Amtrust Financial Services, Inc.
Form 10-K
March 02, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2014
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to .
Commission File Number: 001-33143

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

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes o No x

As of June 30, 2014, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the common stock held by non-affiliates was $1,305,118,675.

As of February 17, 2015, the number of common shares of the registrant outstanding was 81,917,831.

Documents incorporated by reference: Portions of the Proxy Statement for the 2015 Annual Meeting of Shareholders of the registrant to be filed subsequently with the SEC are incorporated by reference into Part III of this report.

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PART I

Note on Forward-Looking Statements

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

Item 1. Business

Legal Organization

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

Business Overview

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

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

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

Competition

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

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

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

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

Underwriting and Claims Management Philosophy

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

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Business Segments

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

The following table provides our gross written premium by segment for the years ended December 31, 2014, 2013 and 2012:

(Amounts in Thousands)	2014	2013	2012
Small Commercial Business	$2,999,714	$1,659,980	$933,740
Specialty Risk and Extended Warranty	1,983,052	1,511,649	1,118,710
Specialty Program	1,105,199	879,455	578,735
Personal Lines Reinsurance - Run off (1)	—	65,827	118,141
Total	$6,087,965	$4,116,911	$2,749,326

(1) The Personal Lines Reinsurance segment is a former segment related to the Personal Lines Quota Share with National General Holdings Corp.'s personal lines insurance companies. On August 1, 2013, we received notice, effective August 1, 2013, that our participation in the Personal Lines Quota Share was terminated on a run-off basis.

Additional financial information regarding our segments is presented in Note 25. "Segments" to our audited consolidated financial statements appearing elsewhere in this Form 10-K.

Small Commercial Business

This segment provides workers' compensation insurance to small businesses that operate in low and medium hazard classes and commercial package and other property and casualty insurance products to small businesses, with average annual premiums of approximately $8,211. We are authorized to write our Small Commercial Business products in all 50 states. We distribute our policies through a network of over 9,400 select retail and wholesale agents who are paid commissions based on the annual policy premiums written. Workers' compensation insurance pricing and coverage options are generally mandated and regulated on a state by state basis and provide coverage for the statutory obligations of employers to pay medical care expenses and lost wages for employees who are injured in the course of their employment. Commercial package products provide a broad array of insurance to small businesses, including commercial property, general liability, inland marine, automobile, workers' compensation and umbrella coverage.

We believe the small business component of the workers' compensation market is generally less competitive than the broader insurance market because the smaller policy size and low average premiums needed by these types of policyholders generally does not fit the underwriting and profitability criteria of many of our competitors. Our highly customized and proprietary technology platform enables us to individually underwrite, manage and control losses in a cost-effective manner for a large number of small policies while still providing quality customer service and responsive claims management to our clients and the agents that distribute our products. We believe these factors have been key to our ability to achieve high retention and renewal rates. Our policy renewal rate on voluntary business (excluding assigned risk plans), which represented approximately 95% of the segment's gross written premiums in 2014, was 85%, 87%, and 86% in 2014, 2013 and 2012, respectively.

Some of our commonly written small business risks include:

- restaurants;
- retail;
- office and professional;
- service industries;

- schools;
- hospitality;
- light manufacturing;
- wholesale operations;
- auto service;

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

We are focused on continuing to broaden our market share by enhancing our current agent relationships as well as developing new agent relationships. Our on-line rating and submission system permits agents and brokers to easily determine in real-time if the risk and pricing parameters for a prospective workers' compensation client meet our underwriting criteria and deliver an application for underwriting approval to us in a paperless environment. Our underwriting system will not allow business to be placed if it does not fit within our guidelines. These same types of efficiencies also exist for our commercial package product business. Our system handles most clerical duties, so that our underwriters can focus on making decisions on risk submissions.

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

Our workers' compensation claims adjusters have an average of 16 years of experience and have teams located in nine different states. Each adjuster handles an average monthly pending caseload of approximately 160 cases. Supervision of the adjusters is performed by internal supervisors and a claims manager in each region.

In 2014 and 2013, approximately 77% of our Small Commercial Business workers' compensation claims were only for medical expenses with 23% of claims for medical expenses and lost wages.

As of December 31, 2014, approximately 1.5% of the 17,880 Small Commercial Business workers' compensation claims reported for accident year 2009 were open, 2.0% of the 20,232 claims reported for accident year 2010 were open, 3.3% of the 23,880 claims reported for accident year 2011 were open, 5.9% of the 31,958 claims reported for accident year 2012 were open, 11% of the 45,342 claims reported for accident year 2013 were open and 40.9% of the 61,709 claims reported for accident year 2014 were open.

We maintain Small Commercial Business property and casualty claims operations in several of our domestic offices and the commercial package claims operation is separated into four processing units: casualty, property, cost-containment/recovery and a fast-track physical damage unit. As of December 31, 2014, we employed 202 property and casualty claim adjusters. Overall, our property and casualty claims adjusters handle an average monthly pending caseload of approximately 109 claims.

As of December 31, 2014, our Small Commercial Business property and casualty claims were approximately 60% automobile and 9% property and inland marine with the remaining 31% involving general liability and umbrella losses compared to 59%, 8% and 33%, respectively, in 2013. At the end of 2014, 43% of the 14,832 claims reported in accident year 2014 remained open, while 22% and 11% of the 17,038 claims and 17,781 claims from 2013 and 2012, respectively, remained open (2013 and 2012 number of claims adjusted for the impact of acquisitions).

