty business covers selected consumer and commercial goods and other risks, including:

- automotive;
- consumer electronics and appliances;
- commercial equipment; and
- recreational vehicle and power sports.

We also serve as a third party administrator to provide claims handling and call center services to the consumer products and automotive industries in the U.S., Canada, Europe and Asia.

In our extended warranty business, we issue policies to our clients that provide for payment or replacement of goods to meet our clients’ contractual liabilities to the end purchasers of the warranty under contracts that have coverage terms with durations ranging from one to 120 months depending on the type of product. In the event that the frequency or the severity of loss on the claims of a program exceeds original projections, we generally have the right to increase premium rates for the balance of the term of the contract and, in Europe, the right to cancel prior to the end of the term. We believe that the profitability of each coverage plan we underwrite is largely dependent upon our ability to accurately forecast the frequency and severity of claims and manage the claims process efficiently. We continuously collect and analyze claims data in order to forecast future claims trends. We also provide warranty administration services in the United States and internationally.

We underwrite our specialty risk coverage on a coverage plan-level basis, which involves substantial data collection and actuarial analysis as well as analysis of applicable laws governing policy coverage language and exclusions. We prefer to apply a historical rating approach in which we analyze historical loss experience of the covered product or similar products rather than an approach that attempts to estimate our total exposure without such historical data. In addition, we believe that the quality of the marketing and claims administration service provided by the warranty administrator is a significant driver of the profitability of the product. Accordingly, a critical evaluation of the prospective warranty administrator is an important component of underwriting a plan. The results of our underwriting analysis are used to determine the premium we charge and drive the description of the plan coverage and exclusions. The underwriting process generally takes three months or more to complete.

We market our extended warranty and GAP products in the United States and internationally primarily through brokers and third party warranty administrators, through a direct marketing group and our own warranty administrators AMT Warranty, Car Care and AmTrust International Limited. Third party administrators generally handle claims on our policies and provide monthly loss reports. We review the monthly reports and if the losses are unexpectedly high, we generally have the right under our policies to adjust our pricing or cease underwriting new business under the coverage plan. We routinely audit the claims paid by the administrators. We hire third party experts to validate certain types of claims. For example, we engage engineering consultants to validate claims made on coverage we provide on heavy machinery. We generally settle our extended warranty claims in-kind — by repair or replacement — rather than in cash. When possible, we negotiate volume fixed-fee repair or replacement agreements with third parties to reduce our loss exposure.

In 2016, approximately 57% of gross written premium for this segment originated internationally, while 43% originated in the United States. During 2016 and 2015, we did not derive over ten percent of our gross written premium from any one broker. In 2014, we derived over ten percent of our gross written premium in this segment from one broker.

Specialty Program

Our Specialty Program segment provides workers' compensation, general liability, commercial auto liability, property coverage, excess and surplus lines programs and other specialty commercial property and casualty insurance to narrowly defined, homogeneous groups of small and middle market companies whose business model and risk profile generally requires in-depth knowledge of a specific industry or sector focus in order to appropriately evaluate, price and manage the coverage risk. The type of risk covered by this segment is similar to the type of risk in our Small Commercial Business segment but also covers, to a small extent, certain higher risk businesses. We partner with managing general agents and other wholesale agents and claims administrators who have a strong track record and history underwriting certain types of risk and who, subject to our underwriting standards, originate and assist in managing a book of business and generally share in the portfolio risk. Our products and underwriting criteria often entail customized coverage, loss control and claims services as well as risk sharing mechanisms. The coverage is offered through accounts with various agents to multiple insureds.

Policyholders in this segment primarily include the following types of industries:
- public entities;
- retail;
- wholesale;
- service operations;
- artisan contracting;
- trucking;
- light and medium manufacturing;
- habitational; and
- professional employer organizations.

We establish the underwriting standards used with our agency partners by conducting detailed actuarial analysis using historical and industry data. Prior to entering into a relationship with an agency, we perform extensive due diligence on the agent including a review of underwriting, claims and financial control areas that generally takes three to nine months to complete. Additionally, once we have entered into a relationship with an agency, we carefully monitor the loss experience of the portfolio associated with each agent and conduct quarterly underwriting audits.

As of December 31, 2016, we underwrote 186 programs through 45 independent wholesale and managing general agents. Workers' compensation insurance comprised approximately 46%, 41% and 37% of this business in 2016, 2015 and 2014, respectively. Other liability insurance comprised approximately 26%, 40% and 29% of this business in 2016, 2015 and 2014, respectively. Commercial auto liability and physical damage insurance combined comprised approximately 9%, 12% and 12% of this business in 2016, 2015 and 2014, respectively. Excess workers' compensation insurance comprised approximately 15%, 5% and 13% of this business in 2016, 2015 and 2014, respectively. During 2015 and 2014, we derived over ten percent of our gross written premium in this segment from one broker. During 2016, we did not derive over ten percent of our gross written premium from any one broker.

Distribution

We market our Small Commercial Business products through unaffiliated third parties that typically charge us a commission. We market our Specialty Risk and Extended Warranty products through unaffiliated third parties that, in lieu of a commission, charge an administrative fee, based on the policy amount, to the manufacturer or retailer that offers the extended warranty or accidental damage coverage plan. Accordingly, the success of our business is dependent upon our ability to motivate these third parties to sell our products and support them in their sales efforts. The Specialty Program business is distributed through a limited number of qualified general and wholesale agents who charge us a commission. We restrict our agent network to experienced, professional agents that have the requisite licensing to conduct business with us. We incentivize the sales organizations through profit sharing arrangements to assure the profitability of the business written.

Geographic Diversity

Our insurance subsidiaries domiciled in the United States are collectively licensed to provide workers’ compensation insurance and commercial property and casualty insurance, including service contract reimbursement coverages related to our Specialty Risk and Extended Warranty segment, in all 50 states, the District of Columbia and Puerto Rico, and in the year ended December 31, 2016, we wrote commercial property and casualty insurance in all 50 states and the District of Columbia.

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The table below identifies, for the year ended December 31, 2016, the top ten producing states by percentage of direct gross written premium for our Small Commercial Business segment and the equivalent percentage for the years ended December 31, 2016, 2015, and 2014.

Percentage of Aggregate Small Commercial Business Direct Gross Written Premium by State[(1)]

	Year Ended December 31,		
State	2016	2015	2014
California	23.1 %	24.2 %	25.7 %
New York	17.7	18.7	15.8
Florida	9.3	11.7	9.8
Texas	8.9	2.9	2.6
New Jersey	7.4	7.2	6.1
Illinois	4.2	4.6	5.5
Georgia	3.5	4.0	4.1
Louisiana	2.6	1.5	1.4
Pennsylvania	2.1	2.5	3.0
Arizona	1.3	1.4	1.6
All Other States and the District of Columbia	19.9	21.3	24.4
	100.0%	100.0%	100.0%

(1) Direct premiums consist of gross premiums written other than premiums assumed.

Through our insurance subsidiaries, we are licensed to provide specialty risk and extended warranty coverage in all 50 states and the District of Columbia, and in Ireland and the United Kingdom, and pursuant to European Union law, certain other European Union member states. Through our subsidiary, AmTrust at Lloyd's, we are licensed to underwrite business internationally in locations where Lloyd's is licensed.

Based on coverage plans written or renewed in 2016, 2015 and 2014, the European Union accounted for approximately 46%, 54% and 57%, respectively, of our Specialty Risk and Extended Warranty business and in 2016, the United Kingdom, Italy and Sweden accounted for approximately 37%, 22% and 5%, respectively, of our European Specialty Risk and Extended Warranty business. For a discussion of the various risks we face related to our foreign operations, see "Item 1A. Risk Factors."

The table below shows the geographic distribution of our annualized gross premiums written in our Specialty Risk and Extended Warranty segment with respect to coverage plans in effect at December 31, 2016.

Percentage of Specialty Risk and Extended Warranty Direct Gross Written Premiums by Country[(2)]

	Year Ended December 31,		
Country	2016	2015	2014
United States	41 %	39 %	35 %
United Kingdom	22	27	28
Italy	13	15	14
Sweden	3	3	2
France	3	4	4
Other	18	12	17
Total	100%	100%	100%

(2) Direct premiums consist of gross premiums written other than premiums assumed.

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The table below shows the distribution by state of our direct written premiums in our Specialty Program segment.

Percentage of Specialty Program Direct Gross Written Premiums by State[3]

	Year Ended December 31,		
State	2016	2015	2014
California	41.0 %	38.0 %	38.0 %
New York	17.6	20.0	21.0
Texas	6.0	4.0	4.0
New Jersey	5.6	6.0	6.0
Florida	4.0	5.0	5.0
Illinois	1.9	2.0	2.0
Arizona	1.7	2.0	1.0
Georgia	1.6	2.0	2.0
Pennsylvania	1.5	2.0	2.0
North Carolina	1.1	1.0	1.0
All other States and the District of Columbia	18.0	18.0	18.0
Total	100.0%	100.0%	100.0%

[3] Direct premiums consist of gross premiums written other than premiums assumed.

Acquisitions and Strategic Investments

We have grown at an above-industry average rate through a combination of organic growth and strategic acquisitions of other companies or selected books of businesses. We have balanced our opportunistic acquisition strategy with a conservative approach to risk. We will continue to evaluate the acquisition of companies, distribution networks and renewal rights, and other alternative types of transactions as they present themselves. We seek transactions that we believe can be accretive to earnings and return on equity. The following is a summary of our major acquisition and strategic investment activity during 2016 and 2015. For details of the impact of these acquisitions and strategic investments on our results of operations, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Acquisitions" and "– Strategic Investments."

ANV Holding B.V.

On November 7, 2016, we completed the acquisition of ANV Holding B.V. and its affiliates ("ANV") from Ontario Teachers' Pension Plan Board for approximately $203 million in cash. ANV is a specialty insurance company that underwrites a variety of commercial property and casualty insurance products through its three Lloyd's syndicates and managing general underwriter. In 2015, ANV generated gross written premium of $508 million. Also in 2015, ANV's three managed syndicates 1861, 5820 and 779 reported gross written premium of $710 million.

Trust Risk Group

In conjunction with the settlement of a dispute with its former Italian medical liability broker, on July 20, 2016, we obtained the renewal rights associated with all the in-force business produced by Trust Risk Group ("TRG") prior to the termination of our brokerage and agency relationship with TRG, and a non-compete agreement with TRG and related parties for a period of three years in exchange for €16 million (or $17.7 million), as well as the release of a receivable balance due from TRG of €14 million (or $15.5 million).

Nationale Borg

On May 31, 2016, we completed the acquisition of N.V. Nationale Borg-Maatscappij and its affiliates ("Nationale Borg") for approximately €161.4 million (or $180 million). Nationale Borg is an Amsterdam-based international direct writer and reinsurer of surety and trade credit insurance in over 70 countries that has been in existence for approximately 120 years.

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First Nationwide Title Agency

On May 20, 2016, we completed the acquisition of First Nationwide Title Agency and its subsidiaries ("First Nationwide"). First Nationwide is a title agency providing title insurance products primarily in the State of New York. The consideration for the purchase consisted of approximately $24.0 million at closing and contingent consideration based on profitability of the agency over a five-year period.

Genworth

On May 9, 2016, we completed the acquisition of Genworth Financial Mortgage Insurance Ltd. ("Genworth"). Genworth provides mortgage insurance in Europe, primarily in the U.K., Finland, Italy and Germany. The consideration for Genworth consisted of cash of approximately $54.5 million.

Republic

On April 18, 2016, we acquired Republic Companies, Inc. and its affiliates ("Republic") from Delek Group Ltd., and Republic Insurance Holdings, LLC. Republic provides commercial and personal lines property and casualty insurance through independent agents and managing general agents. Republic primarily distributes the majority of its business to individuals and small and medium-size businesses through a network of independent agents in the southwestern United States. In addition, Republic generates fee revenue by providing insurance services to third parties.

The consideration for Republic consisted of approximately $113.5 million of cash at closing, a promissory note payable of approximately $104.7 million due to Delek Group Ltd. and deferred payments of approximately $15.2 million that are owed to the minority owners of Republic.

ARI Insurance Company

On January 22, 2016, we completed the acquisition of ARI Holdco Inc. ("ARIH") and its subsidiaries. ARIH's primary operating subsidiary, ARI Insurance Company ("ARI"), is an underwriter of commercial automobile insurance in New Jersey, Pennsylvania and Maryland. Immediately prior to the acquisition, ARI converted from a mutual form to a stock form of ownership in a transaction "sponsored" by us. The consideration given for ARIH was approximately $3.8 million.

Springfield

On October 7, 2015, we acquired all of the issued and outstanding stock of Springfield Insurance Company and its affiliates, Springfield Insurance Company Ltd. and Unified Grocers Insurance Services (collectively "Springfield"), for approximately $31.6 million. Springfield, domiciled in California, is an insurance carrier providing workers' compensation and commercial package insurance to Unified Grocers Inc., an association of independently owned grocery stores, its members and its customers.

Warranty Solutions

On September 25, 2015, we acquired all of the issued and outstanding stock of Warranty Solutions, a Wells Fargo business ("Warranty Solutions"), for approximately $156.2 million in cash. Warranty Solutions designs, markets, administers and underwrites vehicle service contracts for new and used automobiles through a national network of more than 70 active agencies and 1,500 franchised and independent dealers.

CorePointe Insurance Company

On March 2, 2015, we acquired all of the issued and outstanding stock of CorePointe Insurance Company ("CorePointe") for approximately $68.8 million. CorePointe, a Michigan-based specialty property and casualty insurance company, markets commercial package insurance products primarily to automobile and motorcycle dealerships and auto repair shops. The majority of CorePointe's insurance products and services are distributed through managing general agents ("MGAs") with whom it has long-standing relationships.

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TMI Solutions, LLC

On January 6, 2015, we acquired all of the issued and outstanding stock of TMI Solutions, LLC ("TMIS") for approximately $61.5 million. TMIS offers monthly billed warranty solutions for a variety of consumer electronics as well as consumer protection services. TMIS warranties are primarily distributed in conjunction with large telecommunication monthly customer billing services and their customers include various Fortune 500 companies.

Oryx Insurance Brokerage, Inc.

On January 6, 2015, we acquired all of the issued and outstanding stock of Oryx Insurance Brokerage, Inc. ("Oryx") for approximately $37.6 million. Oryx is an MGA and wholesaler providing insurance products to the construction industry in upstate New York.

Investment in National General Holdings Corp.

We have an approximate 12% ownership interest in National General Holdings Corp. ("NGHC"). NGHC is a publicly-held specialty personal lines insurance holding company (Nasdaq: NGHC) that operates twenty-two insurance companies in the United States and provides a variety of insurance products, including personal and commercial automobile, homeowners and umbrella, and supplemental health. As of December 31, 2016, NGHC's two largest shareholders were the Michael Karfunkel Family 2005 Trust (the "Trust") and a grantor retained annuity trust controlled by Leah Karfunkel. Leah Karfunkel, who is co-trustee of the Trust along with Barry Zyskind, is a member of our Board of Directors, and the mother-in-law of Barry Zyskind, our Chairman, President and Chief Executive Officer. The ultimate beneficiaries of the Trust include Leah Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Barry Karfunkel, the son of Leah Karfunkel and brother-in-law of Barry Zyskind, is the chief executive officer of NGHC and Barry Zyskind is NGHC's non-executive chairman of the board. In accordance with ASC 323-10-15, Investments-Equity Method and Joint Ventures, we account for our investment in NGHC under the equity method as we have the ability to exert significant influence on NGHC's operations.

In addition to our equity investment in NGHC, we provide NGHC and its affiliates information technology development services in connection with the development and licensing of a policy management system, and printing and mailing services for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies we process for NGHC and its affiliates on the policy management system. We also manage the assets of certain of NGHC's subsidiaries, including the assets of reciprocal insurers managed by subsidiaries of NGHC, for an annual fee. For a more detailed description of our equity investment in NGHC and the services we provide to NGHC, see note 17. "Related Party Transactions."

Life Settlement Contracts

We have a 50% ownership interest in each of three entities (collectively, the “LSC Entities”) formed for the purpose of acquiring life settlement contracts, with a subsidiary of NGHC owning the remaining 50%. The LSC Entities are: Tiger Capital LLC (“Tiger”); AMT Capital Alpha, LLC (“AMT Alpha”); and AMT Capital Holdings, S.A. (“AMTCH”).

A life settlement contract is a contract between the owner of a life insurance policy and a third-party who obtains the ownership and beneficiary rights of the underlying life insurance policy. During 2016, we terminated an agreement with a third party administrator of the Tiger and AMTCH life settlement contract portfolios, under which the third party received an administrative fee. The third party administrator was also eligible to receive a percentage of profits after certain time and performance thresholds had been met. We provide certain actuarial and finance functions related to the LSC Entities. In conjunction with our approximate 12% ownership percentage of NGHC, we ultimately receive 56% of the profits and losses of the LSC Entities. As such, in accordance with ASC 810-10, Consolidation, we have been deemed the primary beneficiary and, therefore, consolidate the LSC Entities. For a description of how we account for our investment in life settlement contracts, see Note 5. “Fair Value of Financial Instruments” and Note 7. “Investment in Life Settlements."

Reinsurance

Reinsurance is a transaction between insurance companies in which the original insurer, or ceding company, remits a portion of its policy premiums to a reinsurer, or assuming company, as payment for the reinsurer assuming a portion of the insured policies’ risk. Reinsurance agreements may be proportional in nature, under which the assuming company participates in the premiums and losses of the ceding company via a pro rata share. Under these “quota share reinsurance” arrangements, the ceding company transfers, or cedes, a percentage of the risk under each policy within the covered class or classes of business to the reinsurer and recovers the same percentage of the ceded loss and loss adjustment expenses. The ceding company pays the reinsurer that same percentage of the insurance premium on the ceded policies, less a ceding commission. Reinsurance agreements may also be

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structured so that the assuming company indemnifies the ceding company against all or a specified portion of losses on underlying insurance policies in excess of a specified amount, which is called an “attachment level” or “retention.” The assuming company provides this indemnification for a premium, usually determined as a percentage of the ceding company’s insurance premiums for the covered class or classes of business. This arrangement is known as “excess of loss reinsurance.” Excess of loss reinsurance may be written in layers, in which a reinsurer or group of reinsurers accepts a band of coverage up to a specified amount. Any liability exceeding the coverage limits of the reinsurance program is retained by the ceding company.

We believe reinsurance is a valuable tool to appropriately manage the risk inherent in our insurance portfolio as well as to enable us to reduce earnings volatility and generate stronger returns. We also utilize reinsurance agreements to increase our capacity to write a greater amount of profitable business. Our insurance subsidiaries utilize reinsurance agreements to transfer portions of the underlying risk of the business we write to various affiliated and third-party reinsurance companies. Reinsurance does not discharge or diminish our obligation to pay claims covered by the insurance policies we issue; however, it does permit us to recover certain incurred losses from our reinsurers and our reinsurance recoveries reduce the total aggregate of losses that we may incur as a result of a covered loss event.

The total amount, cost and limits relating to the reinsurance coverage we purchase may vary from year to year based upon a variety of factors, including the availability of quality reinsurance at an acceptable price and the level of risk that we choose to retain for our own account. For a more detailed description of our reinsurance arrangements, including our quota share reinsurance agreement with Maiden Reinsurance Ltd. (“Maiden Reinsurance”) (the “Maiden Quota Share”), see “Reinsurance” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this
Form 10-K.

Loss Reserves

Reserve Setting Approach - Overview

We record reserves for estimated losses under insurance policies that we write, as well as for loss adjustment expenses related to the investigation and settlement of claims. Our total reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at a given point in time.

When a claim is reported, we establish an initial case reserve for the estimated amount of our loss based on our estimate of the most likely outcome of the claim at that time. Generally, a case reserve is established within 30 days after the claim is reported and consists of (depending on the insurance coverage) anticipated damages, liability, medical costs, indemnity costs and specific adjustment expenses, which we refer to as defense and cost containment expenses ("DCC"). At any point in time, the amount paid on a claim, plus the reserve for future amounts to be paid, represents the estimated total cost of the claim, or the case incurred amount. The term "loss" encompasses the amount required to settle a claim and the DCC related to the claim.

The case incurred amount can vary over the life of the claim due to uncertainties with respect to claim specifics such as medical treatment and outcome, extent of liability becoming known over time, etc. As changes occur, the case incurred amount is adjusted. The initial estimate of the case incurred amount can vary significantly from the amount ultimately paid, especially in circumstances involving severe injuries with comprehensive medical treatment or complexities with the assignment or assessment of liability. Changes in case incurred amounts, or case development, are an important component of our historical claim data, which our actuaries use to estimate the ultimate value of our claims.

In addition to case reserves, we establish reserves on an aggregate basis for loss and DCC expenses that have been incurred but not reported, or IBNR. Our IBNR reserves are also intended to provide for aggregate changes in case incurred amounts (i.e., Incurred But Not Enough Reported, or "IBNER"), as well as the unpaid cost of claims incurred but for which an initial case reserve has not yet been established or the claim has not been reported yet ("pure" IBNR).

The third component of our reserves for loss and loss adjustment expenses is our adjusting and other reserve, or AO reserve. Our AO reserve is established for the costs of future unallocated loss adjustment expenses for all known and unknown claims. Our AO reserve primarily covers the estimated cost of administering claims through their final adjudication. The final component of our reserves for loss and loss adjustment expenses is the reserve for mandatory pooling arrangements.

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Of the aforementioned reserve components, the IBNR recorded reserve balances represent Management’s Best Estimate ("MBE"), which we believe to be representative of the expected ultimate outcome in settling the insurance related liabilities incurred. Our process to arrive at the MBE incorporates actuarial estimations as indicated by the Actuarial Central Estimate ("ACE"), risks, uncertainties, and other relevant information pertaining to the underlying loss exposures and the company's operational activities. We use a combination of internal actuarial resources as well as external consulting actuaries to assist in the evaluation of the adequacy of our reserves for loss and loss adjustment expenses.

Each quarter the determination of MBE begins with the actuarial analysis underlying the ACE. Management evaluates each of the component groups that comprises the ACE and the respective established actuarial methods used by our actuaries. Our internal actuarial analyses and procedures have strengthened in the recent year with the continued expansion of our actuarial staff, thereby adding enhanced rigor and diagnostic metrics to the actuarial analysis.

Management may elect to deviate from the ACE in select cases, as management also considers other qualitative factors in selecting its MBE. Specifically, management considers current operational information provided by claims, underwriting and other operational personnel. Management may place greater reliance on this qualitative information to determine its best estimate of the liability, rather than the actuarial estimates indicated by the ACE. Management has instituted a robust process and governance committees to discuss, challenge, and critically assess any such deviations from the ACE.

Reserve Setting Process - Key Assumptions:

- Initial Expected Loss Ratios ("IELR") by Line of Business - IELRs generally represent the expected current year underlying loss ratio with consideration to adjusting historical experience to current rate and trend level (“on-level” loss ratios);

- Loss Development Factors - Loss development triangles compile historical claims data by origin period (e.g., Accident Year) and development period (e.g., annual evaluations). From this triangulation, loss development factors can be calculated as the ratio of losses at successive evaluations for a defined group of claims. Our actuarial resources, both internal and external, will generally evaluate loss development factors on both a reported loss and expense and paid loss and expense basis for both the industry and AmTrust specific experience;

- Claim frequency and severity trends by period; and

- Average claim frequency and severity by period.

Reserve Setting Process - Key Methods:

Actual versus Expected. We monitor the performance of the business by monitoring the actual loss emergence (both paid and reported) during a period versus the expectation of the emergence based on the selected development assumptions from the prior period.

Historical Development Methods. These may include the Paid and Reported Loss Development Methods.

Loss Development Method Approaches. Loss development factors are applied to the latest valuation of actual incurred and paid losses and DCC, respectively, by year to estimate ultimate losses and DCC.

Exposure-based Methods. This may include methods based on expectation of the business performance, such as the Expected Loss Ratio Method.

Initial Expected Loss Ratio Approach. The Initial Expected Loss Ratio ("IELR") approach is generally relied upon for only the most recent accident periods while claims experience may be too immature or volatile to rely upon development methods projections of ultimate loss and DCC. The IELR is generally based on the business plan, trended historical results, or recent industry results, all supplemented by discussions with various stakeholders including Underwriting and Claims. The IELR, when applied to earned premium for an accident period, will provide an indication for estimated ultimate loss and DCC for the period.

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Credibility-Weighted Methods. These methods may include those which weight actual experience to date with an expectation of the business performance, such as the Paid and Reported Bornhuetter-Ferguson Methods.

Bornhuetter-Ferguson ("BF") Approaches. The Bornhuetter-Ferguson method is a weighted blend of the Loss Development Method and Expected Loss Ratio approaches. The BF method splits the ultimate claims into two components: actual reported (or paid) claims to date and expected unreported (or unpaid) claims. As experience matures, more weight is given to the actual claims experience while the expected claims component becomes gradually less important. The key assumption to the BF methods is that unreported (or unpaid) claims will emerge (paid) at the selected expected loss ratio.

Exposure-based methods are most commonly used on relatively immature origin years while experience based methods provide a view based on the projection of loss experience that has emerged as of the valuation date. Greater reliance is placed upon experience-based methods as the pool of emerging loss experience grows and where it is deemed sufficiently credible and reliable as the basis for the estimate. In comparing the held reserve for any given origin year to the actuarial projections, judgment is required as to the credibility, uncertainty and inherent limitations of applying actuarial techniques to historical data to project future loss experience.

Examples of factors that impact such judgments include, but are not limited to, the following:

- Nature and complexity of underlying coverage provided and net limits of exposure provided - as with all of our business, and certainly for new business for which limited or partial data exists, discussions with underwriters and claims adjusters are key to forming actuarial judgments;

- Segmentation of data to provide sufficient homogeneity and credibility for loss projection methods;

- Extent of credible internal historical loss data and reliance upon industry information as required;

- Historical variability of actual loss emergence compared with expected loss emergence;

- Extent of emerged loss experience relative to the remaining expected period of loss emergence;

- Rate monitor information for new and renewal business;

- Facts and circumstances of large claims; and

- Impact of applicable reinsurance recoveries.

Loss development assumptions will consider internal experience, industry benchmark data (e.g. ISO, NCCI and various state related benchmarks available from State Bureaus) as necessary, and judgments regarding prospective influences of development that are different than recent historical experience.

Workers’ Compensation Business

Our process and methodology for estimating reserves applies to our voluntary business and does not include our reserves for mandatory pooling arrangements that we participate in as a condition of doing business in a state that establishes assigned risk plans to provide coverage for employers who cannot obtain coverage in the voluntary market. As is common practice, we record reserves for mandatory pooling arrangements as those reserves are reported to us by the pool administrators.

The estimated amount of loss for a reported claim is based upon various factors, including:

- type of loss;
- severity of the injury or damage;
- age and occupation of the injured employee;
- estimated length of temporary disability;
- anticipated permanent disability;
- expected medical procedures, costs and duration;
- our knowledge of the circumstances surrounding the claim;
- insurance policy provisions, including coverage, related to the claim;

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- jurisdiction of the occurrence; and
- other benefits defined by applicable statute.

The case incurred amount can vary due to uncertainties with respect to medical treatment and outcome, length and degree of disability, employment availability and wage levels and judicial determinations. As changes occur, the case incurred amount is adjusted. The initial estimate of the case incurred amount can vary significantly from the amount ultimately paid, especially in circumstances involving severe injuries with comprehensive medical treatment. Changes in case incurred amounts, or case development, are an important component of our historical claim data, which our actuaries use to estimate the ultimate value of our claims.

In order to establish IBNR reserves, we project ultimate losses by accident year both through use of our historical experience supplemented by industry experience. Our internal actuaries and external consulting actuaries project ultimate losses using the aforementioned generally accepted actuarial methods before selecting a result based on an evaluation of the method inputs.

Our actuaries will generally evaluate and/or incorporate industry loss development factors and compare indications based on those factors with the indications based on AmTrust specific factors. The use of industry loss development factors has generally produced higher estimates of workers' compensation losses and DCC expenses.

Each method produces estimated ultimate loss and DCC expenses net of amounts that will be ultimately paid by our excess of loss reinsurers. Our actuaries estimate a range of ultimate losses, along with a selection that gives more weight to the results from our AmTrust specific loss development factors and less weight to the results from industry development factors. The IBNR implied by each actuarial method is arrived at by taking the method's ultimate loss indication and subtracting the incurred losses and DCC to date.

Management establishes our loss and DCC IBNR reserves by assessing the results of the aforementioned actuarial techniques as prepared by both the internal and external actuarial resources, followed by a review of specific underwriting, claims handling and other operational considerations. In utilizing its judgment, management makes certain assumptions regarding our business, including, among other things, frequency of claims, severity of claims and claim closure rates.

As of December 31, 2016, our best estimate of our ultimate liability for workers' compensation loss and loss adjustment expenses, net of amounts recoverable from reinsurers, was $2.2 billion, of which $106 million was reserves resulting from our participation in mandatory pooling arrangements, as reported by the pool administrators. This estimate was derived from the procedures and methods described above, which rely, substantially, on judgment.

The table below shows the carried reserves for workers' compensation losses and DCC expenses on both a gross and net basis, as well as the actuarially determined range of reasonable estimates as of December 31, 2016:

(Amounts in Millions)	Loss & DCC Expense Reserves	Mandatory Pooling Arrangements	Total
Gross Workers' Compensation Reserves:			
Lower estimate	$ 3,798	$ 106	$3,904
Gross reserve	4,220	106	4,326
Higher estimate	4,642	106	4,748
Net Workers' Compensation Reserves:			
Lower estimate	$ 1,914	$ 106	$2,020
Net reserve	2,127	106	2,233

Higher estimate	2,340	106	2,446

The higher estimate would result in a reduction of income of $213 million, before tax, and $138.5 million, after tax. The lower net estimate would result in an increase of income of $213 million, before tax, and i$138.5 million, after tax. A change in our net loss and DCC expense reserve would not have an immediate impact on our liquidity, but would affect cash flows in future years as claim and expense payments are made.

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We do not anticipate that we will make any material reserve adjustments but will continue to monitor the accuracy of our loss development factors and adequacy of our reserves. For a more detailed description of our liabilities for unpaid losses and loss and loss adjustment expenses (“LAE”) on a consolidated basis and by segment, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Specialty Risk and Extended Warranty

Our net reserves, including IBNR, on Specialty Risk and Extended Warranty as of December 31, 2016 and 2015 were $1,786 million and $1,006 million, respectively. An upward movement of 5% on overall reserves would result in a reduction of income in 2016 of $89.3 million before tax and $58.0 million after tax. A downward movement of 5% on overall reserves would result in an increase of income of $89.3 million before tax and $58.0 million after tax.

Our specialty risk and extended warranty business can largely be broken down into international property/casualty business and our domestic/international warranty business. The international property and casualty business includes, primarily, our medical malpractice business. Other exposures include professional indemnity, property, and legal expense insurance written by both our Lloyd’s syndicates and international statutory entities.

The estimated amount of loss for a reported claim is based upon various factors, including:

•line of business - medical malpractice, property, professional liability, etc.;
•severity of injury or property damage;
•statute of limitation and repose;
•insurance policy provisions, especially applicable policy limits and coverage limitations;
•expected medical procedures, costs and duration of treatment;
•our knowledge of circumstances surrounding the claim; and
•potential salvage and subrogation.

Case incurred amounts can vary greatly over the life of a claim because of the uncertainties inherent in the estimates of severity of loss, costs of medical treatments, judicial rulings, litigation expenses, and other factors. As changes occur, the case reserves are adjusted. The initial estimate of a claim’s incurred amount can vary significantly from the amount ultimately paid when the claim is closed, especially in the circumstances involving litigation and severe personal injuries. Changes in case incurred amounts, or case development, are an important component of our historical claim data that is used by our actuaries to estimate the ultimate value of our claims.

In order to establish exposure IBNR reserves for our international property/casualty business, we project ultimate losses by underwriting year both through use of our historical experience supplemented by industry experience. Our internal actuaries and external consulting actuaries project ultimate losses using the aforementioned generally accepted actuarial methods before selecting a result based on an evaluation of the method inputs. Our actuaries will generally evaluate and/or incorporate industry loss development factors and compare indications based on those factors with the indications based on AmTrust specific factors.

Particularly for our medical malpractice exposure, we utilize a mix of actuarial techniques, which include the key actuarial methods described above and stochastic methods. Stochastic methods rely on claim frequency and severity assumptions for which we model simulations of claims experience. In cases where historical data may be limited, we may place reliance on external benchmarks or internal data of similar risk exposures to develop the modeling assumptions.

Each actuarial method produces estimated ultimate loss and DCC expenses net of amounts that will be ultimately paid by our excess of loss reinsurers. Our actuaries estimate a range of ultimate losses, along with a selection that gives more weight to the results from our AmTrust specific loss development factors and less weight to the results from industry development factors. The IBNR implied by each actuarial method is arrived at by taking the method’s ultimate loss indication and subtracting the incurred losses and DCC to date.

Management establishes our loss and DCC IBNR reserves by assessing the results of the aforementioned actuarial techniques as prepared by both the internal and external actuarial resources, followed by a review of specific underwriting, claims handling and other operational considerations. In utilizing its judgment, management makes certain assumptions regarding our business, including, among other things, frequency of claims, severity of claims and claim closure rates.

Our international and domestic warranty business consists of claims which are usually paid quickly, and for which development on known claims is negligible, and generally, case reserves are not established. IBNR reserves for warranty claims are generally

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"pure" IBNR, which refers to amounts for claims that occurred prior to an accounting date but are reported after that date. The reporting lag for warranty IBNR claims is generally small, usually in the range of one to three months.

Management determines warranty IBNR by examining the experience of individual coverage plans. Our internal actuarial staff frequently reviews our IBNR by looking at our overall coverage plan experience and assessing the assumptions around claim reporting lag and average monthly claim payouts.

As pertains to our warranty business, there is generally more uncertainty in the unearned premium reserve than in the IBNR reserve. While our warranty claims are short-tailed, the unearned portion of each contract earns over several years. Furthermore, as pertains to warranty, claims are generally reported immediately after they occur and are closed within months of reporting. The reserve for unearned premium is related to the portion of premiums written that is applicable to the unexpired term of the contract or policy in force. Insurance premiums on Specialty Risk and Extended Warranty programs are earned based on an estimated program coverage period. A portion of the premium for these policies does not earn evenly over the contract period. Instead, the premium is earned in proportion to the exposure to losses and the amount of insurance protection provided. As of December 31, 2016, we had unearned premium of approximately $925 million on these policies. An upward/downward movement of 5% on the unearned premium for these policies would result in an increase/decrease of approximately $46.3 million. In 2016, we had no material changes to prior period estimates of these claim patterns. Our liability for return of unearned premium is not significant.

The reserve for unearned premium is calculated by analyzing each coverage plan separately, subdivided by contract year, type of product and length of contract. These individual reserve calculations may differ in actuarial methodologies depending on:

- the type of risk;
- the length of the exposure period;
- the availability of past loss experience; and
- the extent of current claim experience and potential experience of similar classes of risk underwritten by the program administrators.

The primary actuarial methodology used to project future losses for the unexpired terms of contracts is to project the future number of claims, then multiply them by an average claim cost. The future number of claims is derived by applying to unexpired months a selected ratio of the number of claims to expired months. The selected ratio is determined from a combination of:

- past experience of the same expired policies;
- current experience of the earned portion of the in-force policies or contracts; and
- past and/or current experience of similar type policies or contracts.

The average claim cost is also determined by using past and/or current experience of the same or similar contracts. In order to confirm the validity of the projected future losses derived through application of the average claim cost method, we also utilize a loss ratio method. The loss ratio method entails the application of the projected ultimate loss ratio, which is based on historical experience, to the unearned portion of the premium. If the loss ratio method indicates that the average claim cost method has not produced a credible result for a particular coverage plan, we will make a judgment as to the appropriate reserve for that coverage plan. We generally will choose a point in the range between results generated by the average claim cost method and loss ratio method. In making our judgment, we consider, among other things, the historical performance of the subject coverage plan or similar plans, our analysis of the performance of the administrator and coverage terms.

Different Specialty Risk and Extended Warranty products have different patterns of incidence during the period of risk. Some products tend to show increasing incidence of claims during the risk period; others may show relatively uniform incidence of claims, while still others tend to show decreasing claim incidence. Incorrect earnings of warranty policy premiums, inadequate pricing of warranty products, changes in conditions during long contract durations or incorrect estimates of future warranty losses on unexpired contracts may produce a deficiency or a redundancy in the unearned premium reserve. Our net unearned premium reserve as of December 31, 2016 and 2015 for our Specialty Risk and Extended Warranty segment was $1,585 million and $1,296 million, respectively. Although we believe this is a reasonable best estimate of our unearned premium reserve, this amount is subject to a substantial degree of uncertainty.

Small Commercial Business (other than Workers' Compensation)

Our actual net reserves, including IBNR, for small commercial business insurance (other than workers' compensation) as of December 31, 2016 and 2015 were $2,243 million and $1,480 million, respectively. An upward movement of 5% on overall reserves would result in a reduction of income in 2016 of $112 million before tax and $72.8 million after tax. A downward movement of 5% on overall reserves would result in an increase of income of $112 million before tax and $72.8 million after tax.

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We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of policy related claims. Our reserves for loss and loss adjustment expenses represent the estimated costs of all reported and unreported loss and loss adjustment expenses incurred and unpaid at a given point in time. In establishing our small commercial business (other than workers' compensation) reserves, we do not use loss discounting, which involves recognizing the time value of money and offsetting estimates of future payments by future expected investment income.

The estimated amount of loss for a reported claim is based upon various factors, such as:

- line of business — general liability, auto liability, or auto physical damage;
- severity of injury or property damage;
- number of claimants;
- statute of limitation and repose;
- insurance policy provisions, especially applicable policy limits and coverage limitations;
- expected medical procedures, costs, and duration of treatment;
- our knowledge of circumstances surrounding the claim; and
- potential salvage and subrogation.

Case incurred amounts can vary greatly over the life of a claim because of the uncertainties inherent in the estimates of severity of loss, costs of medical treatments, judicial rulings, litigation expenses, and other factors. As changes occur, the case reserves are adjusted. The initial estimate of a claim’s incurred amount can vary significantly from the amount ultimately paid when the claim is closed, especially in the circumstances involving litigation and severe personal injuries. Changes in case incurred amounts, or case development, are an important component of our historical claim data that is used by our actuaries to estimate the ultimate value of our claims.

In order to establish IBNR reserves, we project ultimate losses by accident year both through use of our historical experience supplemented by industry experience by comparable line of business. Our internal actuaries and external consulting actuaries project ultimate losses using the aforementioned generally accepted actuarial methods before selecting a result based on an evaluation of the method inputs.

Our actuaries will generally evaluate and/or incorporate industry loss development factors and compare indications based on those factors with the indications based on AmTrust specific factors. When compared to our workers’ compensation business, we rely more heavily on industry benchmarks for our small commercial business (other than workers' compensation) lines because of our relative lack of experience in these lines. Because we determine our reserves based on assumptions that may give significant weight to industry incurred development patterns, our ultimate losses may differ substantially from our estimates produced by the above methods.

We began writing additional lines of business beyond workers' compensation in 2006. These include, but are not limited to, general liability, commercial auto and commercial property (jointly known as CPP). In 2008, we acquired retail commercial package business in connection with our acquisition of a subsidiary of Unitrin, Inc. (“UBI”). We were able to access UBI’s historical loss data for analysis of that business. Additionally, the claims adjusting has remained stable. As the volume of AmTrust specific experience grows, we will give additional weight to loss development factors implied from our own actual experience.

Each method produces estimated ultimate loss and DCC expenses net of amounts that will be ultimately paid by our excess of loss reinsurers. The resulting IBNR implied by each actuarial method is arrived at by taking the method’s ultimate loss indication and subtracting the incurred losses and DCC to date.

Management establishes our loss and DCC IBNR reserves by assessing the results of the aforementioned actuarial techniques as prepared by both the internal and external actuarial resources, followed by a review of specific underwriting, claims handling and other operational considerations. In utilizing its judgment, management makes certain assumptions regarding our business, including, among other things, frequency of claims, severity of claims and claim closure rates.

In order to establish our AO reserves, we review our historical adjustment expenses in relation to historical claims and estimate our future costs based on expected claims activity and duration.

A reconciliation of loss and loss adjustment expense reserves and information regarding loss and loss adjustment expense reserve development appears in Note 12. "Loss and Loss Adjustment Expense Reserves" and Note 13. "Short Duration Contracts," respectively, in the audited consolidated financial statements included elsewhere in this report.

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Investments

Our investment portfolio, exclusive of life settlement contracts, equity investment in unconsolidated related party subsidiaries, and other investments, is summarized in the table below by type of investment.

(Amounts in Thousands)	December 31, 2016 Carrying Value	December 31, 2016 Percentage of Portfolio	December 31, 2015 Carrying Value	December 31, 2015 Percentage of Portfolio
Cash, cash equivalents and restricted cash (as restated)	$1,281,109	14.3 %	$1,384,615	19.9 %
Short-term investments (as restated)	—	—	17,171	0.2
U.S. treasury securities	330,654	3.7	70,759	1.0
U.S. government agencies	63,732	0.7	45,558	0.7
Municipals	854,170	9.6	540,426	7.8
Foreign government	152,876	1.7	113,745	1.6
Commercial mortgage back securities	177,994	2.0	151,318	2.2
Residential mortgage backed securities:				
Agency backed	1,210,385	13.6	974,838	14.0
Non-agency backed	61,229	0.7	120,229	1.7
Collateralized loan / debt obligations	484,405	5.4	226,094	3.2
Asset-backed securities	29,710	0.3	31,837	0.5
Corporate bonds	4,066,761	45.6	3,158,993	45.3
Preferred stocks	3,985	—	4,989	0.1
Common stocks	215,137	2.4	126,779	1.8
	$8,932,147	100.0 %	$6,967,351	100.0 %

Investments in foreign government securities include securities issued by national entities as well as instruments that are unconditionally guaranteed by such entities. As of December 31, 2016, our foreign government securities were issued or guaranteed primarily by governments in Canada and Europe.

The table below summarizes the credit quality of our fixed maturity securities as of December 31, 2016 and 2015, as rated by Standard and Poor's.

	2016	2015
U.S. Treasury	4.5 %	1.3 %
AAA	6.6	12.2
AA	32.6	29.0
A	28.9	28.8
BBB, BBB+, BBB-	24.2	25.8
BB, BB+, BB-	1.9	1.9
B, B+, B-,	0.4	0.1
Other	0.9	0.9
Total	100.0 %	100.0 %

Our investments in equity securities, which are either classified as available-for-sale or trading, constitute approximately 2.5% of our total investment portfolio. For the equity securities classified as available-for-sale, we generally split them into two types of investment categories. One category consists mainly of large capitalized companies, for which the individual investments are generally liquid in nature and their market prices are typically reflective of their value. The second category is small capitalized companies with an average market capitalization of approximately $400 million, most without widespread distribution or trading of shares. We have invested in securities in the second category in which we believe true value is not properly reflected in the market price and where a catalyst, or event, will send the market price toward our estimate of true value. We typically have a holding period of 36 months for these equity securities. This catalyst, in many instances, takes up to 24-months to occur. Sometimes, a catalyst that does not occur soon after our initial investment requires the passage of another operating cycle, and the 24 month time frame allows for these types of situations. These equity securities tend to be relatively unknown stocks that have less trading

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volume than well-known or larger capitalized stocks and can, therefore, experience significant price fluctuations without fundamental reasons. These price fluctuations can be large on a percentage basis because many stocks in this category are also low-priced stocks that are often distressed or in a turnaround phase. We believe that in down markets, equity securities with lower turnover are more heavily penalized by the market, even when the underlying fundamentals of the security have held up. Therefore, we believe, and our experience bears out, that, for investments in small cap stocks, an unrealized loss of 35% or less is not necessarily indicative of a fundamental problem with the issuer. Prices of lower turnover stocks can also react significantly to a catalyst or an event that causes market participants to take an interest. When the market participants' interest increases in an equity security, causing trading volume and market bid to increase, we typically seek to exit these positions. For these reasons, we generally consider certain equity investments in this small capitalization category to be other than temporarily impaired when the investment is in an unrealized loss position in excess of 35% of cost basis for greater than 24 months.

