AmTrust International Insurance

An AmTrust Financial Company

AmTrust International Insurance, Ltd.

Consolidated Financial Statements

For the Year Ended December 31, 2016

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Independent Auditor's Report

The Board of Directors
AmTrust International Insurance, Ltd.

We have audited the accompanying consolidated financial statements AmTrust International Insurance, Ltd. and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position AmTrust International Insurance, Ltd. and its subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
July 31, 2017

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED BALANCE SHEET
(In Thousands, Except Par Value per Share)

ASSETS		December 31, 2016
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost $3,125,405)	$	3,182,162
Equity securities, available-for-sale, at fair value (cost $186,948)		335,233
Other investments (related party $12,504)		78,791
Total investments		3,596,186
Cash and cash equivalents		252,043
Restricted cash		495,291
Accrued interest and dividends		23,520
Premiums receivable, net		1,959,692
Reinsurance recoverable (related party $2,452,242)		2,845,520
Prepaid reinsurance premium (related party $1,133,485)		1,245,098
Other assets (related party $405,053; recorded at fair value $225,030)		1,057,260
Due from affiliate		443,574
Deferred policy acquisition costs		468,896
Property and equipment, net		64,904
Goodwill		205,065
Intangible assets		223,240
	$	12,880,289
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss adjustment expense reserves	$	6,682,092
Unearned premiums		2,864,012
Ceded reinsurance premiums payable (related party $338,970)		573,501
Reinsurance payable on paid losses		1,113
Securities sold under agreements to repurchase, at contract value		160,270
Accrued expenses and other liabilities (recorded at fair value $29,695)		354,946
Debt		25,936
Total liabilities		10,661,870
Stockholders' equity:		
Common stock, $1 par value; 250 shares authorized, issued and outstanding in 2016		250
Additional paid-in capital		669,029
Accumulated other comprehensive income		30,584
Retained earnings		826,147
Total AmTrust International Insurance, Ltd. equity		1,526,010
Non-controlling interest		692,409
Total stockholders' equity		2,218,419
	$	12,880,289

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENT OF INCOME
(In Thousands)

	Year Ended December 31, 2016
Revenues:	
Premium income:	
Net written premium	$ 2,725,050
Change in unearned premium	(67,052)
Net earned premium	2,657,998
Service and fee income (related parties - $37,533)	71,387
Net investment income	95,922
Net realized gain on investments	24,309
Total revenues	2,849,616
Expenses:	
Loss and loss adjustment expenses	1,945,720
Acquisition costs and other underwriting expenses (net of ceding commission and administrative services) - related party $608,904)	708,698
Other	47,716
Total expenses	2,702,134
Income before other (expense) income, income taxes, and non-controlling interest	147,482
Other income (expenses):	
Interest expense (net of interest income - related party - $7,593)	(10,169)
Gain on investment in life settlement contracts net of profit commission	33,389
Foreign currency loss	(23,881)
Gain on acquisition	48,320
Total other income (expenses)	47,659
Income before income taxes and non-controlling interest	195,141
Income tax benefit	32,353
Net income	227,494
Net income attributable to non-controlling interests of subsidiaries	(187,943)
Net income attributable to stockholders	$ 39,551
Net realized gain on investments:	
Total other-than-temporary impairment losses	$ (29,478)
Portion of loss recognized in other comprehensive income	—
Net impairment losses recognized in earnings	(29,478)
Net realized gain on available for sale securities	50,020
Net realized gain on trading securities and other investment	3,767
Net realized gain on investments	$ 24,309

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31, 2016
Net income	$ 227,494
Other comprehensive income, net of tax:	
Foreign currency translation adjustments	(85,448)
Change in fair value of interest rate swap	(120)
Minimum pension liability	(5,198)
Unrealized gain on securities:	
Gross unrealized holding gain	190,344
Less tax expense	(52,594)
Net unrealized holding gain	137,750
Reclassification adjustment for investment gain included in net income, net of tax:	
Other-than-temporary impairment loss	23,038
Other net realized gain on investments	(50,020)
Reclassification adjustment for investment gain included in net income	(26,982)
Other comprehensive income, net of tax	$ 20,002
Comprehensive income	247,496
Less: Comprehensive income attributable to non-controlling interest	160,485
Comprehensive income attributable to AmTrust International Insurance, Ltd.	$ 87,011

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)
Year Ended December 31, 2016

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total AmTrust International Insurance, Ltd. Equity	Non-controlling Interest	Total Stockholder's Equity
Balance, December 31, 2015	$ 250	$ 294,029	$ (16,876)	$ 762,366	$ 1,039,769	556,154	$ 1,595,923
Net income	—	—	—	39,551	39,551	187,943	227,494
Foreign currency translation, net of tax	—	—	(42,724)	—	(42,724)	(42,724)	(85,448)
Change in fair value of derivative, net of tax	—	—	(60)	—	(60)	(60)	(120)
Minimum pension liability, net of tax	—	—	(2,599)	—	(2,599)	(2,599)	(5,198)
Unrealized holding gain on investments, net of tax	—	—	105,692	—	105,692	32,058	137,750
Reclassification adjustment for securities sold during the year, net of tax	—	—	(12,849)	—	(12,849)	(14,133)	(26,982)
Reduction in percentage ownership of subsidiary	—	—	—	24,230	24,230	(24,230)	—
Capital contribution from parent	—	375,000	—	—	375,000	—	375,000
Balance, December 31, 2016	$ 250	$ 669,029	$ 30,584	$ 826,147	$ 1,526,010	$ 692,409	$ 2,218,419

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In Thousands)

	Year Ended December 31, 2016
Cash flows from operating activities:	
Net income	$ 227,494
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	18,062
Net amortization of bond premium or discount	16,255
Gain on investment in life settlement contracts, net	(33,389)
Realized gain on marketable securities	(53,787)
Non-cash write-down of marketable securities	29,478
Non-cash write-down of goodwill	273
Bad debt expense	3,557
Foreign currency loss	23,881
Acquisition gain	(48,320)
Other non-cash changes in assets and liabilities	(36,266)
Net cash provided by operating activities	147,238
Cash flows from investing activities:	
Purchases of fixed maturities, available-for-sale	(1,264,707)
Purchases of equity securities, available-for-sale	(180,255)
Purchases of equity securities, trading	(218,604)
Purchases of other investments	(36,072)
Sales, maturities, paydowns of fixed maturities, available-for-sale	1,338,682
Sales of equity securities, available-for-sale	89,852
Sales of equity securities, trading	214,670
Sales of other investments	13,500
Net sales of short term investments	42,715
Net sale of securities sold but not purchased	—
Receipt of life settlement contract proceeds	38,247
Acquisition of subsidiaries, net of cash obtained	(216,397)
Increase in restricted cash and cash equivalents, net	(253,097)
Purchase of property and equipment	(29,389)
Net cash used in investing activities	(460,855)
Cash flows from financing activities:	
Repurchase agreements, net	160,270
Secured loan agreement borrowings	15,600
Financing fees	(278)
Contingent consideration payments	(12,088)
Non-controlling interest capital contributions to consolidated subsidiaries, net	6,000
Net cash provided by financing activities	169,504
Effect of exchange rate changes on cash	(16,387)
Net decrease in cash and cash equivalents	(160,500)
Cash and cash equivalents, beginning year	412,543
Cash and cash equivalents, end of year	$ 252,043
Supplemental Cash Flow Information	
Interest payments on debt	$ 4,563
Income tax payments	10,228

1. Nature of Operations

AmTrust International Insurance, Ltd. (the “Company” or "AII") is a class 3B insurance company formed under the laws of Bermuda. The company is a wholly-owned subsidiary of AmTrust Financial Services, Inc. ("AFS"), a company incorporated in the state of Delaware in the United States of America, which is listed on NASDAQ with the ticker symbol AFSI. The Company and its subsidiaries provide 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 transacts business primarily through six major insurance subsidiaries domiciled in Europe and one insurance subsidiary domiciled in the United States. The Company's major subsidiaries are:

Company	Abbreviation	Domiciled in
AmTrust Europe, Ltd.	AEL	United Kingdom
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
Rochdale Insurance Company	RIC	New York

In addition to third-party insurance, the Company also reinsures the underwriting activities of certain companies related through common ownership ("the AmTrust Ceding Insurers"). These companies write the same lines of business listed above and are:

Company	Abbreviation	Domiciled in
AmTrust Insurance Company of Kansas, Inc.	AICK	Kansas
AmTrust Title Insurance Company	ATIC	New York
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 Underwriters Insurance Company	RUIC	Texas
Security National Insurance Company	SNIC	Delaware
Sequoia Indemnity Company	SID	Nevada
Sequoia Insurance Company	SIC	California
Technology Insurance Company, Inc.	TIC	Delaware
Wesco Insurance Company	WIC	Delaware

During 2016, the Company also reinsured Comp Options Insurance Company and Springfield Insurance Company, which were merged into other existing AmTrust insurance companies prior to year end.

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 subsidiaries. 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 was approximately $13,163 at December 31, 2016.

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. Realized gains and losses are determined on the specific identification method.

Quarterly, the Company’s parent'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 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 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. 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.

(d) Other investments - Other investments consist primarily of investments in entities engaged in real estate investment activities. The Company applies the equity method of accounting for its investments in the majority of these entities in which its ownership interest 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.

(e) 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.

(f) 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.

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 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 predominantly of certain real estate investment entities 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 all its 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 — 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 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.

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.

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 year ended December 31, 2016 was $2,533.

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 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 two 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 a 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 under the laws of Luxembourg in excess of required reserves. 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's European subsidiaries file income tax returns in their respective local jurisdictions. The Company's parent, AFS, files a consolidated United States income tax return, which includes our US subsidiary. Additionally, the Company has elected under section 953(d) to be treated as a US taxpayer. As part of the consolidated U.S. 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 AFS' 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.

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.

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, 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 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.

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.

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.

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 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 2016-08, *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.

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.

In May 2015, the FASB issued ASU 2015-09, *Financial Services - Insurance (Topic 944): Disclosure about Short-Duration Contracts*, which provides certain new and additional disclosure requirements about the liability for unpaid claims and claim adjustment expenses associated with short-duration contracts as defined in Topic 944. Pursuant to the updated guidance, all insurance entities that issue short-duration contracts are required to disclose, among other things, incurred and paid claims development information, a reconciliation of such information to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses, and significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including the reasons for the change and the effects on the financial statements. The updated guidance is effective for reporting periods beginning after December 15, 2016, and should be applied retrospectively by providing comparative disclosures for each period presented, except for those requirements that apply only to the current period. The adoption of this guidance is limited to disclosure requirements and will not have a material impact on the Company's results of operations, financial position or liquidity.

(In Thousands, Except Per Share Data)

3. Investments

(a) Available-for-Sale Securities

The amortized cost, gross unrealized gains and losses, and the estimated fair value in fixed and equity securities of our securities classified as available-for-sale are presented in the tables below:

As of December 31, 2016	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 186,948	$ 149,183	$ (898)	$ 335,233
U.S. treasury securities	40,435	15	(93)	40,357
U.S. government agencies	24,298	126	(13)	24,411
Municipal bonds	57,748	562	(723)	57,587
Foreign government	124,170	4,094	(600)	127,664
Corporate bonds:				
Finance	801,569	23,368	(3,516)	821,421
Industrial	957,847	29,953	(6,717)	981,083
Utilities	105,553	2,773	(1,002)	107,324
Commercial mortgage backed securities	86,624	1,168	(1,882)	85,910
Residential mortgage backed securities:				
Agency backed	472,422	8,839	(4,172)	477,089
Non-agency backed	46,683	476	(829)	46,330
Collateralized loan / debt obligations	395,120	5,652	(648)	400,124
Asset backed securities	12,936	16	(90)	12,862
	$ 3,312,353	$ 226,225	$ (21,183)	$ 3,517,395

Proceeds from the sale of investments in available-for-sale securities during the year ended December 31, 2016 were approximately $1,428,534. Included in equities are investments in AFS common stock held at fair value.