Our Small Commercial Business property and casualty claims adjusters have an average of 22 years of experience. Supervision of the adjusters is performed by our internal claims management, comprised of a staff that has an average of over 28 years of experience. Increases in reserves over the authority of the claims adjuster must be approved by supervisors. Senior claims managers provide direct oversight on all claims with an incurred value of $50,000 or more. Any claim reserved or settled over $100,000 is reviewed by at least two levels of claim management including the Chief Claims Officer.

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

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Specialty Risk and Extended Warranty

In our Specialty Risk and Extended Warranty segment we provide coverage for consumer and commercial goods and custom designed coverages, such as accidental damage plans and payment protection plans offered in connection with the sale of consumer and commercial goods in the United States and Europe, and certain niche property, casualty and specialty liability risks in the United States and Europe, including general liability, employers' liability and professional and medical liability. In 2011, we opened branch offices in Italy and Spain to support our European specialty risk business. Our model is focused on developing coverage plans by evaluating and analyzing historical product and industry data to establish appropriate pricing and contract terms and enhancing the profitability of the plans by limiting the frequency and severity of losses while delivering superior customer service. In 2013, we completed an acquisition of a managing agency that owns a Lloyd's property and casualty insurance syndicate that focuses on general insurance and provides access to Lloyd's underwriting platform for small brokers. We believe that our proprietary technology platform and strong industry expertise provide us a competitive advantage. We carefully select administrators with extensive industry knowledge and target industries and coverage plans that have demonstrated consistently favorable loss experience. Additionally, we utilize extensive historical claims data and detailed actuarial analysis to ensure our ability to more accurately forecast the frequency and severity of losses and draft restrictive, risk-specific coverage terms with clearly identified coverage restrictions to further reduce the level of losses. Our efficient and proactive claims management process enables us to ensure superior customer service, and if necessary, proactively adjust our premiums based on changes in actual loss experience. Our specialty risk business primarily covers the following risks:

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

Our extended warranty business covers selected consumer and commercial goods and other risks, including:
- automotive;
- consumer electronics and appliances;
- commercial equipment; and
- recreational vehicle and power sports.

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

In connection with our extended warranty business, we issue policies to our clients that provide for payment or replacement of goods to meet our clients' contractual liabilities to the end purchasers of the warranty under contracts that have coverage terms with durations ranging from one month to 120 months depending on the type of product. Our U.S. warranty polices currently have an approximate term of 42 months, while our European warranty polices have an approximate term of 19 months and our European casualty policies have a term of 12 months. In the event that the frequency or the severity of loss on the claims of a program exceeds original projections, we generally have the right to increase premium rates for the balance of the term of the contract and, in Europe, the right to cancel prior to the end of the term. We believe that the profitability of each coverage plan we underwrite is largely dependent upon our ability to accurately forecast the frequency and severity of claims and manage the claims process efficiently. We continuously collect and analyze claims data in order to forecast future claims trends. We also provide warranty administration services in the United States.

We underwrite our specialty risk coverage on a coverage plan-level basis, which involves substantial data collection and actuarial analysis as well as analysis of applicable laws governing policy coverage language and exclusions. We prefer to apply a historical rating approach in which we analyze historical loss experience of the covered product or similar products rather than an

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approach that attempts to estimate our total exposure without such historical data. In addition, we believe that the quality of the marketing and claims administration service provided by the warranty administrator is a significant driver of the profitability of the product. Accordingly, a critical evaluation of the prospective warranty administrator is an important component of underwriting a plan. The results of our underwriting analysis are used to determine the premium we charge and drive the description of the plan coverage and exclusions. The underwriting process generally takes three months or more to complete.

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

In 2014, approximately 64% of gross written premium for this segment originated internationally, while 36% originated in the United States. During 2014 and 2013, we derived over ten percent of our gross written premium in this segment from one broker.

Specialty Program

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

Policyholders in this segment primarily include the following types of industries:

- public entities;
- retail;
- wholesale;
- service operations;
- artisan contracting;
- trucking;
- light and medium manufacturing;
- habitational; and
- professional employer organizations.

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

As of December 31, 2014, we underwrote 119 programs through 47 independent wholesale and managing general agents. Workers’ compensation insurance comprised approximately 37%, 32% and 27% of this business in 2014, 2013 and 2012, respectively. Other liability insurance comprised approximately 29%, 36% and 35% of this business in 2014, 2013 and 2012, respectively. Commercial auto liability and physical damage insurance combined comprised approximately 12%, 15% and 19% of this business in 2014, 2013 and 2012, respectively. Excess workers' compensation insurance comprised approximately 13%,

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8% and 11% of this business in 2014, 2013 and 2012, respectively. During 2014 and 2013, we derived over ten percent of our gross written premium in this segment from one program.

Distribution

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

Geographic Diversity

Our insurance subsidiaries domiciled in the United States are collectively licensed to provide workers' compensation insurance and commercial property and casualty insurance, including service contract reimbursement coverages related to our Specialty Risk and Extended Warranty segment, in 50 states, the District of Columbia and Puerto Rico, and in the year ended December 31, 2014, we wrote commercial property and casualty in 50 states and the District of Columbia.