We generally purchase life settlement contracts through secondary market transactions. The policies we purchase are universal life insurance policies issued by rated life insurance companies. Before we purchase a life settlement contract, we conduct a rigorous underwriting review that includes obtaining life expectancy estimates on individual insureds from specialized life expectancy providers. The price we are willing to pay for a policy is primarily a function of: (i) the policy's face value; (ii) the expected actuarial mortality of the insured; (iii) the premiums expected to be paid over the life of the insured; and (iv) market competition from other purchasers. We seek to earn profits by purchasing policies at discounts to the face value of the insurance benefit. The discounts at which we purchase are expected to exceed the costs necessary to pay premiums and financing and servicing costs through the date of the insured's mortality.

Additional financial information regarding our investments is presented under the subheading "Investment Portfolio" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10-K.

Certain International Tax Considerations

We operate our business in numerous foreign countries and are subject to taxation in these foreign jurisdictions. A brief description of our major international tax considerations that most materially affect us appears below.

Bermuda

Bermuda currently does not impose any income, corporation or profits tax, withholding tax, capital gains tax or capital transfer tax on any of our Bermuda subsidiaries, or any estate duty or inheritance tax applicable to shares of any of our Bermuda subsidiaries (except in the case of shareholders resident in Bermuda). Except as set out in the following paragraph, our Bermuda subsidiaries may be subject to such Bermuda tax in the future.

Our significant operating Bermuda subsidiary, AmTrust International Insurance, Ltd. ("AII"), has received a written assurance from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, that, if any legislation is enacted in Bermuda imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of that tax would not be applicable to these Bermuda subsidiaries or to any of their operations, shares, debentures or obligations until March 31, 2035; provided that the assurance is subject to the condition that it will not be construed to prevent the application of such tax to people ordinarily resident in Bermuda, or to prevent the application of any taxes payable by our Bermuda subsidiaries in respect of real property or leasehold interests in Bermuda held by them. Our Bermuda subsidiaries may be subject to any such tax after March 31, 2035.

For U.S. federal income tax purposes, AII is treated as a U.S. corporation that is subject to tax and is included in our consolidated U.S. tax return.

The other remaining significant Bermuda operations are not currently subject to taxation in the U.S because these operations meet certain legislative exceptions in the Internal Revenue Code that allow for deferral of taxation on the earnings generated by these operations until such earnings are repatriated to the U.S.

Ireland

AmTrust International Underwriters DAC (“AIU”), a company incorporated in Ireland, is resident in Ireland for Irish tax purposes and subject to Irish corporation tax on its worldwide profits (including revenue profits and capital gains). Income derived by AIU from an Irish trade is subject to Irish corporation tax at the current rate of 12.5%.

For U.S. federal income tax purposes, AIU is a controlled foreign corporation and its earnings generally are included in our U.S. federal taxable income. A credit against U.S. federal income tax liability is available for any Irish tax paid on such earnings.

The other remaining Irish operations are not currently subject to taxation in the U.S. because these operations meet certain legislative exceptions in the Internal Revenue Code that allow for deferral of taxation on the earnings generated by these operations until such earnings are repatriated to the U.S.

Luxembourg

AmTrust Holdings Luxembourg S.A.R.L (“AHL”), a Luxembourg holding company, is resident in Luxembourg for tax purposes and subject to Luxembourg corporation tax on its profits (including revenue profits and capital gains). Earnings derived by AHL and its Luxembourg domiciled subsidiaries are subject to Luxembourg corporation tax at the rate of approximately 30%.

All of the Luxembourg-domiciled entities are also subject to a Net Wealth Tax of 0.5% on their net wealth based on prescribed valuation methods.

For U.S. federal income tax purposes, AHL and all of its subsidiaries are controlled foreign corporations and their earnings generally are included in our U.S. federal taxable income. A credit against U.S. federal income tax liability is available for any Luxembourg income tax paid on such earnings.

United Kingdom

AmTrust International Limited ("AIL"), a company incorporated in the United Kingdom, is subject to corporation tax on its worldwide profits (including revenue profits and capital gains). Earnings derived by AIL and its U.K. domiciled subsidiaries are subject to British corporation tax at the rate of 20%.

AIL's subsidiaries domiciled outside of the U.K. are subject to taxation in their respective countries.

For U.S. federal income tax purposes, AIL and all of its subsidiaries are controlled foreign corporations and their earnings are generally deferred from inclusion in our U.S. federal taxable income. If a portion of the earnings is either deemed repatriated or actually repatriated, a credit against U.S. federal income tax liability is available for any local income taxes paid on such earnings.

Ratings

Our principal insurance subsidiaries are rated “A” (Excellent) by A.M. Best. An “A” rating is the third highest of the 16 categories used by A.M. Best, and is assigned to companies that have, in A.M. Best’s opinion, an excellent ability to meet their ongoing obligations to policyholders. Many insurance buyers, agents and brokers use the ratings assigned by A.M. Best and other agencies to assist them in assessing the financial strength and overall quality of the companies from which they are considering purchasing insurance.

These ratings were derived from an in-depth evaluation of these subsidiaries’ balance sheets strengths, operating performances and business profiles. A.M. Best evaluates, among other factors, our capitalization, underwriting leverage, financial leverage, asset leverage, capital structure, quality and appropriateness of reinsurance, adequacy of reserves, quality and diversification of assets, liquidity, profitability, spread of risk, revenue composition, market position, management, market risk and event risk. A.M. Best ratings are intended to provide an independent opinion of an insurer’s ability to meet its obligations to policyholders and are not an evaluation directed at investors.

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Regulation

General

The business of insurance and reinsurance is regulated in most countries, although the degree and type of regulation vary significantly from one jurisdiction to another. We are subject to extensive regulation in the United States and in Europe, which for us primarily consists of the United Kingdom and Ireland, as well as in Bermuda.

United States

As of December 31, 2016, we had twenty-four operating insurance subsidiaries domiciled in the United States (the "U.S. Insurance Subsidiaries").

Holding Company Regulation

We qualify as a holding company system under laws that regulate insurance holding company systems. Each insurance company in a holding company system is required to register with the insurance supervisory agency of its state of domicile (and in any other state in which the insurance company may be deemed to be commercially domiciled by reason of concentration of its business within such state) and periodically furnish information concerning its ownership, operations and transactions, particularly with other companies within the holding company system that may materially affect its operations, management or financial condition.

The insurance laws in most states provide that all transactions among members of an insurance holding company system must be fair and reasonable. These laws require disclosure of material transactions within the holding company system and, in some cases, prior notice of or approval for certain transactions. All transactions within a holding company system affecting an insurer must have fair and reasonable terms and are subject to other standards and requirements established by law and regulation.

Dividends

State insurance laws require our U.S. Insurance Subsidiaries to maintain certain levels of policyholders' surplus and restrict payment of dividends. In general, the maximum amount of dividends a U.S. Insurance Subsidiary may pay in any 12-month period without prior regulatory approval is the greater of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Most states restrict an insurance company's ability to pay dividends in excess of its statutory unassigned surplus or earned surplus, and state insurance regulators may limit or restrict an insurance company's ability to pay dividends, if such a dividend has been paid within the previous year, as a condition to issuance of a certificate of authority or as a condition to approval of a change of control, or for other regulatory reasons.

Change of Control

State insurance holding company laws require advance approval by the respective state insurance departments of any change of control of an insurer. Control is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. In addition, insurance laws in many states contain provisions that require pre- and post-notification to and prior approval from the insurance departments of a change of control of certain non-domestic insurance companies licensed in those states, as well as post-notification of a change of control of certain agencies and third party administrators. Obtaining these approvals may result in the material delay of, or deter, any such transaction. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of AmTrust, including through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

State Insurance Regulation

Insurance companies are subject to regulation and supervision by the department of insurance in the state in which they are domiciled and, to a lesser extent, other states in which they are authorized to conduct business. The primary purpose of such regulatory powers is to protect individual policyholders. State insurance authorities have broad regulatory, supervisory and administrative powers. For example, our U.S. Insurance Subsidiaries' policy rates and forms, including workers' compensation policies, are closely regulated in all states. Workers' compensation insurers are also subject to regulation by the specific workers' compensation regulators in the states in which they provide such insurance.

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Our U.S. Insurance Subsidiaries are required to file detailed financial statements and other reports with the departments of insurance in all states in which they are licensed to transact business. These reports include details concerning claims reserves held by the insurer, specific investments held by the insurer, and numerous other disclosures about the insurer’s financial condition and operations. These financial statements are subject to periodic examination by the department of insurance in each state in which they are filed. The quarterly and annual financial reports to the state insurance regulators utilize statutory accounting principles ("SAP"), which are different from GAAP. Statutory accounting principles are a basis of accounting developed to assist insurance regulators in monitoring and regulating the solvency of insurance companies, and are primarily focused on protection of policyholders. GAAP focuses more on income and cash flows, and gives more consideration to appropriately matching revenue and expenses, and accounting for management's stewardship of assets.

State insurance laws and insurance departments also regulate and limit the amounts and types of investments that insurers are permitted to make. Certain investments (such as real estate) are prohibited by certain jurisdictions. Each of our domiciliary states has its own regulations and limitations over investments. To ensure compliance in each state, we review our investment portfolio quarterly based on each state’s regulations and limitations.

In addition, many states have laws and regulations that limit an insurer’s ability to withdraw from a particular market or particular line of business. For example, states may limit an insurer’s ability to cancel or not renew policies. Laws and regulations that limit cancellation and non-renewal and that subject program withdrawals to prior approval requirements may restrict the ability of our U.S. Insurance Subsidiaries to exit unprofitable markets.

Insurance agencies, producers, third party administrators, claims adjusters and service contract providers and administrators are subject to licensing requirements and regulation by insurance regulators in various states in which they conduct business. Many of our subsidiaries and certain of our employees are subject to licensing requirements and regulation by insurance regulators in various states.

Federal and State Legislative and Regulatory Changes

From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the National Association of Insurance Commissioners (“NAIC”). The NAIC has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulatory framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. The NAIC has adopted amendments to the Insurance Holding Company System Regulatory Act and the Insurance Holding Company System Model Regulation to introduce the concept of “enterprise risk” within an insurance company holding system. The amendments impose more extensive informational requirements on insurers in order to protect the licensed insurance companies from enterprise risk, and have been adopted in all the states in which our U.S. Insurance Subsidiaries are domiciled. Additionally, the NAIC has adopted the Risk Management and Own Risk and Solvency Assessment (“ORSA”) Model Act, which requires insurers to perform an ORSA and, upon request of a state, file an ORSA Summary Report with the state. Also, as part of the Solvency Modernization Initiative, the NAIC has adopted the Corporate Governance Annual Filing Model Regulation and the Corporate Governance Annual Disclosure Model Act became effective in 2016, which requires us to file a confidential report prepared by the insurer or insurance group, the purpose of which is to provide the most relevant information necessary to permit state regulators to gain an understanding of the corporate governance structure, policies and practices utilized by the insurer.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) established a Federal Insurance Office (the “FIO”) within the U.S. Department of the Treasury. The FIO was initially charged with monitoring certain aspects of the insurance industry, gathering data, and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. In 2013, the FIO issued a report recommending that Congress consider direct federal involvement should the states fail to accomplish necessary modernization reforms in the near term. The FIO continues to support the current state-based regulatory regime, but may consider federal regulation should the states fail to take steps to achieve greater uniformity.

In addition, the Dodd-Frank Act gives the Federal Reserve supervisory authority over a number of financial services companies, including insurance companies, if they are designated by the Financial Stability Oversight Council as “systemically important.” In such a case, the Federal Reserve’s supervisory authority could include the ability to impose heightened financial regulation upon that insurance company and could impact its capital, liquidity and leverage requirements as well as its business and investment conduct. We have not been designed as "systemically important" by the Financial Stability Oversight Council.

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The Terrorism Risk Insurance Act (“TRIA”), as extended by the Terrorism Risk Insurance Program Reauthorization Act of 2015 (“TRIPRA”), requires that commercial property and casualty insurance companies, like our U.S. Insurance Subsidiaries, offer coverage (with certain exceptions, such as with respect to commercial auto liability) for certain acts of terrorism and has established a federal assistance program through the end of 2020 to help such insurers cover claims for terrorism-related losses.

Specific federal regulatory developments include the introduction of legislation in Congress that would repeal the McCarran-Ferguson Act antitrust exemption for the insurance industry. The antitrust exemption allows insurers to compile and share loss data, develop standard policy forms and manuals and predict future loss costs with greater reliability, among other things. The ability of the industry, under the exemption permitted in the McCarran-Ferguson Act, to collect loss cost data and build a credible database as a means of predicting future loss costs is an important part of cost-based pricing. If the ability to collect this data were removed, the predictability of future loss costs and the reliability of pricing could be undermined.

State Insurance Department Examinations

As part of their regulatory oversight process, state insurance departments conduct periodic detailed and risk-focused financial examinations of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC.

A second type of regulatory oversight examination of insurance companies involves a review by an insurance department of an authorized company’s market conduct, which entails a review and examination of a company’s compliance with laws governing marketing, underwriting, rating, policy-issuance, claims-handling and other aspects of its insurance business during a specified period of time. Our U.S. Insurance Subsidiaries are subject to both types of these examinations from time to time. Any adverse findings by state insurance departments could result in significant fines and penalties, which could negatively affect profitability.

Guaranty Fund Assessments

Various states levy assessments on all member insurers in a particular state on the basis of the proportionate share of the premiums written by the member insurers in the lines of business in which impaired, insolvent or failed insurers are engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. Our U.S. Insurance Subsidiaries have established accruals for their portion of guaranty fund assessments with respect to insurers that are currently subject to insolvency proceedings.

Residual Market Programs

Many states require insurers licensed to provide workers’ compensation and commercial automobile insurance to participate in a residual market program to provide these types of insurance to those entities that have not or cannot procure coverage from an insurer on a voluntary basis. The level of required participation is generally determined based on an insurer’s volume of the voluntarily issued business in that state. The mechanics of how each state’s residual markets operate may differ, but generally, risks are assigned to a servicing carrier pursuant to a state administered plan (“Assigned Risk Plans”), which is reinsured through a pooling arrangement where the results of all policies provided through these administered pools are shared by the participating companies.

Our U.S. Insurance Subsidiary, Technology Insurance Company, Inc. (“TIC”), acts as a servicing carrier for the workers’ compensation Assigned Risk Plans. Servicing carrier contracts are generally awarded based on a competitive bidding process. As a servicing carrier, we receive fee income for our services but do not retain any underwriting risk, which is fully reinsured by the various National Council on Compensation Insurance ("NCCI") pools.

Second Injury Funds

A number of states operate trust funds that reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. These state-managed trust funds are funded through assessments against insurers and self-insurers providing workers' compensation coverage in a particular state. We received recoveries of approximately $4.3 million, $6.1 million and $5.7 million from such state-managed trust funds in 2016, 2015 and 2014, respectively. The aggregate amount of cash we paid for assessments to state-managed trust funds for the years ended December 31, 2016, 2015 and 2014 was approximately $25.8 million, $23.4 million and $14.6 million, respectively.

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Risk-Based Capital Regulations

Our U.S. Insurance Subsidiaries are required to report their risk-based capital based on a formula developed and adopted by the NAIC that attempts to measure statutory capital and surplus needs based on the risks in the insurer's mix of products and investment portfolio. The formula is designed to allow insurance regulators to identify weakly-capitalized companies. Under the formula, a company determines its "risk-based capital" by taking into account certain risks related to the insurer's assets (including risks related to its investment portfolio and ceded reinsurance) and the insurer's liabilities (including underwriting risks related to the nature and experience of its insurance business). The insurance departments in our domiciliary states generally require a minimum total adjusted risk-based capital equal to 150% of an insurance company's authorized control level risk-based capital. At December 31, 2016, our U.S. Insurance Subsidiaries' risk-based capital levels exceeded the minimum requirements.

Insurance Regulatory Information System Ratios

The NAIC Insurance Regulatory Information System, or IRIS, is part of a collection of analytical tools designed to provide state insurance regulators with an integrated approach to screening and analyzing the financial condition of insurance companies operating in their respective states, and is intended to assist state insurance regulators in targeting resources to those insurers in greatest need of regulatory attention. IRIS generates key financial ratios results based on financial information obtained from insurers' annual statutory statements. Each ratio has an established "usual range" of results. Unusual values are viewed as part of a regulatory early monitoring system. An insurance company may fall out of the usual range for one or more ratios because of specific transactions that are in themselves immaterial or because of certain reinsurance or pooling structures or changes in such structures. Management does not anticipate regulatory action as a result of any 2016 IRIS ratio results outside the usual range for our U.S. Insurance Subsidiaries. In all instances in prior years, regulators have been satisfied upon follow-up that no regulatory action was required with respect to any ratio outside of the usual range.

Credit for Reinsurance

In addition to regulatory requirements imposed by the jurisdictions in which they are licensed, reinsurers' business operations are affected by regulatory requirements in various states governing "credit for reinsurance" that are imposed on their ceding companies. The Non-Admitted and Reinsurance Reform Act ("NRRA") prohibits a state in which a U.S. ceding insurer is licensed but not domiciled from denying credit for reinsurance for the insurer's ceded risk if the cedant's domestic state regulator recognizes credit for reinsurance. The ceding company in this instance is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the ceding company's liability for unearned premium (which are that portion of premiums written that apply to the unexpired portion of the policy period), loss reserves and loss expense reserves to the extent ceded to the reinsurer. AII, which reinsures risks of our U.S. Insurance Subsidiaries, is not licensed, accredited or approved in any state in the U.S. The great majority of states, however, permit a credit to statutory surplus resulting from reinsurance obtained from a non-licensed or non-accredited reinsurer to be recognized to the extent that the reinsurer provides a letter of credit, trust fund or other acceptable security arrangement. AII posts security to permit our U.S. Insurance Subsidiaries to receive credit for reinsurance on business ceded to AII pursuant to our intercompany reinsurance agreements.

Privacy Regulations

The Gramm-Leach-Bliley Act, which, among other things, protects consumers from the unauthorized dissemination of certain personal information, and various states' regulations address privacy issues. Certain aspects of these laws and regulations apply to all financial institutions, including insurance and finance companies, and require us to maintain appropriate policies and procedures for managing and protecting certain personal information of our policyholders. We may also be subject to future privacy laws and regulations, which could impose additional costs and impact our results of operations or financial condition. Model regulations have been established in conjunction with the Gramm-Leach-Bliley Act, and similar provisions have been adopted in several states regarding the safeguarding of policyholder information. To the best of our knowledge, we are in compliance with all applicable privacy laws and regulations.

Telephone and Email Sales Regulations

The U.S. Congress, the Federal Communications Commission, the Federal Trade Commission and various states have promulgated and enacted rules and laws that govern telephone and email solicitations. There are numerous state statutes and regulations governing telephone sales activities and email solicitations that do or may apply to our operations, including the operations of our call centers. Federal and state “Do Not Call” regulations must be followed for us to engage in telephone sales activities. In addition, both the federal and state statutes have rules governing commercial email messages restricting the content of the messages, as well as the method and manner of distribution, including requiring certain opt-out mechanisms.

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Regulatory Coordination

State regulators in the United States and regulatory agencies outside the United States are increasingly coordinating the regulation of internationally active insurance groups through participation in supervisory colleges. A supervisory college, as defined by the International Association of Insurance Supervisors, is a forum for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of entities that belong to an insurance group; facilitating both the supervision of the group as a whole on a group-wide basis; and improving the legal entity supervision of the entities within the insurance group. Our regulators conducted a supervisory college for our insurance group in 2015.

Ireland

AIU is a non-life insurance company organized under the laws of Ireland, and is subject to the regulation and supervision of the Central Bank of Ireland (the “Central Bank”) pursuant to the Insurance Acts 1909 to 2000, as amended (the “Insurance Acts”), and the European Union (Insurance and Reinsurance) Regulations 2015 (the “Regulations”). AIU is authorized to underwrite various classes of non-life insurance business, and, as an Irish authorized insurance company, is permitted to carry on insurance business in any other member state of the European Economic Area by way of freedom to provide services, on the basis that it has notified the Central Bank of its intention to do so, or by way of freedom of establishment, subject to the approval of the Central Bank, and subject to complying with such conditions as may be laid down by the regulator of the jurisdiction in which the insurance activities are carried out for reasons of the “general good.”

Qualifying Shareholders

The Insurance Acts and Regulations require that anyone acquiring or disposing of a direct or indirect holding in an insurance company that represents 10% or more of the capital or voting rights of such company or makes it possible to exercise a significant influence over management of the company (“qualifying holding”) in an insurance company (such as AIU), or anyone who proposes to decrease or increase that holding to 20%, 33%, 50% or such other level of ownership that results in the insurance company becoming the acquirer’s subsidiary (“specified levels”), must first notify the Central Bank of their intention to do so. It also requires any insurance company that becomes aware of any acquisitions or disposals of its capital, such that such holdings amount to a qualifying holding exceeding or falling below the specified levels, to notify the Central Bank. If the Central Bank is not satisfied as to the suitability of the acquirer in view of the necessity to ensure the sound and prudent management of the insurance undertaking, it may oppose the proposed transaction. Under the European Communities (Assessment of Acquisitions in the Financial Sector) Regulations 2009, there is a strict time-frame for the assessment of a proposed transaction, which may take up to 80 working days.

Any person having a shareholding of 10% or more of the issued share capital in AmTrust Financial Services, Inc. or AmTrust Equity Solutions, Ltd. (the direct parent of AIU) or a 20% or more holding in the intermediate companies between AmTrust Financial Services, Inc. and AmTrust Equity Solutions, Ltd. would be considered to have an indirect holding in AIU at or over the 20% limit. Any change that resulted in the indirect acquisition or disposal of a shareholding of greater than or equal to 10% in the share capital of AIU, or a change that resulted in an increase to or decrease below one of the specified levels, would need to be approved with the Central Bank prior to the transaction. The Central Bank’s approval would be required if any person were to acquire a shareholding equal to or in excess of 10% of AIU’s outstanding common stock or in excess of one of the specified levels.

AIU is required, at such times as may be specified by the Central Bank, and at least once a year, to notify the Central Bank of the names of shareholders possessing qualifying holdings and the size of such holdings.

Restrictions on Dividends

As a matter of Irish company law, AIU is restricted to declaring dividends only out of profits available for distribution, which are a company's accumulated realized profits less its accumulated realized losses. Such profits may not include profits previously distributed or capitalized and such losses do not include amounts previously written off in a reduction or reorganization of capital.

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Bermuda

Classification

AII is registered as an insurer by the Bermuda Monetary Authority ("BMA") under the Insurance Act 1978 of Bermuda, as amended (the "Insurance Act - Bermuda"). The BMA is responsible for the day-to-day supervision of insurers and monitors compliance with the solvency and liquidity standards imposed by the Insurance Act - Bermuda. Since January 1, 2016, AII has been registered as a Class 3B insurer. Accordingly, AII can carry on general business, broadly including all types of insurance business other than long-term business. AII is also licensed as a Class C insurer to carry on long-term business, which broadly includes life insurance and disability insurance with terms in excess of five years.

Annual and Quarterly Financial Statements, Annual Statutory Financial Return and Annual Capital and Solvency Return

AII is required to file annually with the BMA financial statements, a statutory financial return and a capital and solvency return, and file quarterly financial statements. The statutory financial return for an insurer includes, among other matters, statutory financial statements, a report of the approved auditor on the statutory financial statements, and, a declaration of compliance confirming compliance with various minimum criteria, including certifying the company meets the minimum solvency margin. Where an insurer's accounts have been audited for any purpose other than compliance with the Insurance Act - Bermuda, an express statement to that effect must be filed with the statutory financial return. The capital and solvency return includes AII's Bermuda Solvency Capital Return model for a Class 3B insurer, a commercial insurer's solvency self-assessment, a catastrophe risk return and a schedule of loss triangles or reconciliation of net loss reserves, schedule of solvency, financial condition report, an opinion of the company's loss reserve specialist, a schedule of eligible capital and an economic balance sheet. The capital and solvency return also includes a capital and solvency declaration that the return fairly represents the financial condition of AII in all material respects. AII is also required to file audited U.S. GAAP annual financial statements, which are published by the BMA.

Insurance Code of Conduct

The Insurance Code of Conduct prescribes the duties and standards with which registered insurers must adhere and comply, to ensure that the registered insurer implements sound corporate governance, risk management and internal controls. Failure to comply with these requirements is a factor considered by the BMA in determining whether an insurer is conducting its business in a sound and prudent manner. Any failure to comply with the requirements of the Insurance Code of Conduct could result in the BMA exercising its statutory powers of intervention.

Minimum Solvency Margin, Enhanced Capital Requirement and Restrictions on Dividends and Distributions

Under the Insurance Act - Bermuda, the value of the general business assets of a registered Class 3B insurer, such as AII, must exceed the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margin. AII is required, with respect to its general business, to maintain a minimum solvency margin equal to the greatest of: 25% of the enhanced capital requirement ("ECR"); $1.0 million; 20% of net premiums written up to $6.0 million plus 15% of net premiums written over $6.0 million; and 15% of loss and other insurance reserves. AII is also required to maintain available statutory capital and surplus at least equal to its ECR. The BMA has also established a target capital level ("TCL") for each insurer subject to an enhanced capital requirement equal to 120% of its ECR. Failure to maintain statutory capital at least equal to the TCL would likely result in increased regulatory oversight.

AII could not declare or pay dividends during any financial year if it is in breach of its minimum solvency margin or minimum liquidity ratio or if it would fail to meet such margin or ratio as a result. In addition, BMA approval would be required prior to declaring or paying dividends in any financial year AII failed to meet its minimum solvency margin or minimum liquidity ratio on the last day of any financial year.

As a registered Class 3B insurer, AII is prohibited from declaring or paying dividends of more than 25% of its previous year's total statutory capital and surplus unless it files with the BMA an affidavit stating it will continue to meet its minimum capital requirements. In addition, AII is prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital as set out in its previous year's financial statements.

As a registered Class C long-term insurer, AII is required to establish and maintain a long-term business fund and no payment may be made directly or indirectly from AII's long-term business fund for any purpose other than a purpose related to AII's long-term business, unless such payment can be made out of any surplus certified by AII's approved actuary to be available for distribution otherwise than to policyholders. With respect to its long-term business, AII must maintain a minimum solvency margin of the greater of $0.5 million or 1.5% of assets and certain additional restrictions apply to AII's ability to declare or pay dividends. AII's

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approved actuary must certify that AII’s long-term business assets exceeds its long-term business liabilities (based on Bermuda’s Economic Balance Sheet technical provisions) by the amount of the dividend and the greater of $0.5 million or 1.5% of assets, and any such dividend shall not exceed the aggregate of such excess and other funds properly available for the payment of dividends. AII applies annually for an exemption from the Bermuda Solvency Capital Return model for a Class C insurer as AII has not written any long-term insurance business.

Minimum Liquidity Ratio

Under the Insurance Act - Bermuda, an insurer engaged in general business, such as AII, is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities.

Notification of New or Increased Shareholder Control and Objection to Shareholder Controller

Pursuant to the Insurance Act - Bermuda, any person who becomes a holder of at least 10%, 20%, 33% or 50% of our shares or AII’s shares (a “shareholder controller”) must notify the BMA within 45 days of becoming such a holder. AII must also notify the BMA if any person has become or ceased to be a shareholder controller of AII, within 45 days of becoming aware of the relevant facts. For so long as we have a subsidiary that is an insurer registered under the Insurance Act - Bermuda, the BMA may at any time object to a person becoming a new shareholder controller or being a holder of 10% or more of our shares if the BMA determines that the person is not or is no longer fit and proper to be such a holder. In any such a case, the BMA may require a shareholder to reduce its holding of our shares and direct, among other things, that such shareholder’s voting rights shall not be exercisable.

United Kingdom

AmTrust Europe Ltd. ("AEL"), AMT Mortgage Insurance Limited ("AMIL") and Motors Insurance Company Limited ("MIC") are non-life insurance companies organized under the laws of the United Kingdom (including the Companies Act 2006 and the Financial Services and Markets Act 2000 ("FSMA")). As insurance companies, AEL, AMIL and MIC are “dual regulated” by both the Prudential Regulation Authority ("PRA"), a subsidiary of the Bank of England, and the Financial Conduct Authority ("FCA"). The stated objective of the United Kingdom government for this dual regulation is to foster a regulatory culture of judgment, expertise and proactive supervision. The FCA takes a more proactive, interventionist approach and has been given a product intervention power that enables it to act quickly to ban or impose restrictions on financial products. The FCA can also make public (through a warning notice), at a much earlier stage in enforcement proceedings, a statement that enables consumers, firms and market users to understand the nature of its concerns that will usually name the company under investigation and, in certain circumstances, name an individual.

AEL and MIC are both authorized to underwrite various classes of non-life insurance business within the United Kingdom and, for certain of these classes, they are authorized to underwrite risks within some member states of the European Economic Area under the European Council Non-Life Insurance Directives. This is either on a “freedom of services” or on a “freedom of establishment” basis and is subject to complying with such “general good” conditions as may be laid down by the local regulatory authorities. AMIL is a monoline insurer specializing in mortgage insurance and is authorized to underwrite risks within some member states of the European Economic Area under the European Council Non-Life Insurance Directives on both a "freedom of services" and "freedom of establishment" basis.

Change in Control

The FSMA requires controllers of insurers to be approved by the PRA and the FCA. This includes individuals or corporate bodies who wish to take, or increase, control in an authorized insurer. A change in control also occurs when an existing controller decreases control.

A controller is a person or entity who (i) owns or controls 10% or more of the issued share capital or voting power of the authorized insurer, (ii) owns or controls 10% or more of the issued share capital or voting power of a controller of the authorized insurer, or (iii) who otherwise can exercise significant management control of the authorized insurer or one of its controllers. In the case of AEL, this includes (but is not limited to) AmTrust Financial Services, Inc., AII, AII Insurance Management Limited, AII Reinsurance Broker Ltd., AmTrust Equity Solutions, Ltd., AIL, AmTrust North America, Inc. and Barry Zyskind, Leah Karfunkel and George Karfunkel. In the case of MIC, it also includes the aforementioned and Car Care Plan (Holdings) Limited.

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Financial Requirements and Regulatory Guidelines

AEL, AMIL and MIC are required to maintain regulatory capital resources in accordance with the Solvency Capital Requirement ("SCR") determined under Solvency II. The SCR is the amount of funds that an insurance firm is required to hold in the European Union, which covers existing business as well as new business expected over the course of 12 months. The SCR can be calculated under either the Standard Formula approach or by using an Internal Model, which requires PRA approval. As of December 31, 2016, AEL, AMIL and MIC each use the Standard Formula approach to calculate their respective SCR and each have maintained capital resources in excess of their respective required SCR.

Restrictions on Dividends

AEL, AMIL and MIC may only make distributions out of profits available for distribution and only with the PRA's prior consent. Profits available for distribution are the accumulated, realized profits of an insurer so far as not previously distributed or capitalized, less the insurer's accumulated, realized losses so far as not previously written off in a reduction or reorganization of capital. The test of whether the distribution is legal is applied by reference to relevant accounts complying with specified requirements.

Lloyd's

We participate in the Lloyd's market through our ownership of AmTrust at Lloyd's Limited, a managing agent for syndicates 1206, 44 and 2526, and AmTrust Lloyd's Holdings (UK) Limited, a managing agent for syndicates 1861, 5820 and 779 (collectively, the "Lloyd's managing agents"). The Lloyd's managing agents are dual-regulated by the FCA and PRA. The Society of Lloyd's, the FCA and the PRA have statutory responsibilities, including under the Lloyd's Acts 1871 - 1982 and FSMA, in relation to the supervision of insurance business underwritten in the Lloyd's markets and the supervision of managing agents operating in the market at Lloyd's.
The FCA, the PRA and Lloyd's have complementary objectives in ensuring that the Lloyd's market is appropriately regulated. To minimize duplication, there are arrangements between them for co-operation on supervision and enforcement.
Our Lloyd's operations are also governed by The Council of Lloyd's, which, through the Lloyd's Franchise Board, is responsible for regulating and directing the business of insurance at Lloyd's in line with its statutory powers, subject to its bylaws and in furtherance of the objects of Lloyd's. Lloyd's prescribes, in respect of its managing agents and corporate members, certain minimum standards relating to their management and control, solvency and various other requirements. By entering into a membership agreement with Lloyd's, our Lloyd's managing agents undertook to comply with Lloyd's bylaws and regulations as well as the provisions of the Lloyd's Acts and the Financial Services and Markets Act that are applicable to them. The operation of syndicates 1206, 44, 2526, 1861, 5820 and 779, as well as the Lloyd's managing agents and their directors, is subject to the Lloyd's supervisory regime.
Members of Lloyd's must support their underwriting capacity by providing a deposit (referred to as "Funds at Lloyd's" or "FAL") in the form of cash, securities or letters of credit in an amount determined by Lloyd's equal to a specified percentage of the member's underwriting capacity. Each member calculates the amount of such deposit through the completion of an annual capital adequacy exercise and submits the results of this exercise to Lloyd's for approval. Lloyd's then advises the member of the amount of deposit that is required. When a managing agent of a syndicate proposes to increase underwriting capacity for the following underwriting year, the consent of the Council of Lloyd's may be required.

The Council of Lloyd's has wide discretionary powers to regulate members' underwriting at Lloyd's. It may, for instance, change the basis on which syndicate expenses are allocated or vary the FAL ratio or the investment criteria applicable to the provision of FAL. Exercising any of these powers might affect the return on an investment of the corporate member in a given underwriting year. Further, the annual business plans of a syndicate are subject to the review and approval of the Lloyd’s Franchise Board, which is responsible for setting risk management and profitability targets for the Lloyd’s market and operates a business planning and monitoring process for all syndicates.

If a member of Lloyd’s is unable to pay its debts to policyholders, such debts may be payable by the Lloyd’s Central Fund, which acts similarly to state guaranty funds in the United States. If Lloyd’s determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd’s members. The Council of Lloyd’s has discretion to call or assess up to 3% of a member’s underwriting capacity in any one year as a Central Fund contribution.

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Solvency II

The European Union’s executive body, the European Commission, implemented a new capital adequacy and risk management regulation called “Solvency II” that applies to our businesses across the European Union (including the United Kingdom) and impacts AEL, AMIL, MIC, our Lloyd's syndicates, AIU and our Luxembourg entities. Solvency II became effective on January 1, 2016 and imposes new requirements with respect to capital structure, technical provisions, solvency calculations, governance, disclosure and risk management, and we have undertaken considerable preparatory work to ensure that the impacted businesses were compliant upon implementation. In addition, under Solvency II, it is possible that the U.S. parent of a European Union subsidiary could be subject to certain Solvency II requirements if the regulator determines that the subsidiary’s capital position is dependent on the parent company and the U.S. parent is not already subject to regulations deemed “equivalent” to Solvency II. Such regulation could apply to us as the U.S. parent of a European Union subsidiary and could result in a need for additional capital, increased costs of compliance, increased disclosure and less flexibility in our capital management.

Offices

Our principal executive offices are located at 59 Maiden Lane, 43rd Floor, New York, New York 10038, and our telephone number at that location is (212) 220-7120. Our website is www.amtrustgroup.com. Our internet website and the information contained therein or connected thereto are not intended to be incorporated by reference into this Annual Report on Form 10-K.

Employees

As of December 31, 2016, we had approximately 8,000 employees worldwide.

None of our U.S. employees are covered by a collective bargaining agreement. We do have non-U.S. employees covered by labor agreements. Certain members of our management team have employment agreements. The remainder of our employees are at-will employees.

Available Information

We file our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements on Schedule 14A and all amendments to those reports with the Securities and Exchange Commission (the “SEC”). You may read or obtain copies of these documents by visiting the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC’s website at www.sec.gov. Our internet website address is www.amtrustgroup.com. You can also obtain on our website’s Investor Relations page, free of charge, a copy of our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such reports or amendments with, or furnish them to, the SEC.

Also available at the “Corporate Governance” section of the Investor Relations page of our website, free of charge, are copies of our Code of Business Conduct and Ethics, our Corporate Governance Guidelines, and the charters for our Audit, Compensation, and Nominating and Corporate Governance Committees. Copies of our Code of Business Conduct and Ethics, our Corporate Governance Guidelines, and Charters are also available in print free of charge, upon request by any stockholder. You can obtain such copies in print by contacting Investor Relations by mail at our corporate office. We intend to disclose on our website any amendment to, or waiver of, any provision of our Code of Business Conduct and Ethics applicable to our directors and executive officers that would otherwise be required to be disclosed under the rules of the SEC or NASDAQ.

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Item 1A. Risk Factors

You should carefully consider the following risks and all of the other information set forth in this report, including our consolidated financial statements and the notes thereto. Included below are the primary risks and uncertainties that, if realized, could have a material adverse effect on our business, financial condition, results of operations or cash flows, or our access to liquidity. The following discussion of risk factors includes forward-looking statements and our actual results may differ substantially from those discussed in such forward-looking statements. See “Note on Forward-Looking Statements.”

Risks Related to Our Business

Our business is sensitive to general economic, business, and industry conditions.

We are exposed to general economic, business and industry conditions, both in the United States and internationally. Adverse global economic and financial conditions are difficult to predict and mitigate against, and therefore the potential impact is difficult to estimate. Adverse general economic conditions may cause, among other things, significant reductions in available capital and liquidity from banks and other credit providers, substantial volatility in equity and currency values worldwide, and/or a prolonged recessionary or slow growth period. Several of the risks we face, including those related to our investment portfolio, reinsurance arrangements, our estimates of loss reserves, emerging claim and coverage issues, the competitive environment and regulatory developments result from, or are made worse by, an economic slowdown or financial disruption.

Our loss reserves are based on estimates and may be inadequate to cover our actual losses.

The principal cost associated with our property and casualty insurance business is claims. In writing property and casualty insurance policies, we receive premiums today and promise to pay covered losses in the future. However, significant time may pass before all claims that have occurred as of any given balance sheet date will be reported and concluded. We will not know whether reserves established or the premiums charged for the coverages provided were sufficient until well after the balance sheet date. Our loss reserves are based on estimates of the ultimate cost of individual claims and on actuarial estimation techniques. These estimates are based on historical information and on estimates of future trends that may affect the frequency of claims and changes in the average cost of claims that may arise in the future. They are inherently uncertain and do not represent an exact measure of actual liability. Judgment is required to determine the relevance of historical payment and claim settlement patterns under current facts and circumstances. The interpretation of this historical data can be impacted by external forces, principally legislative changes, economic fluctuations and legal trends.

Our estimated unpaid losses are material ($10.1 billion at December 31, 2016), so even small percentage increases to the aggregate liability estimate can result in materially lower future periodic reported earnings. An increase in reserves could result in a reduction in our surplus, which could result in a downgrade in our A.M. Best rating. Such a downgrade could, in turn, adversely affect our ability to sell insurance policies.

In particular, workers’ compensation claims are often paid over a long period of time and there are no policy limits on our liability for workers’ compensation claims as there are for other forms of insurance. Therefore, estimating reserves for workers’ compensation claims may be more uncertain than estimating reserves for other types of insurance claims with shorter or more definite periods between occurrence of the claim and final determination of the loss and with policy limits on liability for claim amounts.

Catastrophic losses, including those that may result from the possible negative effects of climate change, or the frequency of smaller insured losses may exceed our expectations as well as the limits of our reinsurance, which could adversely affect our financial condition or results of operations.

Property and casualty insurers are subject to claims arising from catastrophes. Catastrophes can cause losses in multiple property and casualty lines, including property and workers' compensation. Workers' compensation constitutes approximately 39% of our business and we write commercial property insurance in our Specialty Program segment and our Small Commercial Business segment. In addition, we issue policies that cover crop-related revenue shortfalls or production losses due to natural causes and other perils such as drought, excessive moisture, hail, wind, frost, insects, and disease. The incidence and severity of catastrophes, such as those due to natural disasters and also large-scale terrorist attacks, are inherently unpredictable, and our losses from catastrophes could be substantial.

Longer-term weather trends are changing and new types of catastrophic losses may be developing due to climate change, a phenomenon that is expected to result in an increased incidence of extreme weather events linked to rising temperatures, including

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effects on global weather patterns, sea, land and air temperature, sea levels, rain and snow. Climate change could increase the frequency and severity of catastrophic losses we experience in both coastal and non-coastal areas.

In addition, it is possible that we may experience an unusual frequency of smaller losses in a particular period, which could cause substantial volatility in our financial condition or results of operations for any fiscal quarter or year, which could have a material adverse effect on our financial condition or results of operations and our ability to write new business. Although we attempt to manage our exposure to these types of catastrophic and cumulative losses, including through the use of reinsurance, the severity or frequency of these types of losses may exceed our expectations as well as the limits of our reinsurance coverage.

If we do not accurately price our policies, our results of operations will be adversely affected.

In general, the premiums for our insurance policies are established at the time the policy is issued and, therefore, before all of our underlying costs are known. Like other insurance companies, we rely on estimates and assumptions in setting our premium rates. Establishing adequate premiums is necessary, together with investment income, to generate sufficient revenue to offset losses, loss adjustment expenses and other underwriting expenses and to earn a profit. If we do not accurately assess the risks that we assume, we may not charge adequate premiums to cover our losses and expenses, which could reduce our net income and cause us to become unprofitable. In order to accurately price our policies, we must collect and properly analyze a substantial volume of data from our insureds; develop, test and apply appropriate rating formulas; closely monitor and timely recognize changes in trends; and project both frequency and severity of our insureds' losses with reasonable accuracy.

Our ability to undertake these efforts successfully and, as a result, accurately price our policies, is subject to a number of risks and uncertainties, some of which are outside our control, including:

- availability of sufficient reliable data and our ability to properly analyze available data;
- uncertainties generally inherent in estimates and assumptions;
- our failure to implement appropriate rating formulas or other pricing methodologies;
- regulatory constraints on rate increases;
- increases or changes in taxes;
- unexpected escalation in the costs of ongoing medical treatment;
- our failure to accurately estimate investment yields and the duration of our liability for loss and loss adjustment expenses; and
- unanticipated court decisions, legislation or regulatory action.

Our premium rates, generally, are established for the term of the policy. Consequently, we could set our premiums too low, which would negatively affect our results of operations and our profitability, or we could set our premiums too high, which could reduce our competitiveness and lead to lower revenues.

A downgrade in the A.M. Best rating of our principal insurance subsidiaries would likely reduce the amount of business we are able to write and could adversely impact the competitive positions of our insurance subsidiaries.

A.M. Best evaluates insurance companies based on their ability to pay claims. Our principal insurance subsidiaries are rated "A" (Excellent) by A.M. Best. The ratings of A.M. Best are subject to periodic review using, among other things, proprietary capital adequacy models, and are subject to revision or withdrawal at any time. Our competitive position relative to other companies is determined in part by our A.M. Best rating. If our A.M. Best rating is reduced, our competitive position in the insurance industry could suffer and it would be more difficult for us to market our products. A significant downgrade could result in a substantial loss of business as policyholders move to other companies with higher ratings.

If market conditions cause our reinsurance to be more costly or unavailable, we may be required to bear increased risks or reduce the level of our underwriting commitments.

As part of our overall risk and capacity management strategy, we purchase quota share reinsurance and excess of loss and catastrophe reinsurance. The Maiden Quota Share and our reinsurance agreement with Maiden Reinsurance for our European medical liability business reinsure approximately 40% of our net retained premiums. In addition, we purchase reinsurance on an excess of loss and catastrophe basis for protection against catastrophic events and other large losses. Market conditions beyond our control, in terms of price and available capacity, may affect the level of our business and profitability. The Maiden Quota Share was renewed through June 30, 2019 and our excess of loss and catastrophe reinsurance facilities are generally subject to annual renewal.

We may be unable to maintain our current reinsurance facilities, including the Maiden Quota Share and our reinsurance agreement with Maiden Reinsurance for our European medical liability business, or to obtain other reinsurance in adequate amounts and at favorable rates. Increases in the cost of reinsurance would adversely affect our profitability. In addition, if we are unable to renew our expiring facilities or to obtain new reinsurance on favorable terms, either our net exposure to risk would increase, which would increase our costs, or, if we are unwilling to bear an increase in net risk exposures, we would have to reduce the amount of risk we underwrite, which would reduce our revenues.

Retentions in various lines of business expose us to potential losses.

We retain risk for our own account on business underwritten by our insurance subsidiaries. The determination to reduce the amount of reinsurance we purchase or not to purchase reinsurance for a particular risk or line of business is based on a variety of factors, including market conditions, pricing, availability of reinsurance, the level of our capital and our loss history. Such determinations have the effect of increasing our financial exposure to losses associated with such risks or in such lines of business and, in the event of significant losses associated with such risks or lines of business, could have a material adverse effect on our financial position, results of operations and cash flows.

We may not be able to recover amounts due from our third-party reinsurers, which would adversely affect our financial condition.