A summary of the Company's available-for-sale fixed securities as of December 31, 2016, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2016	
	Amortized Cost	Fair Value
Due in one year or less	$ 197,263	$ 197,520
Due after one through five years	1,083,518	1,110,266
Due after five through ten years	775,471	796,573
Due after ten years	55,368	55,488
Mortgage and asset backed securities	1,013,785	1,022,315
Total fixed maturities	$ 3,125,405	$ 3,182,162

(In Thousands, Except Per Share Data)

OTTI charges of our fixed-maturities and equity securities classified as available-for-sale and other investments are presented in the table below for the year ended December 31, 2016:

	2016
Equity securities recognized in earnings	$ 20,670
Fixed maturity securities recognized in earnings	2,368
Other invested assets	6,440
	$ 29,478

A progression of the credit portion of other-than-temporary impairments on fixed maturity securities for which the non-credit portion of an impairment has been recognized in other comprehensive income for the year ended December 31, 2016 is shown in the table below:

	2016
Credit losses as of the beginning of the year	$ 9,911
Credit losses on securities for which an OTTI was not previously recognized	29,478
Reductions for securities sold, matured, or called	(8,961)
Credit losses as of the end of the year	$ 30,428

The tables below summarize the gross unrealized losses of our fixed maturity and 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	
As of December 31, 2016	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses
Common stock	$ 7,234	$ (323)	8	$ 3,056	$ (575)	14	$ 10,290	$ (898)
U.S. treasury securities	36,223	(93)	28	—	—	—	36,223	(93)
U.S. government agencies	5,800	(13)	14	—	—	—	5,800	(13)
Municipal bonds	28,770	(722)	35	28	(1)	1	28,798	(723)
Foreign government	65,276	(600)	34	—	—	—	65,276	(600)
Corporate bonds:								
Finance	259,410	(3,444)	191	2,960	(72)	4	262,370	(3,516)
Industrial	260,025	(4,737)	252	58,928	(1,980)	42	318,953	(6,717)
Utilities	15,315	(231)	14	8,820	(771)	3	24,135	(1,002)
Commercial mortgage backed securities	41,933	(1,255)	14	5,792	(627)	2	47,725	(1,882)
Residential mortgage backed securities:								
Agency backed	197,497	(4,172)	58	—	—	—	197,497	(4,172)
Non-agency backed	21,207	(829)	10	—	—	—	21,207	(829)
Collateralized loan / debt obligations	78,880	(338)	33	27,018	(310)	11	105,898	(648)
Asset-backed securities	3,566	(90)	12	—	—	—	3,566	(90)
	$ 1,021,136	$ (16,847)	703	$ 106,602	$ (4,336)	77	$ 1,127,738	$ (21,183)

(In Thousands, Except Per Share Data)

There are 780 securities at December 31, 2016 that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. At December 31, 2016, we have determined that the unrealized losses on fixed maturities were primarily due to market interest rate movements since their date of purchase. As of December 31, 2016, for the $4,336 of unrealized losses related to securities in unrealized loss positions for a period of twelve or more consecutive months, $753 of those unrealized losses were related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost.

The Company completes a detailed analysis each quarter to assess whether the decline in the fair value of any investment below its cost basis is deemed other-than-temporary. All securities with unrealized losses are reviewed. The Company considers many factors in completing its quarterly review of securities with unrealized losses for other-than-temporary impairment, including the length of time and the extent to which fair value has been below cost and the financial condition and near-term prospects of the issuer. For equity securities, the ability and intent to hold the security for a period of time sufficient to allow for anticipated recovery is considered. For fixed maturities, the Company considers whether it intends to sell the security or if it is more likely than not that it will be required to sell the security before recovery, the implied yield-to-maturity, the credit quality of the issuer and the ability to recover all amounts outstanding when contractually due.

For equity securities, a decline in fair value that is considered to be other-than-temporary is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security. For fixed maturities where the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, a decline in fair value is considered to be other-than-temporary and is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security. If the decline in fair value of a fixed maturity below its amortized cost is considered to be other-than-temporary based upon other considerations, the Company compares the estimated present value of the cash flows expected to be collected to the amortized cost of the security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security represents the credit-related portion of the other-than-temporary impairment, which is recognized in net income, resulting in a new cost basis for the security. Any remaining decline in fair value represents the non-credit portion of the other-than-temporary impairment, which is recognized in other comprehensive income (loss).

The net unrealized gains on available-for-sale securities for the year ended December 31, 2016 were as follows:

	2016
Fixed maturity securities	$ 56,757
Equity securities	148,285
Total net unrealized gain	205,042
Deferred income tax benefit (expense)	(66,765)
Cumulative net unrealized gain, net of tax	138,277
Increase in net unrealized gains, net of deferred income tax	$ 110,768

(In Thousands, Except Per Share Data)

(b) Investment Income

Net investment income for the year ended December 31, 2016 was derived from the following sources:

	2016
Fixed maturities, available-for-sale	$ 92,873
Equity securities, available-for-sale	2,800
Cash and short term investments	4,584
	100,257
Investment expenses and interest expense on securities sold under agreement to repurchase	(4,335)
	$ 95,922

Net investment income on fixed maturity securities classified as trading was immaterial for the year ended December 31, 2016.

(c) Realized Gains and Losses

The tables below summarize the gross realized gains and (losses) for the year ended December 31, 2016.

Year Ended December 31, 2016	Gross Gains	Gross Losses	Net Gains and (Losses)
Fixed maturities, available-for-sale	$ 67,963	$ (10,718)	$ 57,245
Equity securities, available-for-sale	5,795	(13,020)	(7,225)
Fixed maturity securities, trading	5,796	(1,184)	4,612
Equity securities, trading	10,600	(11,445)	(845)
Write-down of other invested assets	—	(6,440)	(6,440)
Write-down of fixed maturities, available-for-sale	—	(2,368)	(2,368)
Write-down of equity securities, available-for-sale	—	(20,670)	(20,670)
	$ 90,154	$ (65,845)	$ 24,309

There were no securities classified as trading at December 31, 2016.

(d) Derivatives

The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. The Company records changes in valuation on its derivative positions not designated as a hedge as a component of net realized gains and losses. The Company records changes in valuation on its hedged positions as a component of other comprehensive income. As of December 31, 2016, the Company had one interest rate swap agreement designated as a hedge that was recorded as a liability in the amount of $99 and was included as a component of accrued expenses and other liabilities.

(In Thousands, Except Per Share Data)

The following table presents the notional amounts by remaining maturity of the Company's interest rate swap as of December 31, 2016:

	Remaining Life of Notional Amount(1)				
	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years	Total
Interest rate swaps	$ —	$ 7,210	$ —	$ —	$ 7,210

(1) Notional amount is not representative of either market risk or credit risk and is not recorded in the consolidated balance sheet

(e) Restricted Cash and Investments

The Company, in order to conduct business in certain jurisdictions, is required to maintain letters of credit or assets on deposit to support mandated regulatory requirements and certain third party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets held are primarily in the form of cash or certain high grade securities. The fair values of our restricted assets as of December 31, 2016 are as follows:

	2016
Restricted cash	$ 495,291
Restricted investments	1,586,712
Total restricted cash and investments	$ 2,082,003

(f) Other

From time to time, the Company enters into repurchase agreements that are subject to a master netting arrangement, which are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities that it invests or holds in short term or fixed income securities. As of December 31, 2016, the Company had thirteen repurchase agreements with an outstanding principal amount of $160,270, which approximates fair value, at interest rates between 0.75% and 0.90%. The Company had approximately $175,700 of collateral pledged in support of these agreements. Interest expense associated with these repurchase agreements for the year ended December 31, 2016 was $554.

(In Thousands, Except Per Share Data)

4. Fair Value of Financial Instruments

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of December 31, 2016:

As of December 31, 2016	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$ 40,357	$ 40,357	$ —	$ —
U.S. government securities	24,411	—	24,411	—
Municipal bonds	57,587	—	57,587	—
Foreign government	127,664	—	124,086	3,578
Corporate bonds and other bonds:				
Finance	821,421	—	821,421	—
Industrial	981,083	—	976,043	5,040
Utilities	107,324	—	102,744	4,580
Commercial mortgage backed securities	85,910	—	85,910	—
Residential mortgage backed securities:				
Agency backed	477,089	—	455,907	21,182
Non-agency backed	46,330	—	46,330	—
Collateralized loan / debt obligations	400,124	—	400,124	—
Asset-backed securities	12,862	—	12,862	—
Equity securities, available-for-sale	335,233	309,405	25,400	428
Life settlement contracts	225,030	—	—	225,030
	$ 3,742,425	$ 349,762	$ 3,132,825	$ 259,838
Liabilities:				
Securities sold under agreements to repurchase, at contract value	160,270	—	160,270	—
Life settlement contract profit commission	941	—	—	941
Contingent consideration	28,655	—	—	28,655
Derivatives	99	—	99	—
	$ 189,965	$ —	$ 160,369	$ 29,596

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2016.

(In Thousands, Except Per Share Data)

The following table provides a summary of changes in fair value of the Company’s Level 3 financial assets and liabilities for the year ended December 31, 2016: The transfers into and out of Level 3 were due to changes in the availability of market observable inputs. All transfers are reflected in the table at fair value as of the end of the reporting period.

	Balance as of January 1, 2016	Net income (loss)	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into Level 3	Balance as of December 31, 2016
Equity securities, available-for-sale	36,915	(25,222)	4,947	1	(16,213)	—	428
Fixed maturities, available-for-sale	—	—	296	12,902	—	21,182	34,380
Life settlement contracts	175,585	94,692	—	—	(45,247)	—	225,030
Life settlement contract profit commission	(12,682)	(5,941)	—	—	17,682	—	(941)
Contingent consideration	(32,541)	54	—	(8,256)	12,088	—	(28,655)
Total	$ 167,277	$ 63,583	$ 5,243	$ 4,647	$ (31,690)	$ 21,182	$ 230,242

A reconciliation of net income for life settlement contracts to gain on investment in life settlement contracts net of profit commission included in the Consolidated Statements of Income for the year ended December 31, 2016 is as follows:

	2016
Net income	$ 94,692
Premium paid	(54,064)
Profit commission	(5,941)
Other expenses	(1,298)
Gain on investment in life settlement contracts	$ 33,389

The Company uses the following methods and assumptions in estimating its fair value disclosures for financial instruments:

- *Equity and Fixed Income Investments:* Fair value disclosures for these investments are disclosed elsewhere in Note 2. “Significant Accounting Policies”.
- *Cash and Cash Equivalents, Restricted Cash, and Short Term Investments:* The carrying value of cash and cash equivalents, restricted cash, and short term investments approximate their respective fair value and are classified as Level 1 in the fair value hierarchy.
- *Premiums Receivable, Accrued Interest, Reinsurance Recoverables:* The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values due to the short term nature of the asset and are classified as Level 1 in the financial hierarchy.

- *Debt:* The current fair value of the Company's debt arrangements was as follows:

	Carrying Value	Fair Value
Secured loan agreements	$ 25,936	$ 25,936

In determining the fair value of its debt, the Company uses estimates based on rates currently available to the Company for debt with similar terms and remaining maturities. Accordingly, the fair value of the other debt is classified as Level 2 within the valuation hierarchy. The Company considers its other debt's carrying value to approximate fair value as their interest rates approximate current borrowing rates.

- *Derivatives:* The Company classifies interest rate swaps as Level 2 hierarchy. The Company uses these interest rate swaps to hedge floating interest rates on its debt, thereby changing the variable rate exposure to a fixed rate exposure for interest on these obligations. The estimated fair value of the interest rate swaps, which is obtained from a third party pricing service, is measured using discounted cash flow analysis that incorporates significant observable inputs, including the LIBOR forward curve and a measurement of volatility.

- *Contingent Consideration*: The fair value of contingent consideration is based on a discounted cash flow methodology and is classified as Level 3 in the fair value hierarchy. The discount rate used for contingent consideration was 11%.

- *Life Settlement Contracts and Life Settlement Contract Profit Commission:* The fair value of life settlement contracts as well as life settlement profit commission liability is based on information available to the Company at the end of the reporting period. These financial instruments are classified as Level 3 in the fair value hierarchy. The Company considers the following factors in its fair value estimates: cost at date of purchase, recent purchases and sales of similar investments (if available and applicable), financial standing of the issuer, changes in economic conditions affecting the issuer, maintenance cost, premiums, benefits, standard actuarially developed mortality tables and life expectancy reports prepared by nationally recognized and independent third party medical underwriters. The Company estimates the fair value of policies in the portfolio based on the expected cash flow to be generated by the policies (death benefits less premium payments), discounted to reflect the cost of funding, policy specific adjustments and reserves. In order to confirm the integrity of their calculation of fair value, the Company, quarterly, retains an independent third-party actuary to verify that the actuarial modeling used by the Company to determine fair value was performed correctly and that the valuation, as determined through the Company's actuarial modeling, is consistent with other methodologies. The Company considers this information in its assessment of the reasonableness of the life expectancy and discount rate inputs used in the valuation of these investments.