The table below identifies, for the year ended December 31, 2014, the top ten producing states by percentage of direct gross written premium for our Small Commercial Business segment and the equivalent percentage for the years ended December 31, 2014, 2013 and 2012.

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

	Year Ended December 31,					
State	2014		2013		2012	
California	25.7	%	23.8	%	17.3	%
New York	15.8		14.3		11.3	
Florida	9.8		8.6		10.2	
New Jersey	6.1		5.8		6.6	
Illinois	5.5		6.5		7.6	
Georgia	4.1		4.2		5.5	
Pennsylvania	3.0		4.5		3.9	
Texas	2.6		2.9		3.8	
Nevada	1.8		1.6		1.4	
Connecticut	1.6		1.9		1.3	
All Other States and the District of Columbia	24.0		25.9		31.1	
	100.0	%	100.0	%	100.0	%

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

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

Based on coverage plans written or renewed in 2014, 2013 and 2012, the European Union accounted for approximately 57%, 72% and 72%, respectively, of our Specialty Risk and Extended Warranty business and in 2014, the United Kingdom, Italy and France accounted for approximately 43%, 20% and 6%, respectively, of our European Specialty Risk and Extended Warranty business. For a discussion of the various risks we face related to our foreign operations, see "Item 1A. Risk Factors."

The table below shows the geographic distribution of our annualized gross premiums written in our Specialty Risk and Extended Warranty segment with respect to coverage plans in effect at December 31, 2014.

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

	Year Ended December 31,		
Country	2014	2013	2012
United States	35 %	27 %	28 %
United Kingdom	28	32	26
Italy	14	20	29
France	4	5	5
Sweden	2	3	3
Other	17	13	9
Total	100 %	100 %	100 %

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

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

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

	Year Ended December 31,		
State	2014	2013	2012
California	38 %	39 %	35 %
New York	21	22	27
New Jersey	6	7	6
Florida	5	4	4
Texas	4	3	3
Georgia	2	2	2
Illinois	2	2	2
Pennsylvania	2	2	2
Arizona	1	1	1
Washington	1	1	1
All other States and the District of Columbia	18	17	17
Total	100 %	100 %	100 %

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

Acquisitions and Strategic Investments

We have grown at an above-industry average rate through a combination of organic growth and strategic acquisitions of other companies or selected books of businesses. We have balanced our opportunistic acquisition strategy with a conservative approach to risk. We will continue to evaluate the acquisition of companies, distribution networks and renewal rights, and other alternative types of transactions as they present themselves. We seek transactions that we believe can be accretive to earnings and return on equity. The following is a summary of our major acquisition and strategic investment activity during 2014 and 2013.

Comp Options Insurance Company, Inc.

On October 1, 2014, we acquired Comp Options Insurance Company, Inc. ("Comp Options"), a Florida-based workers' compensation insurer, from an affiliate of Blue Cross & Blue Shield of Florida, for approximately $34.3

million in cash. Comp Options offers workers' compensation insurance to small businesses with low-hazard risk profiles in the state of Florida. As a result of this acquisition, we recorded approximately $18.6 million of written premium and $1.0 million of service and fee income for the year ended December 31, 2014.

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Tower Renewal Rights Agreement

In January 2014, we entered into a cut through quota share reinsurance agreement (the "Cut Through Reinsurance Agreement") with Tower Group International, Ltd. ("Tower") to provide a 100% quota share for a majority of Tower's in force commercial lines policies and most new and renewal commercial lines business. At the inception of the Cut Through Reinsurance Agreement, we initially assumed $174 million of unearned premium. During 2014, we assumed approximately $475 million of premium through the Cut Through Reinsurance Agreement. In conjunction with ACP Re, Ltd.'s (“ACP Re”) merger with Tower, on September 15, 2014, we entered into various agreements with Tower including, primarily, a renewal rights agreement and a quota share reinsurance agreement. Based on the terms of the renewal rights agreement, we are required to pay a maximum amount of $30 million over a three year period based on 3% of gross written premium of the Tower commercial lines business. The quota share reinsurance agreement allows us to reinsure 100% of all losses for Tower’s new and renewal commercial lines business written after September 15, 2015. The quota share agreement replaced the Cut Through Reinsurance Agreement. As a result of the renewal rights transaction, we wrote approximately $133 million of gross written premium for the year ended December 31, 2014. Additionally, we loaned ACP Re $125 million to finance their purchase of Tower.

The Insco Dico Group

On January 3, 2014, we completed the acquisition of Insco Insurance Services, Inc. ("Insco Dico") and its subsidiaries for a purchase price of approximately $88.7 million. Insco Dico's subsidiaries include Developers Surety and Indemnity Company and Indemnity Company of California, which offer surety insurance to developers and contractors in all 50 states with California as the largest state. In addition, Insco Dico's subsidiary, Builders Insurance Services, markets general liability insurance policies to contractors in several states in the western region of the U.S. As a result of this acquisition, we recorded approximately $55.5 million of written premium and $3.7 million of fee income for the year ended December 31, 2014.