Reinsurance does not discharge our obligations under the insurance policies we write; it merely provides us with a contractual right to seek reimbursement on certain claims. We remain liable to our policyholders even if we are unable to make recoveries that we are entitled to receive under our reinsurance contracts. As a result, we are subject to credit risk with respect to our reinsurers. Losses are recovered from our reinsurers after underlying policy claims are paid. The creditworthiness of our reinsurers may change before we recover amounts to which we are entitled. Therefore, if a reinsurer were unable to meet its obligations to us, we would be responsible for claims and claim settlement expenses for which we would have otherwise received payment from the reinsurer. If we were unable to collect these amounts from our reinsurers, our costs would increase and our financial condition would be adversely affected. As of December 31, 2016, we had an aggregate amount of approximately $4.3 billion of recoverables from third-party reinsurers on paid and unpaid losses.

Our relationships with Maiden Holdings, Ltd. ("Maiden") and NGHC and their subsidiaries may present, and make us vulnerable to, difficult conflicts of interest, business opportunity issues and legal challenges.

Conflicts of interest could arise with respect to business opportunities that could be advantageous to Maiden, NGHC or their subsidiaries, on the one hand, and us or our subsidiaries, on the other hand. In addition, potential conflicts of interest may arise should our interests and those of Maiden or NGHC diverge. For a complete description of our relationships with Maiden and NGHC, see the discussion found in Note 17. “Related Party Transactions.”

In addition, two members of our Board of Directors, Donald DeCarlo, who is an independent member of our Board of Directors, and Mr. Zyskind, are also members of NGHC’s board of directors. Mr. Zyskind’s service as our Chairman, President and Chief Executive Officer, as non-executive chairman of the board of Maiden, and as non-executive chairman of NGHC’s board, and Mr. DeCarlo’s service as a member of our Board and NGHC’s board could raise a potential challenge under anti-trust laws. Section 8 of the Clayton Antitrust Act prohibits a person from serving as a director or officer in any two competing corporations under certain circumstances. If we and Maiden or NGHC were in the future deemed to be competitors within the meaning of the Clayton Antitrust Act and certain thresholds relating to direct competition between us and Maiden or NGHC are met, the Department of Justice and Federal Trade Commission could challenge the arrangement.

We receive significant ceding commission from Maiden.

We receive significant ceding commission from Maiden through the Maiden Quota Share and our reinsurance agreement with Maiden Reinsurance for our European medical liability business. A detailed description of these reinsurance arrangements is found in “Reinsurance” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

We may be unable to maintain these reinsurance arrangements beyond their current terms, and we may not be able to readily replace these arrangements if they terminate. If we were unable to continue or replace these arrangements on equally favorable terms, our underwriting capacity and commission and fee income could decline, we could experience a downgrade in our A.M. Best rating, and our results of operations and financial condition may be adversely affected.

We receive significant service and fee income from NGHC and Maiden.

We receive significant service and fee income from NGHC and Maiden through a series of agreements described in Note 17. "Related Party Transactions." We may be unable to maintain these arrangements. If we no longer provide these services to Maiden and NGHC and do not replace them with services provided to other parties on equally favorable terms and at similar levels, our service and fee income could decline, which may adversely affect our results of operations and financial condition.

We may not be able to successfully acquire or integrate additional business or manage the growth of our operations, which could make it difficult for us to compete and could negatively affect our profitability.

From time to time we may pursue acquisition opportunities if we believe that such opportunities are consistent with our long-term objectives. The process of integrating an acquired business or company can be complex and costly, may create unforeseen operating difficulties and expenditures and will require substantial management attention. We may not be able to successfully identify and acquire additional existing business on acceptable terms or integrate any business that we acquire.

In addition, our growth strategy of expanding in our existing markets, opportunistically acquiring books of business, other insurance companies or producers, entering new geographic markets and further developing our relationships with independent agencies and extended warranty/service contract administrators subjects us to various risks, including risks associated with our ability to identify profitable new geographic markets for entry, attract and retain qualified personnel for expanded operations, identify, recruit and integrate new independent agencies and extended warranty/service contract administrators, integrate information technology systems, manage risks associated with the acquisition of entities in foreign markets with which we are less familiar, expand existing agency relationships and augment our internal monitoring and control systems as we expand our business.

We may not be able to effectively manage our growth and any new business may not be profitable. If we are unable to manage our growth effectively, our results of operations and financial condition could be adversely affected.

We rely on our information technology and telecommunications systems to conduct our business, and our success and profitability rely, in part, on our ability to continue to develop and implement technology improvements.

We depend in large part on our technology systems for conducting business and processing claims, and thus our business success is dependent on maintaining the effectiveness of existing technology systems and on continuing to develop and enhance technology systems that support our business processes and strategic initiatives in a cost and resource efficient manner. Some system development projects are long-term in nature, may negatively impact our expense ratios as we invest in the projects and may cost more than we expect to complete. In addition, system development projects may not deliver the benefits we expect once they are complete, or may be replaced or become obsolete more quickly than expected, which could result in accelerated recognition of expenses. If we do not effectively and efficiently manage and upgrade our technology platform, or if the costs of doing so are higher than we expect, our ability to provide competitive services to new and existing customers in a cost effective manner and our ability to implement our strategic initiatives could be adversely impacted.

If we experience security breaches or other disruptions involving our technology, our ability to conduct our business could be adversely affected, we could be liable to third parties and our reputation could suffer.

Our business is highly dependent on our ability to access our information technology and telecommunication systems. We rely upon our systems, as well as the systems of our vendors, to perform business functions, such as underwriting and administering policies, processing claim payments, providing customer support, and complying with insurance regulatory requirements. Our operations are dependent upon our ability to process our business timely and efficiently and protect our information systems from physical loss or unauthorized access. In the event one or more of our facilities cannot be accessed due to a natural catastrophe, terrorist attack or power outage, or systems and telecommunications failures or outages, external attacks such as computer viruses, malware or cyber-attacks, or other disruptions occur, our ability to perform business operations on a timely basis could be significantly impaired and may cause our systems to be inaccessible for an extended period of time. A sustained business interruption or system failure could adversely impact our ability to perform necessary business operations in a timely manner, hurt our relationships with our business partners and customers and affect our financial condition and results of operations.

Our operations depend on the reliable and secure processing, storage and transmission of confidential and other information in our computer systems and networks. Like other global companies, we have, from time to time, experienced threats to our data and systems, including malware and computer virus attacks, unauthorized access, systems failures and disruptions. While we have experienced, and expect to continue to experience, these types of threats to our information technology and systems, to date none of these threats has had a material impact on our business or operations. Computer viruses, hackers, employee misconduct and other external hazards could expose our data systems to security breaches, cyber-attacks or other disruptions. In addition, we routinely transmit and receive personal, confidential and proprietary information by electronic means. Our systems and networks may be subject to breaches or interference. Any such event may result in operational disruptions as well as unauthorized access to or the disclosure or loss of our proprietary information or our customers' information, which in turn may result in legal claims, regulatory scrutiny and liability, damage to our reputation, the incurrence of costs to eliminate or mitigate further exposure, the loss of customers or affiliated advisers or other damage to our business. In addition, the trend toward broad consumer and general public notification of such incidents and negative media attention could exacerbate the harm to our business, financial condition or results of operations. Even if we successfully protect our technology infrastructure and the confidentiality of sensitive data, we could suffer harm to our business and reputation if attempted security breaches are publicized. Advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments could compromise or breach the technology or other security measures protecting the networks and systems used in connection with our business.

Operational risks, including the risk of fraud, are inherent in our business, and we may not be successful in preventing internal control failures or detecting all errors or fraud.

As a result of limitations inherent in all control systems, we may not be able to adequately prevent fraud or errors from occurring. Our controls and procedures for prevention and detection of fraud may not prevent errors or instances of human fraud. Judgments in decision making can be faulty and breakdowns may occur through simple human error. In addition, controls can be circumvented by individuals or multiple persons acting in collusion. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in maintaining a cost-effective control system, operational errors or fraud may occur and may not be detected. Any ineffectiveness in our internal controls resulting from fraud or error could have a material adverse effect on our business.

If our businesses do not perform well, we may be required to recognize an impairment of our goodwill or intangible assets, which could have a material adverse effect on our results of operations and financial condition.

We review our finite-lived intangible assets for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable from estimated future cash flows. We test goodwill and intangible assets with indefinite lives for impairment at least annually. If we determined that such goodwill or intangible assets has or have been impaired, we would be required to write down the goodwill or the intangible asset by the amount of the impairment, with a corresponding charge to net income. Such write downs could have a material adverse effect on our results of operations or financial position.

Our significant level of indebtedness could limit cash flow available for our operations and expose us to risks that could adversely affect our business, financial condition and results of operations, and impair our ability to satisfy our indebtedness obligations.

We have a significant amount of indebtedness. As of December 31, 2016, our total consolidated indebtedness was approximately $1.2 billion, which does not include approximately $168.0 million aggregate principal amount of a loan made by Maiden Reinsurance to us in connection with a reinsurance agreement between AII and Maiden Reinsurance that requires Maiden Reinsurance to provide sufficient collateral to secure its proportionate share of AII’s obligations. This amount is accounted for as a note payable on our balance sheet. We may incur additional indebtedness to meet future financing needs. Our indebtedness could have significant negative consequences for our business, results of operations and financial condition, including increasing our vulnerability to adverse economic and industry conditions, limiting our ability to obtain additional financing, requiring the dedication of portions of our cash flow from operations to service our indebtedness, thereby reducing the amount of our cash flow available for other purposes, limiting our flexibility in planning for, or reacting to, changes in our business, restricting our operational flexibility due to restrictive covenants that will limit our ability to explore certain business opportunities, dispose of assets and take other actions and placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

As of December 31, 2016, our annual debt service obligation on our outstanding indebtedness was approximately $66.6 million. We may be unable to maintain sufficient cash reserves, our business may not generate cash flow from operations at levels sufficient to permit us to pay principal, premium, if any, and interest on our indebtedness, or our cash needs may increase. If we were unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we failed to comply with the various requirements of any indebtedness that we have incurred or may incur in the future, we would be in default, which would permit the holders of the affected indebtedness to accelerate the maturity of such indebtedness and could cause us to default under our other indebtedness. Any default under any indebtedness that we have incurred or may incur in the future could have a material adverse effect on our business, results of operations and financial condition.

Additional capital that we may require in the future may not be available to us, or only available to us on unfavorable terms.

Our future capital requirements will depend on many factors, including regulatory requirements, the financial stability of our reinsurers, future acquisitions and our ability to write new business and establish premium rates sufficient to cover our estimated claims. We may need to raise additional capital or curtail our growth to support future operating requirements or cover claims. If we have to raise additional capital, equity or debt financing may not be available to us or may be available only on terms that are not favorable, such as terms resulting in dilution to our stockholders, or the securities sold may have rights, preferences and privileges senior to our currently issued and outstanding common stock. In addition, under certain circumstances, we may sell our common stock, or securities convertible or exchangeable into shares of our common stock, at a price per share less than the market value of our common stock. If we cannot obtain adequate additional capital on favorable terms or at all, we may be unable to support future growth or operating requirements and, as a result, our business, financial condition and results of operations could be adversely affected.

The covenants in our credit facilities, indentures governing our convertible senior notes due 2021 and 2044 and 6.125% notes due 2023, and certain secured loan agreements limit our financial and operational flexibility, which could have an adverse effect on our financial condition.

Our credit facilities and indentures governing our convertible senior notes and 6.125% notes due 2023 contain covenants that limit our ability, among other things, to borrow money, make particular types of investments or other restricted payments, sell assets, merge or consolidate. These covenants could restrict our ability to achieve our business objectives, and therefore, could have an adverse effect on our financial condition. In addition, our credit facilities, the indenture governing our 6.125% notes due 2023 and certain of our secured loan agreements also require us to maintain specific financial ratios and timely delivery of financial information. In addition, we have entered into joint ventures that are encumbered by outstanding indebtedness that contain similar covenants for which our joint venture partners and we provide guarantees and for which we retain joint and several liability. Our inability to comply with these covenants or meet these financial ratios and deadlines could lead to a default or an event of default under the terms of our credit facilities, indentures or secured loan agreements, for which we may need to seek relief from our lenders and noteholders in order to waive the associated default or event of default and avoid a potential acceleration of the related indebtedness or cross-default or cross-acceleration to other debt. We may not be able to obtain such relief on commercially reasonable terms and we may be required to incur significant additional costs. In addition, our lenders and noteholders may impose additional operating and financial restrictions on us as a condition to granting any such waiver. Our lenders under our credit facilities could cancel their commitments to lend and/or issue letters of credit and the lenders under our credit facilities and secured loan agreements and our noteholders could declare a default and demand immediate repayment on all amounts owed to them, any of which would have a material adverse effect on our business, financial condition, cash flows and results of operations and would cause the market value of our securities to decline. See " – We have undergone an internal review of our previously issued financial statements, which has resulted in our Audit Committee and management concluding that we must restate certain of our historical financials. Restatements of financial statements could have a negative effect on our business and stock price."

If we were unable to realize our investment objectives, our financial condition and results of operations may be adversely affected.

Investment income is an important component of our net income. Our investments are subject to a variety of risks, including risks related to general economic conditions, interest rate fluctuations, market volatility, various regulatory issues, credit risk, potential litigation, tax audits, tax law changes and disputes, failure to monetize in an effective and/or cost-efficient manner and poor operating results. General economic conditions may be adversely affected by U.S. involvement in hostilities with other countries and large-scale acts of terrorism, or the threat of hostilities or terrorist acts.

We may be forced to liquidate investments at times and prices that are not optimal, which could have an adverse impact on our results of operations. Investment losses could decrease our asset base and adversely affect our ability to conduct business and pay claims. Any significant decline in our investment income would adversely affect our revenues and net income and, as a result, decrease our surplus and stockholders' equity.

A significant amount of our assets is invested in fixed income securities and is subject to market fluctuations.

Our investment portfolio consists substantially of fixed income securities. As of December 31, 2016, our investment in fixed income securities was approximately $7.4 billion, or 83% of our total investment portfolio.

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The fair market value of these assets and the investment income from these assets fluctuate depending on general economic and market conditions. The fair market value of fixed income securities generally decreases as interest rates rise. Conversely, if interest rates decline, the fair market value of fixed income securities generally increases. However, investment income earned from future investments in fixed income securities will decrease due to being reinvested at lower interest rates. In addition, some fixed income securities, such as mortgage-backed and other asset-backed securities, carry prepayment risk as a result of interest rate fluctuations. Based upon the composition and duration of our investment portfolio at December 31, 2016, a 100 basis point increase in interest rates would result in a decrease in the fair value of our investments of approximately $370.0 million.

The value of investments in fixed income securities, and particularly our investments in high-yield securities, is subject to impairment as a result of deterioration in the credit worthiness of the issuer or increases in market interest rates. Our investments are subject to losses as a result of a general decrease in commercial and economic activity for an industry sector in which we invest, as well as risks inherent in particular securities. These conditions could result in lower than expected yields on our fixed securities and short term investment portfolio. In addition, our investment in less liquid investments, such as our investment in NGHC, life settlement contracts and real estate, is subject to increased valuation uncertainty because the valuation is more subjective, thereby increasing the risk that the estimated fair value (i.e., the carrying cost) does not reflect the price at which an actual transaction would occur.

As a result of the risks set forth above, the value of our investment portfolio could decrease, our net investment income could decrease, or we could experience realized and/or unrealized investment losses, all of which could materially and adversely affect our results of operations and liquidity.

Our international operations expose us to investment, political, legal and economic risks, including foreign currency and credit risk.

Our expanding international operations expose us to increased investment, political, legal and economic risks, including foreign currency and credit risk. Changes in the value of the U.S. dollar relative to other currencies could have an adverse effect on our results of operations and financial condition. Investments outside the United States also subject us to additional laws and regulations, including the Foreign Corrupt Practices Act, the U.K. Bribery Act and similar laws in other countries that prohibit the making of improper payments to foreign officials. If our controls are ineffective and an employee or intermediary fails to comply with applicable laws and regulations, we could suffer civil and criminal penalties and our business and our reputation could be adversely affected.

Our investments in non-U.S. dollar denominated securities are subject to fluctuations in the currency markets, and those markets can be volatile. We may, from time to time, experience losses resulting from fluctuations in the values of these non-U.S. dollar denominated currencies or be unable to repatriate cash to the United States, or otherwise make available cash in the United States, and to do so at a favorable foreign exchange rate and with favorable tax ramifications, all of which could adversely affect our operating results.

The vote by the United Kingdom to leave the European Union could adversely affect us.

The United Kingdom held a referendum on June 23, 2016, in which a majority voted for the U.K.'s exit from the European Union (E.U.), commonly referred to as "Brexit." As a result of this referendum, it is expected that the U.K. will commence negotiations to determine the terms of its withdrawal from the E.U., as well as the future terms of its relationship with the E.U. The effects of Brexit will depend on any agreements made during these negotiations, and as a result, our U.K. insurers and Lloyd's syndicates face potential uncertainty regarding, among other things, the ability to transact business in E.U. countries (if the "passporting" regime currently enjoyed by U.K. insurance companies is withdrawn without something similar being negotiated) and the free movement of goods and people between the U.K.

and the E.U. In addition, Brexit could adversely affect European or worldwide political, economic or market conditions and could lead to instability in global financial markets. The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. Brexit could also lead to legal uncertainty and differing national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. In addition, Brexit may lead other E.U. member countries to consider referendums regarding their membership in the E.U. Any of these potential effects of Brexit, and others we cannot anticipate, could adversely affect our business, business opportunities, results of operations, financial condition and cash flows. Until Brexit takes effect, which may not happen for two years or more, the U.K. remains a full member of the E.U. and our U.K. insurers and Lloyd's syndicates retain their access to transact business in other E.U. countries.

Resolution of uncertain tax matters and changes in tax laws or taxing authority interpretations of tax laws could result in actual tax benefits or deductions that are different than we have estimated, both with regard to amounts recognized and the timing of recognition. Such differences could affect our results of operations or cash flows.

Our provision for income taxes, our recorded tax liabilities and net deferred tax assets, including any valuation allowances, are recorded based on estimates. These estimates require us to make significant judgments regarding a number of factors, including, among others, the applicability of various federal and state laws, our interpretation of tax laws and the interpretations given to those tax laws by taxing authorities and courts, the timing of future income and deductions, and our expected levels and sources of future taxable income. Additionally, from time to time there are changes to tax laws and interpretations of tax laws that could change our estimates of the amount of tax benefits or deductions expected to be available to us in future periods. In either case, changes to our prior estimates would be reflected in the period changed and could have a material effect on our effective tax rate, financial position, results of operations and cash flows. In addition, the U.S. Congress, government agencies in non-U.S. jurisdictions where we do business, and the Organization for Economic Co-operation and Development, as part of its “base erosion and profit shifting” initiative, have focused on perceived tax avoidance by multinational corporations. As a result, the tax laws in the U.S., United Kingdom, Bermuda, Ireland and other countries in which we do business could change on a prospective or retroactive basis, and any such changes could adversely affect our financial results.

We are subject to U.S. federal and various state and foreign jurisdiction taxes. We are periodically under routine examination by various federal, state, local and foreign authorities regarding tax matters and our tax positions could be successfully challenged and the costs of defending our tax positions could be considerable, both of which could negatively affect our results of operations.

Our business is dependent on the efforts of our principal executive officers.

Our success is dependent on the efforts of our principal executive officers, Barry Zyskind, Ronald Pipoly, Christopher Longo, Michael Saxon, Max Caviet and Adam Karkowsky, because of their industry expertise, knowledge of our markets and relationships with our independent agencies and warranty administrators. Should any of these executive officers cease working for us, we may be unable to find acceptable replacements with comparable skills and experience in the workers’ compensation insurance industry and/or the specialty risk sectors that we target, and our business may be adversely affected. We do not currently maintain life insurance policies with respect to our executive officers or other employees.

We are an insurance holding company and do not have any direct operations.

Our operations are substantially conducted through direct and indirect subsidiaries. As a holding company, we do not own any significant assets other than equity in our subsidiaries. Payments from our insurance subsidiaries pursuant to management agreements and tax sharing agreements, as well as fee income we generate from providing services discussed throughout this report, are our primary source of funds to pay our direct expenses. The ability of our insurance subsidiaries to pay dividends or make distributions or other payments to us depends on the availability of cash flow from operations and proceeds from the sale of assets and other capital-raising activities. Dividends or other distributions from our subsidiaries to us may be subject to contractual and other restrictions and are subject to other business considerations.

Payment of dividends by our insurance subsidiaries is restricted by insurance laws of various states, and the laws of certain foreign countries in which we do business (primarily Ireland, United Kingdom and Bermuda), including laws establishing minimum solvency and liquidity thresholds. As a result, at times, we may not be able to receive dividends from our insurance subsidiaries, which would affect our ability to pay dividends on our common stock and preferred stock, as discussed below, and to pay principal and interest on our outstanding indebtedness. As of December 31, 2016, our insurance subsidiaries collectively could pay dividends to us of $749.3 million without prior regulatory approval. Any dividends paid by our subsidiaries would reduce their surplus. The inability of our operating subsidiaries to pay dividends and other permitted payments in an amount sufficient to enable us to meet our cash requirements at the holding company level would have a material adverse effect on our operations.

We have identified material weaknesses in our internal control over financial reporting related to, among other things, the restatement of our previously issued financial statements. If we are unable to remediate these material weaknesses, or if we experience additional material weaknesses or deficiencies in the future or otherwise fail to maintain an effective system of internal controls, we may not be able to accurately or timely report our financial results, in which case our business may be harmed, investors may lose confidence in the accuracy and completeness of our financial reports and the price of our common stock may decline.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for evaluating and reporting on our system of internal control. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. As a public company, we are required to comply with the Sarbanes-Oxley Act and other rules that govern public companies. In particular, we are required to certify our compliance with Section 404 of the Sarbanes-Oxley Act, which requires us to furnish annually a report by management on the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm is required to report on the effectiveness of our internal control over financial reporting.

In connection with our most recent year-end assessment of internal control over financial reporting, we identified material weaknesses in our internal control over financial reporting as of December 31, 2016. For a discussion of our internal control over financial reporting and a description of the identified material weaknesses, see “Controls and Procedures” in Part II, Item 9A of this Report.

As further described in Item 9A “Controls and Procedures – Management's Report on Internal Control Over Financial Reporting – Status of Remediation Actions,” we have undertaken steps to improve our internal control over financial reporting. However, we may not be successful in making the improvements necessary to remediate the material weaknesses identified by management or be able to do so in a timely manner, or be able to identify and remediate additional control deficiencies or material weaknesses in the future. If we are unable to successfully remediate our existing or any future material weaknesses in our internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected, our liquidity, access to capital markets and perceptions of our creditworthiness may be adversely affected, we may be unable to maintain compliance with securities laws, stock exchange listing requirements and debt instruments regarding the timely filing of periodic reports, we may be subject to regulatory investigations and penalties, investors may lose confidence in our financial reporting, we may suffer defaults under our debt instruments, and our stock price may decline.

We have undergone an internal review of our previously issued financial statements, which has resulted in our Audit Committee and management concluding that we must restate certain of our historical financials. Restatements of financial statements could have a negative effect on our business and stock price.
As further discussed in Note 3 to our consolidated financial statements, we are restating our historical consolidated financial statements in respect of the fiscal years ended December 31, 2015 and 2014, including the quarterly periods in 2015 and 2016, and have included in this report restated consolidated financial statements for the years ended December 31, 2015 and 2014 and selected financial data tables. For a detailed description of the financial impact of the Restatement, see Note 3. "Restatement of Previously Issued Consolidated Financial Statements."

Our business may be harmed as a result of the restatement of our financial statements as noted above, including as a result of adverse publicity, litigation, SEC proceedings or exchange delisting. While we have taken measures to prevent future restatements, we cannot be certain that the measures we have taken as part of the restatement process will ensure that restatements will not occur in the future. These restatements may affect investor confidence in the accuracy of our financial disclosures and may raise reputational issues for our business.

The restatement process has been, and continues to be, resource-intensive, has involved a significant amount of attention from management, and has resulted in significant costs to us. Any future inquiries from the SEC or otherwise as a result of the restatement of our historical financial statements will, regardless of the outcome, likely consume a significant amount of our internal resources and result in additional legal and accounting fees and expenses. These fees and expenses, as well as the substantial time devoted by our management to address such inquiries, could have a material adverse effect on our business, profitability and financial condition. These restatements also may result in litigation for which, regardless of the outcome, we may incur substantial defense costs. If we do not prevail in any such litigation, we could be required to pay substantial damages or settlement costs. In addition, if the SEC were to conduct an investigation related to the restatements, we could potentially be subject to fines, penalties or other adverse consequences, and our business and financial condition could be adversely impacted.

Furthermore, subsequent to December 31, 2016, this restatement and our delay in filing this Form 10-K resulted in breaches of certain representations, warranties and covenants contained in certain of our credit facilities and secured loan agreements. In addition, one or more of such breaches also gave rise to cross defaults under certain of our credit facilities. Other than as described in Note 15. "Debt – Secured Loan Agreements," we received waivers from the required lenders under each of our credit facilities and secured loan agreements pursuant to which we determined that an event of default occurred as a result of the restatement or our failure to timely file this Form 10-K, including as a result of such cross defaults and the failure to obtain a waiver from the lenders under certain other credit facilities and secured loan agreements. However, we may not be able to secure similar waivers in the future, which may give rise to the acceleration of our debt and/or credit obligations.

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Risks Related to Our Industry

The property and casualty insurance industry is cyclical in nature, which may affect our overall financial performance.

Historically, the financial performance of the property and casualty insurance industry has tended to fluctuate in cyclical periods of price competition and excess capacity (known as a soft market) followed by periods of high premium rates and shortages of underwriting capacity (known as a hard market). Although an individual insurance company's financial performance is also dependent on its own specific business characteristics, the profitability of most property and casualty insurance companies tends to follow this cyclical market pattern. We cannot predict with certainty the timing or duration of changes in the market cycle because the cyclicality is due in large part to the actions of our competitors and general economic factors beyond our control. We have experienced increased price competition in certain of our target markets, and these cyclical patterns, the actions of our competitors, and general economic factors could cause our revenues and net income to fluctuate, which may cause the price of our common stock to be volatile.

Negative developments in the workers' compensation insurance industry would adversely affect our financial condition and results of operations.

Although we engage in other businesses, approximately 39% of our gross written premium currently is attributable to workers' compensation insurance. As a result, negative developments in the economic, competitive or regulatory conditions affecting the workers' compensation insurance industry could have an adverse effect on our financial condition and results of operations. For example, in certain states in which we do business, insurance regulators set the premium rates we may charge. In addition, if legislators in one of our larger markets were to enact legislation to increase the scope or amount of benefits for employees under workers' compensation insurance policies without related premium increases or loss control measures, this could negatively affect the workers' compensation insurance industry. Negative developments in the workers' compensation insurance industry could have a greater effect on us than on more diversified insurance companies that also sell many other types of insurance.

We operate in a highly competitive industry and may lack the financial resources to compete effectively.

We compete with other insurance companies, both domestic and foreign, and many of our existing and potential competitors are larger, have longer operating histories, and possess greater financial, marketing and management resources than we do. In our Small Commercial Business segment, we also compete with individual self-insured companies, state insurance pools and self-insurance funds. We compete on the basis of many factors, including coverage availability, responsiveness to the needs of our independent producers, claims management, payment/settlement terms, premium rates, policy terms, types of insurance offered, overall financial strength, financial ratings and reputation. If any of our competitors offer premium rates, policy terms or types of insurance that are more competitive than ours, we could lose market share. We may be unable to maintain our current competitive position in the markets in which we currently operate or establish a competitive position in new markets into which we may expand.

The effects of emerging claim and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until after we have issued insurance policies that are affected by the changes. As a result, the full extent of our liability under an insurance policy may not be known until many years after the policy is issued. In addition, the potential passage of new legislation designed to expand the right to sue, to remove limitations on recovery, to deem by statute the existence of a covered occurrence, to extend the statutes of limitations or otherwise repeal or weaken tort reforms could have an adverse impact on our business. The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict and could be harmful to our business and have a material adverse effect on our results of operations.

We are heavily regulated, and changes in regulation may reduce our profitability, limit our growth or restrict our ability to transact business.

Our insurance subsidiaries are subject to extensive regulation in the jurisdictions in which they operate. Such regulations may relate to, among other things, the types of business we can write, the rates we can charge for coverage, the level of capital we must maintain, and restrictions on the types and size of investments we can make. Regulations may also restrict the timing and amount of dividend payments. Accordingly, changes in regulations related to these or other matters or regulatory actions imposing restrictions on our insurance subsidiaries, may adversely impact our results of operations and restrict our ability to allocate capital. For a discussion of the various types of regulation we face, see “Item 1. Business – Regulation.”

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We may have exposure to losses from terrorism for which we are required by law to provide coverage regarding such losses.

U.S. insurers are required by state and federal law to offer coverage for terrorism in certain commercial lines, including workers' compensation. As discussed under "Item 1. Business – Regulation – United States – Federal and State Legislative and Regulatory Changes," the Terrorism Risk Insurance Act, or TRIA, as extended by the Terrorism Risk Insurance Program Reauthorization Act of 2015, or TRIPRA, requires commercial property and casualty insurance companies to offer coverage for acts of terrorism, whether foreign or domestic, and established a federal assistance program through the end of 2020 to help cover claims related to future terrorism-related losses. The impact of any terrorist act is unpredictable, and the ultimate impact on us would depend upon the nature, extent, location and timing of such an act. Although we reinsure a portion of the terrorism risk we retain under the program, our terrorism reinsurance does not provide full coverage for an act stemming from nuclear, biological or chemical terrorism.

The effects of litigation on our business are uncertain.

Although we are not currently involved in any material litigation with our customers, other members of the insurance industry are the target of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts, and the outcomes of which are unpredictable. This litigation is based on a variety of issues, including insurance and claim settlement practices. If we become subject to such litigation, it could have a material adverse effect on our business.

Risks Related to our Common Stock, Preferred Stock and Outstanding Indebtedness

Our revenues and results of operations may fluctuate as a result of developments beyond our control, which may cause volatility in the price of our shares of common stock and the market price of our Series A, B, C, D, E and F Preferred Stock.

Our common stock is listed on the NASDAQ Global Select Market under the symbol "AFSI." Our Series A, B, C, D, E and F Preferred Stock are listed on the New York Stock Exchange under the symbols "AFSI-A," "AFSI-B", "AFSI-C", "AFSI-D", "AFSI-E" and "AFSI-F," respectively. Our performance, as well as the risks discussed herein, government or regulatory action, tax laws, interest rates and general market conditions could have a significant impact on the future market price of our common stock and the market price of our Preferred Stock. Developments that could negatively affect our share price or result in fluctuations in the price of our common stock or Preferred Stock include:

- actual or anticipated variations in our quarterly results of operations;
- changes to our earnings estimates or publications of research reports about us or the industry;
- rising levels of claims costs, changes in the frequency or severity of claims or new types of claims and new or changing judicial interpretations relating to the scope of insurance company liability;
- the financial stability of our third-party reinsurers, changes in the level of reinsurance capacity, termination of reinsurance arrangements and changes in our capital capacity;
- increases in market interest rates that may lead purchasers of common or preferred stock to demand a higher yield;
- changes in market valuations of other insurance companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- fluctuations in interest rates or inflationary pressures and other changes in the investment environment that affect returns on invested assets;
- changes to our credit worthiness;
- the market for similar securities;
- additions or departures of key personnel;
- reaction to the sale or purchase of company stock by our principal stockholders or our executive officers;
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changes in the economic environment in the markets in which we operate, including reduction in the business activities of our policyholders;

- changes in tax law;
- speculation in the press or investment community; and
- general market, economic and political conditions.

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If securities or industry analysts fail to continue publishing research about our business, if they change their recommendations adversely or if our results of operations do not meet their expectations, our stock price and trading volume could decline.
The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. In addition, it is possible that in some future period our operating results will be below the expectations of securities analysts or investors. If one or more of the analysts who cover us downgrade our stock, or if our results of operations do not meet their expectations, our stock price could decline.

Our share repurchase program could affect the price of our common stock and increase volatility.

Repurchases of our common stock pursuant to our share repurchase program could affect our stock price and increase its volatility. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Stock repurchases may not enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased shares of common stock. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program’s effectiveness.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our common stock price and the market price of our Series A, B, C, D, E and F Preferred Stock.

Section 404 of the Sarbanes-Oxley Act of 2002 requires an annual management assessment of the effectiveness of our internal control over financial reporting. If we fail to achieve and maintain the adequacy of our internal controls, we may be unable to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Moreover, effective internal controls are necessary for us to produce reliable financial reports. If we cannot produce reliable financial reports or otherwise maintain appropriate internal controls, our business, financial condition and results of operations could be harmed, investors could lose confidence in our reported financial information, and the market price for our common and preferred stock could decline. See "— Risks Related to Our Business – We have identified material weaknesses in our internal control over financial reporting. If we are unable to remediate these material weaknesses, or if we experience additional material weaknesses or deficiencies in the future or otherwise fail to maintain an effective system of internal controls, we may not be able to accurately or timely report our financial results, in which case our business may be harmed, investors may lose confidence in the accuracy and completeness of our financial reports and the price of our common stock may decline."

Our principal stockholders have the ability to control our business, which may be disadvantageous to other stockholders.

Based on the number of shares outstanding as of December 31, 2016, Barry D. Zyskind, Leah Karfunkel and George Karfunkel, directly or indirectly, collectively own or control approximately 49% of our outstanding common stock. As a result, these stockholders, acting together, have the ability to control all matters requiring approval by our stockholders, including the election and removal of directors, amendments to our certificate of incorporation and bylaws, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. These stockholders may have interests that are different from other stockholders.

In addition, Leah Karfunkel and George Karfunkel, through entities that each of them controls, have entered into transactions with us and may from time to time in the future enter into other transactions with us. As a result, these individuals may have interests that are different from, or in addition to, their interest as our stockholders. Such transactions may adversely affect our results of operations or financial condition.

Our principal stockholders could delay or prevent an acquisition or merger of our company even if the transaction could benefit other stockholders. Moreover, this concentration of share ownership makes it difficult for other stockholders to replace directors and management without the consent of the controlling stockholders. In addition, this significant concentration of share ownership may adversely affect the price prospective buyers are willing to pay for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders, which could, in turn, materially and adversely affect the trading price of our convertible senior notes.

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We may be unable to pay dividends on our common stock or Series A, B, C, D, E and F Preferred Stock.

As discussed above, the ability of our insurance subsidiaries to pay dividends is regulated and under certain circumstances, restricted, pursuant to applicable law. If our insurance subsidiaries could not pay dividends, we may not, in turn, be able to pay dividends to stockholders. In addition, the terms of our junior subordinated debentures and our credit facilities limit, in some circumstances, our ability to pay dividends on our common stock and Series A, B, C, D, E and F Preferred Stock, and future financing arrangements may include prohibitions on dividends or other restrictions. For these reasons, we may be unable to pay dividends on our common stock or Series A, B, C, D, E and F Preferred Stock.

We have a history of paying dividends to our stockholders. However, future cash dividends will depend upon our results of operations, financial condition, cash requirements and other factors, including the ability of our subsidiaries to make distributions to us, which ability is restricted in the manner discussed above. Also, we may be unable to continue to pay dividends even if the necessary financial conditions are met and if sufficient cash is available for distribution.

Our shares of Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares are equity interests and are subordinate to our existing and future indebtedness.

Our shares of Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares are equity interests and do not constitute indebtedness. As such, the Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares rank junior to all of our indebtedness and other non-equity claims of our creditors with respect to assets available to satisfy our claims, including our liquidation, dissolution and winding up. As of December 31, 2016, our total consolidated debt was $1.2 billion (which does not include approximately $168.0 million aggregate principal amount of a loan made by Maiden Reinsurance to us in connection with a reinsurance agreement between AII and Maiden Reinsurance that requires Maiden Reinsurance to provide sufficient collateral to secure its proportionate share of AII's obligations) and our total consolidated liabilities were approximately $19.1 billion. We may incur additional debt and liabilities in the future. Our existing and future indebtedness may restrict payments of dividends on the Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares. Additionally, unlike indebtedness, where principal and interest would customarily be payable on specified due dates, in the case of the Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares, dividends are payable only if declared by our Board of Directors (or a duly authorized committee of the Board of Directors). Our ability to pay dividends on the Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares may be limited by the terms of our agreements governing our existing and future indebtedness and by the provisions of other existing and future agreements.

Dividends on the Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares are non-cumulative.

Dividends on the Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares are non-cumulative and payable only out of our legally available funds. Consequently, if our Board of Directors (or a duly authorized committee of the Board of Directors) does not authorize and declare a dividend for any dividend period with respect to the Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares, holders of the Series A, B, C, D, E and F Preferred Stock and, in turn, the depositary shares, will not be entitled to receive any such dividend, and such unpaid dividend will not accumulate and will never be payable. We have no obligation to pay dividends for a dividend period on or after the dividend payment date for such period if our Board of Directors (or a duly authorized committee of the Board of Directors) has not declared such dividend before the related dividend payment date. If dividends on the Series A Preferred Stock and the Series B, C, D, E and F

Preferred Stock represented by depositary shares are authorized and declared with respect to any subsequent dividend period, we will be free to pay dividends on any other series of preferred stock and/or our common shares.

We may not have the ability to raise the funds necessary to finance any required purchases of our convertible senior notes due 2044 upon the occurrence of a "fundamental change," which would constitute an event of default under the indentures.

If a fundamental change (as such term is defined in the indenture governing our convertible senior notes due 2044) occurs, holders of these convertible senior notes will have the right, at their option, to require us to purchase for cash any or all of the notes, or any portion of the principal amount thereof such that the principal amount that remains outstanding of each note purchased in part equals $1,000 or an integral multiple of $1,000 in excess thereof. The fundamental change purchase price will equal 100% of the principal amount of the convertible senior notes to be purchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date. However, we may not have sufficient funds at the time we are required to purchase the convertible senior notes surrendered therefor and we may not be able to arrange necessary financing on acceptable terms, if at all.

We have not established a sinking fund for payment of the convertible senior notes due 2044, nor do we anticipate doing so. In addition, our ability to purchase these convertible senior notes may be limited by law, by regulatory authority or we may in the future enter into credit agreements or other agreements that may contain provisions prohibiting redemption or repurchase of the notes under certain circumstances, or may provide that a designated event constitutes an event of default under that agreement. If a fundamental change occurs at a time when we are prohibited from purchasing these convertible senior notes, we could seek a waiver from the holders of these notes or attempt to refinance these notes. If we were not able to obtain consent, we would not be permitted to purchase the convertible senior notes. Our failure to purchase tendered convertible senior notes would constitute an event of default under the indenture governing the notes, which might constitute a default under the terms of our other indebtedness.

The conditional conversion features of the convertible senior notes due 2044, if triggered, may adversely affect our financial condition.

If one of the conversion contingencies in our convertible senior notes due 2044 is triggered, holders of these convertible senior notes will be entitled to convert the notes at any time during specified periods. If one or more holders elect to convert their convertible senior notes, we may be required to settle all or a portion of our conversion obligation through the payment of cash, which could adversely affect our liquidity and various aspects of our business.

Certain provisions in our convertible senior notes due 2021 and 2044 could delay or prevent an otherwise beneficial takeover or takeover attempt of us.

Certain provisions in our convertible senior notes could make it more difficult or more expensive for a third party to acquire us. For example, if an acquisition event constitutes a fundamental change within the meaning of our outstanding convertible senior notes, holders of our convertible senior notes will have the right to require us to purchase their notes in cash. In addition, if an acquisition event constitutes a make-whole fundamental change within the meaning of our outstanding convertible senior notes, we may be required to increase the conversion rate for holders who convert their notes in connection with such make-whole fundamental change. In any of these cases, and in other cases, our obligations under the convertible senior notes as well as provisions of our organizational documents and other agreements could increase the cost of acquiring us or otherwise discourage a third party from acquiring us or removing incumbent management.

Our subordinated notes are subordinated in right of payment to our senior indebtedness and holders of these subordinated notes may recover ratably less than unsubordinated creditors in the event of our bankruptcy, liquidation or reorganization. In addition, our subordinated notes are structurally subordinate to the debt of our subsidiaries.

Our subordinated notes rank junior in right of payment to the claims of holders of our senior indebtedness. Therefore, in the event of a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to us or our property, our creditors, other than those in respect of debt ranking equal with or junior to the subordinated notes, will be entitled to receive payment in full of all obligations due to them before the holders of the subordinated notes will be entitled to receive any payment. As a result, in the event of our bankruptcy, liquidation or reorganization, holders of the subordinated notes may recover ratably less than unsubordinated creditors. In addition, the indentures governing the subordinated notes prevent us from making payments in respect of the subordinated notes if any principal, premium or interest in respect of our senior indebtedness is not paid within any applicable grace period (including at maturity) or any other default on our senior indebtedness occurs and the maturity of such senior indebtedness is accelerated in accordance with its terms.

In addition, because we are a holding company, our rights and the rights of our creditors, including the holders of our subordinated notes, to participate in the distribution or allocation of the assets of any subsidiary during its liquidation or reorganization, will be subject to the prior claims of such subsidiary's creditors, unless we are ourselves a creditor with recognized claims against the subsidiary. Claims from creditors (other than us) against the subsidiaries may include long-term and medium-term debt and substantial obligations related to federal funds purchased, securities sold under repurchase agreements, and other short-term borrowings. Our subordinated notes are not obligations of, or guaranteed by, our subsidiaries, and our subsidiaries have no obligation to pay any amounts due on the subordinated notes.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

All of our properties are owned or leased by us or our subsidiaries and are used for office functions (corporate, claims, underwriting, business units) or as call centers. We own 17 properties worldwide, the majority of which consist of commercial office space. Our properties are not segregated by segment. We own significant properties in the United States in the states of California, Colorado, Connecticut, Florida, Ohio and Texas and internationally in the United Kingdom.

We lease approximately 1,390,000 square feet throughout the United States and internationally. These leases are generally short-term to medium-term leases for commercial office space. For additional information about these leases, see Note 25. "Commitments and Contingencies."

Item 3. Legal Proceedings

Shareholder Litigation

We have received three stockholder demands for production, pursuant to Section 220 of the Delaware General Corporation Law, of our books and records. On April 7, 2015, one of those stockholders, Cambridge Retirement System, filed a derivative action in the Court of Chancery of the State of Delaware against the Company, as nominal defendant, and against our board of directors, Leah Karfunkel, and ACP Re, Ltd. ("ACP Re"), as defendants. Cambridge amended its complaint on November 3, 2015 to add National General Holdings Corp. as a defendant. The stockholder purports to bring the derivative action on our behalf, alleging breaches of the duties of loyalty and care on the part of our directors and majority shareholders related to our transactions involving Tower Group International, Ltd. Cambridge's claim against NGHC and ACP Re is for unjust enrichment. The amended complaint seeks damages, disgorgement and reform of our governance practices. We believe the allegations in this action to be unfounded and will vigorously pursue our defenses; however, we cannot reasonably estimate the potential range of loss, if any.

In addition, we and certain of our officers are defendants in related putative securities class action lawsuits filed in February and March of 2017 in the United States District Courts for the Central District of California and the Southern District of New York. Plaintiffs in the lawsuits purport to represent a class of our stockholders who purchased shares between March 2015 and March 2017. The complaints assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. The plaintiffs seek damages in an unspecified amount, attorney's fees and other relief. We believe the allegations to be unfounded and will vigorously pursue our defenses; however, we cannot reasonably estimate the potential range of loss, if any.

Other than as discussed above, we are not involved presently in any material litigation nor, to our knowledge, is any material litigation threatened against us or our properties.

Item 4. Mine Safety Disclosures

None.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stockholders

Our common stock trades on the NASDAQ Global Market under the symbol "AFSI". We have one class of authorized common stock for 500,000,000 shares at a par value of $0.01 per share. As of March 24, 2017, there were 145 registered record holders of our common stock. This figure does not include beneficial owners who hold shares in nominee names.

On December 15, 2015, our Board of Directors declared a two-for-one stock split of our common stock, par value $0.01 per share, in the form of a 100% stock dividend. All stockholders of record at the close of business on January 19, 2016 received one additional share of our common stock for each share held on that date. The additional share of common stock was distributed to stockholders of record on February 2, 2016. As a result, we retrospectively adjusted all share and per share amounts in 2015 to reflect the stock split.