The Company adjusts the standard mortality for each insured for the insured's life expectancy based on reviews of the insured's medical records and the independent life expectancy reports based thereon. The Company establishes policy specific reserves for the following uncertainties: improvements in mortality, the possibility that the high net worth individuals represented in its 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 contracts as no comparable market pricing is available. The application of the investment discount rate to the expected cash flow generated by the portfolio, net of the policy specific reserves, yields the fair value of the portfolio. The effective discount rate reflects the relationship between the fair value and the expected cash flow gross of these reserves.

The following summarizes data utilized in estimating the fair value of the portfolio of life insurance policies as of December 31, 2016 and, as described in Note 6. “Investments in Life Settlements”, only includes data for policies to which the Company assigned value at those dates:

		2016
Average age of insured		81.5
Average life expectancy, months [1]		114
Average face amount per policy (Amounts in thousands)	$	6,379
Effective discount rate [2]		12.4%

(1) Standard life expectancy as adjusted for specific circumstances.

(2) Effective discount rate (“EDR”) is the Company's estimated internal rate of return on its life settlement contract portfolio and is determined from the gross expected cash flows and valuation of the portfolio. The EDR is inclusive of the reserves and the gross expected cash flows of the portfolio. The Company anticipates that the EDR's range is between 10.0% and 15.0% and reflects the uncertainty that exists surrounding the information available as of the reporting date. As the accuracy and reliability of information improves (declines), the EDR will decrease (increase).

The Company's assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The fair value measurements used in estimating the present value calculation are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonably vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value amount. If the life expectancies were increased or decreased by 4 months and the discount factors were increased or decreased by 1% while all other variables are held constant, the carrying value of the investment in life insurance policies would increase or (decrease) by the unaudited amounts summarized below for the year ended December 31, 2016:

	Change in life expectancy	
	Plus 4 Months	Minus 4 Months
Investment in life policies:		
December 31, 2016	$ (33,851)	$ 34,941

	Change in discount rate [1]	
	Plus 1%	Minus 1%
Investment in life policies:		
December 31, 2016	$ (21,517)	$ 24,028

(1) Discount rate is a present value calculation that considers legal risk, credit risk and liquidity risk and is a component of EDR.

Non-recurring fair value measurements

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets and goodwill, which are recognized at fair value during the period in which an acquisition is completed, from updated estimates and assumptions during the measurement period, or when they are considered to be impaired. These non-recurring fair value measurements, primarily for intangible assets acquired, were based on Level 3 unobservable inputs. In the event of an impairment, the Company determines the fair value of the goodwill and intangible assets using a discounted cash flow approach or price to invested assets multiple, which contain significant unobservable inputs and therefore is considered a Level 3 fair value measurement. The unobservable inputs in the analysis generally include future cash flow projections and a discount rate. See Note 8. "Intangible Assets and Goodwill" for additional information on how the Company tests goodwill for impairment.

There were non-recurring fair value adjustments related to impairment of intangible assets of $1,100 during 2016 and non-recurring adjustments related to impairment to goodwill of $273 during the year ended December 31, 2016. Additionally, there were certain adjustments to the initial fair value estimates of the assets and liabilities assumed at the acquisition date (as disclosed in Note 5. "Acquisitions" to these consolidated financial statements) from updated estimates and assumptions during the measurement period. The measurement period may be up to one year from the acquisition date. The Company records any measurement period adjustments to the fair value of assets acquired and liabilities assumed, with the corresponding offset to goodwill.

(In Thousands, Except Per Share Data)

5. Acquisitions

The Company accounts for acquisitions pursuant to the acquisition method. In applying the acquisition method, the Company records the identifiable assets acquired and liabilities assumed at fair value and records the excess of the consideration paid over the value of the identified net assets acquired as goodwill. The Company assigns fair values to intangible assets based on valuation techniques including the income and market approaches.

The following significant acquisitions occurred during the year ended December 31, 2016:

ANV Holdings B.V.

On November 7, 2016, the Company completed the acquisition of ANV Holdings B.V. and its affiliates ("ANV") from Ontario Teachers' Pension Plan for approximately $203,277 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 addition, the Company now supports ANV's Funds at Lloyd's, which included replacing of Ontario Teachers' Pension Plan's participation.

A summary of the preliminary assets acquired and liabilities assumed for ANV are as follows:

Assets		
Cash and investments	$	415,968
Premium receivable		166,536
Accrued interest and dividends		635
Reinsurance recoverable		128,595
Other assets		145,527
Deferred tax assets		14,488
Goodwill and intangible assets		156,235
Total assets	$	1,027,984
Liabilities		
Loss and loss adjustment expense reserves	$	438,724
Unearned premiums		230,604
Deferred tax liabilities		17,066
Accrued expenses and other liabilities		138,313
Total liabilities	$	824,707
Acquisition price	$	203,277

The intangible assets consist primarily of syndicate capacity of $45,363, agency relationships of $32,000, software of $9,000 and trademarks of $3,000. The syndicate capacity has an indefinite life and other intangible asset lives range from three to fifteen years. The goodwill is not expected to be deductible for income tax purposes. As a result of this acquisition, the Company recorded approximately $85,033 of gross written premium and had net income of $6,656 during the year ended December 31, 2016. If the Company had acquired ANV at the beginning of the year, the Company would have recorded approximately $552,325 (unaudited) of gross written premium and a net loss of $26,717 (unaudited).

(In Thousands, Except Per Share Data)

Trust Risk Group

In conjunction with the settlement of a dispute with its former Italian medical liability broker, on July 20, 2016, the Company obtained renewal rights associated with all the in-force business produced by TRG prior to the termination of the brokerage and agency relationship and a non-compete agreement from TRG and related parties for a period of 3 years in exchange for €16,000 (or $17,694), as well as the release of a receivable balance due from TRG of €14,000 (or $15,483). The cash consideration at inception of the non-compete agreement was €13,000 (or $14,376), with the remainder of €3,000 (or $3,318) to be paid after a period of three years. In accordance with FASB ASC 805-10 *Business Combinations*, the Company recorded an acquisition price of €29,800 (or $32,956) for these agreements. The Company determined the fair value of the non-compete agreement to be €17,500 (or $19,353) and the life of the asset to be 3 years. The fair value of the renewal rights agreement was determined to be €12,000 (or $13,271) and to have a life of 4 years. The remaining amount of €300 (or $332) was determined to be goodwill and is not expected to be deductible for income tax purposes.

Nationale Borg

On May 31, 2016, the Company completed the acquisition of N.V. Nationale Borg-Maatscappij and its affiliates ("Nationale Borg") for €161,350 (or $179,583). 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.

A summary of the preliminary assets acquired and liabilities assumed for Nationale Borg are as follows:

Assets		
Cash and investments	$	216,801
Premium receivable		5,676
Accrued interest and dividends		83
Reinsurance recoverable		8,587
Other assets		14,733
Property and equipment		10,319
Goodwill and intangible assets		60,323
Total assets	$	316,522
Liabilities		
Loss and loss adjustment expense reserves	$	78,908
Unearned premiums		24,782
Accrued expenses and other liabilities		33,250
Total liabilities	$	136,940
Acquisition price	$	179,583

The intangible assets consist primarily of customer relationships, tradenames, licenses and software. The tradenames and licenses have an indefinite life and the customer relationships and software range from three to fifteen years. The goodwill is not expected to be deductible for income tax purposes. As a result of this acquisition, the Company recorded approximately $64,420 of gross written premium during the year ended December 31, 2016.

(In Thousands, Except Per Share Data)

Genworth

On May 9, 2016, the Company 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 $54,500.

A summary of the assets acquired and liabilities assumed for Genworth are as follows:

Assets		
Cash and investments	$	239,695
Reinsurance recoverable		27,570
Other assets		8,422
Property and equipment		964
Total assets	$	276,651
Liabilities		
Loss and loss adjustment expense reserves	$	84,463
Unearned premiums		76,308
Accrued expenses and other liabilities		13,060
Total liabilities	$	173,831
Acquisition price	$	54,500
Acquisition gain	$	48,320

The Company determined that the fair value of any intangible assets associated with the acquisition were immaterial. The Company anticipates completing its acquisition accounting in the first half of 2017. As a result of this acquisition, the Company recorded approximately $17,254 of gross written premium during the year ended December 31, 2016. Subsequent to acquisition the entity was renamed to AMT Mortgage Insurance Limited.

Other

The Company had additional immaterial acquisitions totaling approximately $47,833 during the year ended December 31, 2016. No individual acquisition or acquisitions in the aggregate were significant and, therefore, the Company is not required to include any pro forma financial information in this report.

6. Investment in Life Settlements

The Company has a 50% ownership interest in each of two entities (collectively, the “LSC Entities”) formed for the purpose of acquiring life settlement contracts, with a subsidiary of National General Holdings Corp. ("NGHC") owning the remaining 50%. The LSC Entities are: Tiger Capital LLC (“Tiger”) and AMT Capital Alpha, LLC (“AMT Alpha”).

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, the Company terminated an agreement with a third party administrator of the Tiger life settlement contract portfolio, 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 accrue the related profit commission on life settlements at fair value, in relation to life settlements purchased prior to December 31, 2010. This profit commission is calculated based on the discounted anticipated cash flows and the provisions of the underlying contract. The Company provides certain actuarial and finance functions related to the LSC Entities. In conjunction with the Company's approximate 6% ownership percentage of NGHC, the Company ultimately receives 53% of the profits and losses of the LSC Entities. As such, in accordance with ASC 810-10, *Consolidation,* the Company has been deemed the primary beneficiary and, therefore, consolidates the LSC Entities.

(In Thousands, Except Per Share Data)

The Company accounts 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. The Company has elected to account for these policies using the fair value method. The Company determines fair value based upon its 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 its 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 contracts as no comparable market pricing is available. The application of the investment discount rate to the expected cash flow generated by the portfolio, net of the policy specific reserves, yields the fair value of the portfolio. The effective discount rate reflects the relationship between the fair value and the expected cash flow gross of these reserves.

Total capital contributions of $12,000 were made to the LSC Entities during the year ended December 31, 2016, of which the Company contributed approximately $6,000. The LSC Entities used the contributed capital to pay premiums and purchase policies. The Company's investments in life settlements are reported at fair value and are included in other assets on the Consolidated Balance Sheet. The Company recorded a gain on investment on investment in life settlement contracts net of profit commission of approximately $33,389 for the year ended December 31, 2016 related to the life settlement contracts.

Premiums to be paid by the LSC Entities for each of the five succeeding fiscal years to keep the life insurance policies in force as of December 31, 2016, are as follows:

	Premiums Due on Life Settlement Contracts
2017	$ 49,542
2018	36,921
2019	37,478
2020	34,726
2021	32,504
Thereafter	445,993
	$ 637,164

The following tables describe the Company's investment in life settlements as of December 31, 2016:

(Amounts in thousands, except Life Settlement Contracts) Expected Maturity Term in Years	Number of Life Settlement Contracts	Fair Value [1]	Face Value
As of December 31, 2016			
0 – 1	—	$ —	$ —
1 – 2	1	6,995	10,000
2 – 3	6	36,835	58,000
3 – 4	1	2,277	10,000
4 – 5	3	6,456	26,000
Thereafter	193	172,467	1,170,783
Total	204	$ 225,030	$ 1,274,783

[1] The Company determined the fair value as of December 31, 2016 based on 186 policies out of 204 policies, as the Company assigned no value to 18 of the policies as of December 31, 2016. The Company estimates the fair value of a life insurance policy using a cash flow model with an appropriate discount rate. In some cases, the cash flow model calculates the value of an individual policy to be negative, and therefore the fair value of the policy is zero as no liability exists when a negative value is calculated. The Company is not contractually bound to pay the premium on its life settlement contracts and, therefore, would not pay a willing buyer to assume title of these contracts. Additionally, certain of the Company's acquired polices were structured to have low premium payments at inception of the policy term, which later escalate greatly towards the tail end of the policy term. At the current time, the Company expenses all premiums paid, even on policies with zero fair value. Once the premium payments escalate, the Company may allow the policies to lapse. In the event that death benefits are realized in the time frame between initial acquisition and premium escalation, it is a benefit to cash flow.