Sagicor Europe Limited

On December 23, 2013, we, through one of our subsidiaries, completed the acquisition of Sagicor Europe Limited (“Sagicor”) and its wholly owned subsidiaries, including Sagicor at Lloyd's Limited, from Sagicor Financial Corporation for approximately $93 million. Sagicor Europe Limited and Sagicor at Lloyd's Limited subsequently changed their names to AmTrust Lloyd's Holdings Limited and AmTrust at Lloyd's Limited, respectively. AmTrust at Lloyd's Limited is a managing agency and owner of Lloyd's property/casualty insurance syndicate 1206 with stamp capacity of $330 million and Lloyd's life insurance syndicate 44 with stamp capacity of $16.5 million. As a result of this acquisition, we recorded approximately $322.8 million of written premium for the year ended December 31, 2014.

Mutual Insurers Holding Company

On May 13, 2013, we completed the acquisition of Mutual Insurers Holding Company (“MIHC”) and its subsidiaries for approximately $49 million. MIHC's primary operating subsidiary, First Nonprofit Insurance Company (“FNIC”), is a provider of property and casualty insurance products to nonprofit organizations in the U.S. Immediately prior to the acquisition, MIHC converted from a mutual form to a stock form of ownership in a transaction “sponsored” by us. As a result of this acquisition, we recorded approximately $58.1 million and $32.1 million of written premium for the years ended December 31, 2014 and 2013, respectively.

AMTCS Holdings, Inc.

On May 3, 2013, we, through our wholly-owned subsidiary AMT Warranty Corp., completed the acquisition of CPPNA Holdings, Inc. (“CPPNA”) from CPP Group LLC, a company based in the United Kingdom, for approximately $40 million. CPPNA subsequently changed its name to AMTCS Holdings, Inc. (“AMTCS”). AMTCS provides administrative services for consumer protection products in the United States, including identity theft protection and warranties related to credit card purchases, to customers of AMTCS's financial services partners. As a result of this acquisition, we recorded approximately $58.4 million and $44.5 million of fee income during the years ended December 31, 2014 and 2013, respectively.

Sequoia Insurance Company

On April 19, 2013, we completed the acquisition of all the issued and outstanding shares of common stock of Sequoia Insurance Company and its subsidiaries (“Sequoia”) for approximately $60 million. Sequoia offers low hazard, property/casualty insurance products, including workers' compensation and commercial package insurance, to small businesses in several western states, with

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California representing Sequoia's largest market. As a result of this acquisition, we recorded approximately $68.3 million and $79.7 million of written premium for the years ended December 31, 2014 and 2013, respectively.

Car Care

On February 28, 2013, we, through our wholly-owned subsidiary AmTrust International Limited (formerly known as IGI Group Limited, "AIL") acquired all of the issued and outstanding shares of capital stock of Car Care Plan (Holdings) Limited (“CCPH”) from Ally Insurance Holdings, Inc (“AIH”). CCPH is an administrator, insurer and provider of auto extended warranty, GAP, Wholesale Floorplan Insurance and other complementary insurance products. CCPH underwrites its products and the products of third-party administrators through its subsidiary Motors Insurance Company Limited (“MICL”), a United Kingdom based insurer. CCPH has operations in the United Kingdom, Europe, China, North America and Latin America. We paid $72 million for the purchase of CCPH. In connection with the closing of the transaction, the parties (or their affiliates) entered into certain other agreements, including a transition services agreement, pursuant to which AIH provides certain transitional services to AIL and us, and two reinsurance agreements, pursuant to which affiliates of AIH reinsure certain insurance contracts of such affiliates with affiliates of AIL. As a result of this acquisition, we recorded approximately $110.8 million and $98.9 million of written premium for the years ended December 31, 2014 and 2013, respectively, and recorded $42.4 million and $31.6 million of fee income for the years ended December 31, 2014 and 2013, respectively.

AHL

AmTrust Holdings Luxembourg S.A.R.L (“AHL”), a holding company that purchases Luxembourg reinsurance companies that allow us to obtain the benefit of the reinsurers’ capital and utilization of their existing and future loss reserves through a series of reinsurance arrangements with one of our subsidiaries, acquired Atlas COPCO Reinsurance S.A. and Re'A Fin S.A. in 2013. These transactions and the result of our utilization of the reinsurers’ equalization reserves are included in our Specialty Risk and Extended Warranty segment and are more fully described in "Significant Acquisitions" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10-K.

Investment in National General Holdings Corp.

We have a 13.2% ownership interest in National General Holdings Corp. ("NGHC"). NGHC is publicly-held insurance holding company (Nasdaq: NGHC) that operates fifteen insurance companies in the United States and writes consumer property and casualty insurance business through independent agents for automobiles. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. NGHC's two largest stockholders are The Michael Karfunkel 2005 Grantor Retained Annuity Trust (the “Trust”) and Michael Karfunkel individually. Michael Karfunkel is the Chairman of our Board of Directors and the father-in-law of Barry D. Zyskind, our Chief Executive Officer. The ultimate beneficiaries of the Trust include Michael Karfunkel’s children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the chairman of the board of directors of NGHC. In accordance with ASC 323-10-15, Investments-Equity Method and Joint Ventures, we account for our investment in NGHC under the equity method as we have the ability to exert significant influence on NGHC's operations. We recorded approximately $28.4 million, $11.6 million and $9.3 million of income during the years ended December 31, 2014, 2013 and 2012, respectively, related to our equity investment in NGHC.