Price Range of Common Stock

The following table shows the high and low sales prices per share for our common stock and the cash dividends declared with respect to such shares:

2016	High	Low	Dividends Declared
First quarter	$30.90	$24.20	$ 0.15
Second quarter	$27.00	$23.55	$ 0.15
Third quarter	$27.14	$23.73	$ 0.17
Fourth quarter	$28.48	$24.80	$ 0.17
2015	High	Low	Dividends Declared
First quarter	$29.50	$24.43	$ 0.125
Second quarter	$32.99	$28.18	$ 0.125
Third quarter	$35.94	$26.03	$ 0.15
Fourth quarter	$35.63	$28.68	$ 0.15

On March 24, 2017, the closing price per share for our common stock was $18.33.

Dividend Policy

Our Board of Directors has historically declared the payment of quarterly cash dividends. Any determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon our results of operations and cash flows, our financial position and capital requirements.

We are a holding company that transacts business through our operating subsidiaries. Our primary assets are the capital stock of these operating subsidiaries. Payments from our insurance subsidiaries pursuant to management agreements and tax sharing agreements, as well as fee income we generate from providing services discussed throughout this report, are our primary source of funds to pay our direct expenses. We anticipate that such payments, together with dividends paid to us by our subsidiaries, will continue to be the primary source of funds. Our ability to pay dividends to our stockholders depends, in part, upon the surplus and earnings of our subsidiaries and their ability to pay dividends to us. Payment of dividends by our insurance subsidiaries is regulated by insurance laws of various states, and the laws of certain foreign countries in which we do business, including laws establishing minimum solvency and liquidity thresholds. In addition, the terms of our junior subordinated debentures, revolving credit facility and convertible senior notes limit, in the event of certain circumstances, our ability to pay dividends on our common stock, and future borrowings may include prohibitions and restrictions on dividends. As a result, at times, we may not be able to receive dividends from our insurance subsidiaries and may not receive dividends in amounts necessary to pay dividends on our capital stock. As of December 31, 2016, our insurance subsidiaries could pay dividends to us of $749.3 million without prior regulatory approval. Any dividends paid by our subsidiaries would reduce their surplus. During 2016, our insurance subsidiaries paid dividends of $18.0 million, which were subsequently contributed to certain of our other insurance subsidiaries.

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Share Repurchase Plan

In December 2013, our Board of Directors approved a $150 million share repurchase program. In 2016, we entered into an amendment to our $350 million credit facility that expanded the restrictive covenant related to our repurchase of shares of our outstanding common stock. In connection with the amendment, our Board of Directors approved an increase of $200 million to our existing stock repurchase authorization. The Board of Directors may suspend, modify or terminate the repurchase program at any time without prior notice. Under this repurchase program, we are not obligated to repurchase any particular number of shares. Unless terminated earlier by resolution of our Board of Directors, the program will expire when we have repurchased the full value of the shares authorized. We did not repurchase any shares of our common stock during the fourth quarter of 2016.

The following table summarizes our stock repurchases for the three-month period ended December 31, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased Under Plan or Program [1]
October 1 - 31, 2016	—	$ —	—	137,864,237
November 1 - 30, 2016	—	—	—	137,864,237
December 1 - 31, 2016	—	—	—	137,864,237
Total	—		—	$137,864,237

(1) In April 2016, our Board of Directors approved an increase of $200 million to our existing stock repurchase authorization. From January 1, 2016 through December 31, 2016, we repurchased 6,167,993 common shares for approximately $152.3 million under this program.

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Common Stock Performance Graph

Set forth below is a line graph comparing the cumulative total stockholder return on our common stock for the period beginning December 31, 2011 and ending on December 31, 2016 with the cumulative total return on the NASDAQ Global Market Index and a peer group comprised of the NASDAQ Insurance Index. The graph shows the change in value of an initial $100 investment on December 31, 2011.

Comparative Cumulative Total Returns Since 12/31/11 for AmTrust Financial
Services, Inc.: NASDAQ Composite and NASDAQ Insurance

This information is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to the liabilities of Section 18 of the Exchange Act, nor shall it be deemed incorporated by reference in any of our filings under the Securities Act or the Exchange Act.

Item 6. Selected Financial Data

The following information as of and for the years ended December 31, 2015, 2014, 2013 and 2012 has been restated to reflect adjustments to our previously issued financial statements as more fully described in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 3. "Restatement of Previously Issued Consolidated Financial Statements" to the Consolidated Financial Statements included in Item 8 of this Form 10-K. We have not amended our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the Restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Form 10-K, and the financial statements and related financial information contained in such previously filed reports should no longer be relied upon.

The following tables set forth our selected historical consolidated financial and operating information for the periods ended and as of the dates indicated. The selected consolidated income statement for the year ended December 31, 2016 and the balance sheet as of December 31, 2016 is derived from our audited financial statements included elsewhere in this report, which have been audited by KPMG, LLP, our current independent auditors. The selected consolidated income statement for the years ended December 31, 2015 and 2014 and the balance sheet as of December 31, 2015 were derived from our audited financial statements included elsewhere in this report, which have been audited by BDO USA, LLP, our former independent auditors. These historical results are not necessarily indicative of results to be expected from any future period. You should read the following selected consolidated financial information together with the other information contained in this report, including “Item 7. Management’s Discussion

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and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in Part IV of this report.

	Year Ended December 31,				
	2016	2015	2014	2013 (10)	2012 (10)
		As restated	As restated	As restated	As restated
	(Amounts in Thousands)				
Selected Income Statement Data (1)					
Gross written premium	$7,949,270	$6,799,537	$6,092,437	$4,116,911	$2,749,326
Ceded gross written premium	(3,097,943)	(2,537,609)	(2,151,217)	(1,551,238)	(1,101,289)
Net written premium	$4,851,327	$4,261,928	$3,941,220	$2,565,673	$1,648,037
Change in unearned premium	(183,362)	(240,687)	(434,386)	$(299,683)	(229,185)
Net earned premium	$4,667,965	$4,021,241	$3,506,834	$2,265,990	$1,418,852
Service and fee income	537,966	428,143	365,356	287,254	138,662
Net investment income	208,047	156,290	131,601	84,819	68,167
Net realized gain on investments	36,478	8,117	16,423	15,527	8,981
Total revenues	$5,450,456	$4,613,791	$4,020,214	$2,653,590	$1,634,662
Loss and loss adjustment expense	3,142,279	2,688,118	2,331,325	1,517,361	922,675
Acquisition costs and other underwriting expenses(2)	1,230,168	993,571	870,702	549,127	359,158
Other (3)	564,065	473,253	422,528	286,692	175,498
Total expenses	$4,936,512	$4,154,942	$3,624,555	$2,353,180	$1,457,331
Income before other income (expense), provision for income taxes, equity in earnings of unconsolidated subsidiaries and non-controlling interest	$513,944	$458,849	$395,659	$300,410	$177,331
Other income (expense):					
Interest expense	(79,526)	(55,355)	(45,857)	(34,691)	(28,508)
Loss on extinguishment of debt	—	(5,271)	(9,831)	—	—
Gain on life settlement contracts net of profit commission	46,147	19,844	12,306	3,800	13,822
Foreign currency gain (loss)	(29,289)	47,301	56,372	(9,736)	(843)
Acquisition gain on purchase	48,775	5,826	—	48,715	—
Gain on sale of subsidiary	—	—	6,631	—	—
Total other income (expense)	$(13,893)	$12,345	$19,621	$8,088	$(15,529)
Income before income taxes, equity in earnings of unconsolidated subsidiaries and non-controlling interest	$500,051	$471,194	$415,280	$308,498	$161,802
Provision for income taxes	85,307	38,946	28,367	77,527	9,023
Income before equity in earnings of unconsolidated subsidiaries and non-controlling interest	414,744	432,248	386,913	230,971	152,779
Equity in earnings of unconsolidated subsidiaries (related parties)	15,626	25,385	28,351	11,566	9,295
Net income	430,370	457,633	415,264	242,537	162,074
Net (income) loss attributable to non-controlling and redeemable non-controlling interest of subsidiaries	(19,384)	(6,928)	416	1,633	(6,873)
Net income attributable to AmTrust Financial Services, Inc.	$410,986	$450,705	$415,680	$244,170	$155,201
Dividends on preferred stock	(47,847)	(31,590)	(12,738)	(3,989)	—

Net income attributable to AmTrust common stockholders	$363,139	$419,115	$402,942	$240,181	$155,201

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	Year Ended December 31,				
	2016	2015	2014	2013 (10)	2012 (10)
		As restated	As restated	As restated	As restated
	(Amounts in Thousands, Except Percentages and per Share Data)				
Per Share Data (4)					
Net income allocated to AmTrust Financial Services, Inc. common shareholders – basic	$2.10	$2.54	$2.68	$1.62	$1.06
Basic weighted average common shares outstanding	172,554	165,042	149,866	148,326	146,538
Diluted Income Per Share:					
Net income allocated to AmTrust Financial Services, Inc. common shareholders – diluted	$2.08	$2.49	$2.53	$1.54	$1.03
Diluted weighted average common shares outstanding	174,545	168,360	159,034	155,968	151,240
Dividend declared per common share	$0.64	$0.55	$0.425	$0.28	$0.20
Selected Insurance Ratios and Operating Information					
Net loss ratio (5)	67.3 %	66.8 %	66.5 %	67.0 %	65.0 %
Net expense ratio (6)	26.4 %	24.8 %	24.8 %	24.2 %	25.3 %
Net combined ratio (7)	93.7 %	91.6 %	91.3 %	91.2 %	90.3 %
Return on equity (8)	15.8 %	21.8 %	28.3 %	20.6 %	15.7 %

	As of December 31,				
	2016	2015	2014	2013 (10)	2012 (10)
		As restated	As restated	As restated	As restated
	(Amounts in Thousands)				
Selected Balance Sheet Data (1)					
Cash, cash equivalents and restricted cash	$1,281,109	$1,384,615	$1,067,124	$930,461	$493,132
Investments	7,954,557	5,826,935	4,580,972	3,657,309	2,203,270
Reinsurance recoverable	4,329,521	3,007,377	2,440,722	1,929,848	1,318,395
Premiums receivable, net	2,802,167	2,235,953	1,892,006	1,593,975	1,251,262
Goodwill and intangibles assets	1,243,125	800,045	667,681	665,393	532,839
Total assets (9)	22,614,668	17,266,051	13,858,770	11,282,607	7,438,576
Reserves for loss and loss adjustment expense	10,140,716	7,208,367	5,664,205	4,368,234	2,426,400
Unearned premiums	4,880,066	4,014,387	3,449,535	2,680,982	1,773,593
Deferred income tax (asset) liability	(16,032)	(110,706)	42,654	222,103	217,365
Note due to seller	104,685	—	—	—	—
Revolving credit facility	130,000	130,000	120,000	—	—
6.125% Notes payable due 2023 (9)	248,185	247,911	247,568	247,363	—
2.75% Convertible senior notes due 2044 (9)	166,387	160,258	154,540	—	—
5.5% Convertible senior notes due 2021 (9)	5,223	5,103	53,317	160,433	155,477
Junior subordinated debentures (9)	214,815	121,940	121,852	121,765	117,973
7.25% Subordinated notes due 2055 (9)	145,202	145,078	—	—	—
7.50% Subordinated notes due 2055 (9)	130,684	130,572	—	—	—
Common stock, preferred stock and additional paid in capital less treasury stock	1,989,754	1,705,089	1,026,163	864,173	468,226
Total stockholders' equity	3,465,613	2,900,235	2,071,394	1,490,484	1,187,341

(1) Results for a number of periods were affected by our various acquisitions from 2012 to 2016.

(2)

Acquisition costs and other underwriting expenses include policy acquisition expenses, commissions paid directly to producers, premium taxes and assessments, salary and benefits and other insurance general and administrative expenses which represent other costs that are directly attributable to insurance activities. These costs and expenses are reduced by ceding commission earned through external reinsurance agreements.

(3) Other operating expenses include non-cash amortization of tangible and intangible assets, goodwill impairment and non-insurance revenue generating activities in which we engage.

(4) Share and per share data for the years ended December 31, 2015, 2014, 2013 and 2012 were adjusted as a result of the two-for-one stock split effective

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February 2, 2016.

(5) Net loss ratio is calculated by dividing the loss and loss adjustment expense by net premiums earned.

(6) Net expense ratio is calculated by dividing the total of acquisition costs and other underwriting expenses by net premiums earned.

(7) Net combined ratio is calculated by adding net loss ratio and net expense ratio together.

(8) Return on equity is calculated by dividing net income by the average stockholders’ equity for the period.

(9) We adopted ASU 2015-03 in the first quarter of 2016, and applied its provisions retrospectively. The total impact of the adoption of ASU 2015-03 decreased total assets and total debt $16,902, $11,190, $9,557 and $9,170 as of December 31, 2015, 2014, 2013 and 2012, respectively.

(10) See Note 3. "Restatement of Previously Issued Consolidated Financial Statements" for details on the impact of the Restatement on the years ended December 31, 2014 and 2015. For the years ended December 31, 2013 and 2012, we have reduced service and fee income $44,305 and $33,512, respectively, increased acquisition costs and other underwriting expenses $15,965 and $3,153, respectively, decreased other expense $4,925 and $2,211, increased foreign currency loss $3,203 and $601, respectively, and decreased provision for income taxes $20,492 and $12,269, respectively. Additionally, as of December 31, 2013 and 2012, total assets increased $13,038 and $11,235, respectively, deferred tax liability decreased $52,416 and $46,667, respectively, and total stockholders' equity decreased $88,381 and $54,546, respectively.

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This Form 10-K contains certain forward-looking statements that are intended to be covered by the safe harbors created by The Private Securities Litigation Reform Act of 1995. See “Note on Forward-Looking Statements.”

Overview

We are a multinational specialty property and casualty insurer focused on generating consistent underwriting profits. We provide insurance coverage for small businesses and products with high volumes of insureds and loss profiles that we believe are predictable. We target lines of insurance that we believe generally are under served by the market. We have grown by hiring teams of underwriters with expertise in our specialty lines, through acquisitions of companies and assets that, in each case, provide access to distribution networks and renewal rights to established books of specialty insurance business. We have operations in three business segments:

- Small Commercial Business. We provide workers’ compensation, commercial package and other commercial insurance lines produced by wholesale agents, retail agents and brokers in the United States.
- Specialty Risk and Extended Warranty. We provide coverage for consumer and commercial goods and custom designed coverages, such as accidental damage plans and payment protection plans offered in connection with the sale of consumer and commercial goods, in the United States and Europe, and certain niche property, casualty and specialty liability risks in the United States and Europe, including general liability, employers’ liability and professional and medical liability.
- Specialty Program. We write commercial insurance for narrowly defined classes of insureds, requiring an in-depth knowledge of the insured’s industry segment, through general and other wholesale agents.

We transact business primarily through our insurance subsidiaries, the majority of which are domiciled in the United States. We also transact business through insurance subsidiaries domiciled internationally, primarily in Bermuda and Europe. We are authorized to write business in all 50 states, the District of Columbia, Puerto Rico, and in the European Union. Through our subsidiary, AmTrust at Lloyd's, we are licensed to underwrite business internationally in locations where Lloyd's is licensed. Our principal operating subsidiaries are rated "A" (Excellent) by A.M. Best Company ("A.M. Best").

For the year ended December 31, 2016, our results of operations include activity of the entities we acquired subsequent to December 31, 2015, primarily:

- ANV Holding B.V. and its affiliates (collectively, "ANV")
- N.V. Nationale Borg-Maatschappij and its affiliates (collectively, "Nationale Borg")
- First Nationwide Title Agency and its subsidiaries (collectively, "First Nationwide")
- Republic Underwriters Insurance Company, Republic-Vanguard Insurance Company, Southern Underwriters Insurance Company, Republic Fire & Casualty Insurance Company, Southern Insurance Company, Republic Diversified Services, Inc., Republic Lloyds, Republic Group No. Two Company, Southern County Mutual Insurance Company, Canyon State Auto Insurance Services, Inc., and Eagle General Agency, Inc. (collectively, "Republic")
- Genworth Financial Mortgage Insurance Limited and Genworth Financial Mortgage Services Limited (collectively, "Genworth")
- ARI Insurance Company and ARI Casualty Company (collectively, "ARI")

In addition, on March 11, 2016, one of our subsidiary insurance companies entered into a loss portfolio transfer with Public Service Insurance Company, Paramount Insurance Company and Western Select Insurance Company. We will reinsure 100% of the existing obligations with respect to their business for accident years 2015 and 2014, including a loss portfolio transfer of 100% of the loss and LAE reserves as of the effective date. We received approximately $163.4 million of cash and recorded the obligation of approximately $163.4 million of loss reserves. During the year ended December 31, 2016, we paid losses of approximately $20.6 million. During the year ended December 31, 2016, we did not record any gains or losses as a result of this transaction. Additionally, one of our subsidiaries entered into a renewal rights transaction with the forenamed parties as well as Creative Intermediaries, Inc., Magna Carta Companies, Inc. and Public Service Mutual Holding Company, whereby we may renew their existing book of policies for their commercial and property insurance business. The acquisition price paid for the renewal rights transaction was approximately $1 million.

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Insurance, particularly workers' compensation, is, generally affected by seasonality. The first quarter generally produces greater premiums than subsequent quarters. Nevertheless, the impact of seasonality on our Small Commercial Business and Specialty Program segments has not been significant. We believe that this is because we serve many small businesses in different geographic locations. We believe seasonality may be muted by our acquisition activity. Additionally, our Specialty Risk and Extended Warranty segment may be impacted by the seasonality of the automotive and consumer electronic markets.

We evaluate our operations by monitoring key measures of growth and profitability, including return on equity and net combined ratio. Our return on equity was 15.8%, 21.8% and 28.3% for the years ended December 31, 2016, 2015 and 2014, respectively. Our overall financial objective is to produce a return on equity of 15.0% or more over the long term. In addition, we target a net combined ratio of 95.0% or lower over the long term, while seeking to maintain optimal operating leverage in our insurance subsidiaries commensurate with our A.M. Best rating objectives. Our net combined ratio was 93.7%, 91.6% and 91.3% for the years ended December 31, 2016, 2015 and 2014, respectively. A key factor in achieving our targeted net combined ratio is a continuous focus on our net expense ratio. Our strategy across our segments is to maintain premium rates, deploy capital judiciously, manage our expenses and focus on the businesses in which we have expertise, which we believe should provide opportunities for greater returns.

Investment income is also an important part of our business. Because the period of time between our receipt of premiums and the ultimate settlement of claims is often several years or longer, we are able to invest cash from premiums for significant periods of time. Our net investment income was $208.0 million, $156.3 million and $131.6 million for the years ended December 31, 2016, 2015 and 2014, respectively. We held 14.3% and 19.9% of total invested assets in cash and cash equivalents as of December 31, 2016 and 2015, respectively.

Our most significant balance sheet liability is our reserves for loss and loss adjustment expense. We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances. Our reserves for loss and loss adjustment expenses incurred and unpaid are not discounted using present value factors. Our loss reserves are reviewed at least annually by our external actuaries. Reserves are based on estimates of the most likely ultimate cost of individual claims. These estimates are inherently uncertain. Judgment is required to determine the relevance of our historical experience and industry information under current facts and circumstances. The interpretation of this historical and industry data can be impacted by external forces, principally frequency and severity of future claims, length of time to achieve ultimate settlement of claims, inflation of medical costs and wages, insurance policy coverage interpretations, jury determinations and legislative changes. Accordingly, our reserves may prove to be inadequate to cover our actual losses. If we change our estimates, these changes would be reflected in our results of operations during the period in which they are made, with increases in our reserves resulting in decreases in our earnings.

Restatement of Previously Issued Financial Statements

On March 14, 2017, the Audit Committee of our Board of Directors, in consultation with management and our current and former independent registered public accounting firms, concluded that our previously issued Consolidated Financial Statements for the fiscal years 2014 and 2015 (including each of the four quarters within fiscal year 2015) as well as for the first three quarters of fiscal year 2016 needed to be restated to correct errors related to revenue recognition and bonus accruals, as well as other adjustments. The effects of the Restatement are reflected in this "Management's Discussion and Analysis of Financial Condition and Results of Operations." See the Explanatory Note included in the front section of this report and Note 3. "Restatement of Previously Issued Consolidated Financial Statements" for more information regarding the Restatement and the specific changes to our previously issued financial statements.

The error related to the recognition of revenue for the portion of warranty contract revenue associated with administration services is reflected entirely within the results of operations for our Specialty Risk and Extended Warranty segment, while the remaining errors are reflected within the results of operations of all of our segments.

We have not amended our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the Restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this report, and the financial statements and related financial information contained in such previously filed reports should no longer be relied upon. We intend to amend our Forms 10-Q for the quarterly periods ended March 31, June 30, September 30, 2015 and 2016 to reflect the restatement adjustments applicable to the periods presented therein.

Acquisitions

During 2016 and 2015, we have made the following significant acquisitions:

ANV Holding B.V.

On November 7, 2016, we completed the acquisition of ANV Holding B.V. and its affiliates ("ANV") from Ontario Teachers' Pension Plan Board for approximately $203 million in cash. ANV is a specialty insurance company that underwrites a variety of commercial property and casualty insurance products through its three Lloyd's syndicates and managing general underwriter. ANV's results of operations are included as a component of the Specialty Risk and Extended Warranty segment. We anticipate completing our acquisition accounting by the first half of 2017. As a result of the acquisition, we recorded approximately $85 million of gross written premium during the year ended December 31, 2016.

Trust Risk Group

In conjunction with the settlement of a dispute with our former Italian medical liability broker, on July 20, 2016, we obtained the renewal rights associated with all the in-force business produced by Trust Risk Group ("TRG") prior to the termination of our brokerage and agency relationship with TRG, and a non-compete agreement with TRG and related parties for a period of three years in exchange for €16 million (or $17.7 million), as well as the release of a receivable balance due from TRG of €14 million (or $15.5 million).

Nationale Borg

On May 31, 2016, we completed the acquisition of N.V. Nationale Borg-Maatscappij and its affiliates ("Nationale Borg") for approximately €161.4 million (or $180 million). Nationale Borg is an Amsterdam-based international direct writer and reinsurer of surety and trade credit insurance in over 70 countries that has been in existence for approximately 120 years. Nationale Borg's results of operations are included as a component of the Specialty Risk and Extended Warranty segment. We anticipate completing our acquisition accounting by the first half of 2017. As a result of this acquisition, we recorded approximately $64.4 million of gross written premium during the year ended December 31, 2016.

First Nationwide Title Agency

On May 20, 2016, we completed the acquisition of First Nationwide Title Agency and its subsidiaries ("First Nationwide"). First Nationwide is a title agency providing title insurance products primarily in the State of New York. The consideration for the purchase consisted of approximately $24.0 million at closing and contingent consideration based on profitability of the agency over a five-year period. First Nationwide's results of operations are included as a component of the Specialty Risk and Extended Warranty segment. We anticipate completing our acquisition accounting by the first half of 2017. As a result of this acquisition, we recorded service and fee income of $12.5 million for the year ended December 31, 2016.

Genworth

On May 9, 2016, we completed the acquisition of Genworth Financial Mortgage Insurance Ltd. ("Genworth"). Genworth provides mortgage insurance in Europe, primarily in the U.K., Finland, Italy and Germany. The consideration given for Genworth consisted of cash of approximately $54.5 million. Genworth's results of operations are included as a component of the Specialty Risk and Extended Warranty segment. We anticipate completing our acquisition accounting in the first half of 2017. As a result of this acquisition, we recorded approximately $17.3

million of gross written premium during the year ended December 31, 2016.

Republic

On April 18, 2016, we completed the acquisition of Republic Companies, Inc. and its affiliates ("Republic") from Delek Group Ltd., and Republic Insurance Holdings, LLC. Republic provides commercial and personal lines property and casualty insurance through independent agents and managing general agents. Republic primarily distributes the majority of its business to individuals and small and medium-size businesses through a network of independent agents in the southwestern United States. In addition, Republic generates fee revenue by providing insurance services to third parties.

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The consideration given for Republic consisted of approximately $113.5 million of cash at closing, a promissory note payable of approximately $104.7 million due to Delek Group Ltd. and deferred payments of approximately $15.2 million that are owed to the minority owners of Republic. Republic's results of operations are included as a component of the Small Commercial Business and Specialty Program segments. We anticipate completing our acquisition accounting in the first half of 2017. As a result of this acquisition, we recorded approximately $484.3 million of gross written premium and $5.9 million of services and fee income during the year ended December 31, 2016.

ARI Insurance Company

On January 22, 2016, we completed the acquisition of ARI Holdco Inc. ("ARIH") and its subsidiaries. ARIH's primary operating subsidiary, ARI Insurance Company ("ARI"), is an underwriter of commercial automobile insurance in New Jersey, Pennsylvania and Maryland. Immediately prior to the acquisition, ARI converted from a mutual form to a stock form of ownership in a transaction "sponsored" by us. The consideration given for ARIH was approximately $3.8 million. ARI's results of operations are included as a component of the Small Commercial Business segment. As a result of this acquisition, we recorded approximately $43.3 million of gross written premium during the year ended December 31, 2016.

Springfield

On October 7, 2015, we completed the acquisition of Springfield Insurance Company and its affiliates, Springfield Insurance Company Ltd. and Unified Grocers Insurance Services (collectively, "Springfield") for approximately $26.6 million in cash and a contingent earn-out valued at $5.0 million as of the acquisition date. Springfield, domiciled in California, is an insurance carrier providing workers' compensation and commercial package insurance to Unified Grocers Inc., an association of independently owned grocery stores, its members and its customers. Springfield's results of operations are included as a component of the Small Commercial Business segment. As a result of this acquisition, we recorded approximately $10.8 million and $3.2 million of gross written premium for the years ended December 31, 2016 and 2015, respectively, and $1.5 million and $0.6 million of service and fee income during the years ended December 31, 2016 and 2015, respectively.

Warranty Solutions

On September 25, 2015, we completed the acquisition of Warranty Solutions, a Wells Fargo business ("Warranty Solutions") for approximately $156.2 million in cash. Warranty Solutions designs, markets, administers and underwrites vehicle service contracts for new and used automobiles through a national network of more than 70 active agencies and 1,500 franchised and independent dealers. Warranty Solutions' results of operations are included as a component of the Specialty Risk and Extended Warranty segment. As a result of this acquisition, we recorded approximately $87.8 million and $22.8 million of gross written premium for the years ended December 31, 2016 and 2015, respectively, and $85.8 million and $24.3 million of service and fee income for the years ended December 31, 2016 and 2015, respectively.

CorePointe Insurance Company

On March 2, 2015, we completed the acquisition of CorePointe Insurance Company ("CorePointe") for approximately $68.8 million. CorePointe, a Michigan-based specialty property and casualty insurance company, markets commercial package insurance products primarily to automobile and motorcycle dealerships and auto repair shops. The majority of CorePointe's insurance products and services are distributed through managing general agents ("MGAs") with whom it has long-standing relationships. CorePointe's results of operations are included in our Specialty Program segment. We recorded approximately $21.1 million and $39.4 million of gross written premium during the years ended December 31, 2016 and 2015, respectively, as a result of this acquisition.

TMI Solutions, LLC

On January 6, 2015, we completed the acquisition of TMI Solutions, LLC ("TMIS") for approximately $29.5 million in cash and a contingent earn-out provision valued at $32.0 million. TMIS offers monthly billed warranty solutions for a variety of consumer electronics as well as consumer protection services. TMIS's warranties are primarily distributed in conjunction with large telecommunication monthly customer billing services and their customers include various Fortune 500 companies. TMIS's results of operations are included as a component of the Specialty Risk and Extended Warranty segment. As a result of this acquisition, we recorded approximately $12.3 million and $13.7 million of service and fee income during the years ended December 31, 2016 and 2015, respectively.

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Oryx Insurance Brokerage, Inc.

On January 6, 2015, we completed the acquisition Oryx Insurance Brokerage, Inc. ("Oryx") for approximately $30.6 million in cash and a contingent earn-out provision valued at $7.0 million. Oryx is an MGA and wholesaler providing insurance products to the construction industry in upstate New York. Oryx's results of operations are included as a component of the Specialty Program segment. As a result of our underwriting relationship with Oryx, we had approximately $105.5 million and $93.3 million of gross written premium during the years ended December 31, 2016 and 2015, respectively. In addition, we recorded approximately $1.4 million and $0.4 million of service and fee income during the years ended December 31, 2016 and 2015, respectively.

In addition to these acquisitions, our results of operations for 2015 compared to 2014 include references to the following entities acquired prior to 2015: Comp Options Insurance Company, Inc. ("Comp Options"), Tower International Group, Ltd. ("Tower") Renewal Rights Agreement, and The Insco Dico Group ("Insco Dico").

Strategic Investments

Significant Transactions with National General Holdings Corp.

We have an approximate 12% ownership interest in NGHC. NGHC is a publicly-held specialty personal lines insurance holding company (Nasdaq: NGHC) that operates twenty-two insurance companies in the United States and provides a variety of insurance products, including personal and commercial automobile, homeowners and umbrella, and supplemental health. As of December 31, 2016, NGHC's two largest stockholders were the Trust and a grantor retained annuity trust controlled by Leah Karfunkel. Leah Karfunkel, who is co-trustee of the Trust along with Barry Zyskind, is a member of our Board of Directors, and the mother-in-law of Barry Zyskind, our Chairman, President and Chief Executive Officer. The ultimate beneficiaries of the Trust include Leah Karfunkel’s children, one of whom is married to Mr. Zyskind. In addition, Barry Karfunkel, the son of Leah Karfunkel and brother-in-law of Barry Zyskind, is the chief executive officer of NGHC and Barry Zyskind is NGHC's non-executive chairman of the board. In accordance with ASC 323-10-15, Investments-Equity Method and Joint Ventures, we account for our investment in NGHC under the equity method as we have the ability to exert significant influence on NGHC's operations. We recorded $15.6 million, $25.4 million and $28.4 million of income during the years ended December 31, 2016, 2015 and 2014, respectively, related to our equity investment in NGHC.

Master Services Agreement

We provide NGHC and its affiliates information technology development services in connection with the development and licensing of a policy management system. We provide the license at a cost that is currently 1.25% of gross premium written by NGHC and its affiliates plus our costs for development and support services. We provide development services at a price of cost plus 20%. In addition, we provide NGHC and its affiliates printing and mailing services at a per piece cost for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies we process for NGHC and its affiliates on the policy management system. We also provide NGHC and its affiliates lockbox services for policies processed on the system, and scanning of correspondence and supplemental materials. We charge NGHC for these services based on actual volume and actual cost. We recorded approximately $46.1 million, $35.9 million and $25.6 million of fee income for the years ended December 31, 2016, 2015 and 2014, respectively, related to this agreement.

Asset Management Agreement

One of our subsidiaries manages the assets of certain of NGHC's subsidiaries, including the assets of reciprocal insurers managed by subsidiaries of NGHC, for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1 billion or less, and an annual rate of 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1 billion. We managed approximately $2.9 billion of assets as of December 31, 2016 related to this agreement. As a result of this agreement, we earned approximately $3.6 million, $2.7 million and $2.0 million of asset management fees for the years ended December 31, 2016, 2015 and 2014, respectively.

Investment in Life Settlements

We have a 50% ownership interest in each of three entities (collectively, the “LSC Entities”) formed for the purpose of acquiring life settlement contracts, with a subsidiary of NGHC owning the remaining 50% interest. The LSC Entities are: Tiger Capital LLC (“Tiger”), AMT Capital Alpha, LLC (“AMT Alpha”) and AMT Capital Holdings, S.A. (“AMTCH”).

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A life settlement contract is a contract between the owner of a life insurance policy and a third-party who obtains the ownership and beneficiary rights of the underlying life insurance policy. During the year ended December 31, 2016, we terminated an agreement with a third party administrator of the Tiger and AMTCH life settlement contract portfolios, under which the third party received an administrative fee. The third party administrator was also eligible to receive a percentage of profits after certain time and performance thresholds had been met. We provide certain actuarial and finance functions related to the LSC Entities. In conjunction with our approximate 12% ownership percentage of NGHC, we ultimately receive 56% of the profits and losses of the LSC Entities. As such, in accordance with ASC 810-10, Consolidation, we have been deemed the primary beneficiary and, therefore, consolidate the LSC Entities.

We account for investments in life settlements in accordance with ASC 325-30, Investments in Insurance Contracts, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. We have elected to account for these policies using the fair value method. Refer to Note 5. "Fair Value of Financial Instruments" for a discussion of the determination of the fair value of our investment in life settlement contracts.

Total capital contributions of $23.0 million and $1.1 million were committed to the LSC Entities during the years ended December 31, 2016 and 2015, respectively, of which our proportionate share was $11.5 million and $0.6 million in those same periods. The LSC Entities used the contributed capital to pay premiums and purchase policies. Our investments in life settlements were approximately $356.9 million and $264.0 million as of December 31, 2016 and 2015, respectively, and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. We recorded a gain on investment in life settlement contracts, net of profit commission, of approximately $46.1 million, $19.8 million and $12.3 million, for the years ended December 31, 2016, 2015 and 2014, respectively.

Principal Revenue and Expense Items

Gross Written Premium. Gross written premium represents estimated premiums from each insurance policy that we write, including as a servicing carrier for assigned risk plans, during a reporting period based on the effective date of the individual policy. Certain policies that we underwrite are subject to premium audit at that policy’s cancellation or expiration. The final actual gross premiums written may vary from the original estimate based on changes to the final rating parameters or classifications of the policy.

Net Written Premium. Net written premium is gross written premium less that portion of premium that we cede to third party reinsurers under reinsurance agreements. The amount ceded under these reinsurance agreements is based on a contractual formula contained in the individual reinsurance agreement.

Net Earned Premium. Net earned premium is the earned portion of our net written premiums. We earn insurance premiums on a pro rata basis over the term of the policy. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums, which are earned in subsequent periods over the remaining term of the policy. Our workers’ compensation insurance and commercial package policies typically have a term of one year. Thus, for a one-year policy written on July 1, 2016 for an employer with a constant payroll during the term of the policy, we would earn half of the premiums in 2016 and the other half in 2017. We earn our specialty risk and extended warranty coverages over the estimated exposure time period. The terms vary depending on the risk. The coverages range in duration from one to 120 months.

Service and Fee Income. We currently generate service and fee income from the following sources:

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Product warranty registration and service — Our Specialty Risk and Extended Warranty business generates fee revenue for product warranty registration and claims handling services provided to unaffiliated third party retailers, manufacturers and dealerships. Additionally, we provide credit monitoring services for a fee.

- Servicing carrier — We act as a servicing carrier for workers' compensation assigned risk plans in multiple states. In addition, we also offer claims adjusting and loss control services for fees to unaffiliated third parties.
- Management services — We provide services to insurance consumers, traditional insurers and insurance producers by offering flexible and cost effective alternatives to traditional insurance tools in the form of various risk retention groups and captive management companies, as well as management of workers' compensation and commercial property programs. We also offer programs and alternative funding options for non-profit and public sector organizations for the management of their state unemployment insurance obligations.
- Insurance fees — We recognize fee income associated with the issuance of workers' compensation policies for installment fees, in jurisdictions where it is permitted and approved, and reinstatement fees, which are fees charged to reinstate a

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policy after it has been canceled for non-payment, in jurisdictions where it is permitted and approved. Additionally, we recognize broker commissions and policy management fees associated with general liability policies placed by one of our managing general agencies.

- Broker services — We provide brokerage services to Maiden in connection with our reinsurance agreement for which we receive a fee.
- Asset management services — We currently manage the investment portfolios of certain subsidiaries of Maiden, NGHC, and ACP Re for which we receive a management fee.
- Information technology services — We provide information technology and printing and mailing services to NGHC and its affiliates for a fee.

Net Investment Income and Realized Gains and (Losses). We invest our statutory surplus funds and the funds supporting our insurance liabilities primarily in cash and cash equivalents, fixed maturity and equity securities. Our net investment income includes interest and dividends earned on our invested assets. We report net realized gains and losses on our investments separately from our net investment income. Net realized gains occur when we sell our investment securities for more than their costs or amortized costs, as applicable. Net realized losses occur when we sell our investment securities for less than their costs or amortized costs, as applicable, or we write down the investment securities as a result of other-than-temporary impairment. We classify equity securities and our fixed maturity securities primarily as available-for-sale. We report net unrealized gains (losses) on those securities classified as available-for-sale separately within accumulated other comprehensive income on our balance sheet. Additionally, we have a small portfolio of equity securities classified as trading securities. We report unrealized gains (losses) on those securities classified as trading securities within net realized gains (losses).

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses ("LAE") incurred represent our largest expense item and, for any given reporting period, include estimates of future claim payments, changes in those estimates from prior reporting periods and costs associated with investigating, defending and servicing claims. These expenses fluctuate based on the amount and types of risks we insure. We record loss and loss adjustment expenses related to estimates of future claim payments based on case-by-case valuations and statistical analysis. We seek to establish all reserves at the most likely ultimate exposure based on our historical claims experience. It is typical for our more serious bodily injury claims to take several years to settle, and we revise our estimates as we receive additional information about the condition of injured employees and claimants and the costs of their medical treatment. Our ability to estimate loss and loss adjustment expenses accurately at the time of pricing our insurance policies is a critical factor in our profitability.

Acquisition Costs and Other Underwriting Expenses. Acquisition costs and other underwriting expenses consist of policy acquisition expenses, salaries and benefits and general and administrative expenses, net of ceding commissions. These items are described below:

- Policy acquisition expenses comprise commissions directly attributable to those agents, wholesalers or brokers that produce premiums written on our behalf. In most instances, we pay commissions based on collected premium, which reduces our credit risk exposure associated with producers in case a policyholder does not pay a premium. We pay state and local taxes, licenses and fees, assessments and contributions to various state guaranty funds based on our premiums or losses in each state. Surcharges that we may be required to charge and collect from insureds in certain jurisdictions are recorded as accrued liabilities, rather than expense. These expenses are offset by ceding commissions received.
- Salaries and benefits expenses are those salaries and benefits expenses for employees that are directly involved in the origination, issuance and maintenance of policies, claims adjustment and accounting for insurance transactions that are associated with successful acquisition of insurance contracts. We classify salaries and benefits associated with employees that are involved in fee generating activities as other expenses.
- General and administrative expenses are comprised of other costs associated with our insurance activities, such as federal excise tax, postage, telephones and internet access charges, as well as legal and auditing fees and board and

bureau charges.

Ceding commission on reinsurance transactions is a commission we receive from ceding gross written premium to third party reinsurers, and is netted against acquisition costs and other underwriting expenses. In connection with the Maiden Quota Share, which is our primary source of ceding commissions, the amount we receive is a blended rate based on a contractual formula contained in the individual reinsurance agreements, and the rate may not correlate specifically to the cost structure of the individual segments. The ceding commissions we receive cover a portion of our capitalized direct acquisition costs and a portion of other underwriting expenses. Ceding commissions received from reinsurance transactions that represent recovery of capitalized direct acquisition costs are recorded as a reduction of capitalized unamortized deferred acquisition costs and the net amount is charged to expense in proportion to net premium revenue

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recognized. Ceding commissions received from reinsurance transactions that represent the recovery of other underwriting expenses are recognized in the income statement over the insurance contract period in proportion to the insurance protection provided and classified as a reduction of acquisition costs and other underwriting expenses. Ceding commissions received, but not yet earned, that represent the recovery of other underwriting expenses are classified as a component of accrued expenses and other current liabilities. We allocate earned ceding commissions to its segments based on each segment’s proportionate share of total acquisition costs and other underwriting expenses recognized during the period.

Gain (loss) on Investment in Life Settlement Contracts. The gain (loss) on investment in life settlement contracts includes the gain (loss) on acquisition of life settlement contracts, the gain (loss) realized upon a mortality event and the change in fair value of the investments in life settlements as evaluated at the end of each reporting period. We determine fair value based upon our estimate of the discounted cash flow related to policies (net of the reserves for improvements in mortality, the possibility that the high net worth individuals represented in our portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments and the future expenses related to the administration of the portfolio), which incorporates current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the policies as no comparable market pricing is available. The gain (loss) realized upon a mortality event is the difference between the death benefit received and the recorded fair value of that particular policy. We allocate gain (loss) on investment in life settlement contracts to our segments based on gross written premium by segment.

Other Expense. Other expense includes those charges that are related to the amortization of tangible and intangible assets and non-insurance fee generating activities in which we engage, including salaries and benefits expenses and other charges directly attributable to non-insurance fee generating activities, such as those generated by Builders & Tradesman's Insurance Services, Inc., CNH Industrial Canada Insurance and CNH Industrial Insurance Agency Inc. (collectively, "CNH"), First Nationwide, First Nonprofit Companies, Inc., Oryx, RS Acquisition Holdco, LLC and its subsidiaries, TMIS, Warrantech Corporation and its subsidiaries and Warranty Solutions.

Interest Expense. Interest expense represents amounts we incur on our outstanding indebtedness at the then-applicable interest rates.

Income Tax Expense. We incur federal income tax expense as well as income tax expense in certain foreign jurisdictions in which we operate.

Net Loss Ratio. The net loss ratio is a measure of the underwriting profitability of an insurance company’s business. Expressed as a percentage, this is the ratio of net losses and LAE incurred to net premiums earned.

Net Expense Ratio. The net expense ratio is a measure of an insurance company’s operational efficiency in administering its business. Expressed as a percentage, this is the ratio of the sum of acquisition costs and other underwriting expenses to net premiums earned. As we allocate certain acquisition costs and other underwriting expenses based on premium volume to our segments, net expense ratio on a segment basis may be impacted period over period by a shift in the mix of net written premium.

Net Combined Ratio. The net combined ratio is a measure of an insurance company’s overall underwriting profit. This is the sum of the net loss and net expense ratios. If the net combined ratio is at or above 100 percent, an insurance company cannot be profitable without investment income, and may not be profitable if investment income is insufficient.

Net Premiums Earned less Expenses Included in Combined Ratio (Underwriting Income). Underwriting income is a measure of an insurance company's overall operating profitability before items such as investment income, interest expense and income taxes.

Return on Equity. We calculate return on equity by dividing net income by the average of stockholders' equity.

Critical Accounting Policies

It is important to understand our accounting policies in order to understand our financial statements. These policies require us to make estimates and assumptions. Our management has discussed the development, selection and disclosure of the estimates and assumptions we use with the Audit Committee of our Board of Directors. These estimates and assumptions affect the reported amounts of our assets, liabilities, revenues and expenses and the related disclosures. Some of the estimates result from judgments that can be subjective and complex, and, consequently, actual results in future periods might differ significantly from these estimates.

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Our significant accounting policies are discussed in Note 2. "Significant Accounting Policies" in the audited consolidated financial statements included elsewhere in this report. We believe that our most critical accounting policies relate to the reporting of earned premium, reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from third party reinsurers, deferred policy acquisition costs, valuation of investments, valuation of life settlement contracts and related profit commission, business combinations, goodwill and intangible assets, and income taxes and valuation allowance, each of which is discussed below.

The following is a description of our critical accounting policies.

Premiums. We recognize insurance premiums, other than in our Specialty Risk and Extended Warranty segment, as earned on the straight-line basis over the contract period. Insurance premiums on Specialty Risk and Extended Warranty business are earned based on estimated program coverage periods. We base these estimates on the expected distribution of coverage periods by contract at inception, and because a single contract may contain multiple coverage period options, we revise these estimates based on the actual coverage periods selected by the insured. Unearned premiums represent the portion of premiums written that is applicable to the unexpired term of the contract or policy in force. We base premium adjustments on contracts and audit premiums on estimates made over the contract period. Earned but unbilled premium (“EBUB”) estimates the amount of audit premium for those policies that have yet to be audited as of the date of the quarter or year end. Workers’ compensation policies are subject to audit and the final premium may increase or decrease materially from the original premium due to revisions to actual payroll and/or employee classification. Based on guidance in FASB ASC 944 as well as Statement of Statutory Accounting Principles 53, we determine EBUB using statistically supported aggregate calculations based on our historical premium audit results. We have not had a material adjustment as a result of actual premium audits materially differing from the estimates used in calculating EBUB. We also estimate an allowance for doubtful accounts based on a percentage of premium.

Reserves for Loss and Loss Adjustment Expenses and Unearned Premium Reserves. We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances. In establishing our reserves, we do not use loss discounting, which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income. Our reserves for loss and loss adjustment expenses are estimated using case-by-case valuations and actuarial analysis.

We utilize a combination of generally accepted and standard actuarial methods to estimate our reserves for loss and loss adjustment expenses. Embedded within these actuarial methods are loss development assumptions selected by either a review of our specific loss development history, industry loss development characteristics, or a combination of both depending on the line of business and the maturity of the loss experience to date. Our actuaries generate a range within which it is reasonably likely that our ultimate loss and loss adjustment expenses for claims incurred in a particular time period will fall. Although not an exhaustive list, the range is affected by factors such as line of business, volatility of losses, duration of liabilities and other macroecomic factors that create uncertainty around the estimate. The results of multiple actuarial methods may also influence the range selection.