For these contracts where the Company determined the fair value to be negative and therefore assigned a fair value of zero, the table below details the amount of premiums paid and the death benefits received for the year ended December 31, 2016:

	2016
Number of policies with a negative value from discounted cash flow model	18
Premiums paid for the year ended	$ 2,640
Death benefit received	$ —

7. Deferred Policy Acquisition Costs

The following table reflects the amounts of policy acquisition costs deferred and amortized for the year ended December 31, 2016 as follows:

	2016
Balance, beginning of period	$ 382,837
Acquisition costs deferred	602,905
Amortization	(516,846)
Balance, end of period	$ 468,896

(In Thousands, Except Per Share Data)

8. Intangible Assets and Goodwill

The composition of goodwill and intangible assets is summarized as follows:

As of December 31, 2016	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$ 205,065	$ —	$ 205,065	Indefinite Life
Renewal rights	12,716	1,716	11,000	4 years
Distribution networks	40,004	4,717	35,287	5 to 15 years
Software	12,322	2,330	9,992	3 to 20 years
Customer relationships	85,106	22,500	62,606	5 to 15 years
Trademarks	2,951	167	2,784	3 years
Trademarks	4,205	—	4,205	Indefinite Life
Licenses	1,768	—	1,768	Indefinite Life
Use rights	79,680	—	79,680	Indefinite Life
Other	18,698	2,780	15,918	1 to 3 years
Total	$ 462,515	$ 34,210	$ 428,305	7 years average

The Company identifies reporting units for goodwill impairment testing in accordance with ASC 350-20-35 *Intangibles - Goodwill and Other*. 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. For the year ended December 31, 2016, the Company had two reporting units that it tested for goodwill impairment, which is tested as of October 1st. As a result of the impairment test, certain goodwill attributable to the Specialty Risk and Extended Warranty - Europe reporting unit was impaired for $273 in 2016, due to deterioration in a subsidiary's operating performance with which the goodwill was associated.

Goodwill added during 2016 resulted primarily from the acquisitions of Nationale Borg and ANV. A roll forward of the changes in cumulative goodwill impairment losses is below:

Balance as of December 31, 2015	
Goodwill	$ 253,947
Accumulated impairment losses	(182,222)
	71,725
Goodwill acquired	138,254
Goodwill impairment	(273)
Foreign currency translation	(4,641)
Balance as of December 31, 2016	
Goodwill	387,560
Accumulated impairment losses	(182,495)
	$ 205,065

(In Thousands, Except Per Share Data)

Finite lived intangible assets are generally amortized under the straight-line method, except for renewal rights, which the Company amortizes using a 125% accelerated method, and certain customer relationships, which are amortized based on cash flows associated with the respective customer relationships. Amortization expense for the year ended December 31, 2016 was $14,120. The estimated aggregate amortization expense for each of the next five years is:

2017	$	25,237
2018		24,536
2019		19,862
2020		13,648
2021		12,546

The Company historically had several Luxembourg-domiciled reinsurance entities, all of which have now been sold or merged into one entity. In connection with acquiring these reinsurance entities, the Company acquired cash and equalization reserves of the reinsurance companies. Additionally, goodwill was recorded as the difference between the acquisition price and the fair value of the net assets acquired. An equalization reserve is a catastrophe reserve in excess of required reserves established pursuant to Luxembourg law. Equalization reserves are required to be established for Luxembourg statutory and tax purposes, but are not recognized under U.S. GAAP. The equalization reserves originally established by the seller under Luxembourg law allowed the reinsurer to offset any taxable income. Equalization reserves are calculated on a line of business basis and are subject to a theoretical maximum amount, or cap, based on the expected premium volume described in the business plan of the reinsurance company as approved by the Luxembourg regulators and is subject to reassessment every five years. Each year, the Luxembourg reinsurer is required to adjust its equalization reserves by an amount equal to its statutory net income or net loss, determined based on premiums and investment income less incurred losses and other operating expenses.

The yearly adjustment of the equalization reserve generally results in zero pretax income on a Luxembourg statutory and tax basis, as follows: in a year in which the reinsurer's operations result in a statutory loss, the equalization reserves are taken down in an amount to balance the income statement to zero pretax income, and in a year in which the operations result in a gain, the equalization reserves are increased in an amount to balance the income statement to zero pretax income. If the reinsurer were to produce underwriting income in excess of the equalization reserve cap, or if the cap were to be reduced below the amount of the carried equalization reserves, the reinsurer would incur Luxembourg tax on the amount of such excess income or the amount by which the reserves exceeded the reduced cap, as applicable.

If a Luxembourg reinsurer can assume sufficient premium to maintain its equalization reserves or assume losses, which then reduce the equalization reserves, the reinsurer can permanently defer the income tax. Subsequent to the acquisition, the Company cedes premium and associated losses to the reinsurance companies through intercompany reinsurance arrangements. Provided the Company is able to cede business that generates a net loss to the reinsurance companies through intercompany reinsurance arrangements sufficient to offset the reinsurers' required reductions of the equalization reserves, Luxembourg would not, under laws currently in effect, impose any income, corporation or profits tax on the reinsurance companies. However, if the reinsurance companies were to cease reinsuring business without exhausting the equalization reserves, they would be taxed by Luxembourg at a rate of approximately 30%. As of December 31, 2016, the Company had approximately $52,968 of unutilized equalization reserves and associated deferred tax liability of approximately $15,890. Under its business plans currently in effect, the Company expects that the ceded losses and expenses net of reinsurance premiums paid under the intercompany reinsurance agreements will cause the equalization reserves to be fully utilized in three to five years subsequent to the acquisition of the Luxembourg reinsurer, at which point the deferred tax liability relating to the equalization reserves will be extinguished. The effects of these intercompany reinsurance agreements are appropriately eliminated in consolidation and did not impact the Company's gross and net loss reserves or loss ratio.

(In Thousands, Except Per Share Data)

9. Other Assets

As of December 31,	**2016**
Funds held with reinsurance companies (related party $215,618)	$ 369,351
Other receivables (related party $62,737)	226,990
Life settlement contracts	225,030
Loan receivable (related party $126,298)	126,453
Other	61,701
Deferred tax asset	27,899
Federal tax receivable	19,836
	$ 1,057,260

10. Property and Equipment, Net

As of December 31,	**2016**
Land	$ 1,688
Building	52,943
Software	4,405
Computer equipment	6,134
Other equipment	2,543
Leasehold improvements	7,093
	74,806
Less: Accumulated depreciation and amortization	(9,902)
	$ 64,904

Depreciation expense was $3,933 for the year ended December 31, 2016.

(In Thousands, Except Per Share Data)

11. Accrued Expenses and Other Liabilities

As of December 31,	2016
Accounts payable and other accrued expenses	$ 198,554
Deferred revenue	57,627
Premium taxes, assessments and surcharges payable	53,663
Contingent consideration	24,820
Commission payable	20,282
	$ 354,946

12. Loss and Loss Adjustment Expense Reserves

The following table provides a reconciliation of the beginning and ending balances for loss and loss adjustment expense reserves ("Loss and LAE"), reported in the accompanying consolidated balance sheet as of December 31, 2016:

	2016
Loss and LAE, gross of related reinsurance recoverables at beginning of year	$ 5,011,973
Less: Reinsurance recoverables at beginning of year	1,949,319
Net balance, beginning of year	3,062,654
Incurred related to:	
Current year	1,730,882
Prior year	214,838
Total incurred during the year	1,945,720
Paid related to:	
Current year	(693,339)
Prior year	(933,207)
Total paid during the year	(1,626,546)
Loss Portfolio Transfers	312,049
Acquired outstanding loss and loss adjustment reserves	458,836
Effect of foreign exchange rates	31,765
Net balance, end of year	4,184,478
Plus reinsurance recoverables at end of year	2,497,614
Loss and LAE, gross of related reinsurance recoverables at end of year	$ 6,682,092

In 2016 the Company’s liabilities for unpaid losses and LAE attributable to prior years increased by $214,838, primarily as a result of unfavorable loss development due to higher actuarial estimates based on actual losses in the business assumed from the AmTrust Ceding Insurers in their Small Commercial Business and Specialty Program lines of business. In the Small Commercial Business line of business, this adverse prior period development was driven primarily by commercial auto and general liability businesses, as well as increases to the AmTrust Ceding Insurers' non-California related workers' compensation prior selected ultimate losses, which were offset by prior selected ultimate losses for the California workers' compensation business assumed. In the AmTrust Ceding Insurers' Specialty Program line of business, the adverse prior period development was driven primarily by commercial auto and general liability programs (including public entity, habitational and non-admitted programs). The percentage of the Company's unpaid losses and LAE related to IBNR was 50.9% as of December 31, 2016. In setting its reserves, the Company utilizes a combination of Company loss development factors and industry-wide loss development factors. In the event that the Company's losses develop more favorably (adversely) than the industry, as a whole, the Company's liabilities for unpaid losses and LAE should decrease (increase). The Company's management believes that its use of both its historical experience and industry-wide loss development factors provide a reasonable basis for estimating future losses. In either case, future events beyond the control of management, such as changes in law, judicial interpretations of law, and inflation may favorably or unfavorably impact the ultimate settlement of the Company's Loss and LAE.

(In Thousands, Except Per Share Data)

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While the Company considers anticipated changes in claim costs due to inflation in estimating the ultimate claim costs, the increase in average severity of claims is caused by a number of factors that vary with the individual type of policy written. The Company projects future average severities based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. The Company monitors those anticipated trends based on actual development and makes modifications, if necessary.

13. Debt

The Company's outstanding debt consisted of the following at December 31, 2016:

As of December 31,	2016
Secured loan agreements	$ 25,936

Aggregate scheduled maturities of the Company's outstanding debt at December 31, 2016 are:

2017	$ 213
2018	478
2019	492
2020	506
2021	9,504
Thereafter	14,743
Total scheduled payments	$ 25,936

Secured Loan Agreements

On April 6, 2016, the Company through a subsidiary, entered into a five-year secured term loan agreement with Lloyd's Bank PLC in the aggregate amount of £7,800 (or $11,028) to finance the purchase of a commercial office building in Nottingham, U.K. The loan bears a variable rate of interest based on LIBOR plus a margin and was 2.83% as of December 31, 2016. The Company had deferred financing costs of £78 (or $114) related to the term loan. The mortgage requires quarterly principal payments of £30 and interest for the term of the loan with the remaining principal to be paid at maturity. The Company recorded interest expense, including amortization of the deferred origination costs and fees associated with the loan agreement, of approximately $236 for the ended December 31, 2016, respectively. Pursuant to a covenant in the agreement, if the loan exceeds 70% of the fair value of the property, the Company is required to pay the lender the entire amount necessary to reduce the outstanding principal balance to be equal to or less than 70% of the fair value of the building.

(In Thousands, Except Per Share Data)

The Company, through a wholly-owned subsidiary, entered into a ten-year mortgage agreement in the aggregate principal amount of $6,000 to finance the purchase of a building on July 7, 2016. The mortgage bears interest at an annual rate equal to 4.41% and matures on August 1, 2026. The mortgage does not require monthly installments of principal until September 2017, but will require monthly principal payments thereafter. The final monthly payment will equal the then outstanding principal balance of the mortgage, together with all accrued and unpaid interest. The Company recorded interest expense of approximately $115 for the year ended December 31, 2016.

On September 18, 2015, the Company, through a subsidiary, entered into a seven-year mortgage agreement in the aggregate principal amount of $10,250 to finance the purchase of a building. The mortgage bears interest at an annual rate equal to 3.75% and matures on September 18, 2022, with an option to extend the maturity date for an additional five years. The mortgage does not require monthly installments of principal until November 2017, but will require monthly principal payments thereafter. The final monthly payment will equal the then outstanding principal balance of the mortgage, together with all accrued and unpaid interest. The Company recorded interest expense of approximately $391 for the year ended December 31, 2016.

Additionally, the Company utilizes various letters of credit in its operations. The following is a summary of the Company's letters of credit as of December 31, 2016:

	Letters of Credit Limit	Letters of Credit Outstanding	Letters of Credit Available
Revolving credit facility [1]	$ 175,000	$ 173,609	$ 1,391
Funds at Lloyd's facility, in USD equivalent	634,738	629,999	4,739
ING Bank N.V. and Deutsche Bank Netherlands N.V. facilities, in USD equivalent	80,774	62,106	18,668
UniCredit Bank facility	100,000	100,000	—
Other letters of credit, in aggregate	101,833	101,833	—

[1] Letters of credit outstanding includes $9,673 in letters of credit issued to AFS.

Revolving Credit Agreement

On September 12, 2014, AFS entered into a five-year, $350,000 credit agreement (the “Credit Agreement”), among JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and SunTrust Bank, as Co-Syndication Agents, Lloyd's Bank PLC and Associated Bank, as Co-Documentation Agents and the various lending institutions party thereto. The credit facility is a committed, revolving syndicated credit facility with a letter of credit sublimit of $175,000 and an expansion feature of not more than an additional $150,000. The Credit Agreement is available to the Company and has a maturity date of September 12, 2019.

The Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. There are also financial covenants that require AFS to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum consolidated fixed charge coverage ratio and a minimum consolidated risk-based capital. AFS was in compliance with all of its covenants as of December 31, 2016.

As of December 31, 2016, the Company had no borrowings and $163,936 letters of credit outstanding under this Credit Agreement. Together with AFS' borrowings of $130,000 and $9,673 letters of credit outstanding, the total availability for letters of credit was reduced to $1,391, and the total aggregate availability under the facility to $46,391.

Borrowings under the Credit Agreement bear interest at either the Alternate Base Rate or the LIBO rate. Borrowings bearing interest at a rate determined by reference to the Alternate Base Rate will bear interest at (x) the greatest of (a) the administrative agent's prime rate, (b) the federal funds effective rate plus 0.5%, or (c) the adjusted LIBO rate for a one-month interest period on such day plus 1.0%, plus (y) a margin ranging from 0.125% to 0.625%, adjusted on the basis of the Company's consolidated leverage ratio. Eurodollar borrowings will bear interest at the adjusted LIBO rate for the interest period in effect plus a margin ranging from 1.125% to 1.625%, adjusted on the basis of the Company's consolidated leverage ratio. The interest rate on the outstanding borrowings under this credit facility as of December 31, 2016 range from 1.563% to 3.625%.

Fees payable by the Company under the Credit Agreement include a letter of credit participation fee (equal to the margin applicable to Eurodollar borrowings), a letter of credit fronting fee with respect to each letter of credit (0.125%) and a commitment fee on the available commitments of the lenders (a range of 0.15% to 0.25% based on the Company's consolidated leverage ratio) of 0.175% as of December 31, 2016.

Interest expense, including amortization of the deferred origination costs and fees associated with the letters of credit under the Credit Agreement was approximately $402 for the year ended December 31, 2016.

Funds at Lloyd's Facility

On November 3, 2016, the Company, AFS as Guarantor, and certain of its subsidiaries entered into an Amending and Restating Agreement ("Funds at Lloyd's Facility") relating to its existing £300,000 (or $369,750) credit facility agreement ("Preceding Credit Facility") dated November 24, 2015 with ING Bank N.V., London Branch, the Bank of Nova Scotia, London Branch and Bank of Montreal, London Branch. The amended and restated Funds at Lloyd's Facility increased the maximum amount of the letter of credit facility to £515,000 (or $634,738) to be used to support the Company's 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. ING Bank's commitment is £205,000 (or $252,663), the Bank of Nova Scotia's commitment is £180,000 (or $221,850) and the Bank of Montreal's commitment is £130,000 (or $160,225) under the Funds at Lloyd's Facility. The Company recorded total interest expense of $4,484 for the year ended December 31, 2016 under the Funds at Lloyds Facility and Preceding Credit Facility.

The terms and conditions under the Funds at Lloyd's Facility are substantially the same as those under the Preceding Credit Facility. The Funds at Lloyd's Facility contains customary covenants for facilities of this type, including restrictions on indebtedness and liens, limitations on mergers, transactions with affiliates and the sale of assets, and requirements to maintain certain consolidated net worth, leverage and fixed charge coverage ratios. The Funds at Lloyd's Facility also provides for customary events of default, including, without limitation, failure to pay principal, interest or fees when due, failure to comply with certain covenants, any representation or warranty made by the Company being false or misleading in any material respect, default under certain other indebtedness, certain insolvency or receivership events affecting the Company and its subsidiaries, the occurrence of certain material judgments, or a change in control of the Company or its subsidiaries party to the Funds at Lloyd's Facility. Upon an event of default, the lender may immediately terminate its obligations to issue letters of credit, declare the Company's obligations under the Funds at Lloyd's Facility to become immediately due and payable, and require the Company to deposit collateral with a value equal to 100% of the aggregate face amount of any outstanding letters of credit consisting of cash or other specified collateral including time deposits, certificates of deposit, money market deposits and U.S. government securities subject to varying advance rates.

The facility is 35% secured by a pledge of a collateral account established in the United States pursuant to a pledge and security agreement and in the United Kingdom pursuant to Account Security Agreements dated as of November 26, 2013, November 24, 2015, April 14, 2016 and November 3, 2016. In addition to an event of default as discussed above, the collateral account will be required to be 100% funded upon the occurrence of certain specified events, including the A.M. Best financial strength rating of the Company falling below A-, the forecast underwriting losses exceeding a certain level for any year supported by a letter of credit, or any non-extension notice is given with respect to any letter of credit.

Fees payable by the Company under the Funds at Lloyd's Facility include a letter of credit issuance fee, payable quarterly in arrears, on the secured portion of the letters of credit at the rate of 0.50% and on the unsecured potion of the letters of credit determined based on the Company's then-current financial strength rating issued by A.M. Best. As of December 31, 2016, the applicable letter of credit fee rate on the unsecured portion was 1.15% based on the Company's A.M. Best financial strength rating of "A". The Company also pays a commitment fee of 0.35% per year on the aggregate unutilized and un-canceled amount of the facility.

In March 2017, the Company determined that it was in breach of a financial covenant under the Funds at Lloyd's Facility because certain forecast losses in respect of the 2013 year of account of Syndicate 2526 exceeded certain thresholds specified in the Funds at Lloyd's Facility. In March 2017, the Company obtained a prospective and retroactive waiver of such breach from the lenders under the Funds at Lloyd's Facility.

Other Letters of Credit Facilities and Standby Letters of Credit

Through the Company's acquisition of Nationale Borg, the Company assumed Nationale Borg's existing credit facilities with Deutsche Bank AG, BHF Bank AG and ING Bank N.V. 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. See Note 5. "Acquisitions" elsewhere in this report for a description of this transaction. The credit limit under these facilities is approximately €76,803 (or $80,774). The credit facilities were utilized for €59,053 (or $62,106) as of December 31, 2016. The Company recorded total letter of credit interest expense of $486 for the year ended December 31, 2016. As a result of a change in organizational structure within the Company and an internal reinsurance agreement, Nationale Borg was in breach of minimum net worth/solvency covenants contained in both the Deutsche Bank AG and ING Bank N.V. credit facilities as of December 31, 2016. Nationale Borg's withdrawal of its S&P rating on February 28, 2017 was another event of default in the Deutsche Bank AG facilities. Nationale Borg requested waivers from both lenders as well as amendments to remedy future breaches. ING Bank N.V. provided a waiver and amendment as of February 17, 2017 and Deutsche Bank AG provided a waiver and amendment as of March 21, 2017. In addition, the Company assumed other bank guarantees totaling approximately €269 (or $283).

The Company has an unsecured letter of credit facility with UniCredit Bank that it utilizes to support its collateral posting requirements to its affiliate ceding insurance subsidiaries. The credit limit is $100,000, all of which was utilized as of December 31, 2016.

In addition, the Company, through certain subsidiaries, has additional existing stand-by letters of credit with various lenders in the amount of $101,550 as of December 31, 2016.

Interest expense as well as applicable bank fees, related to the Company's outstanding debt and letters of credit for the year ended December 31, 2016 was:

(In Thousands, Except Per Share Data)

	Year Ended December 31, 2016
Secured loan agreements	$ 742
Revolving credit facility	402
Funds at Lloyd's facility	4,484
Other, including interest income	4,541
Total	$ 10,169

Waivers Related to Restatement and Other Matters

The Company's parent, AFS, failed to timely file their 10-K for the year ended December 31, 2016. This was the result of both a change in auditor as well as a restatement of prior year financial statements. In connection with the restatement and late filing, the Company obtained waivers in March 2017 from the required lenders under each of its credit facilities and secured loan agreements that the Company determined that an event of default had occurred as a result of AFS' restatement and its failure to timely file their form 10-K, including as a result of any related cross defaults, other than noted above under "– Secured Loan Agreements." Such waivers provided a waiver of all known defaults or events of default under such credit facilities and secured loan agreements, including one or more of the following, as applicable, (i) the occurrence of any defaults and events of default arising from the breach of representations, warranties and covenants contained in certain of the Company's credit facilities due to the restatement of AFS' historical financial statements and related certifications in respect of fiscal years ended December 31, 2015 and 2014, and the quarterly periods in 2016 and the delay in filing their Form 10-K for the fiscal year ended December 31, 2016, (ii) the occurrence of any cross default that may have arisen from events of default under the Company's other indebtedness as a result of the restatement and failure to timely deliver the Form 10-K and the failure to obtain a waiver from the lenders under certain other credit facilities, (iii) the occurrence of any cross default that may have arisen from an event of default under Nationale Borg's credit facilities with Deutsche Bank AG, due to past breaches of certain financial ratios and rating requirements that are no longer applicable and for which waivers have been received, (iv) the occurrence of any cross default that may have arisen from an event of default under the Funds at Lloyd's Facility, due to past breaches of a financial covenant that is no longer applicable and for which a prospective and retroactive waiver has been received, and (v) any failure to deliver notices in connection with any of the foregoing.

14. Reinsurance

The Company structures its reinsurance programs by analyzing its 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. The Company generally purchases reinsurance to reduce its net liability on individual risks and to protect against catastrophe losses and volatility. The Company retains underwriting risk in certain lines of business in order to capture a greater proportion of expected underwriting profits. The Company has chosen not to purchase any reinsurance on businesses where volatility or catastrophe risks are considered remote and policy limits are within its risk tolerance.

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

In its proportional reinsurance programs, the Company generally receives a commission on the premium ceded to reinsurers. This “ceding commission” compensates the Company's 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 the Company's reinsurance treaties allow it 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 the Company's behalf and are compensated, directly or indirectly, by the reinsurers. The Company also places reinsurance with direct reinsurance markets and enters 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 its exposure to reinsurance credit risk, the Company evaluates the financial condition of its reinsurers and places its reinsurance with a diverse group of companies and syndicates that it believes to be financially sound. The Company carefully monitors the credit quality of its reinsurers when the Company places new and renewal reinsurance, as well as on an ongoing, current basis. The Company uses objective criteria to select and retain its reinsurers, including requiring minimum surplus of $500,000 and a financial strength rating of “A-” or better from A.M. Best Company, Inc. or Standard & Poor's Corporation. The Company approves exceptions to these criteria when warranted.

The Company monitors its financial exposure to the reinsurance market and takes necessary actions in an attempt to mitigate its exposure to possible loss. The Company limits its 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 its consolidated balance sheets. The Company monitors the collectability of its reinsurance recoverables and records a reserve for uncollectible reinsurance when it determines an amount is potentially uncollectible. The Company's evaluation is based on its periodic reviews of its disputed and aged recoverables, as well as its assessment of recoverables due from reinsurers known to be in financial difficulty. In some cases, the Company makes estimates as to what portion of a recoverable may be uncollectible. The Company's 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.

(In Thousands, Except Per Share Data)

Reinsurance Programs and Retentions

The following tables provide a summary of the Company's primary reinsurance programs as of December 31, 2016 for our European and American subsidiaries:

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

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

If the Company incurs catastrophe losses and loss settlement expenses that exceed the coverage limits of its reinsurance program, many of its property catastrophe programs have built in a fixed number of reinstatement of limits. For example, if the Company incurs a property catastrophe loss, it is 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.

During 2007, the Company entered into a master agreement with Maiden, as amended, by which the Company and Maiden Reinsurance entered into a quota share reinsurance agreement, as amended (the “Maiden Quota Share”). Additionally, the Company reinsures the underwriting activities of the US-domiciled insurance entities in Note 1. "Nature of Operations." For a description of the Maiden Quota Share as well as the reinsurance agreements with companies under common ownership, see Note 15. "Related Party Transactions."

(In Thousands, Except Per Share Data)

The effect of reinsurance with related and unrelated companies on premiums and losses for 2016 are as follows:

	Year Ended December 31, 2016	
	Written	**Earned**
Premiums:		
Direct	$ 1,891,295	$ 1,835,574
Assumed	2,987,529	2,927,866
Ceded	(2,153,774)	(2,105,442)
	$ 2,725,050	$ 2,657,998

	As of December 31, 2016	
	Assumed	**Ceded**
Loss and LAE reserves	$ 3,822,155	$ (2,497,614)
Unearned premiums	1,476,391	(1,245,098)
Loss and LAE expense incurred	2,267,067	(1,372,135)

The Company continuously updates the reserves on these lines of business based on information available from the ceding insurers. During 2016, the Company had $4,746 of commutations that were included in ceded reinsurance treaties.