Master Services Agreement

We provide NGHC and its affiliates information technology development services in connection with the development and licensing of a policy management system at a cost which is currently 1.25% of gross written premium of NGHC and its affiliates plus our costs for development and support services. In addition, we provide

NGHC and its affiliates printing and mailing services at a per piece cost for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies we process for NGHC and its affiliates on the policy management system. We recorded approximately $25.6 million, $24.2 million and $14.4 million of fee income for the years ended December 31, 2014, 2013 and 2012, respectively, related to this agreement. Additionally, we provided certain consulting services to NGHC related to Luxembourg-domiciled reinsurance entities in 2014, for which we received $1.1 million for the year ended December 31, 2014.

Asset Management Agreement

We manage the assets of NGHC and certain of its subsidiaries, including the assets of reciprocal insurers managed by subsidiaries of NGHC, for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1 billion or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1 billion. We currently manage approximately $1.4 billion of assets as of December 31, 2014 related to this agreement. As a result of this agreement, we earned approximately $2.0 million, $1.7 million and $1.5 million of asset management fees for the years ended December 31, 2014, 2013 and 2012, respectively.

As a result of the above service agreements with NGHC, the Company recorded fees totaling approximately $28.7 million, $25.9 million and $15.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, the outstanding balance payable by NGHC related to these service fees and reimbursable costs was approximately $16.4 million.

Life Settlement Contracts

We currently have a 50% ownership interest in each of four entities for the purpose of acquiring life settlement contracts, with a subsidiary of NGHC owning the other 50%. 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. The entities (collectively, the “LSC Entities”) are:

•Tiger Capital LLC (“Tiger”);
•AMT Capital Alpha, LLC (“AMT Alpha”);
•AMT Capital Holdings, S.A. (“AMTCH”); and
•AMT Capital Holdings II, S.A. (“AMTCH II”).

The LSC Entities may also acquire premium finance loans made in connection with the borrowers’ purchase of life insurance policies that are secured by the policies. The LSC Entities acquire the underlying policies through the borrowers’ voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator of the Tiger and AMTCH II life settlement contract portfolios, for which it receives an administrative fee. The third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. We provide certain actuarial and finance functions related to the LSC Entities. In conjunction with our 13.2% ownership percentage of NGHC, we ultimately receive 56.6% of the profits and losses of the LSC Entities. As such, in accordance with ASC 810-10, Consolidation, we have been deemed the primary beneficiary and, therefore, consolidate the LSC Entities.

We account for investments in life settlements in accordance with ASC 325-30, Investments in Insurance Contracts, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. We have elected to account for these policies using the fair value method. We determine fair value based upon our estimate of the discounted cash flow related to policies (net of the reserves for improvements in mortality, the possibility that the high net worth individuals represented in our portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to us, 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.

Total capital contributions of $36.1 million and $70.8 million were committed to the LSC Entities during the years ended December 31, 2014 and 2013, respectively, of which our proportionate share was $17.9 million and $35.4 million in those same periods. $1.3 million of this $17.9 million capital contribution was funded in January 2015. The LSC Entities used the contributed capital to pay premiums and purchase policies. Our investments in life settlements and premium finance loans were approximately $264.5 million and $233.0 million as of December 31, 2014 and 2013, respectively, and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. We recorded a gain on investment in life settlement contracts net of profit commission of approximately $12.3 million, $3.8 million and $13.8 million, for the years ended December 31, 2014, 2013 and 2012, respectively.

Reinsurance

Reinsurance is a transaction between insurance companies in which the original insurer, or ceding company, remits a portion of its policy premiums to a reinsurer, or assuming company, as payment for the reinsurer assuming a portion of the insured policies' risk. Reinsurance agreements may be proportional in nature, under which the assuming company shares proportionally in the premiums and losses of the ceding company. Under these "quota share reinsurance" arrangements, the ceding company transfers, or cedes, a percentage of the risk under each policy within the covered class or classes of business to the reinsurer and recovers the same percentage of the ceded loss and loss adjustment expenses. The ceding company pays the reinsurer that same percentage of the insurance premium on the ceded policies, less a ceding commission. Reinsurance agreements may also be structured so that the assuming company indemnifies the ceding company against all or a specified portion of losses on underlying insurance policies in excess of a specified amount, which is called an "attachment level" or "retention." The assuming company provides this

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indemnification for a premium, usually determined as a percentage of the ceding company's insurance premiums for the covered class or classes of business. This arrangement is known as "excess of loss reinsurance." Excess of loss reinsurance may be written in layers, in which a reinsurer or group of reinsurers accepts a band of coverage up to a specified amount. Any liability exceeding the coverage limits of the reinsurance program is retained by the ceding company.

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

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

Loss Reserves

Workers' Compensation Business

We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at a given point in time. In establishing our reserves, we do not use loss discounting, which involves recognizing the time value of money and offsetting estimates of future payments by future expected investment income. Our process and methodology for estimating reserves applies to both our voluntary and assigned risk business and does not include our reserves for mandatory pooling arrangements that we participate in as a condition of doing business in a state that funds workers' compensation assigned risk plans in that state. We record reserves for mandatory pooling arrangements as those reserves are reported to us by the pool administrators. We use a consulting actuary to assist in the evaluation of the adequacy of our reserves for loss and loss adjustment expenses.

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

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

- insurance policy provisions, including coverage, related to the claim;
- jurisdiction of the occurrence; and
- other benefits defined by applicable statute.