Loss development factors are a key assumption underlying many of the actuarial methods utilized. Loss development factors are the ratio of losses at successive evaluations for a defined group of claims (e.g., accident year, accident quarter, etc.). Loss development factors may be dependent on a number of elements, including frequency and severity of claims, length of time to achieve ultimate settlement of claims, case reserving practices, projected inflation of medical costs and wages (for workers’ compensation), insurance policy coverage interpretations, judicial determinations and existing laws and regulations. The predictive ability of loss development factors is dependent on consistent underwriting, claims handling, and inflation, among other factors, and predictable legislatively and judicially imposed legal requirements. If all things remain equal, losses incurred in 2016 should develop similarly to losses incurred in 2015 and prior years over comparable time periods. However, due to the inherent uncertainty in the loss development factors, future development may differ significantly from past development.

Notwithstanding the inherent uncertainty, we have not observed material variability in our loss development factors for our largest books of business. We believe that it is reasonably likely that we could experience a 5% deviation in our loss and loss adjustment expense reserves due to changes in the elements that underlie loss development, such as claims frequency or severity. For example, as of December 31, 2016, the average cost per workers’ compensation claim was $13,606, which was a 3.7% increase over the claims severity from 2001 – 2015 of $13,115. In 2016, claims frequency (number of claims per $1.0 million of payroll) decreased to .982 from .998, a decrease of 1.55%, for the period between 2001 and 2016.

In the event of a 5% increase in claims frequency (all other things remaining equal) as measured by our workers' compensation insureds’ payroll, which we believe is the most important assumption regarding our business, our loss reserves as of December 31, 2016 would be understated by $48.0 million and would result in an after tax reduction in stockholders’ equity of $31.2 million.

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In the event of a 5% increase in claim severity (all other things remaining equal), which is the average incurred loss per claim, our loss and loss adjustment expense reserves would be understated by $29.0 million and would result in an after tax reduction in stockholders' equity of $18.9 million.

On a quarterly basis, we review our reserves to determine whether the expected loss emergence based on our actuarial assumptions is consistent with the actual loss emergence to date. We also perform monthly diagnostic reviews in the form of reported and paid loss ratios to date and compare to comparable historical points to detect any possible anomalous results. In the event of a result that looks materially different from our previous loss history, we would seek to determine the causes (e.g., underwriting, claims, inflation, and/or regulatory) and may adjust our reserves depending on the identified cause. For example, if the emergence of our total incurred losses were 5% greater than what our loss emergence patterns (development factors) would have predicted, we may adjust our reserves for the periods in question. In 2016, 2015 and 2014, our liabilities for unpaid losses and LAE attributable to prior accident years increased by $257.9 million, $33.9 million and $18.6 million, respectively. For a discussion of the reserve development, see Note 13. "Short Duration Contracts" appearing elsewhere in this report. We will continue to monitor the accuracy of our loss development factors and related actuarial assumptions, as well as the adequacy of our reserves.

As pertains to our Warranty exposure within the Specialty Risk and Extended Warranty segment, there is generally more uncertainty in the unearned premium reserve than in the IBNR reserve. While our warranty claims are short-tailed, the unearned portion of each contract earns over several years. Furthermore, as pertains to warranty, claims are generally reported immediately after they occur and are closed within months of reporting. The reserve for unearned premium is an estimate of our liability for projected future losses emanating from the unearned portion of written policies and is inherently more uncertain. A portion of these policies are not earned evenly over the contract period but over the period in proportion to the exposure to losses and the amount of insurance protection provided. As of December 31, 2016, we had unearned premium of approximately $925.0 million on these policies. An upward/downward movement of 5% on the entire pool of the earn out pattern for these policies would result in an increase/decrease of approximately $46.3 million. In 2016, we had no material changes to prior period estimates of these claim patterns.

Additional information regarding our reserves for loss and loss adjustment expenses can be found in "Item 1. Business — Loss Reserves," "Item 1A. Risk Factors," Note 12. "Loss and loss adjustment expense reserves" and Note 13. "Short Duration Contracts."

Reinsurance. We account for reinsurance premiums, losses and LAE ceded to other companies on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. We record premiums earned and losses incurred ceded to other companies as reductions of premium revenue and losses and LAE. We account for commissions allowed by reinsurers on business ceded as ceding commission, which is a reduction of acquisition costs and other underwriting expenses. Reinsurance recoverables relate to the portion of reserves and paid losses and LAE that are ceded to other companies. We remain contingently liable for all loss payments in the event of failure to collect from the reinsurer.

Deferred Policy Acquisition Costs. We defer commissions, premium taxes and certain other costs that are incrementally or directly related to the successful acquisition of new or renewal insurance contracts. Acquisition-related costs may be deemed ineligible for deferral when they are based on contingent or performance criteria beyond the basic acquisition of the insurance contract, or when efforts to obtain or renew the insurance contract are unsuccessful. All eligible costs are capitalized and charged to expense ratably as premiums are earned. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated realizable value. This would also give effect to the premiums to be earned and anticipated losses and settlement expenses, as well as certain other costs expected to be incurred as the premiums are earned. Judgments as to the ultimate recoverability of such deferred costs are reviewed on a segment basis and are highly dependent upon estimated future loss costs associated with the premiums written. This deferral methodology applies to both gross and ceded premiums and acquisition costs.

Fair Value of Financial Instruments. Our estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 820 Fair Value Measurements and Disclosures. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect our significant market assumptions. Additionally, valuation of fixed maturity investments is more subjective when markets are less liquid due to lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur. Fair values of other financial instruments approximate their carrying values. We report fixed maturity securities and equity securities classified as available-for-sale at their estimated fair values based on quoted market prices or a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of comprehensive income in stockholders’ equity. Equity securities classified as trading securities are

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stated at estimated fair market value. Gains and losses, both realized and unrealized, are included in the net realized gain or loss on investment on the consolidated statement of income. For both available-for-sale and trading securities, we determine realized gains and losses on the specific identification method.

For investments that have quoted market prices in active markets, we use the quoted market prices as fair value and include these prices in the amounts disclosed in the Level 1 hierarchy. We receive the quoted market prices from nationally recognized third party pricing services ("pricing service"). When quoted market prices are unavailable, we utilize a pricing service to determine an estimate of fair value. This pricing method is used, primarily, for fixed maturities. The fair value estimates provided by the pricing service are included in the Level 2 hierarchy. If we determine that the fair value estimate provided by the pricing service does not represent fair value or if quoted market prices and an estimate from pricing services are unavailable, we produce an estimate of fair value based on dealer quotations of the bid price for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, we will then determine if the estimate is Level 2 or Level 3 hierarchy.

Fixed Maturities. We utilize a pricing service to estimate fair value measurements for all of our fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted market prices in active markets. Since fixed maturities other than U.S. treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements using relevant market data, benchmark curves, sector groupings and matrix pricing. The pricing service we utilize has indicated it will produce an estimate of fair value only if there is verifiable information to produce a valuation. As the fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes, the estimates of fair value other than U.S. Treasury securities are included in Level 2 of the hierarchy. U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted prices. Our Level 2 investments include obligations of U.S. government agencies, municipal bonds, corporate debt securities and other mortgage backed securities.

Equity Securities. We utilize a pricing service to estimate the fair value of the majority of our available-for-sale and trading equity securities. The pricing service utilizes market quotations for equity securities that have quoted market prices in active markets and their respective quoted prices are provided as fair value. We classify the values of these equity securities as Level 1. The pricing service also provides fair value estimates for certain equity securities whose fair value is based on observable market information rather than market quotes. We classify the value of these equity securities as Level 2. We also hold certain equity securities that are issued by privately-held entities or direct equity investments that do not have an active market. We estimate the fair value of these securities primarily based on inputs such as third party broker quote, issuers' book value, market multiples, and other inputs. These equity securities are classified as Level 3 due to significant unobservable inputs used in the valuation.

Other Investments. Other investments consist primarily of investments in private limited partnerships, real estate partnerships and syndicated loans. We use the equity method of accounting to account for a majority of our other investments, which are typically accounted for on a three-month lag basis.

Other-than-temporary-impairment ("OTTI"). Quarterly, our Investment Committee ("Committee") evaluates each security that has an unrealized loss as of the end of the subject reporting period for "OTTI". The Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

- the current fair value compared to amortized cost;
- the length of time the security's fair value has been below its amortized cost;
- specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments;

- whether management intends to sell the security and, if not, whether it is not more than likely than not that we will be required to sell the security before recovery of its amortized cost basis;
- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings and, for equity securities, forecasted recovery in a reasonable period of time;
- the occurrence of a discrete credit event resulting in the issuer defaulting on material outstanding obligations or the issuer seeking protection under bankruptcy laws; and
- other items, including company management, media exposure, sponsors, marketing and advertising agreements, debt restructuring, regulatory changes, acquisitions and dispositions, pending litigation, distribution agreements and general industry trends.

Management uses judgment in determining the impact that any of the above facts may have on whether an impairment is temporary or not. The level of rigor used to evaluate a security for impairment depends on various factors, including the amount of impairment and length of time impaired. However, we generally consider a fixed maturity investment when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion or more) for over 24 months as rebuttable indications of other-than-temporary impairment. Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. We write down investments immediately that we consider to be impaired based on the above criteria collectively.

Based on guidance in FASB ASC 320-10-65, in the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is not more than likely than not that such holder will be required to sell the debt security before recovery of its amortized cost basis, is required to separate the decline in fair value into (a) the amount representing the credit loss and (b) the amount related to other factors. The amount of total decline in fair value related to the credit loss shall be recognized in earnings as an OTTI with the amount related to other factors recognized in accumulated other comprehensive loss, net of tax. OTTI credit losses result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of the loss realization. During 2016, 2015 and 2014, we recorded impairment write-downs of approximately $31.7 million, $19.2 million and $8.0 million, respectively, after determining that certain of our investments were OTTI.

Life Settlements. When we become the owner of a life insurance policy, the life insurance premium for such policy is accounted for as an investment in life settlements. Investments in life settlements are accounted for in accordance with ASC 325-30, Investments in Insurance Contracts, which states that an investor shall elect to account for its investments in life settlement contracts using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. We have elected to account for these investments using the fair value method.

Life Settlement Profit Commission. We retained a third party service provider to perform certain administration functions to effectively manage the life settlement contracts held by Tiger Capital, LLC and AMT Capital Holdings II S.A. and a portion of their fee was contingent on the overall profitability of the life settlement contracts. We accrued the related profit commission on life settlements at fair value, in relation to life settlements purchased through this provider. This profit commission was calculated based on the discounted anticipated cash flows and the provisions of the underlying contract, and was settled with the third party administrator in 2016. In addition, we accrue a best estimate in relation to profit commission due on certain life settlement contracts acquired subsequent to December 31, 2010.

Business Combinations. We account for business combinations under the acquisition method of accounting, which requires us to record assets acquired, liabilities assumed and any non-controlling interest in the acquiree at their respective fair values as of the acquisition date in our consolidated financial statements. We account for the insurance and reinsurance contracts under the acquisition method as new contracts, which requires us to record assets and liabilities at fair value. We adjust the fair value of loss and loss adjustment expense reserves by recording the acquired loss reserves based on our existing accounting policies and then discounting them based on expected reserve payout patterns using a current risk-free rate of interest. This risk free interest rate is then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and our best estimate of the fair value of such reserves at the acquisition date is recorded either as an intangible asset or an other liability, as applicable, and amortized proportionately to the decrease in the acquired loss and loss adjustment expense reserves over the payout period for the acquired loss and loss adjustment expense reserves. We record contingent consideration at fair value based on the terms of the purchase agreement with subsequent changes in fair value recorded through earnings. The determination of fair value may require management to make significant estimates and assumptions. The purchase price is the fair value of the total consideration conveyed to the seller and we record the excess of the purchase price over the fair value of the acquired net assets, where applicable, as goodwill. We assign fair values to intangible assets based on valuation techniques including the income and market approaches. We expense costs associated with the acquisition of a business in the period incurred. We include the results of operations of an acquired business in our consolidated financial statements from the date of the acquisition.

Goodwill and Intangible Assets. We account for goodwill and intangible assets in accordance with ASC 820, Business Combinations and ASC 350, Intangibles — Goodwill and Other. We record an acquisition price paid that is in excess of net assets ("goodwill") arising from a business combination as an asset, and it is not amortized. We amortize intangible assets with a finite life over the estimated useful life of the asset. We do not amortize intangible assets with an indefinite useful life. We review our finite-lived intangible assets for impairment when events or change in circumstances indicate that the carrying value of such intangible assets may not be recoverable from estimated cash flows. We test goodwill and intangible assets with indefinite lives for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may

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not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statement of operations.

Income Taxes. We file a consolidated United States income tax return for our eligible domestic subsidiaries. Our non-domestic subdivisions file income tax returns in their respective local jurisdictions. As part of the U.S. consolidated income tax return filing, we are party to federal income tax allocation agreements amongst the includible entities. Under the tax allocation agreements, we pay to or receive from our subsidiaries the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return.

Deferred income taxes reflect the impact of "temporary differences" between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The deferred tax asset primarily consists of book versus tax differences for premiums earned, loss and loss adjustment expense reserve discounting, policy acquisition costs, and net operating losses. We record changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income, primarily unrealized investment gains and losses, directly to other comprehensive income. Otherwise, we include changes in deferred income tax assets and liabilities as a component of income tax expense.

We recognize deferred tax assets to the extent we believe that these assets are more likely than not to be realized. In assessing the more likely than not recoverability of deferred tax assets, management considers whether it is more likely than not that we will generate future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. If necessary, we establish a valuation allowance to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

We recognize tax benefits only for tax positions that are more likely than not to be sustained upon examination by taxing authorities. Our policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in our income tax provision. We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. Primarily tax years 2013 through 2015 are still subject to examination. We do not anticipate any significant changes to our total unrecognized tax benefits within the next 12 months.

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Results of Operations

Consolidated Results of Operations

	Year End December 31, 2016	2015 As restated	2014 As restated
	(Amounts in Thousands)		
Gross written premium	$7,949,270	$6,799,537	$6,092,437
Net written premium	$4,851,327	$4,261,928	$3,941,220
Change in unearned premium	(183,362)	(240,687)	(434,386)
Net earned premium	4,667,965	4,021,241	3,506,834
Service and fee income (related parties - $87,906; $76,454; and $58,428)	537,966	428,143	365,356
Net investment income	208,047	156,290	131,601
Net realized gain on investments	36,478	8,117	16,423
Total revenues	5,450,456	4,613,791	4,020,214
Loss and loss adjustment expense	3,142,279	2,688,118	2,331,325
Acquisition costs and other underwriting expenses (net of ceding commission and administrative services) - related party $608,904; $545,661; and $405,071)	1,230,168	993,571	870,702
Other	564,065	473,253	422,528
Total expenses	4,936,512	4,154,942	3,624,555
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	513,944	458,849	395,659
Other income (loss):			
Interest expense (net of interest income - related party - $7,593; $8,701 and $2,601)	(79,526)	(55,355)	(45,857)
Loss on extinguishment of debt	—	(5,271)	(9,831)
Net gain on investment in life settlement contracts net of profit commission	46,147	19,844	12,306
Foreign currency (loss) gain	(29,289)	47,301	56,372
Acquisition gain on purchase	48,775	5,826	—
Gain on sale of subsidiary	—	—	6,631
Total other income (loss)	(13,893)	12,345	19,621
Income before income taxes and equity in earnings of unconsolidated subsidiaries	500,051	471,194	415,280
Provision for income taxes	85,307	38,946	28,367
Income before equity in earnings of unconsolidated subsidiaries	414,744	432,248	386,913
Equity in earnings of unconsolidated subsidiaries – related parties	15,626	25,385	28,351
Net income	$430,370	$457,633	$415,264
Net income attributable to redeemable non-controlling interest & non-controlling interest of subsidiaries	(19,384)	(6,928)	416
Net income attributable to AmTrust Financial Services, Inc.	$410,986	$450,705	$415,680
Dividends on preferred stock	(47,847)	(31,590)	(12,738)
Net income attributable to AmTrust common shareholders	$363,139	$419,115	$402,942
Net realized gain on investments:			
Total other-than-temporary impairment losses	$(31,659)	$(19,155)	$(8,039)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(31,659)	(19,155)	(8,039)
Net realized gain on available for sale securities	52,353	15,578	21,858

Net realized gain on trading securities	15,784	11,694	2,604
Net realized investment gain	$36,478	$8,117	$16,423

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Consolidated Results of Operations 2016 Compared to 2015

Gross Written Premium. Gross written premium increased $1,149.7 million, or 16.9%, to $7,949.3 million from $6,799.5 million for the years ended December 31, 2016 and 2015, respectively. The increase of $1,149.7 million was attributable to growth in our Small Commercial Business and Specialty Risk and Extended Warranty segments, while growth in our Specialty Program segment was relatively flat. The majority of the increase in the Small Commercial Business segment was attributable to an increase in the number of workers' compensation policies issued, and the acquisitions of Republic, ARI and Springfield, which contributed approximately $380 million of gross written premium. The increase in our Specialty Risk and Extended Warranty segment was attributable to our acquisitions of ANV, Nationale Borg and Warranty Solutions, which contributed approximately $237 million of gross written premium, expansion of our existing programs in Europe, and growth within our Lloyd's platform, partially offset by the negative foreign currency impact of the weakening of the British pound sterling and the Euro against the U.S. dollar. The increase of gross written premium in our Specialty Program segment as a result of the April 2016 acquisition of Republic, which contributed $155 million, was partially offset by the reduction or termination of certain workers' compensation and commercial package programs.

Net Written Premium. Net written premium increased $589.4 million, or 13.8%, to $4,851.3 million from $4,261.9 million for the years ended December 31, 2016 and 2015, respectively. The increase by segment was: Small Commercial Business — $314.1 million; Specialty Risk and Extended Warranty — $271.3 million; and Specialty Program — $4.0 million. Net written premium increased for the year ended December 31, 2016 compared to 2015 due to an increase in gross written premium, partially offset by a decrease in the retention of gross written premium to 61.0% from 62.7% for the years ended December 31, 2016 and 2015, respectively. The decrease in retention resulted from a small increase, as compared to the same period in 2015, in business written that is reinsured under the Maiden Quota Share agreement or with other third party reinsurers.

Net Earned Premium. Net earned premium increased $646.7 million, or 16.1%, to $4,668.0 million from $4,021.2 million for the years ended December 31, 2016 and 2015, respectively. The increase by segment was: Small Commercial Business — $316.6 million; Specialty Risk and Extended Warranty — $238.9 million; and Specialty Program — $91.3 million. The increase in net earned premium resulted from an increase in gross written premium for the year ended December 31, 2016 compared to the year ended December 31, 2015.

Service and Fee Income. Service and fee income increased $109.8 million, or 25.7%, to $538.0 million from $428.1 million for the years ended December 31, 2016 and 2015, respectively. The increase related primarily to the acquisition of Warranty Solutions, which generated fees of approximately $86 million, and higher fees for services provided to Maiden, NGHC and ACP Re of approximately $11 million.

Net Investment Income. Net investment income increased $51.8 million, or 33.1%, to $208.0 million from $156.3 million for the years ended December 31, 2016 and 2015, respectively. The increase resulted primarily from having a 45% higher average value of invested assets during the year ended December 31, 2016 compared to the year ended December 31, 2015, arising from our investment of certain proceeds from stock and debt offerings occurring since the second half of 2015 and investment portfolios obtained through acquisitions.

Net Realized Gains (Losses) on Investments. We had net realized gains on investments of $36.5 million and $8.1 million for the years ended December 31, 2016 and 2015, respectively. The increase related primarily to an increase in sales of securities in gain positions, but was partially offset by an increase in other-than-temporary impairments to $31.7 million for the year ended December 31, 2016 from $19.2 million for the year ended December 31, 2015.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $454.2 million, or 16.9%, to $3,142.3 million for the year ended December 31, 2016 from $2,688.1 million for the year ended

December 31, 2015. Our loss ratio for the years ended December 31, 2016 and 2015 was 67.3% and 66.8%, respectively. Included in the 67.3% loss ratio was $257.9 million of prior period adverse development (representing 5.5% of the loss ratio and 5.7% of the prior year-ending net reserve balance), primarily in our Specialty Program and Small Commercial Business segments, which reflects the re-underwriting and rate changes achieved in the businesses that generated the prior period adverse development. Until our fourth quarter of 2016 reserve review, we established our current year loss ratio at a higher level, reflecting underwriting expectations in the absence of mature data on the current year. Therefore, part of the $257.9 million of prior period adverse development was implicitly offset by favorable development on the 2016 accident year, which is not reflected in the prior period adverse development estimate.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $236.6 million, or 23.8%, to $1,230.2 million for the year ended December 31, 2016 from $993.6 million for the year ended December 31, 2015. Acquisition costs and other underwriting expenses in each period were reduced by ceding commission primarily earned through the Maiden Quota Share, through which we receive a ceding commission of 31% of premiums ceded for all business except retail commercial package business, and 34.375% for retail commercial package business. The ceding commission earned during the years ended December 31, 2016 and 2015 was $599.5 million and $510.8 million, respectively. Ceding commission increased period over period as a result of increases in gross written premium and a small decrease in our retention of gross written premium. On a consolidated basis, we retained 61.0% of our gross written premium for the year ended December 31, 2016, compared to retaining 62.7% of our gross written premium for the year ended December 31, 2015. Our overall expense ratio was 26.4% and 24.8% for the years ended December 31, 2016 and 2015, respectively. The increase in the expense ratio was the result, primarily, of higher direct acquisition costs from our 2016 acquisitions of Republic, ANV and Nationale Borg.

Other. Other expenses increased $90.8 million, or 19.2%, to $564.1 million for the year ended December 31, 2016 from $473.3 million for the year ended December 31, 2015. The increase resulted primarily from the acquisitions of First Nationwide in 2016 and Warranty Solutions in September 2015, and higher overall costs related to year-end auditing and consulting resources.

Income Before Other Income (Expense), Income Taxes and Equity in Earnings of Unconsolidated Subsidiaries. Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries increased $55.1 million, or 12.0%, to $513.9 million from $458.8 million for the years ended December 31, 2016 and 2015, respectively. The $55.1 million increase resulted primarily from an increase in earned premium, investment income and realized gains.

Interest Expense. Interest expense for the years ended December 31, 2016 and 2015 was $79.5 million and $55.4 million, respectively. The majority of the increase related to additional interest expense of approximately $12.4 million incurred from the issuance of an aggregate of $285 million of subordinated notes in June and September 2015. Additionally, we incurred interest expense related to additional debt issued and assumed in connection with the Republic acquisition of $7.1 million, along with an overall increase in use of letters of credit.

Net Gain on Investment in Life Settlement Contracts. We recognized a gain on investment in life settlement contracts of $46.1 million for the year ended December 31, 2016 compared to a gain of $19.8 million for the year ended December 31, 2015. The increase in the recognized gain related to an increase in the fair value of the portfolio of policies, partially offset by an increase in commission expense. Six policies matured during the year ended December 31, 2016 and ten policies matured during the year ended December 31, 2015.

Acquisition Gain on Purchase. We recognized a gain on acquisition of approximately $48.8 million related primarily to the purchase of Genworth during 2016 compared to a gain on acquisition of approximately $5.8 million related to the purchase of CorePointe during 2015.

Foreign Currency Gain (Loss). The foreign currency transaction loss was $29.3 million compared to a gain of $47.3 million during the years ended December 31, 2016 and 2015, respectively. The loss during the year ended December 31, 2016 resulted from the weakening of the British pound sterling compared to the Euro, which negatively impacted our U.K. insurance subsidiaries that write Euro-denominated risks that are re-valued at the end of each reporting period.

Provision for Income Tax. Income tax expense was $85.3 million for the year ended December 31, 2016, which resulted in an effective tax rate of 17.1%. Income tax expense was $38.9 million for the year ended 2015, which resulted in an effective tax rate of 8.3% for the year ended December 31, 2015. Our effective tax rate increased in 2016 compared to 2015 due to several factors. During 2015, our provision for income tax benefited from a return to provision adjustment during the third quarter of approximately $80 million, or 17.0%. The return to provision was driven primarily by changes in permanent transfer pricing tax adjustments. During 2016, our favorable permanent transfer pricing adjustment was reduced from $372 million to $8 million as a result of fewer transactions between our Bermuda reinsurer and our Luxembourg reinsurers. The deferred tax liabilities attributable to our Luxembourg reinsurers included a valuation allowance of approximately $5 million and $81 million at December 31, 2016 and 2015, respectively. The valuation allowance was the result of our current inability to generate sufficient future income in Luxembourg in order to fully utilize the net operating losses (NOLs) incurred to date.

Equity in Earnings of Unconsolidated Subsidiaries — Related Party. Equity in earnings of unconsolidated subsidiaries — related party decreased by $9.8 million for the year ended December 31, 2016 to $15.6 million compared to $25.4 million for the year ended December 31, 2015. The decrease in 2016 related to a non-recurring realized gain of $9.6 million recognized during the year ended December 31, 2015 related to a decrease in our ownership percentage of NGHC as the result of NGHC's public offering in August 2015.

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Consolidated Results of Operations 2015 Compared to 2014

Gross Written Premium. Gross written premium increased $707.1 million, or 11.6%, to $6,799.5 million from $6,092.4 million for the years ended December 31, 2015 and 2014, respectively. The increase of $707.1 million is attributable to growth in all three of our segments, both organically and from the acquisitions of CorePointe, Springfield and Warranty Solutions. The majority of the increase in the Small Commercial Business segment was attributable to an increase in the number of workers' compensation policies issued, partially offset by the assumption of $199.7 million of non-recurring premium during the first quarter of 2014 as part of the cut through reinsurance agreement with Tower. The largest increases came from the states of California, Florida and New York. The increase in the Specialty Program segment resulted primarily from expansion of our existing programs. The majority of the increase in our Specialty Risk and Extended Warranty segment resulted from growth in our domestic business from expansion of existing programs, which was partially offset by declines in gross written premium in our European business due to the strengthening of the U.S. dollar relative to the Euro and British Pound.

Net Written Premium. Net written premium increased $320.7 million, or 8.1%, to $4,261.9 million from $3,941.2 million for the years ended December 31, 2015 and 2014, respectively. The increase by segment was: Small Commercial Business — $49.7 million; Specialty Risk and Extended Warranty — $132.5 million; and Specialty Program — $138.5 million. Net written premium increased for the year ended December 31, 2015 compared to 2014 due to an increase in gross written premium, which was partially offset by a decrease in the retention of gross written premium to 62.7% from 65.0% for the years ended December 31, 2015 and 2014, respectively. The decrease in retention resulted primarily from an increase in business written that is covered under the Maiden Quota Share in 2015 and the assumption of non-recurring premium during the first quarter of 2014 that was not subject to the Maiden Quota Share. Additionally, the increase in net written premium was partially offset by $174 million of non-recurring unearned premium we assumed from Tower during the first quarter of 2014. Absent this assumption, net written premium would have increased approximately $477 million, or 13.1%.

Net Earned Premium. Net earned premium increased $514.4 million, or 14.7%, to $4,021.2 million from $3,506.8 million for the years ended December 31, 2015 and 2014, respectively. The increase by segment was: Small Commercial Business — $280.1 million; Specialty Risk and Extended Warranty — $92.5 million; and Specialty Program — $150.7 million. The increase was partially offset by a decrease in Personal Lines Reinsurance — $8.9 million. The increase in net earned premium resulted from the increase in gross written premium in 2015.

Service and Fee Income. Service and fee income increased $62.8 million, or 17.2%, to $428.1 million from $365.4 million for the years ended December 31, 2015 and 2014, respectively. We increased service and fee income by approximately $38.4 million from acquisitions, including Oryx, TMIS and Warranty Solutions. Additionally, fees for services provided to Maiden, NGHC and ACP Re increased by approximately $17.8 million in 2015 compared to 2014.

Net Investment Income. Net investment income increased $24.7 million, or 18.8%, to $156.3 million from $131.6 million for the years ended December 31, 2015 and 2014, respectively. The increase resulted primarily from having a higher average portfolio of fixed maturity securities during 2015 compared to 2014, which was achieved by our investment of certain proceeds from stock and debt offerings in 2015 and 2014 and the acquisitions of CorePointe, Comp Options and Warranty Solutions. Additionally, our investment yields were slightly higher period over period.

Net Realized Gains (Losses) on Investments. We had net realized gains on investments of $8.1 million and $16.4 million for the years ended December 31, 2015 and 2014, respectively. The decrease related to higher other-than-temporary impairment of fixed maturity securities, which were $19.2 million and $8.0 million for the years ended December 31, 2015 and 2014, respectively.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $356.8 million, or 15.3%, to $2,688.1 million for the year ended December 31, 2015 from $2,331.3 million for the year ended December 31, 2014. Our loss ratio for the years ended December 31, 2015 and 2014 was 66.8% and 66.5%, respectively. The loss ratio remained stable for the year ended December 31, 2015 compared to the year ended December 31, 2014 as current accident year selected ultimate losses remained consistent with selected ultimate losses from prior years. During the second half of 2015, our loss ratio increased in our Specialty Risk and Extended Warranty segment, which resulted from a revision to our ultimate losses on certain casualty lines in our European business due to an increase of our carried incurred but not reported claim reserves. The increase in the Specialty Risk and Extended Warranty loss ratio was partially offset by our Small Commercial Business segment's loss ratio, which decreased as a result of improved pricing on policy issuances combined with stable claims frequency and severity. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $122.9 million, or 14.1%, to $993.6 million for the year ended December 31, 2015 from $870.7 million for the year ended December 31, 2014. Acquisition costs and other underwriting expenses were reduced in each period by ceding commission

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primarily earned through the Maiden Quota Share, whereby we receive a ceding commission of 31% of premiums ceded for all business except retail commercial package business, for which we receive a ceding commission of 34.375% for premiums ceded. The ceding commission earned during the years ended December 31, 2015 and 2014 was $510.8 million and $405.1 million, respectively. Ceding commission increased period over period as a result of increased premium writings and was reasonably consistent period over period as a percentage of ceded earned premiums. The expense ratio remained consistent at 24.8% for the years ended December 31, 2015 and 2014.

Other. Other expenses increased $50.7 million, or 12.0%, to $473.3 million for the year ended December 31, 2015 from $422.5 million for the year ended December 31, 2014. The increase resulted primarily from the expansion of our product warranty registration and claims handling services for CNH. We also incurred an additional $17.3 million of depreciation and amortization expense in 2015 compared to 2014.

Income Before Other Income (Expense), Income Taxes and Equity in Earnings of Unconsolidated Subsidiaries. Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries increased $63.2 million, or 16.0%, to $458.8 million from $395.7 million for the years ended December 31, 2015 and 2014, respectively. The change in income from 2015 to 2014 resulted primarily from an increase in underwriting income, income from our fee based business and income from our investment portfolio.

Interest Expense. Interest expense for the years ended December 31, 2015 and 2014 was $55.4 million and $45.9 million, respectively. The increase was primarily related to the issuance of $285 million of subordinated notes in 2015, partially offset by interest income of approximately $6.1 million related to our $125 million loan to ACP Re, which we entered into during the third quarter of 2014.

Net Gain on Investment in Life Settlement Contracts. We recognized a gain on investment in life settlement contracts of $19.8 million for the year ended December 31, 2015 compared to a gain of $12.3 million for the year ended December 31, 2014. The increase resulted from a higher number of maturities in 2015 than in 2014.

Acquisition Gain on Purchase. We recognized a gain on acquisition of approximately $5.8 million related to the purchase of CorePointe during 2015. We did not recognize any gains on acquisition during 2014.

Foreign Currency Gain (Loss). The foreign currency transaction gain was $47.3 million and $56.4 million during the years ended December 31, 2015 and 2014, respectively. The gains resulted from fluctuations in exchange rates related to internal reinsurance transactions between our European insurance companies and our Bermuda reinsurance company.

Provision for Income Tax. Income tax expense was $38.9 million for the year ended December 31, 2015, which resulted in an effective tax rate of 8.3%. Income tax expense was $28.4 million for the year ended 2014, which resulted in an effective tax rate of 6.8% for the year ended December 31, 2014. During 2015, our provision for income tax benefited from a return to provision adjustment during the third quarter of approximately $80 million, or 17.0%. The return to provision was driven primarily by changes in permanent transfer pricing tax adjustments. Our effective tax rate was favorably impacted by 0.4% and 21.5% during the years ended December 31, 2015 and 2014, respectively, related to the reduction of our net deferred tax liability associated with the equalization reserves of our Luxembourg reinsurers, which was approximately $2 million and $92 million in 2015 and 2014, respectively. Absent the impact of the equalization reserves, our effective tax rates would have been 8.7% and 28.1% for the years ended December 31, 2015 and 2014, respectively. The deferred tax liabilities attributable to Luxembourg reinsurers included a valuation allowance of approximately $81 million at December 31, 2015, which was the result of our inability to generate sufficient future income in Luxembourg in order to fully utilize the NOLs incurred to date. There was no such valuation allowance at December 31, 2014.

Equity in Earnings of Unconsolidated Subsidiaries — Related Parties. Equity in earnings of unconsolidated subsidiaries — related party decreased by $3.0 million for the year ended December 31, 2015 to $25.4 million compared to $28.4 million for the year ended December 31, 2014. We had equity income from NGHC of $9.6 million and $14.7 million in 2015 and 2014, respectively, related to decreases in our ownership percentages of NGHC as a result of public offerings by NGHC in 2015 and 2014. This year over year decrease was partially offset by an increase in earnings from our proportionate share of equity income from NGHC's results of operations in 2015 compared to 2014.

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Small Commercial Business Segment — Results of Operations

	Year End December 31,		
	2016	2015 As Restated	2014 As Restated
	(Amounts in Thousands)		
Gross written premium	$4,020,184	$3,320,650	$2,999,714
Net written premium	$2,246,188	$1,932,100	$1,882,383
Change in unearned premium	(42,719)	(45,220)	(275,578)
Net earned premium	2,203,469	1,886,880	1,606,805
Loss and loss adjustment expense	(1,460,503)	(1,234,089)	(1,055,521)
Acquisition costs and other underwriting expenses	(592,569)	(486,800)	(421,399)
	(2,053,072)	(1,720,889)	(1,476,920)
Underwriting income	$150,397	$165,991	$129,885
Key Measures:			
Net loss ratio	66.3%	65.4%	65.7%
Net expense ratio	26.9%	25.8%	26.2%
Net combined ratio	93.2%	91.2%	91.9%

Small Commercial Business Segment Results of Operations 2016 Compared to 2015

Gross Written Premium. Gross written premium increased $699.5 million, or 21.1%, to $4,020.2 million for the year ended December 31, 2016 from $3,320.7 million for the year ended December 31, 2015. The increase was attributable to an increase in the number of workers' compensation policies issued, improved pricing on commercial vehicle business and continued growth in California, New York and Florida. The acquisition of Republic contributed approximately $329.8 million of gross written premium, and the acquisitions of ARI and Springfield collectively contributed an additional $54.1 million of gross written premium for the year ended December 31, 2016.

Net Written Premium. Net written premium increased $314.1 million, or 16.3%, to $2,246.2 million from $1,932.1 million for the years ended December 31, 2016 and 2015, respectively. The increase in net written premium resulted from an increase in gross written premium for the year ended December 31, 2016 compared to the year ended December 31, 2015, partially offset by a decrease in the retention of gross written premium during 2016 compared to 2015. Our retention of gross written premium for the segment decreased to 55.9% from 58.2% for the years ended December 31, 2016 and 2015, respectively, primarily because we ceded to third party reinsurers a large portion of the gross written premium generated as a result of our 2016 acquisition of Republic.

Net Earned Premium. Net earned premium increased $316.6 million, or 16.8%, to $2,203.5 million for the year ended December 31, 2016 from $1,886.9 million for the year ended December 31, 2015. As premiums written are earned ratably over an annual period, the increase in net earned premium resulted from higher net written premium for the year ended December 31, 2016 compared to the year ended December 31, 2015.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $226.4 million, or 18.3%, to $1,460.5 million for the year ended December 31, 2016 from $1,234.1 million for the year ended December 31, 2015. Our loss ratio for the segment for the year ended December 31, 2016 increased to 66.3% from 65.4% for the year ended December 31, 2015. The increase in the loss ratio resulted from higher selected ultimate losses for the prior accident years as compared to the originally selected ultimate losses. This was the result of adverse prior period development, driven primarily by our commercial auto liability and general liability businesses, as well as increases to our non-California related workers' compensation prior selected ultimate losses, which were offset by prior selected ultimate losses for our California workers' compensation business.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $105.8 million, or 21.7%, to $592.6 million for the year ended December 31, 2016 from $486.8 million for the year ended December 31, 2015. Acquisition costs and other underwriting expenses were reduced by ceding commission earned during

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the years ended December 31, 2016 and 2015 of $288.8 million and $253.2 million, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, as the segment received a consistent allocation of ceding commission for its proportionate share of our overall policy acquisition expense. The expense ratio increased to 26.9% for the year ended December 31, 2016 compared to 25.8% for the year ended December 31, 2015, respectively, primarily as a result of higher direct acquisition costs from Republic, a large percentage of the business in this segment during the year ended December 31, 2016.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio decreased to $150.4 million for the year ended December 31, 2016 compared to $166.0 million for the year ended December 31, 2015. The decrease in underwriting income related primarily to an increase in combined ratio during the year ended December 31, 2016 compared to the year ended December 31, 2015, which was partially offset by an increase in the level of earned premium.

Small Commercial Business Segment Results of Operations 2015 Compared to 2014

Gross Written Premium. Gross written premium increased $320.9 million, or 10.7%, to $3,320.7 million for the year ended December 31, 2015 from $2,999.7 million for the year ended December 31, 2014. The majority of the increase was attributable to an increase in the number of workers' compensation policies issued. Approximately 74% of this increase was from the states of California, Florida and New York. Additionally, the acquisition of Comp Options contributed approximately $46 million of incremental gross written premium for the year ended December 31, 2015. Absent the assumption of $199.7 million of non-recurring premium during the first three months of 2014, primarily related to our cut through reinsurance agreement with Tower, gross written premium would have increased by $520.6 million, or 17.4%.

Net Written Premium. Net written premium increased $49.7 million, or 2.6%, to $1,932.1 million from $1,882.4 million for the years ended December 31, 2015 and 2014, respectively. The increase in net written premium resulted from an increase in gross written premium for the year ended December 31, 2015 compared to the year ended December 31, 2014, partially offset by a decrease of our retention of gross written premium period over period caused by growth in lines of business covered by the Maiden Quota Share. Our retention of gross written premium for the segment was 58.2% and 62.8% for the years ended December 31, 2015 and 2014, respectively. Additionally, the increase in net written premium was partially offset by $174 million of non-recurring unearned premium we assumed from Tower during the first quarter of 2014. Absent this assumption, net written premium would have increased approximately $224 million, or 13.1%.

Net Earned Premium. Net earned premium increased $280.1 million, or17.4%, to $1,886.9 million for the year ended December 31, 2015 from $1,606.8 million for the year ended December 31, 2014. As premiums written are earned ratably over an annual period, the increase in net earned premium resulted from higher net written premium for the year ended December 31, 2015 compared to the year ended December 31, 2014, and premium assumed in 2014 through the cut through reinsurance agreement with Tower, which was not subject to the Maiden Quota Share.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $178.6 million, or 16.9%, to $1,234.1 million for the year ended December 31, 2015 from $1,055.5 million for the year ended December 31, 2014. Our loss ratio for the segment for the year ended December 31, 2015 decreased to 65.4% from 65.7% for the year ended December 31, 2014. The decrease in the loss ratio was the result, primarily, of lower current accident year selected ultimate losses in 2015 as compared to selected ultimate losses in 2014. The decrease in the loss ratio resulted from improved pricing on policy issuances combined with stable claims frequency and severity. We did not have any material increases or decreases as a result of prior year loss development in 2015.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $65.4 million, or 15.5%, to $486.8 million for the year ended December 31, 2015 from $421.4 million for the year ended December 31, 2014. Acquisition costs and other underwriting expenses were reduced by ceding commission earned during the years ended December 31, 2015 and 2014 of $253.2 million and $197.7 million, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, as the segment received a larger allocation of ceding commission for its proportionate share of our overall policy acquisition expense. The expense ratio decreased to 25.8% for the year ended December 31, 2015 compared to 26.2% for the year ended December 31, 2014. The decrease in the expense ratio related to the increase in the percentage of worker's compensation policies, which have lower policy acquisition costs, in relation to the total number of policies issued in the segment during the second half of the 2015.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio increased to $166.0 million for the year ended December 31, 2015 compared to $129.9 million for the year ended December 31, 2014. The increase resulted primarily from an increase in the level of earned premium during the year

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ended December 31, 2015 compared to 2014, and a decrease in combined ratio during the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Specialty Risk and Extended Warranty Segment — Results of Operations

	Year End December 31,		
	2016	2015 As Restated	2014 As Restated
	(Amounts in Thousands)		
Gross written premium	$2,521,324	$2,158,921	$1,987,524
Net written premium	$1,722,139	$1,450,817	$1,318,349
Change in unearned premium	(178,240)	(145,781)	(105,841)
Net earned premium	1,543,899	1,305,036	1,212,508
Loss and loss adjustment expense	(1,023,470)	(882,306)	(806,486)
Acquisition costs and other underwriting expenses	(372,447)	(277,836)	(262,344)
	(1,395,917)	(1,160,142)	(1,068,830)
Underwriting income	$147,982	$144,894	$143,678
Key measures:			
Net loss ratio	66.3 %	67.6 %	66.5 %
Net expense ratio	24.1 %	21.3 %	21.6 %
Net combined ratio	90.4 %	88.9 %	88.2 %

Specialty Risk and Extended Warranty Segment Results of Operations 2016 Compared to 2015

Gross Written Premium. Gross written premium increased $362.4 million, or 16.8%, to $2,521.3 million for the year ended December 31, 2016 from $2,158.9 million for the year ended December 31, 2015. We experienced growth both domestically and in our European business during the year ended December 31, 2016 compared to the year ended December 31, 2015. In our European business, we grew our core businesses, including warranty and general liability products. In addition, our AmTrust at Lloyd's business grew by $80 million during year ended December 31, 2016 compared to the year ended December 31, 2015. Our 2016 acquisitions of Nationale Borg and ANV collectively added gross written premium of $149 million to our European business, while fluctuations in European currencies reduced our gross written premiums during 2016 by approximately $155 million. Our U.S. business increased $116 million during the year ended December 31, 2016 compared to the year ended December 31, 2015, primarily based on growth in existing businesses and the acquisition of Warranty Solutions.

Net Written Premium. Net written premium increased $271.3 million, or 18.7%, to $1,722.1 million from $1,450.8 million for the years ended December 31, 2016 and 2015, respectively. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2016 compared to the year ended December 31, 2015, and an increase in our retention of gross written premium period over period. Our overall retention of gross written premium for the segment was 68.3% and 67.2% for the years ended December 31, 2016 and 2015, respectively. The slight increase in the retention of gross written premium related to the Warranty Solutions business, acquired in September 2015, and the ANV business, acquired in November 2016, neither of which is reinsured under the Maiden Quota Share agreement. In addition, beginning in July 2016, our U.K. subsidiary began ceding 32.5% of its Italian medical liability business to Maiden, down from 40%.

Net Earned Premium. Net earned premium increased $238.9 million, or 18.3%, to $1,543.9 million for the year ended December 31, 2016 from $1,305.0 million for the year ended December 31, 2015. Net earned premium increased due to an increase in net written premium during the year ended December 31, 2016 compared to the year ended December 31, 2015. As net written premium is earned ratably over the term of a policy, the increase in net earned premium resulted from the increase in net written premium period over period.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expense increased $141.2 million, or 16.0%, to $1,023.5 million for the year ended December 31, 2016 from $882.3 million for the year ended December 31, 2015. Our loss ratio for the segment for the year ended December 31, 2016 decreased to 66.3% from 67.6% for the year ended December 31, 2015.

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The decrease in the loss ratio resulted from having a higher percentage of earned premium in lines of business with lower ultimate loss selections during the year ended December 31, 2016 compared to the year ended December 31, 2015. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $94.7 million, or 34.1%, to $372.4 million for the year ended December 31, 2016 from $277.8 million for the year ended December 31, 2015. Acquisition costs and other underwriting expenses were reduced by ceding commission of $181.5 million and $138.4 million earned during the years ended December 31, 2016 and 2015, respectively. The ceding commission increased period over period as the segment received a consistent allocation of ceding commission for its proportionate share of our overall policy acquisition expense. The expense ratio was 24.1% for the year ended December 31, 2016 compared to 21.3% for the year ended December 31, 2015. The increase in the expense ratio resulted from increases in policy acquisition expenses from our acquisitions of Warranty Solutions, Nationale Borg and ANV.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio increased to $148.0 million for the year ended December 31, 2016 compared to $144.9 million for the year ended December 31, 2015. The increase was attributable to an increase in the segment's earned premium and a decrease in the segment’s loss ratio during the year ended December 31, 2016 compared to the year ended December 31, 2015.