15. Related Party Transactions

Significant Transactions with AmTrust Financial Services, Inc.

Reinsurance Agreements and Assets in Trust

The Company reinsures the underwriting activities of certain companies related through common ownership ("the AmTrust Ceding Insurers"), net of unaffiliated inuring reinsurance. The AmTrust Ceding Insurers provide 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 in the United States. These reinsurance agreements are collateralized by assets in trust accounts, funds withheld, or letters of credit. The trust in relation to RUIC was funded subsequent to December 31, 2016. The assets in trust are included as restricted cash and investments in Note 3. "Investments."

(In Thousands, Except Per Share Data)

A summary of the significant terms of these reinsurance agreements as well as the related value of assets in trust is as follows:

Ceding Insurer (D)	Contract Inception	Contract Expiration	Current Quota Share %	Ceding Commission	Covered Business	Termination Notice Period	Value of Assets in Trust
AICK	6/1/2008	Continuous	50%	(A)	All policies issued	1 year	$ 10,043
ARI	1/21/2016	Continuous	50%	(B)	All policies issued	60 days	$ 19,857
AIIC	9/7/2007	Continuous	50%	(B)	All policies issued	60 days	$ 51,407
CPIC	3/1/2015	Continuous	50%	(B)	All policies issued	60 days	$ 3,763
DSIC	1/1/2015	Continuous	50%	(C)	All policies issued	1 year	$ 40,941
FNIC	5/13/2013	Continuous	50%	(C)	All policies issued	1 year	$ 57,307
HIC	9/25/2015	Continuous	50%	(C)	All policies issued	1 year	$ 42,566
ICC	1/2/2014	Continuous	50%	(C)	All policies issued	1 year	$ 1,560
MCIC	6/1/2008	Continuous	50%	(A)	All policies issued	1 year	$ 14,059
RUIC	4/18/2016	Continuous	50%	(C)	All policies issued	1 year	$ —
SNIC	6/1/2008	Continuous	50%	(A)	All policies issued	1 year	$ 8,554
SID	4/19/2013	Continuous	50%	(C)	All policies issued	1 year	$ 7,264
SIC	4/19/2013	Continuous	50%	(C)	All policies issued	1 year	$ 22,440
TIC	9/7/2007	Continuous	50%	(B)	All policies issued	60 days	$ 355,953
WIC	9/7/2007	Continuous	50%	(B)	All policies issued	60 days	$ 601,391

(A) Ceding commission is equal to 37.1% of net written premium.
(B) Ceding commission is equal to 50% of the ceding company's acquisition costs plus 5% of gross written premium ceded.
(C) Ceding commission is equal to 50% of the ceding company's acquisition costs plus 5% of gross written premium and unearned premium reserve ceded.
(D) Full company names shown in Note 1.

In addition to the agreements above, the Company also reinsures ATIC on an excess of loss basis. The excess of loss contract is continuous unless canceled by either party with 24 months prior written notice. Under the terms of this agreement, ATIC retains the first $2,000 of ultimate net loss arising out of any one risk. The Company then assumes losses in excess of $2,000 up to a limit of $523,000. Premium by ATIC to the company are determined as a percentage of losses assumed by the Company and were immaterial during 2016.

Subsequent to year end on February 28, 2017, the Company and AmeriHealth Casualty Insurance Company ("AmeriHealth") entered into a quota share agreement. AmeriHealth was acquired by AFS on February 28, 2017. Under the quota share agreement, the Company will assume 50% of AmeriHealth's ultimate net losses as well as 50% of its net written premium. Ceding commission is equal to 50% of the ceding company's acquisition costs plus 5% of gross written premium ceded. The contract is continuous, with either party able to terminate with 60 days prior written notice.

(In Thousands, Except Per Share Data)

Due from Affiliate

The Due from Affiliate balance represents balances receivable and payable with companies under common control of AFS. These balances are provided predominately as financing in contemplation of specific transactions. The Company's Due from Affiliate balance consisted of the following at December 31, 2016:

As of December 31,	Principal	Accrued Interest	Total
Secured promissory notes receivable	$ 435,000	$ 516	$ 435,516
Due from parent, net	2,724	(391)	2,333
Other balances receivable	5,725	—	5,725
	443,449	125	443,574

Secured Promissory Notes Receivable

During the year, a group of 6 affiliated companies collectively issued a promissory note to the Company in the amount $50,000. These companies used proceeds from the note to purchase real estate investment properties. The note is collateralized by the properties acquired and guaranteed by certain other affiliated entities including AFS. The note receivable accrues interest of 6.80% per annum and interest is due to the Company quarterly in arrears. The promissory note matures on December 20, 2021, with all unpaid principal and interest due on the maturity date. The Company recorded interest income of approximately $104 for the year ended December 31, 2016.

Also during 2016, an affiliated company issued a series of 7 promissory notes to the Company with an aggregate principal amount of $385,000. These notes are guaranteed by AFS. The notes receivable accrue interest of 3.50% per annum and interest is due to the Company semi-annually in arrears. The promissory notes mature on December 20, 2023, with all unpaid principal and interest due on the maturity date. The Company recorded interest income of approximately $412 for the year ended December 31, 2016.

Due from Parent, net

The balance due from AFS at December 31, 2016 amounted to $117,724 and was unsecured, interest free and due on demand. Subsequent to year end on March 24, 2017, the Company entered into a loan agreement with AFS under which the balance due from AFS at December 31, 2016 was converted to a loan receivable upon signing of the loan agreement. Under this loan agreement, AFS may borrow up to an aggregate principal amount of $300,000 from the Company. The loan to AFS is unsecured and bears interest at an annual rate equal to 2.05%. The loan matures on the earlier of March 24, 2022 or the date that the Company requests repayment. All unpaid principal and interest are due on the maturity date.

The balance sheet due from the Company to AFS is $115,391. The Company, through a wholly-owned subsidiary, entered into a loan agreement with AFS in the aggregate principal amount of $115,000 to finance the purchase of a subsidiary during 2016. The loan is unsecured, bears interest at an annual rate equal to 2.26%, and matures on November 7, 2026 or the date the lender requests payment with 90 days prior written notice. The loan does not require monthly payments and any unpaid interest is capitalized annually on December 31, starting on December 31, 2017. All principal outstanding shall be repaid on the maturity date. The Company recorded interest expense of approximately $391 for the year ended December 31, 2016.

Significant Transactions with Maiden Holdings, Ltd.

The Company has various reinsurance and service agreements with Maiden Holdings, Ltd. (“Maiden”). Maiden is a publicly-held Bermuda insurance holding company (Nasdaq: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, principal stockholders, and, respectively, the former chairman of the board of directors of AFS, a director of AFS, and the current Chairman, Chief Executive Officer and President of AFS, the Company's parent. As of December 31, 2016, two of AFS' stockholders, Leah Karfunkel (one of AFS' directors and co-trustee of the Michael Karfunkel Family 2005 Trust (the "Trust")), and Barry Zyskind, owned or controlled approximately 7.9%, and 7.5%, respectively, of the issued and outstanding capital stock of Maiden. Mr. Zyskind serves as the non-executive chairman of Maiden’s board of directors. Maiden Reinsurance Ltd. ("Maiden Reinsurance"), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer. The following section describes the agreements in place between the Company and its subsidiaries and Maiden and its subsidiaries.

Reinsurance Agreements with Maiden Holdings, Ltd.

In 2007, AFS and Maiden entered into a master agreement, as amended, by which the parties caused the Company and Maiden Reinsurance to enter into a quota share reinsurance agreement (the “Maiden Quota Share”), as amended, by which the Company retrocedes to Maiden Reinsurance certain lines of business assumed by the Company from its insurance company subsidiaries (excluding its Lloyd’s syndicates) and the AmTrust Ceding Insurers, net of the cost of unaffiliated inuring reinsurance (and in the case of the Company’s U.K. insurance subsidiary, AmTrust Europe Ltd. ("AEL"), net of commissions), an amount equal to 40% of the premium written by such subsidiaries and AmTrust Ceding Insurers. The Company also retrocedes 40% of the related losses. Effective July 1, 2018, with respect to AEL only, the Company shall assume from AEL and retrocede to Maiden Reinsurance an amount equal to 20% of AEL’s premium written and 20% of related losses. Certain business that the Company commenced writing after the effective date of the Maiden Quota Share, including, among other lines, the Company's European medical liability business discussed below, business assumed from Tower Group International, Ltd. ("Tower") pursuant to the cut-through quota share reinsurance agreement, and risks, other than workers’ compensation risks and certain business written by the Company’s Irish subsidiary, AmTrust International Underwriters DAC (“AIU”), for which the AmTrust Ceding Insurers’ net retention exceeds $5,000 is not ceded to Maiden Reinsurance under the Maiden Quota Share (ceded business defined as “Covered Business”).

The Company 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, the Company will be responsible for ultimate net loss otherwise recoverable from Maiden Reinsurance to the extent that the loss ratio to Maiden Reinsurance, which shall 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 the purpose of determining whether the loss ratio falls within the Specialty Program Loss Corridor, workers' compensation business written in the Company's 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 the Company or Maiden Reinsurance notifies the other of its election not to renew no 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 the Company or Maiden Reinsurance, run-off, or a reduction of 50% or more of the shareholders’ equity of Maiden Reinsurance or the combined shareholders’ equity of the Company and the AmTrust Ceding Insurers.

(In Thousands, Except Per Share Data)

The Company, through its subsidiaries AEL and AIU, has a reinsurance agreement with Maiden Reinsurance by which the Company cedes to Maiden Reinsurance 40% of its 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 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 was renewed through March 31, 2018. The agreement can be terminated by either party on four months' prior written notice. Maiden Reinsurance pays the Company a 5% ceding commission, and the Company will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%. The Company did not receive any profit commissions for this business for the year ended December 31, 2016.

The following is the effect on the Company's results of operations for the year ended December 31, 2016 related to the Maiden Quota Share agreement:

	2016
Results of operations:	
Premium written – ceded	$ (2,012,452)
Change in unearned premium – ceded	66,938
Earned premium – ceded	$ (1,945,514)
Ceding commission on premium written	$ 654,140
Ceding commission – deferred	(54,631)
Ceding commission – earned	$ 599,509
Incurred loss and loss adjustment expense – ceded	$ 1,312,347

Note Payable to Maiden — Collateral for Proportionate Share of Reinsurance Obligations

In conjunction with the Maiden Quota Share, as described above, the Company and Maiden Reinsurance entered into a Reinsurer Trust Assets Collateral agreement effective December 1, 2008, whereby Maiden Reinsurance is required to provide AII the assets required to secure Maiden's proportional share of AII's obligations to the AmTrust Ceding Insurers. In addition, pursuant to the quota share reinsurance agreement among AEL, AIU and Maiden Reinsurance for the Company's European medical liability business, Maiden Reinsurance is required to provide AEL and AIU the assets required to secure AEL's and AIU's obligations. The aggregate amount of this collateral as of December 31, 2016 was approximately $3,028,416. Maiden retains ownership of the collateral in the trust account.

Reinsurance Brokerage Agreement

The Company, through a subsidiary, has a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, the Company provides brokerage services relating to the Maiden Quota Share for a fee equal to 1.25% of reinsured premium. The Company recorded $26,091of brokerage commission during the year ended December 31, 2016. The brokerage commission was recorded as a component of service and fee income.

Asset Management Agreement

A subsidiary of the Company manages the assets of Maiden Reinsurance and certain of its affiliates for an annual rate of 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 $1,000,000 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 the preceding quarter is more than $1,000,000. The Company managed approximately $4,750,000 of assets as of December 31, 2016, related to this agreement. As a result of this agreement, the Company recorded approximately $6,925 of asset management fees for the year ended December 31, 2016. The asset management fees were recorded as a component of service and fee income.

Significant Transactions with National General Holding Corp.

The Company has an ownership interest in NGHC of approximately 6%. 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. NGHC's two largest stockholders are 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 the Company's board of directors and the mother-in-law of Barry Zyskind, the Company's Chairman. 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. The investment in NGHC is recorded as an equity security in the Company's investment portfolio. In total, the Company recorded $1,046 of investment income during the year ended December 31, 2016 related to its investment in NGHC. Subsequent to the balance sheet date, the Company sold its entire interest in NGHC, resulting in a realized gain of $96,306.