The case incurred amount can vary due to uncertainties with respect to medical treatment and outcome, length and degree of disability, employment availability and wage levels and judicial determinations. As changes occur, the case incurred amount is adjusted. The initial estimate of the case incurred amount can vary significantly from the amount ultimately paid, especially in

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circumstances involving severe injuries with comprehensive medical treatment. Changes in case incurred amounts, or case development, are an important component of our historical claim data.

In addition to case reserves, we establish reserves on an aggregate basis for loss and DCC expenses that have been incurred but not reported, or IBNR. Our IBNR reserves are also intended to provide for aggregate changes in case incurred amounts as well as the unpaid cost of recently reported claims for which an initial case reserve has not yet been established.

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

We began writing workers' compensation in 2001. In order to establish IBNR reserves, we project ultimate losses by accident year both through use of our historical experience, and the use of industry experience by state. Our consulting actuary projects ultimate losses in two different ways:

- Quarterly Incurred Development Method (Use of AmTrust Factors). Quarterly incurred loss development factors are derived from our historical, cumulative incurred losses by accident month. These factors are then applied to the latest actual incurred losses and DCC by month to estimate ultimate losses and DCC, based on the assumption that each accident month will develop to estimated ultimate cost in a similar manner to prior years. There is a substantial amount of judgment involved in this method.
- Annual Incurred Development (Use of AmTrust Factors). Yearly incurred loss development factors are derived from our historical, cumulative incurred losses by accident year. These factors are then applied to the latest actual incurred losses and DCC by year to estimate ultimate losses and DCC.

Each method produces estimated ultimate loss and DCC expenses net of amounts that will be ultimately paid by our excess of loss reinsurers. Our consulting actuary estimates a range of ultimate losses, along with a selection that gives more weight to the results from our monthly development factors and less weight to the results from industry development factors.

We establish IBNR reserves for our workers' compensation segment by determining an "ultimate loss pick," which is our estimate of our net loss ratio for a specific period, based on actual incurred losses and application of loss development factors. We estimate our ultimate incurred loss and DCC for a period by multiplying the ultimate loss pick for the period by the earned premium for the period. From that total, we subtract actual paid loss and DCC and actual case reserves for reported losses. The remainder constitutes our IBNR reserves. On a monthly basis, our consulting actuary reviews our IBNR reserves. On a monthly basis, we review our determination of our ultimate loss pick.

Management establishes our reserves by making judgments based on its application of our and industry-wide loss development factors, consideration of our consulting actuary's application of the same loss development factors, and underwriting, claims handling and other operational considerations. In utilizing its judgment, management makes certain assumptions regarding our business, including, among other things, frequency of claims, severity of claims and claim closure rates.

Management makes its final selection of loss and DCC reserves after reviewing the actuary's results; consideration of other underwriting, claim handling and operational factors; and the use of judgment. To establish our AO reserves, we review our past adjustment expenses in relation to past claims and estimate our future costs based on expected claims activity and duration.

As of December 31, 2014, our best estimate of our ultimate liability for workers' compensation loss and loss adjustment expenses, net of amounts recoverable from reinsurers, was $1,533.3 billion, of which $55.3 million was reserves resulting from our participation in mandatory pooling arrangements, as reported by the pool administrators. This estimate was derived from the procedures and methods described above, which rely, substantially, on judgment.

The two methods described above are "incurred" development methods. These methods rely on historical development factors derived from changes in our incurred losses, which are estimates of paid claims and case reserves over time. As a result, if case reserving practices change over time, the two incurred methods may produce substantial variation in the estimate of ultimate losses. We have not used any "paid" development methods, which rely on actual claims payment patterns and, therefore, are not sensitive to changes in case reserving procedures. As our paid historical experience grows, we will consider using "paid" loss development methods.

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Of the two methods above, the use of industry loss development factors has consistently produced higher estimates of workers' compensation losses and DCC expenses. The table below shows this higher estimate, along with the lower estimate produced by our monthly factors as of December 31, 2014:

(Amounts in Millions)	Loss & DCC Expense Reserves	Mandatory Pooling Arrangements	Total
Gross Workers' Compensation Reserves:			
Lower estimate	$2,149.7	$55.3	$2,205.0
Gross reserve	2,390.6	55.3	2,445.9
Higher estimate	2,566.9	55.3	2,622.2
Net Workers' Compensation Reserves:			
Lower estimate	$1,331.3	$55.3	$1,386.6
Net reserve	1,478.0	55.3	1,533.3
Higher estimate	1,585.5	55.3	1,640.8

The higher estimate would increase net reserves by $107.5 million and reduce net income and stockholders' equity by $69.8 million. The lower net estimate would decrease net reserves by $146.7 million and increase net income and stockholders equity by $95.4 million. A change in our net loss and DCC expense reserve would not have an immediate impact on our liquidity, but would affect cash flows in future years as claim and expense payments made.

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

Specialty Risk and Extended Warranty

Our actual net reserves, including IBNR, on Specialty Risk and Extended Warranty as of December 31, 2014 and 2013 were $1,089.0 million and $1,026.4 million, respectively. An upward movement of 5% on overall reserves would result in a reduction of income in 2014 of $54.5 million before tax and $35.4 million after tax. A downward movement of 5% on overall reserves would result in an increase of income of $54.5 million before tax and $35.4 million after tax.