Specialty Risk and Extended Warranty Segment Results of Operations 2015 Compared to 2014

Gross Written Premium. Gross written premium increased $171.4 million, or 8.6%, to $2,158.9 million for the year ended December 31, 2015 from $1,987.5 million for the year ended December 31, 2014. We experienced growth in our U.S. business from new programs, expansion of existing lines of business and the assumption of unearned premium of approximately $48 million. The segment's European business was negatively impacted by currency fluctuations of approximately $156 million. Absent the impact of currency fluctuations, gross written premium for our European business would have increased by approximately $147 million for 2015 compared to 2014 as a result of an increase in warranty and Italian medical liability business.

Net Written Premium. Net written premium increased $132.5 million, or 10.1%, to $1,450.8 million from $1,318.3 million for the years ended December 31, 2015 and 2014, respectively. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2015 compared to the year ended December 31, 2014, as well as a consistent retention of gross written premium period over period. Our overall retention of gross written premium for the segment was 67.2% and 66.3% for the years ended December 31, 2015 and 2014, respectively.

Net Earned Premium. Net earned premium increased $92.5 million, or 7.6%, to $1,305.0 million for the year ended December 31, 2015 from $1,212.5 million for the year ended December 31, 2014. As net written premium is earned ratably over the term of a policy, the increase in net earned premium resulted from the increase in net written premium period over period.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expense increased $75.8 million, or 9.4%, to $882.3 million for the year ended December 31, 2015 from $806.5 million for the year ended December 31, 2014. Our loss ratio for the segment for the year ended December 31, 2015 increased to 67.6% from 66.5% for the year ended December 31, 2014. The increase in the loss ratio for the year ended December 31, 2015 resulted primarily from increases in selected ultimate losses for our European business for current and prior accident years resulting from the increase in our carried incurred but not reported claim reserves during the second half of 2015, which was offset by declines in our domestic selected ultimate losses compared to selected losses in prior accident years. This increase was muted by consistent accident year selected ultimate losses compared to selected ultimate losses in prior accident years for our domestic business. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $15.5 million, or 5.9%, to $277.8 million for the year ended December 31, 2015 from $262.3 million for the year ended December 31, 2014. Acquisition costs and other underwriting expenses were reduced by ceding commission earned during the years ended December 31, 2015 and 2014 of $138.4 million and $120.3 million, respectively. Although ceding commission increased period over period, the segment received a smaller allocation of ceding commission for its proportionate share of our overall policy acquisition expense as a result of the growth in our Small Commercial Business segment. Our expense ratio remained consistent at 21.3% for the year ended December 31, 2015 compared to 21.6% for the year ended December 31, 2014.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio decreased to $144.9 million for the year ended December 31, 2015 compared to $143.7 million for the year ended December 31, 2014. This decrease resulted primarily from an increase in the loss ratio during the year ended

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December 31, 2015 compared to 2014, partially offset by an increase in earned premium during the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Specialty Program Segment — Results of Operations

	Year End December 31,		
	2016	2015 As Restated	2014 As Restated
	(Amounts in Thousands)		
Gross written premium	$1,407,762	$1,319,966	$1,105,199
Net written premium	$883,000	$879,011	$740,488
Change in unearned premium	37,597	(49,686)	(61,876)
Net earned premium	920,597	829,325	678,612
Loss and loss adjustment expense	(658,306)	(571,723)	(456,422)
Acquisition costs and other underwriting expenses	(265,152)	(228,935)	(184,336)
	(923,458)	(800,658)	(640,758)
Underwriting income	$(2,861)	$28,667	$37,854
Key measures:			
Net loss ratio	71.5%	68.9%	67.3%
Net expense ratio	28.8%	27.6%	27.2%
Net combined ratio	100.3%	96.5%	94.4%

Specialty Program Segment Results of Operations 2016 Compared to 2015

Gross Written Premium. Gross written premium increased $87.8 million, or 6.7%, to $1,407.8 million for the year ended December 31, 2016 from $1,320.0 million for the year ended December 31, 2015. Gross written premium increased period over period from the acquisition of Republic, which contributed $154.5 million of gross written premium, but was partially offset by the termination or reduction of certain workers' compensation programs and commercial package programs.

Net Written Premium. Net written premium increased $4.0 million, or 0.5%, to $883.0 million for the year ended December 31, 2016 from $879.0 million for the year ended December 31, 2015. The increase in net written premium resulted from an increase in gross written premium for the year ended December 31, 2016 compared to the year ended December 31, 2015, partially offset by the cession of a larger percentage of gross written premium to reinsurers during 2016 compared to 2015. Our overall retention of gross written premium for the segment was 62.7% and 66.6% for the years ended December 31, 2016 and 2015, respectively, primarily because we retain less of the acquired business from Republic as compared to the program business we had historically written prior to the Republic acquisition.

Net Earned Premium. Net earned premium increased $91.3 million, or 11.0%, to $920.6 million for the year ended December 31, 2016 from $829.3 million for the year ended December 31, 2015. As premiums written are earned ratably over an annual period, the increase in net premium earned resulted from higher net written premium for 2016 compared to 2015. Net earned premium increased year over year proportionately more than net written premium during the same comparative periods because, with the acquisition of Republic occurring mid-year 2016, more of the premium earned in this segment during 2016 was from our historic program business, which we retain at a higher rate than we retain the Republic business.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $86.6 million, or 15.1%, to $658.3 million for the year ended December 31, 2016 compared to $571.7 million for the year ended December 31, 2015. Our loss ratio for the segment for the year ended December 31, 2016 increased to 71.5% from 68.9% for the year ended December 31, 2015. The increase in the loss ratio resulted from higher selected ultimate losses for current and prior accident years as compared to originally selected ultimate losses in prior accident years. As discussed in Note 13. "Short Duration Contracts," this was the result of prior period adverse development, driven primarily by our commercial auto and general liability programs (including public entity, habitational and non-admitted programs). Our internal actuarial group, which added significant additional resources

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and expertise throughout 2015, confirmed, in 2016, adverse loss trends in these programs. As a result, management has either terminated or re-underwritten the programs responsible for the adverse loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $36.2 million, or 15.8%, to $265.2 million for the year ended December 31, 2016 from $228.9 million for the year ended December 31, 2015. Acquisition costs and other underwriting expenses were reduced by ceding commission of $129.2 million and $119.2 million earned during the years ended December 31, 2016 and 2015, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, as the segment received a larger allocation of ceding commission for its proportionate share of our overall policy acquisition expense. Our expense ratio for the year ended December 31, 2016 increased to 28.8% from 27.6% for the year ended December 31, 2015, primarily as a result of the higher direct acquisition costs from the Republic acquisition.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio were $(2.9) million and $28.7 million for the years ended December 31, 2016 and 2015, respectively. The decrease was due to a higher loss ratio in 2016 compared to 2015.

Specialty Program Segment Results of Operations 2015 Compared to 2014

Gross Written Premium. Gross written premium increased $214.8 million, or 19.4%, to $1,320.0 million for the year ended December 31, 2015 from $1,105.2 million for the year ended December 31, 2014. The increase in gross written premium resulted from expansion of existing programs, including workers' compensation, commercial automobile and general liability programs.

Net Written Premium. Net written premium increased $138.5 million, or 18.7%, to $879.0 million for the year ended December 31, 2015 from $740.5 million for the year ended December 31, 2014. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2015 compared to the year ended December 31, 2014, partially offset by a lower retention of gross written premium during 2015 compared to 2014. Our overall retention of gross written premium for the segment was 66.5% and 67.0% for the years ended December 31, 2015 and 2014, respectively. The decrease in the retention of gross written premium in 2015 related to an increase in business written that is covered under the Maiden Quota Share.

Net Earned Premium. Net earned premium increased $150.7 million, or 22.2%, to $829.3 million for the year ended December 31, 2015 from $678.6 million for the year ended December 31, 2014. As premiums written are earned ratably over an annual period, the increase in net premium earned resulted from higher net written premium for 2015 compared to 2014.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $115.3 million, or 25.3%, to $571.7 million for the year ended December 31, 2015 compared to $456.4 million for the year ended December 31, 2014. Our loss ratio for the segment for the year ended December 31, 2015 increased to 68.9% from 67.3% for the year ended December 31, 2014. The increase in the loss ratio resulted primarily from higher current accident year selected ultimate losses as compared to selected ultimate losses in prior accident years in certain general liability programs, and was partially offset by improved pricing. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $44.6 million, or 24.2%, to $228.9 million for the year ended December 31, 2015 from $184.3 million for the year ended December 31, 2014. Acquisition costs and other underwriting expenses were reduced by ceding commission earned during the years ended December 31, 2015 and 2014 by $119.2 million and $87.1 million, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, as the segment received a larger allocation of ceding commission for its proportionate share of our overall policy acquisition expense. The expense ratio increased to 27.6% for the year ended December 31, 2015 from 27.2% for the year ended December 31, 2014. The increase in the expense ratio during 2015 related to the increase in the percentage of business in this segment derived from our commercial automobile and general liability businesses, which have higher policy acquisition costs than other types of business in this segment.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio were $28.7 million and $37.9 million for the years ended December 31, 2015 and 2014, respectively. The decrease resulted primarily from an increase in the combined ratio in 2015 compared to 2014.

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Investment Portfolio

The first priority of our investment strategy is preservation of capital, with a secondary focus on maximizing an appropriate risk adjusted return. We expect to maintain sufficient liquidity from funds generated from operations to meet our anticipated insurance obligations and operating and capital expenditure needs, including debt service and additional payments in connection with our past producer network and renewal rights acquisitions. The excess funds will be invested in accordance with both the overall corporate investment guidelines as well as an individual subsidiary's investment guidelines. Our investment guidelines are designed to maximize investment returns through a prudent distribution of cash and cash equivalents, fixed maturities and equity positions. Cash and cash equivalents include cash on deposit, commercial paper, pooled short-term money market funds and certificates of deposit with an original maturity of 90 days or less. Our fixed maturity securities include obligations of the U.S. Treasury or U.S. government agencies, obligations of local governments, obligations of foreign governments, obligations of U.S. and Canadian corporations, mortgages guaranteed by the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, Federal Farm Credit entities, and asset-backed securities and commercial mortgage obligations. Our equity securities include common stocks of U.S. and Canadian corporations.

Our cash and investment portfolio, exclusive of our life settlement contracts, equity investment in unconsolidated related party subsidiaries, and other investments, is summarized in the table below by type of investment:

	December 31, 2016		December 31, 2015	
	Carrying Value	Percentage of Portfolio	Carrying Value (as restated)	Percentage of Portfolio
	(Amounts in Thousands)			
Cash, cash equivalents and restricted cash (As restated)	$1,281,109	14.3 %	$1,384,615	19.9 %
Short-term investments (As restated)	—	—	17,171	0.2
U.S. treasury securities	330,654	3.7	70,759	1.0
U.S. government agencies	63,732	0.7	45,558	0.7
Municipals	854,170	9.6	540,426	7.8
Foreign government	152,876	1.7	113,745	1.6
Commercial mortgage back securities	177,994	2.0	151,318	2.2
Residential mortgage back securities:				
Agency backed	1,210,385	13.6	974,838	14.0
Non-agency backed	61,229	0.7	120,229	1.7
Collateralized loan / debt obligations	484,405	5.4	226,094	3.2
Asset-backed securities	29,710	0.3	31,837	0.5
Corporate bonds	4,066,761	45.6	3,158,993	45.3
Preferred stocks	3,985	—	4,989	0.1
Common stocks	215,137	2.4	126,779	1.8
	$8,932,147	100.0 %	$6,967,351	100.0 %

Our investment portfolio increased $1.9 billion, or 27.7%, to $8.9 billion at December 31, 2016 from $7.0 billion as of December 31, 2015. The investment portfolio increased during the year ended December 31, 2016, primarily from the acquisitions of ANV, ARI, Genworth, Nationale Borg and Republic, as well as the utilization of excess cash from our preferred stock offerings during 2016. Our investment portfolio is primarily classified as available-for-sale, as defined by ASC 320, Investments — Debt and Equity Securities. Our fixed maturity securities had a fair value of $7.4 billion and an amortized cost of $7.3 billion as of December 31, 2016. Our equity securities had a fair value of $219.1 million with a cost of $231.9 million as of December 31, 2016.

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The table below summarizes the credit quality of our fixed maturity securities as of December 31, 2016 and 2015, as rated by Standard and Poor's.

	December 31, 2016		December 31, 2015	
U.S. Treasury	4.5	%	1.3	%
AAA	6.6		12.2	
AA	32.6		29.0	
A	28.9		28.8	
BBB, BBB+, BBB-	24.2		25.8	
BB, BB+, BB-	1.9		1.9	
B, B+, B-	0.4		0.1	
Other	0.9		0.9	
Total	100.0	%	100.0	%

The fair value of our investments is subject to risks of fluctuations in credit quality and interest rates. We use various models and stress test scenarios to monitor and manage interest rate risk. We attempt to manage our interest rate risk by maintaining an appropriate relationship between the effective duration of the investment portfolio and the approximate duration of our liabilities (e.g., policy claims and debt obligations). The table below summarizes the average rate duration by type of fixed maturity as well as detailing the average yield as of December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	Average Yield%	Average Rate Duration in Years	Average Yield%	Average Rate Duration in Years
U.S. treasury securities	1.13	2.2	1.73	3.9
U.S. government agencies	3.00	3.3	2.63	4.2
Foreign government	1.56	5.1	2.27	5.7
Corporate bonds	3.12	5.1	3.33	6.1
Municipal bonds	3.03	6.2	3.33	6.9
Collateralized loan / debt obligations	5.67	0.6	4.22	1.1
Mortgage and asset backed securities	3.21	4.9	3.38	4.6

As of December 31, 2016, the weighted average rate duration of our fixed income securities was approximately 4.8 years and had an average yield of 3.2%.

Other investments represented approximately 1.7% and 1.5% of our total investment portfolio as of December 31, 2016 and 2015, respectively. At December 31, 2016, other investments consisted primarily of real estate partnerships totaling approximately $101 million, private limited partnerships totaling approximately $24 million, a syndicated term loan totaling approximately $15 million and other investments totaling approximately $12 million. At December 31, 2015, other investments consisted primarily of real estate partnership totaling approximately $81 million, private limited partnership totaling approximately $14 million, an interest in a syndicated term loan of approximately $6 million, and annuity and other investments totaling approximately $5 million.

Quarterly, our Investment Committee ("Committee") evaluates each security that has an unrealized loss as of the end of the subject reporting period for other-than-temporary impairment ("OTTI"). The Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

- the current fair value compared to amortized cost;
- the length of time the security's fair value has been below its amortized cost;
- specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments;
- whether management intends to sell the security and, if not, whether it is not more than likely than not that the Company will be required to sell the security before recovery of its amortized cost basis;

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- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings, and for equity securities, forecasted recovery in a reasonable period of time;
- the occurrence of a discrete credit event resulting in the issuer defaulting on material outstanding obligations or the issuer seeking protection under bankruptcy laws; and
- other items, including company management, media exposure, sponsors, marketing and advertising agreements, debt restructuring, regulatory changes, acquisitions and dispositions, pending litigation, distribution agreements and general industry trends.

Management uses judgment in determining the impact that any of the above facts may have on whether an impairment is temporary or not. The level of rigor used to evaluate a security for impairment depends on various factors, including the amount of the impairment and length of time impaired. However, we generally consider a fixed maturity investment when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion or more) for over 24 months as rebuttable indications of other-than-temporary impairment. Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. We write down investments immediately that we consider to be impaired based on the above criteria collectively.

The total impairment charges of our fixed and equity securities classified as available-for-sale for the years ended December 31, 2016, 2015 and 2014 are presented in the table below:

	2016	2015	2014
	(Amounts in Thousands)		
Equity securities	$21,028	$1,276	$2,646
Fixed maturity securities	4,191	17,879	5,393
	$25,219	$19,155	$8,039

Additionally, we had gross unrealized losses of $62.4 million related to available-for sale fixed maturity securities and $2.4 million related to available-for-sale equity securities as of December 31, 2016.

As of December 31, 2016, we had $62.4 million of gross unrealized losses related to fixed income securities. Corporate bonds represent 54.5% of the fair value of our fixed maturities and 41.7% of the total unrealized losses of our fixed maturities. We own 2,566 purchase lots of corporate bonds in the industrial, bank/financial and utilities sectors, which comprise approximately 30.7%, 21.2% and 2.7%, respectively, of the fair value of our fixed maturities, and 27.4%, 12.4% and 1.9% of the total unrealized losses. We believe that the unrealized losses in these securities are the result, primarily, of general economic conditions and not the condition of the issuers, which we believe are solvent and have the ability to meet their obligations. Therefore, we expect that the market price for these securities should recover within a reasonable time. Additionally, we do not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost basis.
Our investment in marketable equity securities classified as available-for-sale consist of investments in preferred and common stock across a wide range of sectors. We evaluated the near-term prospects for recovery of fair value in relation to the severity and duration of the impairment and have determined in each case that the probability of recovery is reasonable and we have the ability and intent to hold these investments until a recovery of fair value. We believe the gross unrealized losses of $2.4 million as of December 31, 2016 are not material to our financial position.

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The table below summarizes the gross unrealized losses of our available-for-sale fixed maturity and available-for-sale equity securities by length of time the security has continuously been in an unrealized loss position as of December 31, 2016:

	Less than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
	(Amounts in Thousands)							
Common and preferred stock	$46,783	$(1,424)	32	$9,991	$(983)	53	$56,774	$(2,407)
U.S. treasury securities	293,155	(1,613)	115	22,989	(4)	6	316,144	(1,617)
U.S. government securities	7,866	(17)	20	—	—	—	7,866	(17)
Municipal bonds	519,578	(15,207)	439	15,742	(670)	26	535,320	(15,877)
Foreign government	128,863	(688)	52	12,659	(38)	7	141,522	(726)
Corporate bonds:								
Finance	1,071,982	(7,210)	342	16,840	(512)	13	1,088,822	(7,722)
Industrial	1,200,129	(13,648)	479	114,035	(3,467)	59	1,314,164	(17,115)
Utilities	119,488	(423)	33	10,391	(787)	6	129,879	(1,210)
Commercial mortgage backed securities	71,780	(1,654)	56	10,910	(908)	32	82,690	(2,562)
Residential mortgage backed securities:								
Agency backed	718,098	(13,469)	216	8,144	(60)	26	726,242	(13,529)
Non-agency backed	24,372	(869)	21	4,462	(134)	6	28,834	(1,003)
Collateralized loan / debt obligations	97,923	(433)	37	32,937	(318)	13	130,860	(751)
Asset-backed securities	9,220	(124)	24	4,926	(136)	12	14,146	(260)
	$4,309,237	$(56,779)	1,866	$264,026	$(8,017)	259	$4,573,263	$(64,796)

There are 2,125 securities at December 31, 2016 that account for the gross unrealized loss, none of which we deem to be OTTI. Significant factors influencing our determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that we will be required to sell these investments before anticipated recovery of fair value to our cost basis.

For further information on our investments and related performance, see Note 4. "Investments" in the audited consolidated financial statements included elsewhere in this report.

Liquidity and Capital Resources

We are organized as a holding company with domestic and international insurance company subsidiaries, as well as various other non-insurance subsidiaries. Our primary liquidity needs include payment of interest on various debt facilities, stockholder dividends and taxes. Our income is generated primarily from our insurance subsidiaries, service and fee income and investment income.

We may generate liquidity through a combination of debt or equity securities issuances, as well as financing through borrowing and sales of securities. During 2016, we issued $431.3 million of preferred stock. In 2015, we issued $487.0 million of common stock, $182.5 million of preferred stock and $285.0 million of debt.

Our principal sources of operating funds are premiums, service and fee income, investment income and proceeds from sales and maturities of investments. Our primary uses of operating funds include payments of claims and operating expenses. Currently, we pay claims using cash flow from operations and invest our excess cash primarily in fixed maturity and equity securities. We expect that projected cash flow from operations will provide us sufficient liquidity to fund anticipated growth, by providing capital to increase the surplus of our insurance subsidiaries, as well as for payment of claims and operating expenses, payment of interest and principal on our debt facilities, payment of any cash in settlement of our convertible senior notes submitted by holders for conversion, and other holding company expenses for at least the next twelve months. However, if our growth attributable to potential acquisitions, internally generated growth or a combination of these, exceeds our projections, we may have to raise additional capital sooner to support our growth. If we cannot obtain adequate capital on favorable terms or at all, we may be unable to support future growth or operating requirements and, as a result, our business, financial condition and results of operations could be adversely affected.

We earn a significant amount of our operating funds outside the United States, which are deemed to be indefinitely reinvested in foreign jurisdictions. We currently do not intend or foresee a need to repatriate these funds. We expect existing domestic cash, short-term investments and cash flows from operations to continue to be sufficient to fund our domestic operating activities and cash commitments for investing and financing activities, such as payment of dividends, debt repayment and capital expenditures. If we should require more capital in the United States than is generated by our domestic operations (e.g., to fund significant discretionary activities such as business acquisitions or share repurchases), we could elect to repatriate future earnings from foreign jurisdictions. This could result in higher effective tax rates or dilution of our earnings.

The laws of the jurisdictions in which our insurance subsidiaries are organized regulate and restrict, under certain circumstances, their ability to pay dividends to us. As of December 31, 2016 and 2015, respectively, our insurance subsidiaries would have been permitted to pay dividends in the aggregate of approximately $749.3 million and $621.6 million, respectively. Our insurance subsidiaries paid dividends to us of $18.0 million, $63.6 million and $7.4 million in 2016, 2015 and 2014, respectively. In addition, the terms of our debt arrangements limit our ability to pay dividends on our common stock, and future borrowings may include prohibitions and restrictions on dividends. Additional information regarding our dividends is presented in “Item 1. Business — Regulation,” in “Item 1A. Risk Factors” and in “Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchase of Equity Securities — Dividend Policy” appearing elsewhere in this Form 10-K.

We forecast claim payments based on our historical trends. We seek to manage the funding of claim payments by actively managing available cash and forecasting cash flows on a short-term and long-term basis. Cash payments for claims were $2,545.4 million, $1,866.3 million, and $1,429.9 million in 2016, 2015 and 2014, respectively. Historically, we have funded claim payments from cash flow from operations (principally premiums) net of amounts ceded to our third party reinsurers. We presently expect to maintain sufficient cash flow from operations to meet our anticipated claim obligations and operating and capital expenditure needs. Our total investment portfolio has increased from $6.97 billion (excluding $106.2 million of other investments) as of December 31, 2015 to $8.93 billion (excluding $152.2 million of other investments) as of December 31, 2016. We do not anticipate selling securities in our investment portfolio to pay claims or to fund operating expenses. Should circumstances arise that would require us to do so, we may incur losses on such sales, which would adversely affect our results of operations and financial condition and could reduce investment income in future periods.

We also purchase life settlement contracts that require us to make premium payments on individual life insurance policies to maintain the policies. We seek to manage the funding of premium payments required. Historically, we have funded these premium payments from operations. We presently expect to maintain sufficient cash flow from operations to meet future premium payments.

Comparison of Years Ended December 31, 2016 and 2015

Net cash provided by operating activities was approximately $916.7 million for the year ended December 31, 2016, compared to $1,011.3 million for the same period in 2015.

Net cash used in investing activities was $1,606.0 million for the year ended December 31, 2016 and $1,639.0 million for the year ended December 31, 2015. In 2016, net cash used in investing activities primarily included approximately $951 million for the net purchase of fixed maturity and equity securities, approximately $402 million for acquisitions, approximately $117 million for capital expenditures and approximately $221 million for an increase of restricted cash, partially offset by the receipt of approximately $38 million from life settlement contract payouts. In 2015, net cash used in investing activities primarily included approximately $1,184 million for the net purchase of fixed maturity and equity securities, approximately $242 million for acquisitions, approximately $152 million for capital expenditures and approximately $195 million for an increase of restricted cash, partially offset by the receipt of approximately $102 million from life settlement contract payouts.

Net cash provided by financing activities was $268.4 million for the year ended December 31, 2016 compared to $766.5 million for the year ended December 31, 2015. In 2016, we received proceeds of $417 million from the issuance of preferred stock and $160 million from entering into repurchase agreements, which was partially offset by payments of $156 million for common and preferred stock dividends and $152 million for the common share repurchases. In 2015, we received proceeds of $487 million and $177 million from the issuance of common stock and preferred stock, respectively, and $285 million from the issuance of subordinated debt, which was partially offset by payments of $117 million for common and preferred stock dividends and $62 million for the settlement of convertible debt.

Credit Sources

Credit Facilities

$350 million credit facility

Our five-year, $350 million credit facility is a committed, revolving syndicated credit facility with a letter of credit sublimit of $175 million and an expansion feature of not more than an additional $150 million. As of December 31, 2016, we had outstanding borrowings of $130 million and outstanding letters of credit of $173.6 million, which reduced total aggregate availability under the facility to $46.4 million and the availability for letters of credit to $1.4 million.

Interest expense, including amortization of the deferred origination costs and fees associated with the letters of credit, was approximately $4.6 million, $3.7 million, and $1.7 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Funds at Lloyd's facility

In November 2016, we entered into a new £515 million (or $634.7 million) letter of credit facility to support our capacity at Lloyd’s as a member and/or reinsurer of Syndicates 2526, 1206, 44, 1861 and 5820 for the 2017 underwriting year of account, as well as prior open years of account. The facility is 35% secured by a pledge of a collateral account.

As of December 31, 2016, we had outstanding letters of credit of £511.2 million (or $630.0 million) in place under this facility, which reduced the aggregate availability under this facility to £3.8 million (or $4.7 million). We recorded total interest expense of approximately $4.5 million, $3.4 million and $2.8 million for the years ended December 31, 2016, 2015, and 2014, respectively.

Other Letter of Credit Facilities and Standby Letters of Credit

We have both secured and unsecured letter of credit facilities and standby letters of credit with various lenders to meet certain obligations including, but not limited to, deposit requirements of the State of California and the U.S. Department of Labor as security for our obligations to workers' compensation and Federal Longshore and Harbor Workers' Compensation Act policyholders and to support the collateral posting requirements of our Bermuda reinsurance subsidiary, AII, to its affiliate ceding insurance subsidiaries. The total amount outstanding under these types of facilities and standby letters of credit was $249.5 as of December 31, 2016.

Separately, through our acquisition of Nationale Borg, we assumed their existing credit facilities pursuant to which trade related guarantees and comparable standby letters of credit are issued primarily to secure obligations owed by Nationale Borg to third parties in the normal course of business. The credit limit under these facilities is approximately €76.8 million (or $80.8 million), of which €59.1 million (or $62.1 million) was utilized as of December 31, 2016. In addition, we assumed other bank guarantees totaling approximately €0.3 million (or $0.3 million) We recorded total interest expense of $0.5 million for the nine months ended December 31, 2016.

For further information on these credit facilities, including interest rates, applicable restrictive covenants and events of default, see Note 15. “Debt” in the audited consolidated financial statements included elsewhere in this report.

Outstanding Notes

Convertible Debt

We have an outstanding principal balance of $215.4 million of Convertible Senior Notes due 2044 (“2044 Notes”), with a carrying value of $166.4 million, that bear interest at a rate equal to 2.75% per year, payable semiannually in arrears on June 15th and December 15th of each year. Additionally, we have an outstanding principal balance of $6.0 million of Convertible Senior Notes due 2021 (“2021 Notes”), with a carrying value of $5.2 million, that bear interest at a rate equal to 5.50% per year, payable semiannually in arrears on June 15th and December 15th of each year. Interest expense recognized on the 2044 Notes was $12.6 million, $12.2 million and $0.5 million for the years ended December 31, 2016, 2015, and 2014, respectively. Interest expense recognized on the 2021 Notes was $0.5 million, $0.8 million, and $13.9 million for the years ended December 31, 2016, 2015 and 2014, respectively. For further information on the 2044 Notes and the 2021 Notes, including contingent interest on the 2044 Notes, conversion triggers, redemption and repurchase features and the exchange of 2021 Notes for 2044 Notes, see Note 15. “Debt” in the audited consolidated financial statements included elsewhere in this report.

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6.125% Notes due 2023

We have outstanding $250.0 million aggregate principal amount of our 6.125% notes due 2023 ("2023 Notes"), with a carrying value of approximately $248 million, that bear interest at a rate equal to 6.125% per year, payable semiannually in arrears on February 15th and August 15th of each year. The interest rate will increase by 0.50% per year if our consolidated leverage ratio exceeds 30% and will increase an additional 1.00% per year (for an aggregate increase of 1.50% per year) if our consolidated leverage ratio exceeds 35%. As of December 31, 2016, our consolidated leverage ratio was less than 30%. Interest expense recognized on these notes was $15.6 million for each of the years ended December 31, 2016, 2015, and 2014. For further information on these notes, including restrictive covenants and events of default, see Note 15. “Debt” in the audited consolidated financial statements included elsewhere in this report.

7.25% Subordinated Notes due 2055

We have outstanding $150 million aggregate principal amount of our 7.25% subordinated notes due 2055 (the "7.25% 2055 Notes"), with a carrying value of approximately $145 million that bear interest at a rate equal to 7.25% per year, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing on September 15, 2015. The 7.25% 2055 Notes mature on June 15, 2055. We have the right to redeem the 7.25% 2055 Notes, in whole or in part, on June 18, 2020, or on any interest payment date thereafter, at a redemption price equal to 100% of the principal amount of the notes plus accrued and unpaid interest to, but not including, the date of redemption. The 7.25% 2055 Notes are our subordinated unsecured obligations and are structurally subordinated to all our existing and future indebtedness, liabilities and other obligations of our subsidiaries. Interest expense, including amortization of deferred origination costs, recognized on the 7.25% 2055 Notes was $11.0 million and $5.9 million for the years ended December 31, 2016 and 2015, respectively. For further information on the 7.25% 2055 Notes, see Note 15. "Debt" in the audited consolidated financial statements included elsewhere in this report.

7.50% Subordinated Notes due 2055

We have outstanding $135 million aggregate principal amount of our 7.50% subordinated notes due 2055 (the "7.50% 2055 Notes"), with a carrying value of approximately $131 million, that bear interest at a rate equal to 7.50% per year, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing December 15, 2015. The 7.50% 2055 Notes mature on September 15, 2055. We have the right to redeem the 7.50% 2055 Notes, in whole or in part, on September 16, 2020, or on any interest payment date thereafter, at a redemption price equal to 100% of the principal amount of the 7.50% 2055 Notes plus accrued and unpaid interest to, but not including, the date of redemption. The 7.50% 2055 Notes are our subordinated unsecured obligations and are structurally subordinated to all existing and future indebtedness, liabilities and other obligations of our subsidiaries. Interest expense, including amortization of deferred origination costs, recognized on the 7.50% 2055 Notes was $10.2 million and $2.9 million for the years ended December 31, 2016 and 2015, respectively. For further information on the 7.50% 2055 Notes, see Note 15. "Debt" in the audited consolidated financial statements included elsewhere in this report.

2035-2037 Notes

We have outstanding $124 million aggregate principal amount of our four junior subordinated debenture notes ("2035-2037 Notes"). These debenture notes, maturing between 2035 and 2037, were issued by us using the proceeds from issuing trust preferred securities in connection with establishing four special purpose trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on our common stock under certain circumstances, including default of payment. We recognized interest expense, including amortization of deferred origination costs, of approximately $6.1

million, $6.6 million and $8.1 million for the years ended December 31, 2016, 2015 and 2014, respectively, related to these trust preferred securities. For further information on the 2035-2037 Notes, see Note 15. "Debt" in the audited consolidated financial statements included elsewhere in this report.

2033-2037 TPS Notes

Through our acquisition of Republic, we assumed $92.8 million aggregate principal amount of five junior subordinated debenture notes ("2033-2037 TPS Notes"). These debenture notes mature between 2033 and 2037. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on our common stock under certain circumstances, including default of payment. We recognized interest expense, including amortization of deferred origination costs, of approximately $2.8 million for the ended December 31, 2016. For further information on the 2035-2037 TPS Notes, see Note 15. "Debt" in the audited consolidated financial statements included elsewhere in this report.

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Promissory Note

We have outstanding a term promissory note to Delek Finance U.S. Inc. in the amount of $104.7 million that we issued as part of the consideration for our acquisition of Republic. The principal will be paid in four equal installments on each of the first four anniversaries of the issuance date. The note bears interest of 5.75% per annum and is payable from time to time based on the outstanding principal balance until the promissory note is fully paid. In the event we are required to pay indebtedness under our revolving credit facility or our 2023 Notes on an accelerated basis, the holder of the term promissory note may cause us to repay unpaid principal and interest immediately. We recorded interest expense, including amortization of the deferred origination costs and fees associated with the loan agreement, of approximately $4.3 million for year ended December 31, 2016. For further information on the Delek Promissory Note, see Note 15. "Debt" in the audited consolidated financial statements included elsewhere in this report.

Other Sources of Liquidity

In November 2016, one of our subsidiaries became a member of the Federal Home Loan Bank (“FHLB”) of Pittsburgh. Through membership, we have access to secured cash advances that can be used for supplemental liquidity purposes or other operational needs, as deemed appropriate by management. The amount of advances our subsidiary can take is dependent on eligible asset types available for pledge to secure the advances, which is limited by the statutory admitted assets and capital and surplus of the member subsidiary. At December 31, 2016, we had no outstanding borrowings with the FHLB.

Short-term borrowings

During the last three years, we did not engage in short-term borrowings to fund our operations or for liquidity purposes. As discussed above, our insurance subsidiaries create liquidity by collecting and investing insurance premiums in advance of paying claims. Details about our investment portfolio can be found under “— Investment Portfolio” appearing elsewhere in this Form 10-K.

Other Material Changes in Financial Position

	December 31,	
	2016	2015 As restated
	(Amounts in Thousands)	
Selected Assets:		
Fixed maturities, available-for-sale	$7,398,134	$5,433,797
Reinsurance recoverable, net	4,329,521	3,007,377
Prepaid reinsurance premium	1,994,092	1,531,866
Selected Liabilities:		
Loss and loss expense reserves	$10,140,716	$7,208,367
Unearned premium	4,880,066	4,014,387
Debt	1,234,900	993,067

In 2016, fixed maturities increased $1,964.3 million and resulted primarily from utilizing cash from preferred stock offerings, acquisitions and operations. The increase in reinsurance recoverable is directly related to the increase in loss and loss expense reserves and acquisitions. The increase in prepaid reinsurance premium resulted from acquisitions and an increase in premium writings.

Loss and loss expense reserves increased $2,932.3 million and unearned premium increased $865.7 million in 2016 due primarily to higher premium writings in 2016 compared to 2015 as well as assumed amounts from acquisitions in

2016. Debt increased by $241.8 million in 2016 primarily as a result of the assumption of debt from the acquisition of Republic.

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Reinsurance

We structure our reinsurance programs by analyzing our tolerance for risk in each line of business and on an overall consolidated basis, based on a number of factors, including market conditions, pricing, competition and the inherent risks associated with each business type. We generally purchase reinsurance to reduce our net liability on individual risks and to protect against catastrophe losses and volatility. We retain underwriting risk in certain lines of business in order to capture a greater proportion of expected underwriting profits. We have chosen not to purchase any reinsurance on businesses where volatility or catastrophe risks are considered remote and policy limits are within our risk tolerance.

We may purchase reinsurance on a proportional basis to cover loss frequency, individual risk severity and catastrophe exposure. We may also purchase reinsurance on an excess of loss basis to cover individual risk severity and catastrophe exposure. Additionally, we may obtain facultative reinsurance protection on a single risk. The type and amount of reinsurance we purchase varies year to year based on our risk assessment, our desired retention levels based on profitability and other considerations, along with the market availability of quality reinsurance at prices we consider acceptable. Our reinsurance programs renew throughout the year, and the price changes in recent years have not been material to our net underwriting results. Our reinsurance generally does not cover war or nuclear, biological, chemical or radiological terrorism risks.

In our proportional reinsurance programs, we generally receive a commission on the premium ceded to reinsurers. This “ceding commission” compensates our insurance companies for the direct costs associated with production of the business, the servicing of the business during the term of the policies ceded, and the costs associated with placement of reinsurance that benefits the proportional programs. In addition, certain of our reinsurance treaties allow us to share in any net profits generated under such treaties with the reinsurers. Various reinsurance brokers may arrange for the placement of this reinsurance coverage on our behalf and are compensated, directly or indirectly, by the reinsurers.

We also place reinsurance with direct reinsurance markets and enter reinsurance relationships with third-party captives formed by agents and other business partners as a mechanism for sharing risk and profit. In order to reduce our exposure to reinsurance credit risk, we evaluate the financial condition of our reinsurers and place our reinsurance with a diverse group of companies and syndicates that we believe to be financially sound. We carefully monitor the credit quality of our reinsurers when we place new and renewal reinsurance, as well as on an ongoing, current basis. We use objective criteria to select and retain our reinsurers, including requiring minimum surplus of $500 million and a financial strength rating of “A-” or better from A.M. Best or Standard & Poor's Corporation. We approve exceptions to these criteria when warranted.

We monitor our financial exposure to the reinsurance market and take necessary actions in an attempt to mitigate our exposure to possible loss. We limit our liquidity exposure for uncollected recoverables by holding funds, letters of credit or other security, with the result that net balances due from reinsurers are significantly less than the gross balances shown in our consolidated balance sheets. We monitor the collectability of our reinsurance recoverables and record a reserve for uncollectible reinsurance when we determine an amount is potentially uncollectible. Our evaluation is based on our periodic reviews of our disputed and aged recoverables, as well as our assessment of recoverables due from reinsurers known to be in financial difficulty. In some cases, we make estimates as to what portion of a recoverable may be uncollectible. Our estimates and judgment about the collectability of the recoverables and the financial condition of reinsurers can change, and these changes can affect the level of reserve required.

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The following table summarizes the top ten reinsurers that account for approximately 76% of our reinsurance recoverables on paid and unpaid losses and loss adjustment expenses as of December 31, 2016:

Reinsurer	A.M. Best Rating	Amount Recoverable as of December 31, 2016
	(Amounts in Thousands)	
Maiden Reinsurance Ltd.	A	$2,452,242
National Workers' Compensation Reinsurance Pool (NWCRP)[1]	NR	286,041
Safety National Casualty Corporation	A+	114,724
JRG Reinsurance Company Ltd.	A	105,567
Hartford Fire Insurance Company	A+	97,547
Swiss Reinsurance America Corporation	A+	76,585
Third Point Reinsurance Company Ltd.	A-	66,616
Northland Insurance Company	A++	41,528
Arch Reinsurance Company	A+u	34,780
Midwest Employers Casualty Company	A+	32,730

(1) As per the NWCRP Articles of Agreement, reinsurance is provided through a 100% quota share reinsurance agreement entered into among the servicing carrier (TIC) and the participating companies (all carriers writing in the state) pursuant to the Articles of Agreement.

Reinsurance Programs and Retentions

The following tables provide a summary of our primary treaty reinsurance programs as of December 31, 2016 for the United States and internationally:

	2016 Domestic Reinsurance Programs		
Type of Reinsurance	Retention	Event Protection	Coverage
Workers' Compensation, Excess of Loss	$10,000,000	$642,500,000	100% of $632,500,000
Property, Per Risk Excess of Loss	$3,000,000	$31,000,000	100% of $28,000,000
Property, Catastrophe Excess of Loss	$20,000,000	$597,500,000	100% of $577,500,000
Surety, Excess of Loss	$500,000	$30,000,000	89% of $29,500,000
Casualty/Professional, Excess of Loss	$3,000,000	$50,000,000	100% of $47,000,000
Umbrella, Quota Share	$1,500,000	$10,000,000	100% of $8,500,000
Equipment Breakdown, Quota Share	$—	$100,000,000	100% of $100,000,000

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	2016 International Reinsurance Programs		
Type of Reinsurance	Retention	Event Protection	Coverage
Property, Per Risk Excess of Loss (AEL)	$800,000	$8,000,000	100% of $7,200,000
Property, Catastrophe Excess of Loss (AEL and ATL)	$7,500,000	$130,000,000	96% of $122,500,000
Property, Per Risk Excess of Loss (ATL)	$1,000,000	$10,000,000	100% of $9,000,000
Surety, Excess of Loss and Quota Share (AEL)	$5,650,000	$39,550,000	100% of $33,900,000
Casualty, Excess of Loss (AEL)	$3,000,000	$15,000,000	100% of $12,000,000
Latent Defect, Excess of Loss (AEL)	$2,900,000	$50,750,000	100% of $47,850,000
Accident and Health, Excess of Loss (AEL)	$725,000	$29,000,000	100% of $28,275,000
Car Care, Excess of Loss (AEL)	$1,000,000	$65,000,000	100% of $64,000,000
Medical Malpractice, Quota Share (AEL)	$7,425,000	$11,000,000	32.5% of $11,000,000
Personal Accident, Excess of Loss (ATL)	$2,000,000	$50,000,000	100% of $48,000,000
Pecuniary Risks (AEL and ATL)	$4,000,000	$50,000,000	100% of $46,000,000
UK Solicitors Specific (AEL)	$1,125,000	$4,500,000	100% of $3,375,000
Marine (ATL)	$2,000,000	$60,000,000	100% of $58,000,000
Nationale Borg Surety (AEL)	$5,650,000	$113,000,000	100% of $107,350,000
Life (ATL)	$725,000	$72,500,000	100% of $71,775,000

If we incur catastrophe losses and loss settlement expenses that exceed the coverage limits of our reinsurance program, many of our property catastrophe programs have built in a fixed number of reinstatement of limits. For example, if we incur a property catastrophe loss, we are required to pay the reinsurers a reinstatement premium equal to the percentage of the limit exhausted by the loss, multiplied by the amount of the original reinsurance premium.

Maiden Quota Share

In 2007, we entered into a master agreement with Maiden, as amended, by which our Bermuda subsidiary, AII, and Maiden Reinsurance Ltd. ("Maiden Reinsurance") entered into a quota share reinsurance agreement (the “Maiden Quota Share”), as amended. Under this agreement, AII retrocedes to Maiden Reinsurance an amount equal to 40% of the premium written by our U.S., Irish and U.K. insurance companies (the “AmTrust Ceding Insurers”), net of the cost of unaffiliated inuring reinsurance (and in the case of our U.K. insurance subsidiary, AEL, net of commissions). AII also retrocedes 40% of losses. Certain business that we commenced writing after the effective date of the Maiden Quota Share, including, among other lines, our European medical liability business included in the table above, business assumed from Tower pursuant to the cut through reinsurance agreement, and risks, other than workers’ compensation risks and certain business written by our Irish subsidiary, AIU, for which the AmTrust Ceding Insurers’ net retention exceeds $5 million is not ceded to Maiden Reinsurance under the Maiden Quota Share (ceded business defined as “Covered Business”).

AII receives a ceding commission of 31% of ceded written premiums with respect to all Covered Business other than retail commercial package business, for which the ceding commission remains 34.375%. With regards to the Specialty Program portion of Covered Business only, we will be responsible for ultimate net loss otherwise recoverable from Maiden Reinsurance to the extent that the loss ratio to Maiden Reinsurance, which will be determined on an inception to date basis from July 1, 2007 through the date of calculation, is between 81.5% and 95% (the “Specialty Program Loss Corridor”). For purposes of determining whether the loss ratio falls within the Specialty Program Loss Corridor, workers’ compensation business written in our Specialty Program segment from July 1, 2007 through December 31, 2012 is excluded from the loss ratio calculation.

The Maiden Quota Share was renewed through June 30, 2019 and will automatically renew for successive three-year terms unless either AII or Maiden Reinsurance notifies the other of its election not to renew not less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on thirty days' notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Reinsurance, run-off, or a reduction of 50% or more of the stockholders' equity of Maiden Reinsurance or the combined stockholders' equity of AII and the AmTrust Ceding Insurers.