Asset Management Agreement

A subsidiary of the Company manages the assets of certain of NGHC's subsidiaries, including the assets of reciprocal insurers managed by subsidiaries of NGHC, for an annual rate 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 $1,000,000 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 the preceding quarter is more than $1,000,000. The Company managed approximately $2,905,000 of assets as of December 31, 2016 related to this agreement. As a result of this agreement, the Company recorded approximately $3,613 of asset management fees for the year ended December 31, 2016. The asset management fees were recorded as a component of service and fee income.

Significant Transactions with ACP Re, Ltd.

ACP Re, Ltd. (“ACP Re”) is a privately-held Bermuda reinsurance holding company owned by the Trust. In September 2014, a subsidiary of ACP Re merged with Tower. The following section describes the agreements in place between the Company and its subsidiaries and ACP Re and its subsidiaries.

Asset Management Agreement

A subsidiary of the Company manages the assets of ACP Re, Ltd. and certain of its subsidiaries for an annual rate of 0.20% of the average aggregate value of the assets under management, excluding investment in AFS' stock, for the preceding quarter if the average aggregate value for the preceding quarter is $1,000,000 or less, and an annual rate of 0.15% of the average aggregate value of the assets under management, excluding investments in AFS' stock, for the preceding quarter if the average aggregate value for the preceding quarter is more than $1,000,000. The Company managed approximately $424,000 of assets as of December 31, 2016. The Company recorded approximately $904 for these services for the year ended December 31, 2016. The asset management fees were recorded as a component of service and fee income.

Agreements as a result of ACP Re / Tower Merger

The Company and ACP Re entered into the agreements and transactions described below as a result of ACP Re's acquisition of 100% of the outstanding stock of Tower on September 14, 2014. As described in AFS' Current Report on Form 8-K filed on July 29, 2016, in July 2016, Tower's statutory insurance companies (the "Tower Companies") merged into CastlePoint National Insurance Company ("CNIC"), with CNIC as the surviving entity, in connection with the Plan of Conservation and Liquidation developed by the Commissioner of Insurance of the State of California for CNIC (the "Conservation Plan"). Upon the approval of the Conservation Plan on September 13, 2016 by the Superior Court of the State of California, and a $200,000 contribution to CNIC by members of the Michael Karfunkel family on September 20, 2016 (the "Contribution"), several of the agreements described below were either amended or terminated.

Stop-Loss and Retrocession Agreements

The Company and National General Re, Ltd., a subsidiary of NGHC ("NG Re Ltd."), as reinsurers, entered into a $250,000 Aggregate Stop Loss Reinsurance Agreement (the "Stop-Loss Agreement") with CastlePoint Reinsurance, Ltd. ("CP Re"). The Company and NG Re Ltd. also entered into an Aggregate Stop Loss Retrocession Contract (the "Retrocession Agreement") with ACP Re pursuant to which ACP Re would reinsure the full amount of any payments that the Company and NG Re Ltd. were obligated to make to CP Re under the Stop-Loss Agreement. Pursuant to the Stop-Loss Agreement, each of the Company and NGHC had agreed to provide, severally, $125,000 of stop loss coverage with respect to the run-off of the Tower business written on or before September 15, 2014. The reinsurers' obligation to indemnify CP Re under the Stop-Loss Agreement would have been triggered only at such time as CP Re's ultimate net loss related to the runoff of the pre-September 15, 2014 Tower business exceeded a retention equal to the Tower Companies' loss and loss adjustment reserves and unearned premium reserves as of September 15, 2014. Upon the approval of the Conservation Plan and the making of the Contribution discussed above, the Stop-Loss Agreement and the Retrocession Agreement terminated.

ACP Re Credit Agreement

The Company, AFS, and NG Re Ltd. entered into a credit agreement (the "ACP Re Credit Agreement") among AFS, as Administrative Agent, ACP Re and Tower, now a wholly-owned subsidiary of ACP Re, as the borrowers (collectively, the "Borrowers"), ACP Re Holdings, LLC, as Guarantor, and the Company and NG Re Ltd., as Lenders, pursuant to which the Lenders made a $250,000 loan ($125,000 made by each Lender) to the Borrowers. As discussed below under "Restructuring of ACP Re Credit Agreement," certain terms of the ACP Re Credit Agreement were amended and restated following the approval of the Conservation Plan and the making of the Contribution.

Until the restructuring of the ACP Re Credit Agreement, it had a maturity date of September 15, 2021. Outstanding borrowings under the ACP Re Credit Agreement bore interest at a fixed annual rate of 7%, payable semi-annually on the last day of January and July. Fees payable to the Company for its service as Administrative Agent continue to include an annual fee equal to $30, plus reimbursement of costs, expenses and certain other charges. Prior to the restructuring, the obligations of the Borrowers were secured by (i) a first-priority pledge of 100% of the stock of ACP Re and ACP Re's U.S. subsidiaries and 65% of the stock of certain of ACP Re's foreign subsidiaries, and (ii) a first-priority lien on all of the assets of the Borrowers and Guarantor and certain of the assets of ACP Re's subsidiaries (other than the Tower Companies).

The Borrowers continue to have the right to prepay the amounts borrowed, in whole or in part. Until the restructuring, the Borrowers were required to prepay the amounts borrowed within thirty (30) days from the receipt of net cash proceeds received by ACP Re from (i) certain asset sales, (ii) the disposition of certain equity interests, (iii) the issuance or incurrence of certain debt, (iv) any dividend or distribution from Tower subsidiaries to ACP Re, (v) premiums and other payments received pursuant to the Retrocession Agreement, and (vi) any tax refunds, pension plan reversions, insurance proceeds, indemnity payments, purchase price adjustments (excluding working capital adjustments) under acquisition agreements, litigation proceeds and other similar receipts received by the Borrowers after the effective date of the ACP Re Credit Agreement, unless any of the foregoing proceeds (other than payments received pursuant to the Retrocession Agreement) are required for the ordinary course business operations of the Borrowers. The Borrowers were also required to deposit any excess cash flow (including payments under the Amended and Restated Commercial Lines Master Agreement) into a reserve account that also secured Borrowers' obligations under the ACP Re Credit Agreement. Any funds in the reserve account after January 1, 2018 that exceeded the amount of interest payable by the Borrowers for the remainder of the term of the ACP Re Credit Agreement would be applied by the Borrowers as a prepayment of principal under the ACP Re Credit Agreement.

Prior to the restructuring, the ACP Re Credit Agreement contained certain customary restrictive covenants (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, dispositions, creation of subsidiaries and restricted payments. There were also financial covenants that required ACP Re to maintain minimum current assets, a maximum leverage ratio, and a minimum fixed charge coverage ratio. If ACP Re failed to comply with the leverage ratio or fixed charge coverage ratio covenants as of any measurement date, the Borrowers could cure such breach by making a capital contribution to ACP Re sufficient to bring the Borrowers into compliance.

The ACP Re Credit Agreement also provided for customary events of default, with grace periods where appropriate, including failure to pay principal when due, failure to pay interest or fees within three business days after becoming due, failure to comply with covenants, breaches of representations and warranties, default under certain other indebtedness, certain insolvency, receivership or insurance regulatory events affecting the Borrowers, the occurrence of certain material judgments, certain amounts of reportable ERISA or foreign pension plan noncompliance events, a change in control of the Guarantor, any security interest created under the ACP Re Credit Agreement ceases to be in full force and effect, or if ACP Re defaults on its obligations under the Retrocession Agreement. Upon the occurrence and during the continuation of an event of default, AFS, as Administrative Agent, upon the request of any Lender, would declare the Borrowers' obligations under the ACP Re Credit Agreement immediately due and payable and/or exercise any and all remedies and other rights under the ACP Re Credit Agreement.

As of December 31, 2016, the Company recorded $126,298 of loan and related interest receivable as a component of other assets on the consolidated balance sheet. The Company recorded total interest income of approximately $7,593 for the year ended December 31, 2016 under the ACP Re Credit Agreement.

(In Thousands, Except Per Share Data)

Restructuring of ACP Re Credit Agreement

As disclosed in AFS' Current Report on Form 8-K filed on September 21, 2016, the Company, AFS, NG Re Ltd., ACP Re Holdings, LLC and the Trust entered into an Amended and Restated Credit Agreement on September 20, 2016, following approval by the Superior Court of the State of California of the Conservation Plan, and the Contribution by members of the Michael Karfunkel family to CNIC. The Amended and Restated Credit Agreement incorporates the following restated terms: (a) the borrower became ACP Re Holdings, LLC, a Delaware limited liability company owned by the Trust; (b) the Trust will cause ACP Re Holdings, LLC to maintain assets having a value greater than 115% of the value of the then outstanding loan balance, and if there is a shortfall, the Trust will make a contribution to ACP Re Holdings, LLC of assets having a market value of at least the shortfall (the “Maintenance Covenant”); (c) the amounts borrowed are secured by equity interests, cash and cash equivalents, other investments held by ACP Re Holdings, LLC and proceeds of the foregoing in an amount equal to the requirements of the Maintenance Covenant; (d) the maturity date changed from September 15, 2021 to September 20, 2036; (e) interest on the outstanding principal balance of $250,000 is a fixed annual rate of 3.70% (payable in cash, semi-annually in arrears), provided that up to 1.20% thereof may be paid in kind; (f) commencing on September 20, 2026, and for each year thereafter, 2% of the then outstanding principal balance of the loan (inclusive of any amounts previously paid in kind) is due and payable; (g) at the Lenders’ discretion, ACP Re Holdings, LLC may repay the loan using cash or tradeable stock of an equivalent market value of any publicly traded company on the NYSE, NASDAQ or London stock exchange; and (h) a change of control of greater than 50% and an uncured breach of the Maintenance Covenant are included as events of default.

16. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses for the year ended December 31, 2016. Deferred acquisition cost amortization expense is comprised of certain policy acquisition costs as well as certain salary and benefits, and was $516,846 for the year ended December 31, 2016.

	2016
Policy acquisition expenses	$ 515,017
Salaries and benefits	113,959
Other insurance general and administrative expense	79,722
	$ 708,698

(In Thousands, Except Per Share Data)

17. Income Taxes

Income from continuing operations before taxes and non-controlling interests for the year ended December 31, 2016 was as follows:

	2016
Domestic	$ (156,922)
Foreign	352,063
Total	$ 195,141

The provision for income taxes consists of the following for the year ended December 31, 2016:

Income Tax Provision (Benefit)	2016
Current expense (benefit)	
U.S. Federal	$ (50,518)
Foreign	44,912
Total current tax benefit	(5,606)
Deferred benefit	
U.S Federal	(12,044)
Foreign	(14,703)
Total deferred tax benefit	(26,747)
Total income tax benefit	$ (32,353)

The following table is a reconciliation of the Company's statutory income tax expense to its effective tax rate for the year ended December 31, 2016:

	2016
Income before equity in earnings of unconsolidated subsidiaries	$ 195,141
Tax at federal statutory rate of 35%	$ 68,299
Tax effects resulting from:	
Permanent adjustments	(3,862)
Foreign rate differential	(74,918)
Adjustments to prior year taxes	(8,980)
Valuation allowance	(12,892)
	$ (32,353)
Effective tax rate	(16.6)%

(In Thousands, Except Per Share Data)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of December 31, 2016 are shown below:

		2016
Deferred tax assets:		
Net operating loss carryforward	$	195,955
Unearned premiums		57,138
Ceding commission		146,503
Loss and LAE reserves		60,018
Other		42,476
Bad debt		4,078
Total gross deferred tax assets		506,168
Valuation allowance		(139,774)
		366,394
Deferred tax liabilities:		
Deferred acquisition costs		(244,308)
Equity results which cannot be liquidated tax free		(21,866)
Intangible assets		(31,869)
Other		(1,036)
Equalization reserves		(15,890)
Accrual market discount		(4,054)
Unrealized gain on investments		(19,472)
		(338,495)
Deferred tax asset, net	$	27,899

The Company's net deferred tax asset at December 31, 2016 is included in Other assets in the Consolidated Balance Sheet. The likelihood of realizing deferred tax assets is reviewed periodically. Any adjustments required to the valuation allowance are made in the period during which developments requiring an adjustment become known.

The Company has U.S. Net Operating Losses (“NOLs”) of $288 that expire beginning in 2036. The Company also has foreign NOLs of $767,345, the majority of which have no expiration. The Company's management believes that as of December 31, 2016, except for a portion of foreign and domestic NOLs, it will realize the benefits of its deferred tax assets, which are included as a component of the net deferred income taxes on the consolidated balance sheet (net deferred tax liability is included in other liabilities on the consolidated balance sheets). In prior years, the Company placed a valuation allowance on a significant portion of the foreign NOLs. The valuation allowance was the result of the inability to generate sufficient future income in Luxembourg in order to fully utilize the NOLs incurred to date. Even though the NOLs do not have an expiration date, the Company determined that a valuation allowance should be placed on the portion that is unlikely to ever be utilized. As a result, the Company recorded a valuation allowance of $139,744 as of December 31, 2016.