Specialty Risk and Extended Warranty claims are usually paid quickly, development on known claims is negligible, and generally, case reserves are not established. IBNR reserves for warranty claims are generally "pure" IBNR, which refers to amounts for claims that occurred prior to an accounting date but are reported after that date. The reporting lag for warranty IBNR claims is generally small, usually in the range of one to three months. Management determines warranty IBNR by examining the experience of individual coverage plans. Our consulting actuary, at the end of each calendar year, reviews our IBNR by looking at our overall coverage plan experience, with assumptions of claim reporting lag and average monthly claim payouts. Our net IBNR as of December 31, 2014 and 2013 for our Specialty Risk and Extended Warranty segment was $375 million and $321 million, respectively. The increase in the net IBNR resulted primarily from an increase of written premium. Though we believe this is a reasonable best estimate of future claims development, this amount is subject to a substantial degree of uncertainty.

There is generally more uncertainty in the unearned premium reserve than in the IBNR reserve in our Specialty Risk and Extended Warranty segment because warranty is short-duration business. Claims are generally reported immediately after they occur and are closed within months of reporting. In the Specialty Risk and Extended Warranty segment, the reserve for unearned premium is, in general, an estimate of our liability for projected future losses emanating from the unearned portion of written policies and is inherently more uncertain. Approximately 69% of polices written have policy terms exceeding one year and currently range between 13 months and 120 months. A portion of these policies are not earned evenly over the contract period but over the period of risk in proportion to the amount of insurance protection provided. As of December 31, 2014, we had unearned premium of approximately of $749.5 million on these policies. An upward/downward movement of 5% on the entire pool of the earn out pattern for these policies would result in an increase/decrease in unearned premium of approximately $37.5 million. In 2014, we had no material changes to prior period estimates of these claim patterns. Our liability for return of unearned premium is not significant.

The reserve for Specialty Risk and Extended Warranty unearned premium is calculated by analyzing each coverage plan separately, subdivided by contract year, type of product and length of contract, ranging from one month to five years. These subdivisions produced, in a recent analysis, about 150 separate reserve calculations. These individual reserve calculations may differ in actuarial methodologies depending on:

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

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

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

The average claim cost is also determined by using past and/or current experience of the same or similar contracts.

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

Different Specialty Risk and Extended Warranty products have different patterns of incidence during the period of risk. Some products tend to show increasing incidence of claims during the risk period; others may show relatively uniform incidence of claims, while still others tend to show decreasing claim incidence. We have assumed, on average, a uniform incidence of claims for all contracts combined, based on our review of contract provisions and claim history. Incorrect earnings of warranty policy premiums, inadequate pricing of warranty products, changes in conditions during long contract durations or incorrect estimates of future warranty losses on unexpired contracts may produce a deficiency or a redundancy in the unearned premium reserve. Our unearned premium reserve as of December 31, 2014 and 2013 for our Specialty Risk and Extended Warranty segment was $1,086.3 million and $1,027.0 million, respectively. Although we believe this is a reasonable best estimate of our unearned premium reserve, this amount is subject to a substantial degree of uncertainty.

Property and Casualty Insurance

We record reserves for estimated losses under insurance policies that we write and for loss adjustment expense related to the investigation and settlement of policy related claims. Our reserves for loss and loss adjustment expenses represent the estimated costs of all reported and unreported loss and loss adjustment expenses incurred and unpaid at a given point in time. In establishing our reserves we do not use loss discounting. We utilize the services of an independent consulting actuary to assist in the evaluation of the adequacy of our reserves for loss and loss adjustment expenses.

When a claim is reported, an initial case reserve is established for the estimated amount of the loss based on the adjuster’s view of the most likely outcome of the claim at that time. Initial case reserves are established within 30 days of the claim report date and consist of anticipated liability payments, first party payments, medical costs, and DCC expenses. This establishes a case incurred amount for a particular claim. The estimated amount of loss for a reported claim is based upon various factors, such as:

- line of business — general liability, auto liability, or auto physical damage;
- severity of injury or property damage;
- number of claimants;
- statute of limitation and repose;
- insurance policy provisions, especially applicable policy limits and coverage limitations;

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- expected medical procedures, costs, and duration treatment;
- our knowledge of circumstances surrounding the claim; and
- possible salvage and subrogation.

Case incurred amounts can vary greatly because of the uncertainties inherent in the estimates of severity of loss, costs of medical treatments, judicial rulings, litigation expenses, and other factors. As changes occur, the case reserves are adjusted. The initial estimate of a claim's incurred amount can vary significantly from the amount ultimately paid when the claim is closed, especially in the circumstances involving litigation and severe personal injuries. Changes in case incurred amounts, also known as case development, are an important component of our historical claim data.

In addition to case reserves, we establish reserves on an aggregate basis for loss and DCC expenses that have been incurred but not yet reported, or IBNR. Our IBNR reserves are also intended to include aggregate development on known claims, provision for claims that re-open after they have been closed, and provision for claims that have been reported but have not yet been recorded.

The final component of the reserves for loss and loss adjustment expenses is the estimate of the AO reserve. This reserve is established for the costs of future unallocated loss adjustment expenses for all known and unknown claims. Our AO reserve covers primarily the estimated cost of administering claims by our claim staff.