We, through our subsidiaries AEL and AIU, have a reinsurance agreement with Maiden Reinsurance by which we cede to Maiden Reinsurance a percentage of our European medical liability business, including business in force at April 1, 2011. From April 1, 2011 through June 30, 2016, that percentage ceded by both AEL and AIU was 40%. Effective July 1, 2016, the percentage

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ceded by AEL decreased to 32.5%, and, effective July 1, 2017, will decrease to 20%. The quota share had an initial term of one year and has been renewed through March 31, 2018. The agreement can be terminated at any April 1 by either party on four months' prior written notice. Maiden Reinsurance pays us a 5% ceding commission, and we will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%. We did not receive any profit commissions for this business for the years ended December 31, 2016 or 2015.

We recorded approximately $599.5 million, $510.8 million and $405.1 million of ceding commission during 2016, 2015 and 2014, respectively, as a result of the Maiden Quota Share.

Contractual Obligations and Commitments

The following table sets forth certain of our contractual obligations as of December 31, 2016:

	Payment Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	(Amounts in Thousands)				
Loss and loss adjustment expenses(1)	$10,140,716	1,648,698	4,383,080	2,370,840	1,738,098
Loss-based insurance assessments(2)	51,574	40,814	10,760	—	—
Operating lease obligations	177,356	29,879	51,358	43,171	52,948
Purchase obligations(3)	71,657	32,898	26,310	10,629	1,820
Employment agreement obligations	31,908	17,213	12,334	2,361	—
Life insurance policy premiums related to life settlement contracts(4)	755,270	61,518	100,080	89,855	503,817
Debt and interest(5)	2,687,596	214,415	377,420	154,708	1,941,053
Total	$13,916,077	$2,045,435	$4,961,342	$2,671,564	$4,237,736

(1) The loss and loss adjustment expense payments due by period in the table above are based upon the loss and loss adjustment expense estimates as of December 31, 2016 and actuarial estimates of expected payout patterns and are not contractual liabilities as to a time certain. Our contractual liability is to provide benefits under the policy. As a result, our calculation of loss and loss adjustment expense payments due by period is subject to the same uncertainties associated with determining the level of loss and loss adjustment expenses generally and to the additional uncertainties arising from the difficulty of predicting when claims (including claims that have not yet been reported to us) will be paid. For a discussion of our loss and loss adjustment expense estimate process, see "Item 1. Business — Loss Reserves." Actual payments of loss and loss adjustment expenses by period will vary, perhaps materially, from the table above to the extent that current estimates of loss and loss adjustment expenses vary from actual ultimate claims amounts and as a result of variations between expected and actual payout patterns. See "Item 1A. Risk Factors — Risks Related to Our Business — Our loss reserves are based on estimates and may be inadequate to cover our actual losses" for a discussion of the uncertainties associated with estimating loss and loss adjustment expenses.

(2) We are subject to various annual assessments imposed by certain of the states in which we write insurance policies. These assessments are generally based upon the amount of premiums written or losses paid during the applicable year. Assessments based on premiums are generally paid within one year after the calendar year in which the policies are written, while assessments based on losses are generally paid within one year after the loss is paid. When we establish a reserve for loss and loss adjustment expenses for a reported claim, we accrue our obligation to pay any applicable assessments. If settlement of the claim is to be paid out over more than one year, our obligation to pay any related loss-based assessments extends for the same period of time. Because our reserves for loss and loss adjustment expenses are based on estimates, our accruals for loss-based insurance assessments are also based on estimates. Actual payments of loss and loss adjustment expenses may differ, perhaps materially, from our reserves. Accordingly, our actual loss-based insurance assessments may vary, perhaps materially, from our accruals.

(3) We are required by certain purchase agreements to pay the seller in the future based on the passage of time, volume of premium writings or a profitability metric. Also, we may be required by the terms of certain purchase agreements to pay the seller an annual minimum override payment based on a contractually defined formula. The amount payable to the seller under these agreements could be materially higher if the premiums produced generate a higher payment than the calculated minimum payment. We are required by certain agreements to pay fees based on profitability of certain subsidiary companies.

(4) We currently own 254 life settlement contracts with a fair value of $356.9 million. In order for us to derive the economic benefit of the face value of the policies, we are required to make these premium payments. The contractual obligations are on a consolidated basis. As we have a 50% ownership interest in these life insurance policies, NGHC has an obligation for 50% of the above contractual obligations.

(5) The interest related to the debt by period is as follows: $66.6 million — less than 1 year, $125.0 million — 1 – 3 years, $116.6 million — 3 – 5 years and $960.6 million — more than 5 years. In addition, included within debt and interest is $168 million related to the Maiden collateral loan and $10.1 million of associated interest.

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Inflation

We establish property and casualty insurance premiums before we know the amount of losses and loss adjustment expenses or the extent to which inflation may affect such amounts. We attempt to anticipate the potential impact of inflation in establishing our reserves, especially as it relates to medical and hospital rates where historical inflation rates have exceeded the general level of inflation. Inflation in excess of the levels we have assumed could cause loss and loss adjustment expenses to be higher than we anticipated, which would require us to increase reserves and reduce earnings. Fluctuations in rates of inflation also influence interest rates, which in turn impact the market value of our investment portfolio and yields on new investments. Operating expenses, including salaries and benefits, generally are impacted by inflation.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk. Market risk is the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are interest rate risk and equity price risk.

Interest Rate Risk. We had fixed maturity securities with a fair value of $7.4 billion and amortized cost of $7.3 billion as of December 31, 2016 that are subject to interest rate risk. Interest rate risk is the risk that we may incur losses due to adverse changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of our fixed maturity securities. We manage our exposure to interest rate risk through a disciplined asset and liability matching and capital management process. In the management of this risk, the characteristics of duration, credit and variability of cash flows are critical elements. These risks are assessed regularly and balanced within the context of our liability and capital position.

The table below summarizes the interest rate risk associated with our fixed maturity securities by illustrating the sensitivity of the fair value and carrying value of our fixed maturity securities as of December 31, 2016 to selected hypothetical changes in interest rates, and the associated impact on our stockholders' equity. We anticipate that we will continue to meet our obligations out of income. We classify our fixed securities and equity securities primarily as available-for-sale. Temporary changes in the fair value of our fixed maturity securities impact the carrying value of these securities and are reported in our stockholders' equity as a component of other comprehensive income, net of deferred taxes.

The selected scenarios in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the fair value and carrying value of our fixed maturity securities and on our stockholders' equity, each as of December 31, 2016.

Hypothetical Change in Interest Rates	Fair Value	Estimated Change in Fair Value	Hypothetical Percentage Increase (Decrease) in Stockholders' Equity
	(Amounts in Thousands)		
200 basis point increase	$6,716,747	$(715,169)	(13.4)%
100 basis point increase	7,061,907	(370,009)	(6.9)%
No change	7,431,916	—	—
100 basis point decrease	7,815,756	383,840	7.2%
200 basis point decrease	8,226,145	794,229	14.9%

Changes in interest rates would affect the fair market value of our fixed rate debt obligations but would not have an impact on our earnings or cash flow. We currently have $1,419 million of debt instruments (including a $168.0 million Maiden collateral loan) of which $929.4 million are fixed rate debt instruments. A fluctuation of 100 basis points in interest on our variable rate debt instruments, which are tied to LIBOR, would affect our earnings and cash flows by $4.9 million before income tax, on an annual basis, but would not affect the fair market value of the variable rate debt. Additionally, our variable rate debt is effectively converted to a fixed rate through the use of an interest rate swap agreements.

Liquidity Risk. Liquidity risk represents our potential inability to meet all payment obligations when they become due and the risk stemming from the lack of marketability of an investment security that cannot be bought or sold quickly enough to realize cash. We maintain sufficient cash and highly rated marketable securities, including U.S. Treasuries, to fund claim payments and operations. Additionally, we maintain two line of credit facilities and have the ability to enter into repurchase agreements as additional sources of liquidity. We purchase reinsurance coverage to mitigate the risk of an unexpected rise in claims severity or frequency from catastrophic events or a single large loss. The availability, amount and cost of reinsurance depend on market conditions and may vary significantly.

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Credit Risk. Credit risk is the potential loss arising principally from adverse changes in the financial condition of the issuers of our fixed maturity securities and the financial condition of our third party reinsurers. Additionally, we have counter-party credit risk with our repurchase agreement counter-parties and interest rate swap counter-parties.

We address the credit risk related to the issuers of our fixed maturity securities by investing primarily in fixed maturity securities that are rated “BBB-” or higher by Standard & Poor’s. We also independently monitor the financial condition of all issuers of our fixed maturity securities. To limit our risk exposure, we employ diversification policies that limit the credit exposure to any single issuer or business sector.

We are subject to credit risk with respect to our third party reinsurers. Although our third party reinsurers are obligated to reimburse us to the extent we cede risk to them, we are ultimately liable to our policyholders on all risks we have ceded. As a result, reinsurance contracts do not limit our ultimate obligations to pay claims covered under the insurance policies we issue and we might not collect amounts recoverable from our reinsurers. We address this credit risk by selecting reinsurers which have an A.M. Best rating of “A-” (Excellent) or better at the time we enter into the agreement and by performing, along with our reinsurance broker, periodic credit reviews of our reinsurers. If one of our reinsurers suffers a credit downgrade, we may consider various options to lessen the risk of asset impairment, including commutation, novation and letters of credit. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Reinsurance.”

Counter-party credit risk with our repurchase agreement counter-parties is mitigated by obtaining collateral. We obtain collateral in the amount of 110% of the value of the securities we have sold with agreement to repurchase. Additionally, repurchase agreements are only transacted with pre-approved counter-parties.

Foreign Currency Risk. We write insurance in the United Kingdom and certain other European Union member countries through several of our foreign insurance subsidiaries. While the functional currencies of these subsidiaries are the Euro and British Pound, we write coverages that are settled in local currencies, including, primarily, the Euro and British Pound. We attempt to maintain sufficient local currency assets on deposit to minimize our exposure to realized currency losses. Assuming a 5% increase in the exchange rate of the local currency in which the claims will be paid and that we do not hold that local currency, we would recognize approximately $104.3 million in before tax realized currency loss based on our outstanding foreign denominated reserves of approximately $2,087.0 million at December 31, 2016.

Equity Price Risk. Equity price risk is the risk that we may incur losses due to adverse changes in the market prices of the equity securities we hold in our investment portfolio, which include common stocks, non-redeemable preferred stocks and master limited partnerships. We classify our portfolio of equity securities either as available-for-sale or trading and carry these securities on our balance sheet at fair value. Accordingly, adverse changes in the market prices of our equity securities result in a decrease in the value of our total assets and a decrease in our stockholders’ equity. As of December 31, 2016, the equity securities in our investment portfolio had a fair value of $219.1 million, representing approximately 2.5% of our total invested assets on that date.

The table below illustrates the impact on our equity portfolio and financial position given a hypothetical movement in the broader equity markets. The selected scenarios in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the carrying value of our equity portfolio and on stockholders’ equity as of December 31, 2016.

Hypothetical Change in S&P 500 Index	Fair Value	Estimated Change in Fair Value	Hypothetical Percentage Increase (Decrease)

			in Stockholders' Equity
	(Amounts in Thousands)		
25% increase	$273,903	$54,781	1.0 %
No change	219,122	—	—
25% decrease	164,341	(54,781)	(1.0)

Off Balance Sheet Risk. We do not have off balance sheet risk as of December 31, 2016.

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Item 8. Financial Statements and Supplementary Data

The financial statements and financial statement schedules listed in the accompanying Index to Consolidated Financial Statements and Schedules at page F-1 are filed as part of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

N/A.

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures

Our management, with the participation and under the supervision of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this Annual Report on Form 10-K. Based upon that evaluation, our CEO and CFO have concluded that, as of December 31, 2016, due to the identification of material weaknesses in our internal control over financial reporting as further described below, our disclosure controls and procedures were not effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

To address the material weaknesses described below, management performed additional analysis and other procedures to ensure that our consolidated financial statements were prepared in accordance with U.S. GAAP. Accordingly, management believes that the consolidated financial statements and disclosures included in this Annual Report on Form 10-K fairly present, in all material respects, in accordance with U.S. GAAP, our financial position, results of operations and cash flows for the periods presented.

(b) Management Report on Internal Control Over Financial Reporting

We, as management of the Company, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Pursuant to the rules and regulations of the SEC, internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, we have concluded that our internal control over financial reporting was not effective as of December 31, 2016, due to the identification of two material weaknesses in internal control over financial reporting, as discussed further below. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Material Weaknesses

As a result of the Company’s broadening geographic and product scope, we have experienced a significant increase in the volume of complex accounting matters and the number of control activities necessary to properly accumulate and present consolidated results. In assessing the effectiveness of our internal control over financial reporting as of December 31, 2016, we identified the following material weaknesses, as described below, in our internal control over financial reporting.

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Ineffective assessment of the risks of material misstatement in financial reporting

We did not effectively assess the risk of material misstatement in certain processes and change the internal control over financial reporting as a result of the significant increase in the size and complexity of the Company that was, in part, due to numerous acquisitions undertaken by the Company. A significant portion of these processes were managed and controlled by a centralized group within the Company and the material weakness affected: the design, implementation and operation of controls over the preparation, analysis and review of significant balances and closing adjustments necessary to achieve appropriately stated consolidated account balances and disclosures. Specifically, management did not appropriately assess the risks associated with the financial reporting of foreign exchange, deferred acquisition costs, goodwill impairment, warranty administration services revenue, capitalized costs, period-end expense accruals and the statements of cash flows and other comprehensive income. As a result, we did not design, implement and operate process level controls to effectively address the complexity of the underlying financial reporting.

Insufficient resources in the Corporate Accounting and Corporate Financial Reporting Groups

We did not have a sufficient complement of personnel, in certain geographic locations, with an appropriate level of knowledge and experience to help ensure proper selection and application of U.S. GAAP in the accounting for the areas stated above. In addition, we were not able to effectively design and execute our process level controls around the consolidation process and preparation of financial statements, specifically subsidiary close and consolidation adjustments, segregation of duties related to the creation and posting of a discrete number of journal entries, foreign exchange, deferred acquisition costs, goodwill impairment, warranty administration services revenue, capitalized costs, period-end expense accruals and the statements of cash flows and other comprehensive income, and associated disclosures.

These material weaknesses contributed to material misstatements related to warranty services revenue and accrual of bonuses that were corrected prior to the issuance of the financial statements. Additionally, these material weaknesses contributed to other misstatements to foreign exchange adjustments, deferred acquisition costs, and period-end accruals. If these material weaknesses are not effectively remediated, a reasonable possibility exists that material misstatements of the annual or interim financial statements will not be prevented or detected on a timely basis.

Management excluded from its design and assessment of internal control over financial reporting the internal control for ANV Holding B.V., Republic Companies, Inc., N.V. Nationale Borg-Maatschappij and Genworth Financial Mortgage Insurance Limited, which were acquired during 2016, and which are included in the consolidated balance sheet of AmTrust Financial Services, Inc. as of December 31, 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended. These companies constituted approximately 13.7% of total assets as of December 31, 2016, and approximately 0.8% of total revenues for the year ended December 31, 2016.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its report that appears in this Annual Report on Form 10-K. This adverse report states that internal control over financial reporting was not effective.

(c) Changes in Internal Control Over Financial Reporting

As a result of the control deficiencies identified above, we restated our consolidated financial statements for fiscal years 2015 and 2014, and our unaudited quarterly financial information for each of the four quarters in fiscal year 2015 and for the first three quarters in fiscal year 2016. Further, we now believe our internal control over financial reporting was not effective as of December 31, 2015. In response to the material weaknesses described above, management has begun implementing enhancements to our internal control over financial reporting as described below in section (d). These subsequent remediation efforts related to the material weaknesses described above represented changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2016 that have materially affected our internal control over financial reporting.

In addition, as a result of the acquisitions of ANV Holding B.V., Republic Companies, Inc., N.V. Nationale Borg-Maatschappij and Genworth Financial Mortgage Insurance Limited, there were changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Such changes related to these acquisitions included implementing procedures to integrate existing systems and convert the financial results of these acquisitions from other generally accepted accounting principles to U.S. GAAP. We are continuing to augment our existing controls to appropriately manage the risks inherent in acquisitions of this magnitude and complexity.

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Except as described above, there were no other changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(d) Status of Remediation Actions

Management is underway with a comprehensive remediation program to design and implement enhanced internal controls to address the material weaknesses discussed above. Management, with oversight from the Company's Audit Committee, has dedicated significant in-house and external resources to these efforts and begun implementation of the required enhancements.

Ineffective assessment of the risks of material misstatement in financial reporting

We have undertaken several actions to remediate the material weakness associated with the financial reporting risk assessment processes, including the following:

- Training for all appropriate personnel to improve the identification, evaluation and monitoring of risks and effectiveness of associated controls;
- Enhancement of the global Sarbanes-Oxley internal control over financial reporting risk assessment, scoping and testing processes;
- Designing and executing process-level controls over the affected areas, including redesign of management review controls and account reconciliations; and
- Identifying, evaluating and commencing implementation of new automated financial close accounting software.

Insufficient resources in the Corporate Accounting and Financial Reporting Groups

We have begun the process to strengthen resources within our accounting and financial reporting groups, including the recruiting, hiring and training of additional personnel. In particular, we are focused on the following actions:

- Strengthening the Finance team by hiring additional accounting and finance resources and professionals to help ensure that we have the personnel commensurate with the size and complexity of the organization. To date, we have promoted a new Chief Financial Officer - International Operations and hired a new Global Head of Investment Accounting;
- Augmenting existing personnel with qualified consulting resources to help ensure that we have sufficient staffing with the requisite experience until key open positions are filled;
- Designing new oversight controls that will operate at a level of precision sufficient to detect an error resulting from a control failure at the subsidiary level, and strengthening our existing oversight controls to help ensure compliance at the subsidiary level with company policies and procedures;
- Completing and communicating an updated accounting policy manual to all Finance teams, which will include training of all appropriate personnel regarding the application of our U.S. GAAP accounting policies and procedures; and
- Maintaining a company-wide and discipline-broad (finance, internal audit, Sarbanes-Oxley compliance and legal) focus on internal controls, enabling management to provide oversight over planned remedial actions and progress of these changes.

While management believes that significant progress has been made in enhancing internal controls as of December 31, 2016 and in the period since, the material weaknesses described herein have not been fully remediated due to insufficient time to fully implement and assess the design and operating effectiveness of the related controls. Management will continue the process to enhance internal controls throughout 2017 and will make any further changes management deems appropriate.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
AmTrust Financial Services, Inc.:
We have audited AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). AmTrust Financial Services, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A(b), Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses related to the ineffective assessment of the risks of material misstatement in financial reporting and insufficient resources in the corporate accounting and corporate financial reporting groups have been identified and included in management's assessment in Item 9A(b). We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of AmTrust Financial Services, Inc. and subsidiaries as of December 31, 2016 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year ended December 31, 2016. These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2016 consolidated financial statements, and this report does not affect our report dated April 3, 2017, which expressed an unqualified opinion on those consolidated financial statements.
In our opinion, because of the effect of the aforementioned material weaknesses on the achievement of the objectives of the control criteria, AmTrust Financial Services, Inc. has not maintained effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company acquired ANV Holding B.V., Republic Companies, Inc., N.V. Nationale Borg-Maatschappij and Genworth Financial Mortgage Insurance Limited during 2016. Management excluded these businesses from its assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2016. These businesses represented approximately 13.8% of total assets as of December 31, 2016, and approximately 0.8% of total revenues for the year ended December 31, 2016. Our audit of internal control over financial reporting of AmTrust Financial Services, Inc. and subsidiaries also excluded an evaluation of the internal control over financial reporting of ANV Holding B.V., Republic Companies, Inc., N.V. Nationale Borg-Maatschappij and Genworth Financial Mortgage Insurance Limited.

We do not express an opinion or any other form of assurance on management’s statements referring to corrective actions taken after December 31, 2016, relative to the aforementioned material weaknesses in internal control over financial reporting.

(signed) KPMG LLP

New York, New York
April 3, 2017

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement for our Annual Meeting of Stockholders to be held May 18, 2017 (the “Proxy Statement”) under the captions “Proposal 1: Election of Directors,” “Executive Officers,” “Corporate Governance — Code of Business Conduct and Ethics,” “Corporate Governance — Board Committees” and “Security Ownership of Management — Section 16(a) Beneficial Ownership Reporting Compliance.” The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 28, 2017.

Item 11. Executive Compensation

The information required by Item 11 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions “Executive Compensation,” “Compensation of Directors,” “Compensation Discussion and Analysis,” “Corporate Governance — Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report.” The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 28, 2017.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

A portion of the information required by Item 12 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions “Security Ownership of Certain Beneficial Owners” and “Security Ownership of Management.” The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 28, 2017.

Equity Compensation Plan Information

The table below shows information regarding awards outstanding and shares of common stock available for issuance as of December 31, 2016 under the AmTrust Financial Services, Inc. 2010 Omnibus Incentive Plan:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (2)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	$ 4,950,959	$ 7.54	6,926,303
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	4,950,959	$ 7.54	6,926,303

(1) Includes restricted stock unit awards that, upon vesting, provide the holder with the right to receive common shares on a one-to-one basis. Performance share units are included at their target value. For further discussion of these awards, see Note 19. “Share Based Compensation.”

(2) Only applies to outstanding options, as restricted stock units and performance share units do not have exercise prices.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions “Certain Relationships and Related Transactions” and “Corporate Governance — Independence of Directors.” The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 28, 2017.

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Item 14. Principal Accounting Fees and Services

The information required by Item 14 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions “Audit and Non-Audit Fees” and “Pre-approval Policies and Procedures of the Audit Committee.” The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 28, 2017.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report: The financial statements and financial schedules listed in the accompanying Index to Consolidated Financial Statements and Schedules are filed as part of this report. The exhibits listed in the accompanying Index to Exhibits are filed as part of this report.
(b) Exhibits: See Item 15(a).
(c) Schedules: See Item 15(a).

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	AMTRUST FINANCIAL SERVICES, INC.
April 3, 2017	By: /s/ Ronald E. Pipoly, Jr.
	Name: Ronald E. Pipoly, Jr.
	Title: Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Barry Zyskind Barry Zyskind	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	April 3, 2017
/s/ Ronald E. Pipoly, Jr. Ronald E. Pipoly, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer)	April 3, 2017
/s/ Leah Karfunkel Leah Karfunkel	Director	April 3, 2017
/s/ George Karfunkel George Karfunkel	Director	April 3, 2017
/s/ Donald DeCarlo Donald DeCarlo	Director	April 3, 2017
/s/ Susan Fisch Susan Fisch	Director	April 3, 2017
/s/ Abraham Gulkowitz Abraham Gulkowitz	Director	April 3, 2017
/s/ Raul Rivera Raul Rivera	Director	April 3, 2017

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AMTRUST FINANCIAL SERVICES, INC.

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

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Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
AmTrust Financial Services, Inc.:

We have audited the accompanying consolidated balance sheet of AmTrust Financial Services, Inc. as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year ended December 31, 2016. In connection with our audit of the consolidated financial statements, we also have audited the financial statement schedules, as of December 31, 2016 and for the year then ended, listed in the accompanying index to financial statements and schedules. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmTrust Financial Services, Inc. as of December 31, 2016, and the results of their operations and their cash flows for the year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, as of December 31, 2016 and for the year then ended, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. (COSO), and our report dated April 3, 2017 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

(signed) KPMG LLP
New York, New York
April 3, 2017

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Report of Independent Registered Public Accounting Firm
Board of Directors and Stockholders
AmTrust Financial Services, Inc.
New York, New York

We have audited the accompanying consolidated balance sheet of AmTrust Financial Services, Inc. as of December 31, 2015 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years ended December 31, 2015 and 2014 and related financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmTrust Financial Services, Inc. as of December 31, 2015, and the results of its operations and its cash flows for the years ended December 31, 2015 and 2014, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the accompanying consolidated financial statements have been restated to correct misstatements.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole present fairly, in all material respects, the information set forth therein.

/s/ BDO USA, LLP

New York, New York
February 29, 2016 (April 3, 2017 as to the effects of the restatement discussed in Note 3)

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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Par Value per Share)

	December 31,	
ASSETS	2016	2015 As restated
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost $7,315,041; $5,482,042)	$7,398,134	$5,433,797
Fixed maturities, trading, at fair value (amortized cost $29,081; $0)	33,782	—
Equity securities, available-for-sale, at fair value (cost $126,670; $109,346)	137,162	104,497
Equity securities, trading, at fair value (cost $76,163; $26,937)	81,960	27,271
Short-term investments	—	17,171
Equity investment in unconsolidated subsidiaries – related parties	151,332	138,023
Other investments (related party $72,328; $64,869)	152,187	106,176
Total investments	7,954,557	5,826,935
Cash and cash equivalents	567,771	1,003,916
Restricted cash and cash equivalents	713,338	380,699
Accrued interest and dividends	54,680	51,487
Premiums receivable, net	2,802,167	2,235,953
Reinsurance recoverable (related party $2,452,242; $1,963,140)	4,329,521	3,007,377
Prepaid reinsurance premium (related party $1,133,485; $1,066,961)	1,994,092	1,531,866
Other assets (related party $161,845; $189,223; recorded at fair value $356,856; $264,001)	1,712,165	1,477,006
Deferred policy acquisition costs	928,920	693,639
Property and equipment, net	314,332	257,128
Goodwill	686,565	432,700
Intangible assets	556,560	367,345
	$22,614,668	$17,266,051
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss adjustment expense reserves	$10,140,716	$7,208,367
Unearned premiums	4,880,066	4,014,387
Ceded reinsurance premiums payable (related party $633,638; $379,988)	804,882	651,051
Reinsurance payable on paid losses	15,960	9,789
Funds held under reinsurance treaties	70,868	23,336
Note payable on collateral loan – related party	167,975	167,975
Securities sold but not yet purchased, at fair value	36,394	38,618
Securities sold under agreements to repurchase, at contract value	160,270	—
Accrued expenses and other liabilities (recorded at fair value $76,840; $93,940)	1,635,666	1,258,054
Debt (net of debt issuance cost of $15,960, $16,902)	1,234,900	993,067
Total liabilities	19,147,697	14,364,644
Commitments and contingencies		
Redeemable non-controlling interest	1,358	1,172
Stockholders' equity:		
Common stock, $0.01 par value; 500,000 shares authorized; 196,455 issued in 2016 and 2015, respectively; 170,508 and 175,915 outstanding in 2016 and 2015, respectively	1,965	1,964
Preferred stock, $0.01 par value; 10,000 shares authorized; 5,399 and 4,968 issued and outstanding; $913,750 and $482,500 aggregated liquidation preference in 2016 and 2015, respectively.	913,750	482,500

Additional paid-in capital	1,384,922	1,383,492
Treasury stock at cost; 25,947 and 20,540 shares in 2016 and 2015, respectively	(310,883)	(162,867)
Accumulated other comprehensive loss	(125,722)	(133,392)
Retained earnings	1,405,071	1,152,083
Total AmTrust Financial Services, Inc. equity	3,269,103	2,723,780
Non-controlling interest	196,510	176,455
Total stockholders’ equity	3,465,613	2,900,235
	$22,614,668	$17,266,051

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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Par Value and per Share)

	Years Ended December 31,		
	2016	2015 As restated	2014 As restated
Revenues:			
Premium income:			
Net written premium	$4,851,327	$4,261,928	$3,941,220
Change in unearned premium	(183,362)	(240,687)	(434,386)
Net earned premium	4,667,965	4,021,241	3,506,834
Service and fee income (related parties - $87,906; $76,454; and $58,428)	537,966	428,143	365,356
Net investment income	208,047	156,290	131,601
Net realized gain on investments	36,478	8,117	16,423
Total revenues	5,450,456	4,613,791	4,020,214
Expenses:			
Loss and loss adjustment expense	3,142,279	2,688,118	2,331,325
Acquisition costs and other underwriting expenses (net of ceding commission and administrative services) - related party $608,904; $545,661; and $405,071)	1,230,168	993,571	870,702
Other	564,065	473,253	422,528
Total expenses	4,936,512	4,154,942	3,624,555
Income before other (expense) income, provision for income taxes, equity in earnings of unconsolidated subsidiaries and non-controlling interest	513,944	458,849	395,659
Other (expenses) income:			
Interest expense (net of interest income - related party - $7,593; $8,701; and $2,601)	(79,526)	(55,355)	(45,857)
Loss on extinguishment of debt	—	(5,271)	(9,831)
Gain on investment in life settlement contracts net of profit commission	46,147	19,844	12,306
Foreign currency (loss) gain	(29,289)	47,301	56,372
Gain on acquisition	48,775	5,826	—
Gain of sale of subsidiary	—	—	6,631
Total other (expenses) income	(13,893)	12,345	19,621
Income before income taxes, equity in earnings of unconsolidated subsidiaries and non-controlling interest	500,051	471,194	415,280
Provision for income taxes	85,307	38,946	28,367
Income before equity in earnings of unconsolidated subsidiaries	414,744	432,248	386,913
Equity in earnings of unconsolidated subsidiary – (related parties)	15,626	25,385	28,351
Net income	430,370	457,633	415,264
Net (income) loss attributable to non-controlling interests and redeemable non-controlling interests of subsidiaries	(19,384)	(6,928)	416
Net income attributable to AmTrust stockholders	$410,986	$450,705	$415,680
Dividends on preferred stock	(47,847)	(31,590)	(12,738)
Net income attributable to AmTrust common stockholders	$363,139	$419,115	$402,942
Earnings per common share:			
Basic earnings per share	$2.10	$2.54	$2.68
Diluted earnings per share	$2.08	$2.49	$2.53
Dividends declared per common share	$0.64	$0.55	$0.425

Weighted average common shares outstanding - basic	172,554	165,042	149,866
Weighted average common shares outstanding - diluted	174,545	168,360	159,034
Net realized gain on investments:			
Total other-than-temporary impairment losses	$(31,659)	$(19,155)	$(8,039)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(31,659)	(19,155)	(8,039)
Net realized gain on available for sale securities	52,353	15,578	21,858
Net realized gain on trading securities and other investment	15,784	11,694	2,604
Net realized investment gain	$36,478	$8,117	$16,423

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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31,		
	2016	2015	2014
		As restated	As restated
Net income	$430,370	$457,633	$415,264
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustments	(90,129)	(89,252)	(21,746)
Change in fair value of interest rate swap	528	621	664
Minimum pension liability	(3,070)	2,686	(1,055)
Unrealized gain (loss) on securities:			
Gross unrealized holding gain (loss)	177,395	(171,109)	132,690
Less tax expense (benefit)	46,339	(59,888)	46,440
Net unrealized holding gain (loss)	131,056	(111,221)	86,250
Reclassification adjustment for investment gain (loss) included in net income, net of tax:			
Other-than-temporary impairment loss	25,219	4,315	—
Other net realized (loss) gain on investments	(55,934)	(1,118)	(4,918)
Reclassification adjustment for investment gain (loss) included in net income	(30,715)	3,197	(4,918)
Other comprehensive income (loss), net of tax	$7,670	$(193,969)	$59,195
Comprehensive income	438,040	263,664	474,459
Less: Comprehensive income (loss) attributable to non-controlling and redeemable non-controlling interest	19,384	6,928	(416)
Comprehensive income attributable to AmTrust Financial Services, Inc.	$418,656	$256,736	$474,875

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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)
Years Ended December 31, 2016, 2015, 2014

	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2013 (As restated)	$ 1,960	$ 115,000	$ 1,032,104	$ (284,891)	$ 1,382	$ 487,069	$ 1,352,624
Net income (As restated)	—	—	—	—	—	415,264	415,264
Foreign currency translation, net of tax (As restated)	—	—	—	—	(21,746)	—	(21,746)
Change in fair value of derivatives, net of tax	—	—	—	—	664	—	664
Minimum pension liability, net of tax	—	—	—	—	(1,055)	—	(1,055)
Unrealized holding loss on investments, net of tax (As restated)	—	—	—	—	86,250	—	86,250
Reclassification adjustment for securities sold during the year, net of tax	—	—	—	—	(4,918)	—	(4,918)
Non-controlling interest in subsidiaries	—	—	—	—	—	910	910
Common stock repurchase	—	—	—	(59,154)	—	—	(59,154)
Issuance of restricted stock	—	—	(6,444)	6,444	—	—	—
Extinguishment of 5.5% convertible senior notes	—	—	(19,011)	—	—	—	(19,011)
Issuance of shares in convertible senior note exchange	—	—	(33,409)	33,409	—	—	—
Equity component of 2.75% convertible senior notes, net of income taxes and issue costs	—	—	33,624	—	—	—	33,624
Stock option compensation	—	—	19,114	—	—	—	19,114
Exercise of stock options, other including tax benefit of $10,281	—	—	2,170	6,606	—	—	8,776
Preferred stock issuance (185 shares)	—	185,000	(6,359)	—	—	—	178,641
Distribution of redeemable non-controlling interest	—	—	—	—	—	(494)	(494)
Preferred stock dividend	—	—	—	—	—	(12,738)	(12,738)
Common stock dividend	—	—	—	—	—	(64,538)	(64,538)
Balance, December 31, 2014 (As restated)	1,960	300,000	1,021,789	(297,586)	60,577	825,473	1,912,213

Net income (As restated)	—	—	—	—	—	457,633	457,633
Foreign currency translation, net of tax (As restated)	—	—	—	—	(89,252)		(89,252)
Change in fair value of derivatives, net of tax	—	—	—	—	621	—	621
Minimum pension liability, net of tax	—	—	—	—	2,686	—	2,686
Unrealized holding loss on investments, net of tax (As restated)	—	—	—	—	(111,221)	—	(111,221)
Reclassification adjustment for securities sold during the year, net of tax	—	—	—	—	3,197	—	3,197
Non-controlling interest in subsidiaries	—	—	—	—	—	(5,793)	(5,793)
Acquisition of non-controlling interest in subsidiary	—	—	—	—	—	—	—
Common stock issuance (16,900 shares)	—	—	366,712	120,375	—	—	487,087
Common stock repurchase	—	—	—	(578)	—	—	(578)
Preferred stock issuance (165 shares)	—	182,500	(5,971)	—	—	—	176,529
Extinguishment of 5.5% convertible senior notes	—	—	(19,302)	15,538	—	—	(3,764)
Issuance or purchase of restricted stock	—	—	(3,055)	(2,612)	—	—	(5,667)

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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY(continued)
(In Thousands)
Years Ended December 31, 2016, 2015, 2014

	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Stock option compensation	—	—	22,763	—	—	—	22,763
Exercise of stock options, other including tax benefit of $10,211	4	—	556	1,996	—	—	2,556
Income attributable to redeemable non-controlling interest, net	—	—	—	—	—	(1,135)	(1,135)
Preferred stock dividend	—	—	—	—	—	(31,590)	(31,590)
Common stock dividend	—	—	—	—	—	(92,505)	(92,505)
Balance, December 31, 2015 (As restated)	1,964	482,500	1,383,492	(162,867)	(133,392)	1,152,083	2,723,780
Net income	—	—	—	—	—	430,370	430,370
Foreign currency translation, net of tax	—	—	—	—	(90,129)	—	(90,129)
Change in fair value of derivative, net of tax	—	—	—	—	528	—	528
Minimum pension liability, net of tax	—	—	—	—	(3,070)	—	(3,070)
Unrealized holding loss on investments, net of tax	—	—	—	—	131,056	—	131,056
Reclassification adjustment for securities sold during the year, net of tax	—	—	—	—	(30,715)	—	(30,715)
Non-controlling interest in subsidiaries	—	—	—	—	—	(19,384)	(19,384)
Common stock issuance (12 shares)	1	—	269	76	—	—	346
Common stock repurchase	—	—	—	(152,392)	—	—	(152,392)
Preferred stock issuance (431 shares)	—	431,250	(13,986)	—	—	—	417,264
Extinguishment of 5.5% convertible senior notes	—	—	(3)	2	—	—	(1)
Stock option compensation	—	—	23,286	—	—	—	23,286
Exercise of stock options, other including tax benefit of $5,930	—	—	(8,136)	4,298	—	—	(3,838)
Income attributable to redeemable non-controlling interest, net	—	—	—	—	—	(1,923)	(1,923)

Preferred stock dividend	—	—	—	—	—	(47,847)	(47,847)
Common stock dividend	—	—	—	—	—	(108,228)	(108,228)
Balance, December 31, 2016	$ 1,965	$913,750	$1,384,922	$(310,883)	$ (125,722)	$1,405,071	$3,269,103

Non-controlling interest in equity of consolidated subsidiaries:	
Balance, December 31, 2013	$137,860
Capital contributions to subsidiaries	25,359
Foreign currency translation	(3,128)
Loss attributable to non-controlling interests	(910)
Balance, December 31, 2014	$159,181
Capital contributions to subsidiaries	11,475
Foreign currency translation	6
Loss attributable to non-controlling interests	5,793
Balance, December 31, 2015	$176,455
Capital contribution to subsidiaries less dividends	1,428
Income attributable to non-controlling interests	18,627
Balance, December 31, 2016	$196,510

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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31, 2016	2015 As restated	2014 As restated
Cash flows from operating activities:			
Net income	$430,370	$457,633	$415,264
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	117,270	84,428	61,412
Net amortization of bond premium or discount	29,310	17,401	15,395
Equity earnings on investment in unconsolidated subsidiaries	(17,224)	(25,385)	(28,351)
Gain on investment in life settlement contracts, net	(46,147)	(19,844)	(12,306)
Realized gain on marketable securities	(68,137)	(27,272)	(24,463)
Non-cash write-down of marketable securities	31,659	19,155	8,039
Non-cash write-down of goodwill	273	55,304	62,898
Discount on notes payable	6,720	5,628	3,095
Stock based compensation	23,286	22,763	19,114
Loss on extinguishment of debt	—	5,271	9,831
Bad debt expense	27,238	18,339	24,294
Foreign currency (gain) loss	29,289	(47,301)	(56,372)
Gain on sale of subsidiary	—	—	(6,631)
Acquisition gain	(48,775)	(5,826)	—
Dividend received from equity investment	1,598	984	246
Changes in assets – (increase) decrease:			
Premiums and notes receivable	(423,790)	(396,910)	(291,868)
Reinsurance recoverable	(541,507)	(570,050)	(504,021)
Deferred policy acquisition costs, net	(252,487)	(64,377)	(159,979)
Prepaid reinsurance premiums	(402,748)	(151,241)	(292,422)
Prepaid expenses and other assets	104,623	(462,244)	(188,764)
Changes in liabilities – increase (decrease):			
Reinsurance premium payable	95,407	20,687	48,656
Loss and loss expense reserves	1,413,039	1,440,388	1,219,993
Unearned premiums	297,085	377,713	709,308
Funds held under reinsurance treaties	(58,090)	9,955	(10,397)
Accrued expenses and other current liabilities	168,441	246,060	103,953
Net cash provided by operating activities	916,703	1,011,259	1,125,924
Cash flows from investing activities:			
Purchases of fixed maturities, available-for-sale	(2,467,741)	(2,367,112)	(2,421,826)
Purchases of equity securities, available-for-sale	(52,016)	(87,190)	(293,554)
Purchases of equity securities, trading	(266,657)	(207,379)	(84,493)
Purchases of other investments	(47,042)	(71,352)	(28,573)
Sales, maturities, paydowns of fixed maturities, available-for-sale	1,528,210	1,208,102	1,749,897
Sales of equity securities, available-for-sale	69,147	66,400	238,369
Sales of equity securities, trading	237,834	207,992	78,974
Sales of other investments	35,069	2,510	17,854

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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(In Thousands)

	Years Ended December 31,		
	2016	2015	2014
		As restated	As restated
Net sales of short term investments	79,180	71,319	50,286
Net sale of securities sold but not purchased	(2,224)	25,566	13,052
Acquisition of life settlement contracts	(17,230)	(1,065)	(25,419)
Receipt of life settlement contract proceeds	38,247	102,307	10,035
Loan to ACP Re	—	—	(125,000)
Acquisition of subsidiaries, net of cash obtained	(402,232)	(242,358)	(80,736)
Sale of subsidiary	—	—	20,059
Increase in restricted cash and cash equivalents, net	(221,485)	(194,532)	(85,786)
Purchase of property and equipment	(117,047)	(152,249)	(73,147)
Net cash used in investing activities	(1,605,987)	(1,639,041)	(1,040,008)
Cash flows from financing activities:			
Revolving credit facility borrowings	—	430,000	220,000
Revolving credit facility payments	—	(420,000)	(100,000)
Repurchase agreements, net	160,270	—	(293,222)
Secured loan agreement borrowings	44,579	10,250	30,500
Secured loan agreement payments	(7,186)	(7,001)	(3,009)
Promissory note payments	—	—	(10,695)
2055 Subordinated notes proceeds	—	285,000	—
Convertible senior notes proceeds	—	—	68,400
Convertible senior notes payments	(10)	(62,079)	—
Financing fees	(277)	(9,451)	(5,188)
Common share issuance	346	487,087	—
Common share repurchase	(152,392)	(578)	(59,155)
Preferred share issuance	417,264	176,529	178,641
Contingent consideration payments	(35,734)	(15,334)	(4,225)
Non-controlling interest capital contributions (dividends) to consolidated subsidiaries, net	1,428	11,475	18,223
Stock option exercise and other	(3,839)	(2,556)	8,776
Dividends distributed on common stock	(108,228)	(85,296)	(55,599)
Dividends distributed on preferred stock	(47,847)	(31,590)	(12,738)
Net cash provided by (used in) financing activities	268,374	766,456	(19,291)
Effect of exchange rate changes on cash	(15,235)	(15,657)	(15,748)
Net increase in cash and cash equivalents	(436,145)	123,017	50,877
Cash and cash equivalents, beginning year	1,003,916	880,899	830,022
Cash and cash equivalents, end of year	$567,771	$1,003,916	$880,899
Supplemental Cash Flow Information			
Interest payments on debt	$68,051	$43,146	$36,679
Income tax payments	26,299	234,455	85,619
Declared dividends on common stock	108,228	92,505	64,538

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Data)

1. Nature of Operations

AmTrust Financial Services, Inc. (the "Company") is an insurance holding company formed under the laws of Delaware. Through its wholly-owned subsidiaries, the Company provides specialty property and casualty insurance focusing on workers' compensation and commercial package coverage for small business, specialty risk and extended warranty coverage, and property and casualty coverage for middle market business. The Company also provides reinsurance, primarily on personal and commercial automotive business.

The Company transacts business primarily through twenty-four insurance subsidiaries domiciled in the United States and seven major insurance subsidiaries domiciled outside of the United States. The Company's twenty-four domestic insurance subsidiaries are:

Company	Abbreviation	Domiciled in
AmTrust Insurance Company of Kansas, Inc.	AICK	Kansas
AmTrust Title Insurance Company	ATIC	New York
ARI Casualty Company	ARIC	New Jersey
ARI Insurance Company	ARI	Pennsylvania
Associated Industries Insurance Company, Inc.	AIIC	Florida
CorePointe Insurance Company	CPIC	Michigan
Developers Surety and Indemnity Company	DSIC	California
First Nonprofit Insurance Company	FNIC	Delaware
Heritage Indemnity Company	HIC	California
Indemnity Company of California	ICC	California
Milwaukee Casualty Insurance Company	MCIC	Wisconsin
Republic Fire & Casualty Insurance Company	RFC	Oklahoma
Republic Lloyds	RL	Texas
Republic Underwriters Insurance Company	RUIC	Texas
Republic-Vanguard Insurance Company	RVIC	Arizona
Rochdale Insurance Company	RIC	New York
Security National Insurance Company	SNIC	Delaware
Sequoia Indemnity Company	SID	Nevada
Sequoia Insurance Company	SIC	California
Southern County Mutual Insurance Company	SCM	Texas
Southern Insurance Company	SOIC	Texas
Southern Underwriters Insurance Company	SUIC	Oklahoma
Technology Insurance Company, Inc.	TIC	Delaware
Wesco Insurance Company	WIC	Delaware

During 2016, Comp Options Insurance Company and Springfield Insurance Company were merged into other existing AmTrust insurance companies.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Data)

The Company's seven major foreign insurance subsidiaries are:

Company	Abbreviation	Domiciled in
AmTrust Europe, Ltd.	AEL	United Kingdom
AmTrust International Insurance Ltd.	AII	Bermuda
AmTrust International Underwriters Limited	AIU	Ireland
AmTrust at Lloyd's Limited	ATL	United Kingdom
Motors Insurance Company Ltd.	MIC	United Kingdom
N.V. Nationale Borg-Maatscappij	NB	Netherlands
ANV Holdings B.V.	ANV	Netherlands

2. Significant Accounting Policies

Basis of Reporting — The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries. The Company uses the equity method of accounting for its investment in National General Holding Corp. (“NGHC”) in which it owns an approximate 12% ownership interest. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Premiums — Insurance premiums, except for certain specialty risk and extended warranty programs, are recognized as earned on the straight-line basis over the contract period. Insurance premiums on specialty risk and extended warranty programs are earned based on an estimated program coverage period. These estimates are based on the expected distribution of coverage periods by contract at inception, and because a single contract may contain multiple coverage period options, these estimates are revised based on the actual coverage period selected by the insured. Unearned premiums represent the portion of premiums written which is applicable to the unexpired term of the contract or policy in force. Premium adjustments on contracts and audit premiums are based on estimates made over the contract period. Premiums earned but not yet billed to insureds are estimated and accrued, net of related costs. These estimates are subject to the effects of trends in payroll audit adjustments. Although considerable variability is inherent in such estimates, management believes that the accrual for earned but unbilled premiums is reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The Company historically has used a percentage of premium for establishing its allowance for doubtful accounts. The Company reviews its bad debt write-offs at least annually and adjusts its premium percentage as required. Allowance for doubtful accounts were approximately $72,867 and $74,563 at December 31, 2016 and 2015, respectively.