The earnings of certain of the Company's foreign subsidiaries have been indefinitely reinvested in foreign operations. Therefore, no provision has been made for any U.S. taxes or foreign withholding taxes that may be applicable upon any repatriation or disposition. The determination of any unrecognized deferred tax liability for temporary differences related to investments in certain of the Company’s foreign subsidiaries is not practicable. At December 31, 2016, the financial reporting basis in excess of the tax basis for which no deferred taxes have been recognized was approximately $307,755.

(In Thousands, Except Per Share Data)

The Company's major taxing jurisdictions include the U.S. (federal and state), the United Kingdom and Ireland. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the Company’s statute of limitations is open for tax years ended December 31, 2011 and forward. The Company is currently under audit in the U.S. for tax years 2013 and 2014. The audit is ongoing as of December 31, 2016 and is expected to close during 2017.

Listed below are the tax years that remain subject to examination by major tax jurisdictions:

	Open Tax Years
United States	2013-2015
United Kingdom	2015
Ireland	2011-2015

As permitted by ASC 740-10 Income Taxes, the Company recognizes interest and penalties, if any, related to unrecognized tax benefits in its income tax provision. The Company does not have any unrecognized tax benefits and, therefore, has not recorded any unrecognized tax benefits, or any related interest and penalties, as of December 31, 2016. No interest or penalties have been recorded by the Company for the years ended December 31, 2016. The Company does not anticipate any significant changes to its total unrecognized tax benefits in the next 12 months.

18. Employee Benefit Plans

The Company's parent, AFS, sponsors multiple defined contribution pension plans, which are available to a majority of the Company's employees. Contributions to these plans were based on a percentage of employee contributions or earnings. The cost of the plans was approximately $4,212 for the year ended December 31, 2016.

(In Thousands, Except Per Share Data)

19. Stockholders' Equity

Common Stock and Additional Paid-In Capital

Common Stock is comprised of 250 shares as of December 31, 2016. These shares have a par value of $1 per share and are fully paid by the company's sole stockholder, AFS.

At the beginning of 2016, additional paid-in capital from AFS totaled $294,029. During 2016, AFS contributed $375,000 of additional paid-in capital to the Company. The contribution did not result in additional shares of common stock being issued. The proceeds from the contribution were subsequently loaned by the Company to a company under common ownership with AFS. At December 31, 2016, this loan and the related accrued interest are reflected in Due from Affiliate as discussed in Note 15. "Related Party Transactions".

Subsequent to year-end on May 25, 2017, AFS executed an agreement for the issuance and sale in a private placement of 24,096,384 shares of its common stock at a price of $12.45 per share. The proceeds to AFS of $300,000,000 were contributed to the Company as paid-in capital.

Accumulated Other Comprehensive Income

The following table summarizes accumulated other comprehensive income for the year ended December 31, 2016 net of non-controlling interests:

	Foreign Currency Items	Unrealized Gains on Investments	Interest Rate Swap Hedge	Net Benefit Plan Assets and Obligations Recognized in Stockholders' Equity	Accumulated Other Comprehensive Income
Balance, December 31, 2015	(47,589)	30,484	—	229	(16,876)
Other comprehensive income (loss) before reclassification	(42,724)	154,846	(50)	(3,169)	108,903
Amounts reclassed from accumulated other comprehensive income	—	(12,849)	—	—	(12,849)
Income tax benefit (expense)	—	(49,154)	(10)	570	(48,594)
Net current-period other comprehensive income (loss)	(42,724)	92,843	(60)	(2,599)	47,460
Balance, December 31, 2016	$ (90,313)	$ 123,327	$ (60)	$ (2,370)	$ 30,584

During the years ended December 31, 2016, amounts reclassed from accumulated other comprehensive income into net income were included in net realized gain on investment.

(In Thousands, Except Per Share Data)

Legal Entity Transfers

AII Reinsurance Broker, Ltd.

On August 24, 2016, AmTrust North America, Inc., a company related through common ownership, contributed AII Reinsurance Broker, Ltd. ("AIIRB"), one of their wholly-owned subsidiaries, to the Company in exchange for common stock in a subsidiary of the Company. AIIRB provides brokerage services in relation to the Maiden Quota Share, which are further discussed in Note 15. "Related Party Transactions". The value of the common stock issued by our subsidiary was equivalent to the net book value of AIIRB on the date of contribution, and as a result our non-controlling interest in our European subsidiaries was not impacted by the contribution.

A summary of the assets acquired and liabilities assumed for AIIRB are as follows:

Assets		
Cash	$	10,369
Investments in affiliates		496,560
Other receivables		8,592
Due from affiliates		80,586
Total assets	$	596,107
Liabilities		
Accrued expenses and other liabilities	$	2,313
Value of shares in subsidiary issued	$	593,794

AmTrust Holdings Luxembourg S.a.r.l.

On December 21, 2016, the Company contributed the net assets of AmTrust Holdings Luxembourg S.a.r.l ("AHL") and its subsidiaries to a subsidiary of the Company. The Company received shares in the subsidiary that were equal in value to the net assets of AHL on the date of contribution. Prior to the contribution, AHL and its subsidiaries were wholly-owned by the Company. The receiving subsidiary is not wholly-owned, however we have the ability to control the subsidiary and thus continue to consolidate AHL. As a result of this contribution, our non-controlling interest decreased by $24,230.

(In Thousands, Except Per Share Data)

20. Commitments and Contingencies

Litigation

The Company's insurance subsidiaries are named as defendants in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the loss and LAE reserves. The Company's management believes the resolution of those actions will not have a material adverse effect on the Company's financial position or results of operations.

Lease Commitments

The Company is obligated under approximately 45 leases for office space expiring at various dates through 2023. Future minimum lease payments as of December 31, 2016 under non-cancellable operating leases for each of the next five years are approximately as follows:

2017	$	4,884
2018		4,005
2019		3,471
2020		3,121
2021		1,960
2022 and Thereafter		1,380
	$	18,821

Rent expense for the year ended December 31, 2016 was $7,115.

Employment Agreements

The Company has employment agreements with approximately 10 of its key executives and employees. The agreements terminate on varying dates through 2018, contain annual minimum levels of compensation, and contain bonuses based on the Company achieving certain financial targets. Not all employment agreements contain end dates. The annual future minimum compensation payments in the aggregate through 2018 are as follows:

2017	$	2,796
2018		123
	$	2,919

21. Statutory Financial Data, Risk Based Capital and Dividend Restrictions

The Company's insurance subsidiaries file financial statements in accordance with statutory accounting practices ("SAP") prescribed or permitted by local insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between domestic and foreign jurisdictions. The principal differences relate to (1) acquisition costs incurred in connection with acquiring new business which are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) limitation on net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and loss expense, and unearned premium reserves are presented gross of reinsurance with a corresponding asset recorded; (4) fixed maturity portfolios that are carried at fair value instead of amortized cost and changes in fair value are reflected directly in unassigned surplus, net of related deferred taxes; and (5) certain assets designated as “non-admitted assets” are charged against surplus under SAP. The New York Department of Financial Services has adopted the prescribed accounting practices of discounting workers’ compensation known case loss reserves on a non-tabular basis, which impacted RIC. The effect of using these permitted and prescribed practices was to increase RIC's statutory capital and surplus by $6,733 at December 31, 2016.

(In Thousands, Except Per Share Data)

Property and casualty insurance companies in the United States are subject to certain Risk-Based Capital (“RBC”) requirements as specified by the National Association of Insurance Commissioners ("NAIC"). Under such requirements, the amount of statutory capital and surplus maintained by a property and casualty insurance company is to be determined on various risk factors. As of December 31, 2016, the statutory capital and surplus of the Company’s insurance subsidiary domiciled in the United States exceeded the RBC requirements.

Statutory capital and surplus and required statutory capital and surplus for the Company, its six major European insurance subsidiaries, and one insurance subsidiary domiciled in the United States as reported to respective regulatory authorities as of December 31, 2016 were approximately as follows:

	2016	
	Statutory Capital and Surplus	**Required Statutory Capital and Surplus (1)**
AII (Bermuda) (2)	$ 1,393,236	$ 405,291
AEL (United Kingdom)	407,112	287,826
AIU (Ireland)	168,654	96,935
ATL (United Kingdom) including ANV (Netherlands) (3)	—	—
MIC (United Kingdom)	110,813	71,736
NB (Netherlands)	112,214	20,916
RIC (domestic)	101,794	38,882

(1) For AII, AEL, ATL, MIC, and NB, the amount is equal to the minimum capital required by their respective country's regulatory authority. Effective January 1, 2016, these companies’ requirements on capital adequacy and risk management became subject to the Solvency II framework and comply with a Solvency Capital Requirement. For AIU and RIC, the amount is equal to the Regulatory Action Level ("RAL") as defined by NAIC or the minimum amount required to avoid regulatory oversight.

(2) AII was reclassified from a Class 3 to a Class 3B insurer effective January 1, 2016. As a result, the revised regulations require that the available statutory capital and surplus should be equal to or exceed the value of both its Minimum Margin of Solvency ("MMS") and the Enhanced Capital Requirement ("ECR"). The Capital and Surplus requirement in the chart above is based on the statutory capital MMS and is prior to the finalization of the ECR. The ECR will be materially higher than the MMS. AII will hold regulatory capital and surplus in excess of the 25% of ECR criteria for MMS and the ECR.

(3) As of December 31, 2016, we participated in the Lloyd’s market through our interests in: (i) AmTrust’s Syndicate 1206, Syndicate 44, and Syndicate 2526, which are managed by AmTrust at Lloyd’s Limited, a Lloyd's managing agent, and the AmTrust corporate member and (ii) ANV’s Syndicate 1861 and Syndicate 5820, which are managed by AmTrust Syndicates Limited, formally ANV Syndicates Limited, a Lloyd’s managing agent, and the ANV corporate member. The Lloyd’s market has applied the Solvency II internal model under Lloyd’s supervision, and our Lloyd’s operations are required to meet Solvency II standards. Effective January 1, 2016, Lloyd's received approval from the Prudential Regulatory Authority to use its internal model under the Solvency II regime. The capital requirement across AmTrust Lloyd’s businesses was $607,200 as of December 31, 2016.

(In Thousands, Except Per Share Data)

Statutory net income for the Company, its six major European insurance subsidiaries (excluding Lloyds as not applicable), and one insurance subsidiary domiciled in the United States for the yeas ended December 31, 2016 as reported to respective regulatory authorities were approximately as follows:

	2016
AII (Bermuda)	$ 43,574
AEL (United Kingdom)	55,413
AIU (Ireland)	35,503
MIC (United Kingdom)	20,456
NB (Netherlands) (1)	3,223
RIC (domestic)	13,947

(1) The amounts reported in year of acquisition are for the entire year and do not represent the statutory net income for the period of ownership.

The Company and its insurance subsidiaries are subject to statutory and regulatory restrictions applicable to insurance companies, and imposed by the location of domicile, which limit the amount of cash dividends or distributions that they may pay to approximately $552,577 as of December 31, 2016.

22. Subsequent Events

We have evaluated events occurring after the balance sheet date and up to July 28, 2017, the date the financial statements were issued, noting the following.

Premia Reinsurance Ltd.

Subsequent to year end on June 30, 2017, the Company and its affiliates, Technology Insurance Company, Inc. and Wesco Insurance Company (collectively, the “AmTrust Ceding Companies”), entered into an Aggregate Reinsurance Agreement (the “Reinsurance Agreement”) pursuant to which liabilities in respect of occurrences or claims made prior to April 1, 2017 (the “Cutoff Date”) under any insurance contract issued by any of the AFS' wholly-owned insurance subsidiaries (the “AmTrust Reinsured Group,” and such occurrences or claims, the “Subject Business”) will be reinsured by Premia Reinsurance Ltd.(“Premia”), subject to an aggregate limit of $1.025 billion (the “Limit”).

In consideration of the coverage provided under the Reinsurance Agreement, the AmTrust Ceding Companies will pay a reinsurance premium of $675 million for Premia’s assumption of $625 million in carried reserves and $400 million in coverage in excess of the carried reserves not later than 180 days following June 30, 2017. The AmTrust Ceding Companies will owe interest thereon at a rate of 3.75% per annum from July 1, 2017 to the date of payment on any portion of such premium not paid on or before July 10, 2017.