Loss and Loss Adjustment Expenses — Loss and loss adjustment expenses (“LAE”) represent the estimated ultimate net costs of all reported and unreported losses incurred through December 31, 2016. The reserves for unpaid losses and LAE are estimated using individual case-basis valuations and statistical analysis and are not discounted. Although considerable variability is inherent in the estimates of reserves for losses and LAE, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

Investments — The Company accounts for its investments in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 320 Investments — Debt and Equity Securities, which requires that fixed-maturity and equity securities that have readily determined fair values be segregated into categories based upon the Company’s intention for those securities. In accordance with ASC 320, the Company has classified its fixed-maturities and certain equity securities as available-for-sale. The Company may sell its available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors. Available for sale fixed-maturity securities and equity securities are reported at their estimated fair values based on quoted market prices or a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of comprehensive income in stockholders’ equity. Additionally, the Company classified certain equity securities as trading securities. Unrealized gains and losses on trading securities are reported within realized gains and losses. Realized gains and losses are determined on the specific identification method.

Quarterly, the Company’s Investment Committee (“Committee”) evaluates each security that has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment (“OTTI”). The Committee uses a set of quantitative and

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Data)

qualitative criteria to review the Company's investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

- the current fair value compared to amortized cost;
- the length of time the security's fair value has been below its amortized cost;
- specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments;
- whether management intends to sell the security and, if not, whether it is not more than likely than not that the Company will be required to sell the security before recovery of its amortized cost basis;
- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings and, for equity securities, forecasted recovery in a reasonable period of time;
- the occurrence of a discrete credit event resulting in the issuer defaulting on material outstanding obligations or the issuer seeking protection under bankruptcy laws; and
- other items, including company management, media exposure, sponsors, marketing and advertising agreements, debt restructuring, regulatory changes, acquisitions and dispositions, pending litigation, distribution agreements and general industry trends.

Management uses judgment in determining the impact that any of the above facts may have on whether an impairment is temporary or not. The level of rigor used to evaluate a security for impairment depends on various factors, including the amount of impairment and length of time impaired. However, the Company generally considers a fixed maturity investment when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion or more) for over 24 months as rebuttable indications of other-than-temporary impairment. Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. The Company writes down investments immediately that it considers to be impaired based on the above criteria collectively.

Based on guidance in FASB ASC 320-10-65, in the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is not more than likely than not that such holder will be required to sell the debt security before recovery of its amortized cost basis, is required to separate the decline in fair value into (a) the amount representing the credit loss and (b) the amount related to other factors. The amount of total decline in fair value related to the credit loss shall be recognized in earnings as an OTTI with the amount related to other factors recognized in accumulated other comprehensive loss net loss, net of tax. In contrast, if an available-for-sale equity security is determined to be other-than-temporarily impaired, the unrealized loss is recorded in earnings. OTTI credit losses result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of the loss realization.

The Company also classified certain of its debt and equity securities as trading securities. Securities classified as trading securities are generally held for resale in anticipation of short-term market movement. Trading securities are stated at estimated fair market value. Gains and losses, both realized and unrealized, are included in the net realized gain or loss on investment on the Consolidated Statements of Income.

The Company has the following major types of investments:

(a) Cash, cash equivalents and restricted cash — Cash consists of uninvested balances in bank accounts. Cash equivalents consist of investments with original maturities of 90 days or less, primarily money market funds. Cash equivalents are carried at cost. Restricted cash consists of any cash or investment that is held for a specific purpose and therefore not available to the company for immediate or general business use.

(b) Short-term investments — Short term investments are carried at cost, which approximates fair value, and include investments with maturities between 91 days and less than 1 year at date of acquisition.

(c) Fixed maturities and equity securities, available-for-sale — Fixed maturities and equity securities (common stocks, mutual funds and non-redeemable preferred stock) are classified as available-for-sale and carried at fair value. Unrealized gains or losses on available-for-sale securities are reported as a component of accumulated other comprehensive income.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Data)

(d) Fixed maturity securities, trading - Fixed maturities classified as trading are carried at estimated fair market value. Gains and losses, both realized and unrealized, are reported in the net realized gain or loss on investment.

(e) Equity securities, trading — Equity securities classified as trading are carried at estimated fair market value. Gains and losses, both realized and unrealized, are reported in the net realized gain or loss on investment.

(f) Mortgage and asset backed securities — For mortgage and asset backed securities, the Company recognizes income using the retrospective adjustment method based on prepayments and the estimated economic life of the securities. The effective yield reflects actual payments to date plus anticipated future payments.

(g) Other investments - Other investments consist primarily of limited partnerships. Limited partnerships primarily includes investments in private equity limited partnerships and real estate partnerships. The Company applies the equity method of accounting for its investments in the majority of the limited partnerships in which its ownership interest of the limited partnership enables the Company to influence the operating or financial decisions of the investee company, but the Company's interest in the limited partnership does not require consolidation. The Company's proportionate share of equity in net income of these unconsolidated affiliates is reported in net investment income.

(h) Derivatives and hedging activities — The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio. Derivatives are financial arrangements among two or more parties with returns linked to an underlying equity, debt, commodity, asset, liability, foreign exchange rate or other index. Unless subject to a scope exclusion, the Company carries all derivatives on the consolidated balance sheet at fair value. For derivatives that do not qualify for hedge accounting, the changes in fair value of the derivative are presented as a component of operating income. The Company primarily utilizes interest rate swaps, which are valued in terms of the contract between the Company and the issuer of the swaps, are based on the difference between the stated floating rate of the underlying indebtedness, and a predetermined fixed rate for such indebtedness with the result that the indebtedness carries a net fixed interest rate.

(i) Securities sold under agreements to repurchase, at contract value — The Company from time to time invests in securities sold under agreements to repurchase, which are accounted for as collateralized borrowing transactions and are recorded at their contracted repurchase amounts, plus accrued interest. The Company minimizes the credit risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring exposure and collateral value and generally requiring additional collateral to be deposited with the Company when necessary.

Net investment income consists primarily of interest and dividends less expenses. Interest on fixed maturities, adjusted for any amortization of premium or discount, is recorded as income when earned. Investment expenses are accrued as incurred. Realized investment gains or losses are computed using the specific costs of securities sold, and, if applicable, include write-downs on investments having other-than-temporary declines in value.

Fair Value of Financial Instruments — The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 820 Fair Value Measurement. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. Additionally, valuation of fixed maturity investments is more subjective when markets are less liquid due to lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in the Level 1 hierarchy. The Company receives the quoted market prices from nationally recognized third-party pricing services (“pricing service”). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value. This pricing method is used, primarily, for fixed maturities. The fair value estimates provided by the pricing service are included in the Level 2 hierarchy. If the Company determines that the fair value estimate provided by the pricing service does not represent fair value or if quoted market prices and an estimate from pricing services are unavailable, the Company produces an estimate of fair value based on dealer quotations of the bid price for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, the Company will then determine if the estimate is Level 2 or Level 3 hierarchy.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

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Fixed Maturities. The Company utilizes a pricing service to estimate fair value measurements for all of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted market prices in active markets. Since fixed maturities other than U.S. treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements using relevant market data, benchmark curves, sector groupings and matrix pricing. The pricing service utilized by the Company has indicated it will produce an estimate of fair value only if there is verifiable information to produce a valuation. As the fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes, the estimates of fair value other than U.S. Treasury securities are included in Level 2 of the hierarchy. U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices. The Company’s Level 2 investments include obligations of U.S. government agencies, municipal bonds, corporate debt securities and other mortgage backed securities.

Equity Securities. The Company utilizes a pricing service to estimate the fair value of the majority of its available-for-sale and trading equity securities. The pricing service utilizes market quotations for equity securities that have quoted market prices in active markets and their respective quoted prices are provided as fair value. The Company classifies the values of these equity securities as Level 1. The pricing service also provides fair value estimates for certain equity securities whose fair value is based on observable market information rather than market quotes. The Company classifies the value of these equity securities as Level 2. The Company also holds certain equity securities that are issued by privately-held entities or direct equity investments that do not have an active market. The Company estimates the fair value of these securities primarily based on inputs such as third party broker quotes, issuers' book value, market multiples, and other inputs. These equity securities are classified as Level 3 due to significant unobservable inputs used in the valuation.

Other Investments. Other investments consist of certain private equity, limited liability partnerships and limited liability companies accounted for under the equity method of accounting.

Derivatives. The Company estimates fair value using information provided by a pricing service for interest rate swaps and classifies derivatives as Level 2 hierarchy.

Investment in Life Settlements — When the Company becomes the owner of a life insurance policy, the life insurance premium for such policy is accounted for as an investment in life settlements. Investments in life settlements are accounted for in accordance with ASC 325-30, Investments in Insurance Contracts, which states that an investor shall elect to account for its investments in life settlement contracts using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these investments using the fair value method. Fair value of the investment in policies is determined using unobservable Level 3 inputs and is calculated by performing a net present value calculation of the face amount of the life policies less premiums for the total portfolio. The unobservable Level 3 inputs use new or updated information that affects the Company's assumptions about remaining life expectancy, credit worthiness of the policy issuer, funds needed to maintain the asset until maturity, and discount rates.

Life Settlement Profit Commission — Investments in life settlements are accounted for in accordance with ASC 325-30, Investments in Insurance Contracts, and the Company has elected to account for its investment in life settlements using the fair value method. The Company retained a third party service provider to perform certain administration functions to effectively manage the life settlement contracts held by Tiger Capital, LLC and AMT Capital Holdings II S.A. and a portion of their fee was contingent on the overall profitability of the life settlement contracts. The Company accrued this contractually obligated profit commission on life settlements at fair value, in relation to life settlements purchased through this provider. This profit commission was calculated based on the discounted anticipated cash flows and the provisions of the underlying contract, and was settled with the third party administrator in 2016. In addition, the Company accrues a best estimate in relation to profit commission due on certain life settlement contracts acquired subsequent to December 31, 2010.

Warranty Fee Revenue — The Company promotes and markets extended service plans ("ESP") to consumers through retailers and certain other marketing organizations usually with terms of ESP coverage predominately ranging from one to five years, commencing at the expiration of the manufacturers' warranty, if applicable. The Company generally insures the obligations under ESPs through contractual liability insurance issued by one of its insurance company subsidiaries. In addition, under the terms of separate service agreements with various retailers, the Company provides for marketing and administrative services related to ESP. These service agreements are generally for one to five year terms and can be canceled by either party with thirty days' advance notice. The Company recognizes revenue related to administration services on a straight-line basis over the term of the ESP contracts. Warranty fee revenues are reported in service and fee income.

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Deferred Policy Acquisition Costs — The Company defers commission expenses, premium taxes and assessments as well as underwriting and safety inspection costs that vary with and are primarily related to the successful acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. The Company may realize deferred policy acquisition costs only if the ratio of loss and loss adjustment expense reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%, the Company could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve. The Company considers anticipated investment income in determining whether a premium deficiency relating to short duration contracts exists. Deferred acquisition costs are presented in the financial statements net of ceded deferred acquisition costs.

Reinsurance — Reinsurance premiums, losses and LAE ceded to other companies are accounted for on a basis consistent with those used in accounting for the original policies issued and pursuant to the terms of the reinsurance contracts. The Company records premiums earned and losses and LAE incurred and ceded to other companies as reductions of premium revenue and losses and LAE. The Company accounts for commissions allowed by reinsurers on business ceded as ceding commission, which is a reduction of acquisition of costs and other underwriting expenses. The Company earns commissions on reinsurance premiums ceded in a manner consistent with the recognition of the earned premium on the underlying insurance policies, on a pro rata basis over the terms of the policies reinsured. Reinsurance recoverables relate to the portion of reserves and paid losses and LAE that are ceded to other companies. Reinsurance does not discharge us from our primary liability to policyholders, and to the extent that a reinsurer is unable to meet its obligations, the Company would be liable. The Company continuously monitors the financial condition of prospective and existing reinsurers. As a result, the Company purchases reinsurance from a number of financially strong reinsurers. The Company will provide an allowance for reinsurance balances deemed uncollectible.

Ceding Commissions on Reinsurance Transactions — Ceding commissions on reinsurance transactions are commissions the Company receives from ceding gross written premiums to third party reinsurers. In connection with the Maiden Quota Share, which is the Company's primary source of ceding commissions, the amount the Company receives is a blended rate based on a contractual formula contained in the individual reinsurance agreements, and the rate may not correlate specifically to the cost structure of the individual segments. The ceding commissions the Company receives cover a portion of its capitalized direct acquisition costs and a portion of other underwriting expenses. Ceding commissions received from reinsurance transactions that represent recovery of capitalized direct acquisition costs are recorded as a reduction of capitalized unamortized deferred acquisition costs and the net amount is charged to expense in proportion to net premium revenue recognized. Ceding commissions received from reinsurance transactions that represent the recovery of other underwriting expenses are recognized in the income statement over the insurance contract period in proportion to the insurance protection provided and classified as a reduction of acquisition costs and other underwriting expenses. Ceding commissions received, but not yet earned, that represent the recovery of other underwriting expenses are classified as a component of accrued expenses and other current liabilities. The Company allocates ceding commissions to its segments based on each segment’s proportionate share of ceded unearned premium.

Assessments — Insurance related assessments are accrued in the period in which they have been incurred. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. The Company is subject to a variety of assessments, such as assessments by state guaranty funds and workers’ compensation second injury funds. State guaranty funds assessments are used by state insurance regulators to cover losses of policyholders of insolvent insurance companies and for the operating expenses of such agencies. The Company uses estimated assessment rates in determining the appropriate assessment expense and accrual. The Company uses estimates derived from state regulators and/or National Association of Insurance Commissioners (“NAIC”) Tax and Assessments Guidelines. Assessment expense for the years ended December 31, 2016, 2015 and 2014 was approximately $36,144, $25,866 and $23,205, respectively.

Business Combinations — The Company accounts for business combinations under the acquisition method of accounting, which requires the Company to record assets acquired, liabilities assumed and any non-controlling interest in the acquiree at their respective fair values as of the acquisition date in the Company's consolidated financial statements. The Company accounts for the insurance and reinsurance contracts under the acquisition method as new contracts, which requires the Company to record assets and liabilities at fair value. The Company adjusts the fair value loss and LAE reserves by recording the acquired loss reserves based on the Company’s existing accounting policies and then discounting them based on expected reserve payout patterns using a current risk-free rate of interest. This risk free interest rate is then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and the Company’s best estimate of the fair value of such reserves at the acquisition date is recorded either an intangible asset or another liability, as applicable, and amortized proportionately to the decrease in the acquired loss and LAE reserves over the payout period

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for the acquired loss and LAE reserves. The Company records contingent consideration at fair value based on the terms of the purchase agreement with subsequent changes in fair value recorded through earnings. The determination of fair value may require management to make significant estimates and assumptions. The purchase price is the fair value of the total consideration conveyed to the seller and the Company records the excess of the purchase price over the fair value of the acquired net assets, where applicable, as goodwill. The Company assigns fair values to intangible assets based on valuation techniques including the income and market approaches. The Company expenses costs associated with the acquisition of a business in the period incurred. The Company includes the results of operations of an acquired business in its consolidated financial statements from the date of the acquisition.

Goodwill and Intangible Assets — The Company accounts for goodwill and intangible assets in accordance with ASC 350 Intangibles — Goodwill and Other. Upon the completion of an acquisition, the Company completes purchase price accounting in accordance with ASC 805, Business Combinations, which requires an acquirer to assign values to the acquired assets and liabilities based on their fair value. In the event that a purchase price paid is in excess of the net assets acquired, any unidentified excess is deemed to be goodwill. Goodwill is not amortized. Additionally, as a result of an acquisition, the Company may obtain identifiable intangible assets. Indefinite lived intangible assets are not amortized. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets with an indefinite useful life are tested for impairment on an annual basis or more frequently if changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statement of operations. The Company tests for impairment of goodwill at the reporting unit level. The Company generally combines reporting units, which are a component of an operating segment when they have similar economic characteristics, nature of services, types of customer, distribution methods and regulatory environment. The Company had six reporting units as of December 31, 2016.

Property and Equipment — Property and equipment is recorded at cost. Maintenance and repairs are charged to operations as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, as follows:

Building	40 years
Equipment	5 to 7 years
Computer equipment and software	3 to 20 years (primarily 3 years)
Leasehold improvements	Lesser of lease term or 15 years

The Company accounts for its internal use software under ASC 350 Intangibles — Goodwill and Other. Accordingly, the Company capitalizes costs of computer software developed or obtained for internal use that is specifically identifiable, has determinable lives and relates to enhancements in functionality

Equalization reserves — The Company owns one Luxembourg-domiciled reinsurance entity. In connection with this entity, the Company acquired cash and equalization reserves of the reinsurance company. An equalization reserve is a catastrophe reserve established in excess of required reserves as established by the laws of Luxembourg. Equalization reserves are required to be established for Luxembourg statutory and tax purposes, but are not recognized under U.S. GAAP. The equalization reserves were originally established by the seller of the reinsurance entity, and under Luxembourg law allowed the reinsurance company to reduce its income tax paid.

Income Taxes — The Company files a consolidated United States income tax return for its eligible domestic subsidiaries. The Company's non-domestic subsidiaries file income tax returns in their respective local jurisdictions. As part of the U.S. consolidated income tax return filing, the Company is party to federal income tax allocation agreements amongst the includible entities. Under the tax allocation agreements, the Company pays to or receives from its subsidiaries the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return.

Deferred income taxes reflect the impact of "temporary differences" between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The deferred tax asset primarily consists of book versus tax differences for premiums earned, loss and loss adjustment expense reserve discounting, policy acquisition costs, and net operating losses. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income, primarily unrealized investment gains and losses, are recorded directly to other comprehensive income. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense.

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The Company recognizes deferred tax assets to the extent the Company believes that these assets are more likely than not to be realized. In assessing the more likely than not recoverability of deferred tax assets, management considers whether it is more likely than not that the Company will generate future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. If necessary, the Company establishes a valuation allowance to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

The Company recognizes tax benefits only for tax positions that are more likely than not to be sustained upon examination by taxing authorities. The Company’s policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. Primarily tax years 2013 through 2015 are still subject to examination. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

Foreign Currency — The Company assigns functional currencies to its foreign operations, which are generally the currencies of the local operating environment. Foreign currency amounts are remeasured to the functional currency and the resulting foreign exchange gains and losses are reflected in earnings. Functional currency amounts from the Company’s foreign operations are then translated into U.S. dollars. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of accumulated other changes in equity from nonowner sources. The foreign currency remeasurement and translation are calculated using current exchange rates for the items reported on the balance sheets and average exchange rates for items recorded in earnings.

Stock Compensation Expense — Stock-based compensation is measured using the fair value method of accounting. The measured cost is recognized over the period during which the recipient is required to provide service in exchange for the award. The Company estimates expected forfeitures when stock-based awards are granted and records compensation expense only for awards that are expected to vest. Share-based payments include restricted stock, restricted stock units, performance share units and stock option grants under the Company’s 2005 Equity Incentive Plan and 2010 Omnibus Incentive Plan. The Company estimates the fair value of options granted using the Black-Scholes option-pricing model, as further described in Note 19. “Share Based Compensation”.

Earnings Per Share — The Company accounts for earnings per share under the two-class method, as described in ASC 260, Earnings Per Share. Under the two-class method, earnings for the period are allocated between common stockholders and other stockholders based on their respective rights to receive dividends. Restricted stock awards granted to employees under the Company’s 2005 Equity Incentive Plan and 2010 Omnibus Incentive Plan are considered participating securities as they receive dividends on this stock. There were no restricted stock awards outstanding as of December 31, 2016. Additionally, the Company follows the treasury stock method related to its contingently convertible debt, as the Company has the ability to settle the conversion premium in either cash or stock. The Company had contingently convertible shares related to the 5.5% convertible senior notes due 2021 that were dilutive for the Company's earnings per share calculations in all periods presented.

Treasury Stock — The Company accounts for the treasury stock at the repurchase price as a reduction to stockholders’ equity.

Concentration and Credit Risk — Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, reinsurance recoverables, investments and premium receivable.

Investments are diversified through the types of investments, industry sectors and geographic regions. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and investments. At December 31, 2016 and 2015, the outstanding premium receivable balance is generally diversified due to the number of entities composing the Company’s customer base. To reduce credit risk, the Company performs ongoing evaluations of its customers’ financial condition. The Company also has receivables from its reinsurers. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. However, the Company limits this credit risk by holding funds, letters of credit, assets in trust or other security. The Company periodically evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. It is the policy of management to review all outstanding receivables at period end as well as the bad debt write-offs experienced in the past and establish an allowance for doubtful accounts, if deemed necessary.

Non-controlling Interest — The ownership interest in consolidated subsidiaries of non-controlling interests is reflected as non-controlling interest. The Company’s consolidation principles would also consolidate any entity in which the Company would be deemed a primary beneficiary. Non-controlling interest expense represents such non-controlling interests’ in the earnings of

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that entity. All significant transactions and account balances between the Company and its subsidiaries were eliminated during consolidation.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles 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. Such estimates and assumptions, which include the reserves for losses and loss adjustment expenses, are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with the recognition and amortization of deferred policy acquisition costs, the determination of fair value of invested assets and related impairments, and the determination of goodwill and intangible impairments and valuation of deferred tax assets require considerable judgment by management. On an on-going basis, management reevaluates its assumptions and the methods of calculating its estimates. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

Reclassifications — On December 15, 2015, the Company's Board of Directors declared a two-for-one stock split of the Company's common stock, in the form of a 100% stock dividend. All shareholders of record at the close of business on January 19, 2016 received one additional share of the Company's common stock for each share held on that date. The additional share of common stock was distributed to shareholders of record in the form of a stock dividend on February 2, 2016. As a result, the Company retrospectively adjusted all share and per share amounts in the accompanying consolidated financial statements and notes to the consolidated financial statements to apply the effect of the stock split.

Certain accounts in the prior years’ consolidated financial statements have been reclassified for comparative purposes to conform to the current year’s presentation. The effect of these reclassifications had no impact on previously reported shareholders' equity or net income.

Recent Accounting Pronouncements

Recent Accounting Standards, Adopted

In April 2015, the FASB issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance to determine whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The updated guidance is effective for reporting periods beginning after December 15, 2015, and can be adopted either prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively. The Company adopted this ASU on January 1, 2016. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which provides updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the recognized debt liability, consistent with the treatment of debt discounts.

Amortization of debt issuance costs is to be reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The Company adopted this ASU on January 1, 2016. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

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In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which provides amended guidance on a reporting entity's evaluation whether to consolidate certain legal entities. Specifically, the amendments will modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting entities, eliminate the presumption that a general partner should consolidate a limited partnership, affect the consolidation analysis of reporting entities with interests in VIEs, particularly those that have fee arrangements and related party relationships, and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The Company adopted this ASU on January 1, 2016. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In August 2014, the FASB issued guidance, Update No. 2014-15- Presentation of Financial Statements: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, to address the diversity in practice in determining when there is substantial doubt about an entity's ability to continue as a going concern and when an entity must disclose certain relevant conditions and events. The new guidance requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued). The new guidance allows the entity to consider the mitigating effects of management's plans that will alleviate the substantial doubt and requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans. If conditions or events raise substantial doubt that is not alleviated, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued), along with the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations and management's plans that are intended to mitigate those conditions. The updated guidance was effective for annual periods ending after December 15, 2016, and interim and annual periods thereafter. The adoption of this guidance did not have any effect on the Company's results of operations, financial position or liquidity.

ASU 2015-09, Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts. This ASU was issued to enhance disclosures about an entity’s insurance liabilities, including the nature, amount, timing and uncertainty of cash flows related to those liabilities. The new guidance requires the following information related to unpaid claims and claim adjustment expenses be disclosed using an appropriate level of disaggregation so as not to obscure useful information: (a) net incurred and paid claims development information by accident year for the number of years for which claims incurred typically remain outstanding, but need not exceed 10 years; (b) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses, with separate disclosure of reinsurance recoverable on unpaid claims for each period presented in the statement of financial position; (c) for each accident year presented, the total of incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses; (d) for each accident year presented, quantitative information about claim frequency accompanied by a qualitative description of methodologies used for determining claim frequency information; and (e) for all claims, the average annual percentage payout of incurred claims by age. The Company adopted ASU 2015-09 during 2016 and presents the required disclosures of this updated accounting standard in Note 13. "Short Duration Contracts," to these consolidated financial statements.

Recent Accounting Standards, Not Yet Adopted

In October 24, 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory. The ASU is part of the FASB's simplification initiative aimed at reducing complexity in accounting standards. The new guidance eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer's jurisdiction would also be recognized at the time of the transfer. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted.

In August 2016, due to divergent practices for reporting certain cash receipts and cash payments on the statement of cash flows, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update provides guidance and clarification for eight specific cash flow issues, which include debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate and bank owned life insurance policies, distributions received from equity-method investees, beneficial interests in securitization transactions, and

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separately identifiable cash flows and application of the predominance principle. The update takes effect for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity. In November 2016, due to divergent practices for the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flows, the FASB issued final guidance on (ASC) 230, Statement of Cash Flows, that will require entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. Entities will also have to disclose the nature of their restricted cash and restricted cash equivalent balances. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those years.

In June 2016, the FASB completed its Financial Instruments—Credit Losses project by issuing ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326). The new guidance requires organizations to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The new guidance affects loans, certain debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or a liability, and classification on the statement of cash flows. The updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of this ASU is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which improves the operability and understandability of the implementation guidance on principal versus agent considerations by clarifying that 1) an entity determines whether it is a principal or an agent for each specific good or service promised to the customer; 2) an entity determines the nature of each specific good or service; 3) when another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of (a) a good or another asset from the other party that it then transfers to the customer, (b) a right to a service that will be performed by another party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf, or (c) a good or service from the other party that is combined with other goods or services to provide the specific good or service to the customer; and 4) the purpose of the indicators in paragraph 606-10-55-39 in Topic 606 is to support or assist in the assessment of control. The effective date and transition requirement for this ASU are the same as the effective date and transition requirements of ASU 2014-09, which were deferred to the quarter ending March 31, 2018 by ASU 2015-14. Adoption of this ASU is not expected to have a material impact on the Company's insurance operations, but may have a material impact on the Company's non-insurance operations.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU requires lessees to put most leases on their balance sheets as a lease liability with a corresponding right-of-use asset, but continue to recognize the related leasing expense within net income. The definition of a lease was modified to exemplify the concept of control over an asset identified in the lease. Lease classification criteria remains substantially similar to criteria in current lease guidance. The guidance defines which payments can be used in determining lease classification. For short-term leases with a term of 12 months or less, lessees can make a policy election not to recognize lease assets and lease liabilities. Lessor accounting is largely unchanged. Leveraged leases that commenced before the effective date of the new guidance are grandfathered. New disclosures are required, and certain practical expedients are allowed upon adoption. This accounting and disclosure guidance will be effective for interim and annual reporting periods beginning after December 15, 2018 and should be implemented using the modified retrospective approach. Early adoption is permitted. The Company is currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

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In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically, the guidance (a) requires equity investments to be measured at fair value with changes in fair value recognized in earnings. However, an entity may choose to measure equity investments that do not have readily determinable fair value at cost minus impairment, if any, plus or minus changes resulted from observable price changes in orderly transactions for identical or similar investments of the same issuer, (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (c) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost, (d) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (e) requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option, (f) requires separate presentation of financial assets and liabilities by measurement category and form on the balance sheet or the notes to the financial statements, and (g) clarifies that the need for a valuation allowance on a deferred tax asset related to an available for sale security should be evaluated with other deferred tax assets. The updated guidance is effective for reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

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3. Restatement of Previously Issued Consolidated Financial Statements

In connection with the preparation, review and audit of the Company's consolidated financial statements required to be included in this Annual Report on Form 10-K for the year ended December 31, 2016, management identified certain errors in the Company's historical financial statements, resulting in a conclusion by the Audit Committee of the Company's Board of Directors, in consultation with management and the Company's current and former independent registered public accounting firms, that the Company's previously issued consolidated financial statements for fiscal years 2015 and 2014, along with each of the four quarters included in fiscal year 2015 as well as the first three quarters of fiscal year 2016, needed to be restated. This Note 3 to the consolidated financial statements discloses the nature of the restatement matters and adjustments and shows the impact of the restatement for the years ended December 31, 2015 and 2014. Restated unaudited quarterly financial data for the interim periods in fiscal years 2016 and 2015 is presented in Note 29 and is, collectively with the restated annual information, referred to as the Restatement.

The Restatement corrects errors primarily related to: (1) upfront recognition of the portion of warranty contract revenue associated with administration services, instead of recognizing the revenue over the life of the contract; and (2) bonuses that were expensed in the year paid but that should have been accrued as earned based on ASC 270, Interim Reporting, and ASC 450, Contingencies. The Company has also identified other adjustments described below in items (3) – (9) that have been corrected as part of this Restatement.

Adjustments needed to correct errors

(1) Warranty Fee Revenue – During the preparation of its financial statements for the year ended December 31, 2016, management became aware of a potential misapplication of the revenue recognition guidance in relation to its accounting for warranty contract revenue associated with promotion, marketing and administration services (collectively, "administration services") provided as part of extended service plans (“ESPs”). The Company has historically recognized the majority of revenue related to administration services at the time of the sale of ESP. However, the Company revised its application of the revenue recognition guidance to record revenue related to administration services on a straight-line basis over the term of the ESP contracts. This correction of an error, which created an overstatement of service and fee income and an overstatement of other expenses that were also recognized upfront in current periods, required a restatement of the Company’s previously issued financial statements.

(2) Accrual of Bonuses – In prior years, the Company had expensed discretionary bonuses paid to its employees in the year the bonuses were paid because the Company did not consider the discretionary bonuses to be “probable,” which is the standard required for accrual. Upon review of ASC 270, Interim Reporting, and ASC 450, Contingencies, management determined that its application was incorrect because, even though the bonuses were discretionary, the bonuses should have been estimated and expenses assigned to interim periods so that the interim periods bear a reasonable portion of the anticipated annual amount. This created an error resulting in an overstatement of acquisition costs and other underwriting expenses, requiring a restatement of the Company’s previously issued financial statements.

(3) Deferred Acquisition Costs – The Company corrected errors in its calculation of deferred acquisition costs related to (a) the over-amortization of certain deferred acquisition costs in 2015, resulting in an overstatement of expenses in 2015, (b) the capitalization of certain salaries and consulting fees that were not eligible for deferral, resulting in an understatement of expenses, (c) the treatment of certain costs in the Company's U.K. operations as both

underwriting expenses and salary and benefit expenses, resulting in the duplication of the amount capitalized and deferred, and (d) the inclusion of deferred warranty administration fees and obligor liabilities associated with the administration services provided to our ESPs.

(4) Foreign exchange gain/(loss) – The Company corrected errors related to the re-measurement of monetary balances denominated in foreign currencies into their functional currencies that were recorded as other comprehensive income. Given the monetary nature of some of these assets, the re-measurement impact should have been recorded as foreign currency transaction gain/(loss) in our income statements.

(5) Capitalized software – The Company capitalized certain internally developed software costs that did not meet criteria for deferral under ASC 350, Intangibles - Goodwill and Other. This error resulted in an over-capitalization of certain software expenses, and an understatement of expenses.

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(6) Imputed interest – The Company corrected an error related to interest imputed on contingent consideration owed as a result of certain business acquisitions, which resulted in an understatement of interest expense in 2015.

(7) Intercompany eliminations – The Company corrected an error related to internal brokerage commissions paid from one of its subsidiaries to another subsidiary, which should have been eliminated in consolidation, thereby causing an overstatement of commission income in 2015.

(8) Other Items – The Company corrected other errors that impacted the 2014 and 2015 consolidated financial statements, including unaccrued liabilities, uncollectible other receivables, accrued commissions, unrecognized amortization expense, unrealized loss on investments and proper year end cut-off related to premiums and claims.

(9) Balance Sheet Items – The Company historically recorded certain receivables (premium and other) net of commissions and now records the receivables on a gross basis, with the associated commission payable in other accrued expenses and liabilities. In addition, the Company corrected a classification error involving short term investments and cash/cash equivalents, and fixed assets and other investments in the Consolidated Balance Sheets.

The Restatement presents the effect of an adjustment to opening retained earnings and opening accumulated other comprehensive income as of January 1, 2014, which adjustment reflects the impact of the Restatement on periods prior to 2014. The cumulative effect of those adjustments decreased previously reported retained earnings by $97,927, increased accumulated other comprehensive income by $9,546 and decreased total stockholders' equity by $88,381 as of December 31, 2013. The table below summarizes the effects of the cumulative Restatement adjustments recorded to all periods prior to January 1, 2014 on previously reported retained earnings and accumulated other comprehensive income:

	December 31, 2013			
	As previously reported	Adjustments	As restated	Reference
Accumulated Other Comprehensive Income (Loss)	$(8,164)	$9,546	$1,382	4
Retained Earnings	584,996	(97,927)	487,069	1 – 8

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The following tables summarize the impact of the Restatement on our previously reported Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Stockholders' Equity and Consolidated Statements of Cash Flows for the years ending December 31, 2015 and 2014:

	Consolidated Balance Sheet December 31, 2015			
ASSETS	As previously reported (in thousands)	Adjustments	As restated	Reference
Investments:				
Fixed maturities, available-for-sale, at fair value (amortized cost $5,482,042)	$5,433,797	$—	$5,433,797	
Equity securities, available-for-sale, at fair value (cost $109,346)	104,497	—	104,497	
Equity securities, trading, at fair value (cost $26,937)	27,271	—	27,271	
Short-term investments	84,266	(67,095)	17,171	9
Equity investment in unconsolidated subsidiaries – related parties	138,023	—	138,023	
Other investments (related party $64,869)	99,012	7,164	106,176	8
Total investments	5,886,866	(59,931)	5,826,935	
Cash and cash equivalents	931,970	71,946	1,003,916	8, 9
Restricted cash and cash equivalents	380,699	—	380,699	
Accrued interest and dividends	51,487	—	51,487	
Premiums receivable, net	2,115,653	120,300	2,235,953	8, 9
Reinsurance recoverable (related party $1,963,140)	3,008,670	(1,293)	3,007,377	8
Prepaid reinsurance premium (related party $1,066,961)	1,531,866	—	1,531,866	
Other assets (related party $189,223; recorded at fair value $264,001)	1,401,775	75,231	1,477,006	1 – 9
Deferred policy acquisition costs	704,243	(10,604)	693,639	3
Property and equipment, net	281,456	(24,328)	257,128	5, 8, 9
Goodwill	432,700	—	432,700	
Intangible assets	367,345	—	367,345	
	$17,094,730	$171,321	$17,266,051	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Loss and loss adjustment expense reserves	$7,208,367	$—	$7,208,367	
Unearned premiums	4,014,728	(341)	4,014,387	8
Ceded reinsurance premiums payable (related party $379,988)	651,051	—	651,051	
Reinsurance payable on paid losses	9,789	—	9,789	
Funds held under reinsurance treaties	23,336	—	23,336	
Note payable on collateral loan – related party	167,975	—	167,975	
Securities sold but not yet purchased, at fair value	38,618	—	38,618	
Accrued expenses and other liabilities (recorded at fair value $93,940)	901,112	356,942	1,258,054	1, 2, 6, 8, 9
Debt (net of debt issuance cost of $16,902)	993,067	—	993,067	
Total liabilities	14,008,043	356,601	14,364,644	
Commitments and contingencies				
Redeemable non-controlling interest	1,172	—	1,172	

Stockholders’ equity:				
Common stock, $0.01 par value; 500,000 shares authorized, 196,455 issued; 175,915 outstanding	1,964	—	1,964	
Preferred stock, $0.01 par value; 10,000 shares authorized, 4,968 issued and outstanding; Aggregated liquidation preference $482,500	482,500	—	482,500	
Additional paid-in capital	1,383,492	—	1,383,492	
Treasury stock at cost; 20,540 shares	(162,867)	—	(162,867)	
Accumulated other comprehensive income (loss)	(130,262)	(3,130)	(133,392)	4
Retained earnings	1,334,233	(182,150)	1,152,083	1 – 8
Total AmTrust Financial Services, Inc. equity	2,909,060	(185,280)	2,723,780	
Non-controlling interest	176,455	—	176,455	
Total stockholders’ equity	3,085,515	(185,280)	2,900,235	
	$ 17,094,730	$ 171,321	$ 17,266,051	

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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

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	Consolidated Statement of Income Year ended December 31, 2015			
	As previously reported	Adjustments	As restated	Reference
	(in thousands, except per share)			
Revenues:				
Premium income:				
Net written premium	$4,260,058	$ 1,870	$4,261,928	8
Change in unearned premium	(238,331)	(2,356)	(240,687)	8
Net earned premium	4,021,727	(486)	4,021,241	
Ceding commission – primarily related party	—			
Service and fee income (related parties - $76,454)	478,206	(50,063)	428,143	1, 8
Net investment income	156,290	—	156,290	
Net realized gain on investments	8,117	—	8,117	
Total revenues	4,664,340	(50,549)	4,613,791	
Expenses:				
Loss and loss adjustment expense	2,682,208	5,910	2,688,118	8
Acquisition costs and other underwriting expenses (net of ceding commission - related party - $545,661)	979,502	14,069	993,571	2, 3, 5, 8
Other	466,759	6,494	473,253	1, 5, 7, 8
Total expenses	4,128,469	26,473	4,154,942	
Income before other (expense) income, provision for income taxes, equity in earnings of unconsolidated subsidiaries and non-controlling interest	535,871	(77,022)	458,849	
Other (expenses) income:				
Interest expense (net of interest income - related party - $8,701)	(48,052)	(7,303)	(55,355)	6
Loss on extinguishment of debt	(5,271)	—	(5,271)	
Gain on investment in life settlement contracts net of profit commission	19,844	—	19,844	
Foreign currency (loss) gain	43,260	4,041	47,301	4, 8
Gain on acquisition	5,826	—	5,826	
Gain of sale of subsidiary	—	—	—	
Total other (expenses) income	15,607	(3,262)	12,345	
Income before income taxes, equity in earnings of unconsolidated subsidiaries and non-controlling interest	551,478	(80,284)	471,194	
Provision for income taxes	66,341	(27,395)	38,946	1 – 8
Income before equity in earnings of unconsolidated subsidiaries	485,137	(52,889)	432,248	
Equity in earnings of unconsolidated subsidiary – (related parties)	25,385	—	25,385	
Net income	510,522	(52,889)	457,633	
Net (income) loss attributable to non-controlling interests and redeemable non-controlling interests of subsidiaries	(6,928)	—	(6,928)	
Net income attributable to AmTrust stockholders	$503,594	$ (52,889)	$450,705	
Dividends on preferred stock	(31,590)	—	(31,590)	
Net income attributable to AmTrust common stockholders	$472,004	$ (52,889)	$419,115	
Earnings per common share:				

Basic earnings per share	$2.86	$(0.32)	$2.54
Diluted earnings per share	$2.80	$(0.31)	$2.49
Dividends declared per common share	$0.55	$—	$0.55
Weighted average common shares outstanding - basic	165,042	—	165,042
Weighted average common shares outstanding - diluted	168,360	—	168,360

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	Consolidated Statement of Comprehensive Income Year Ended December 31, 2015			
	As previously reported (in thousands)	Adjustments	As restated	Reference
Net income	$510,522	$(52,889)	$457,633	
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(77,437)	(11,815)	(89,252)	4
Change in fair value of interest rate swap	621	—	621	
Minimum pension liability	2,686	—	2,686	
Unrealized (loss) gain on securities:				
Gross unrealized holding (loss) gain	(177,618)	6,509	(171,109)	8
Less tax (benefit) expense	(62,166)	2,278	(59,888)	8
Net unrealized holding (loss) gain	(115,452)	4,231	(111,221)	
Reclassification adjustment for investment gain (loss) included in net income, net of tax:				
Other-than-temporary impairment loss	4,315	—	4,315	
Other net realized (loss) gain on investments	(1,118)	—	(1,118)	
Reclassification adjustment for investment gain (loss) included in net income	3,197	—	3,197	
Other comprehensive (loss) income, net of tax	$(186,385)	$(7,584)	$(193,969)	
Comprehensive income	324,137	(60,473)	263,664	
Less: Comprehensive income (loss) attributable to non-controlling and redeemable non-controlling interest	6,928	—	6,928	
Comprehensive income attributable to AmTrust Financial Services, Inc.	$317,209	$(60,473)	$256,736	

	Consolidated Statement of Changes in Stockholders' Equity Year Ended December 31, 2015			
	As previously reported (in thousands)	Adjustments	As restated	Reference
Common stock	$1,964	$—	$1,964	
Preferred stock	482,500	—	482,500	
Additional paid-in capital	1,383,492	—	1,383,492	
Treasury Stock	(162,867)	—	(162,867)	
Accumulated other comprehensive income (loss)	(130,262)	(3,130)	(133,392)	4
Retained earnings	1,334,233	(182,150)	1,152,083	1 – 8
	$2,909,060	$(185,280)	$2,723,780	

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	Consolidated Statements of Cash Flows Year ended December 31, 2015			
	As previously reported (in thousands)	Adjustments	As restated	Reference
Cash flows from operating activities:				
Net income	$510,522	$(52,889)	$457,633	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	88,012	(3,584)	84,428	5
Net amortization of bond premium or discount	17,401	—	17,401	
Equity earnings on investment in unconsolidated subsidiaries	(25,385)	—	(25,385)	
Gain on investment in life settlement contracts, net	(19,844)	—	(19,844)	
Realized gain on marketable securities	(27,272)	—	(27,272)	
Non-cash write-down of marketable securities	19,155	—	19,155	
Non-cash write-down of goodwill	55,304	—	55,304	
Discount on notes payable	5,628	—	5,628	
Stock based compensation	22,763	—	22,763	
Loss on extinguishment of debt	5,271	—	5,271	
Bad debt expense	18,339	—	18,339	
Foreign currency (gain) loss	(43,260)	(4,041)	(47,301)	4, 8
Gain on sale of subsidiary	—	—	—	
Acquisition gain	(5,826)	—	(5,826)	
Dividend received from equity investment	984	—	984	
Changes in assets – (increase) decrease:				
Premiums and notes receivable	(304,088)	(92,822)	(396,910)	8, 9
Reinsurance recoverable	(570,163)	113	(570,050)	8
Deferred policy acquisition costs, net	(75,860)	11,483	(64,377)	3
Prepaid reinsurance premiums	(151,241)	—	(151,241)	
Prepaid expenses and other assets	(459,853)	(2,391)	(462,244)	1 – 9
Changes in liabilities – increase (decrease):				
Reinsurance premium payable	20,687	—	20,687	
Loss and loss expense reserves	1,440,388	—	1,440,388	
Unearned premiums	380,386	(2,673)	377,713	8
Funds held under reinsurance treaties	9,955	—	9,955	
Accrued expenses and other current liabilities	78,775	167,285	246,060	1, 2, 6, 8, 9
Net cash provided by operating activities	990,778	20,481	1,011,259	
Cash flows from investing activities:				
Purchases of fixed maturities, available-for-sale	(2,372,204)	5,092	(2,367,112)	4
Purchases of equity securities, available-for-sale	(87,190)	—	(87,190)	
Purchases of equity securities, trading	(207,379)	—	(207,379)	
Purchases of other investments	(72,554)	1,202	(71,352)	8
Sales, maturities, paydowns of fixed maturities, available-for-sale	1,208,102	—	1,208,102	
Sales of equity securities, available-for-sale	66,400	—	66,400	

Sales of equity securities, trading	207,992	—	207,992	
Sales of other investments	2,510	—	2,510	
Net sales of short term investments	4,224	67,095	71,319	9
Net sale of securities sold but not purchased				