We began writing general liability, commercial auto and commercial property (jointly known as CPP) business in 2006. In order to establish IBNR for CPP lines of business, we rely on three methods that utilize industry development patterns by line of business:

- Yearly Incurred Development (Use of Industry Factors by Line). For each line, the development factors are taken directly from Insurance Services Office, Inc. ("ISO") loss development publications for a specific line of business. These factors are then applied to the latest actual incurred losses and DCC by accident year, by line of business to estimate ultimate losses and DCC;
- Expected Loss Ratio. For each line, an expected loss ratio is taken from our original account level pricing analysis. These loss ratios are then applied to the earned premiums by line by year to estimate ultimate losses and DCC; and
- Bornhuetter-Ferguson Method. For each line, IBNR factors are developed from the applicable industry loss development factors and expected losses are taken from the original account level pricing analysis. IBNR factors are then applied to the expected losses to estimate IBNR and DCC.

For CPP lines of business, ultimate loss and IBNR selections are based on one of the above methods depending on the accident year and line of business. Our consulting actuary estimates a range of ultimate losses, along with the recommended IBNR and reserve amounts.

Because we determine our reserves based on industry incurred development patterns, our ultimate losses may differ substantially from our estimates produced by the above methods.
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In 2008, we acquired retail commercial package business in connection with our acquisition of a subsidiary of Unitrin, Inc. ("UBI"). We were able to access UBI's historical loss data for analysis of that business. Additionally, the claims adjusting has remained stable. As such, we are in the process of developing our own development patterns without the use of industry factors. Similar methods involved in determining reserves are consistent as described above for other property and casualty business.

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Reconciliation of Loss and Loss Adjustment Expense Reserves

The table below shows the reconciliation of loss reserves on a gross and net basis for the years ended December 31, 2014, 2013 and 2012, reflecting changes in losses incurred and paid losses:

(Amounts in Thousands)	2014	2013	2012
Unpaid losses and LAE, gross of related reinsurance recoverables at beginning of year	$4,368,234	$2,426,400	$1,879,175
Less: Reinsurance recoverables at beginning of year	1,739,689	1,180,212	972,392
Net balance, beginning of year	2,628,545	1,246,188	906,783
Incurred related to:			
Current year	2,324,062	1,486,418	909,818
Prior year	18,557	30,943	12,857
Total incurred losses during the year	2,342,619	1,517,361	922,675
Paid losses and LAE related to:			
Current year	(886,724)	(617,539)	(406,238)
Prior year	(554,495)	(335,621)	(285,479)
Total payments for losses and LAE	(1,441,219)	(953,160)	(691,717)
Commuted loss reserves	—	—	91,529
Acquired outstanding loss and loss adjustment reserve	71,755	807,592	13,137
Effect of foreign exchange rates	(86,939)	10,564	3,781
Net balance, December 31	3,514,761	2,628,545	1,246,188
Plus reinsurance recoverables at end of year	2,149,444	1,739,689	1,180,212
Unpaid losses and LAE, gross of related reinsurance recoverables at end of year	$5,664,205	$4,368,234	$2,426,400
Gross loss reserves by segment:			
Small Commercial Business	$2,854,380	$1,982,977	$1,266,261
Specialty Risk and Extended Warranty	1,669,293	1,537,887	605,366
Specialty Program	1,126,435	817,272	524,928
Personal Lines Reinsurance - Run off	14,097	30,098	29,845
	$5,664,205	$4,368,234	$2,426,400

For the years ended December 31, 2014, 2013 and 2012, our gross reserves for loss and loss adjustment expenses were $5,664.2 million, $4,368.2 million, and $2,426.4 million, of which our IBNR reserves constituted 49.6%, 42.4% and 34.5%, respectively.

Loss Development

The table below shows the net loss development for business written each year from 2004 through 2014. The table reflects the changes in our loss and loss adjustment expense reserves in subsequent years from the prior loss estimates based on experience as of the end of each succeeding year on a general accepted accounting principles ("GAAP") basis.

The next section of the table sets forth the re-estimates in later years of incurred losses, including payments, for the years indicated. The next section of the table shows, by year, the cumulative amounts of loss and loss adjustment expense payments, net of amounts recoverable from reinsurers, as of the end of each succeeding year. For example, with respect to the net loss reserves of $84.9 million as of December 31, 2004, by December 31, 2006 (two years later), $25.1 million had actually been paid in settlement of the claims that relate to liabilities as of December 31, 2004.

The “cumulative redundancy (deficiency)” represents the aggregate change in the estimates over all prior years. Therefore, each amount in the table includes the effects of changes in reserves for all prior years. For example, assume a claim that occurred in 2004 is reserved for $4.0 million as of December 31, 2004. Assuming this claim estimate was changed in 2013 to $4.4 million, and was settled for $4.4 million in 2013, the $0.4 million deficiency would appear as a deficiency in each year from 2004 through

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2012. A redundancy means that the original estimate was higher than the current estimate. A deficiency means that the current estimate is higher than the original estimate.

Analysis of Loss and Loss Adjustment Expense Reserve Development

	As of and for the Year Ended December 31,									
(Amounts in Thousands)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Reserve for loss and loss adjustment expenses, net of reinsurance recoverables	$84,919	$150,340	$251,678	$517,365	$509,656	$530,070	$592,660	$906,783	$1,246,188	$2,628,545
Net reserve estimated as of										
One year later	83,957	150,854	253,767	516,821	504,829	538,016	604,302	919,640	1,277,132	2,647,102
Two years later	83,293	150,516	215,465	519,346	490,379	540,723	641,557	961,013	1,345,776	
Three years later	82,906	122,601	221,362	518,877	491,613	559,251	669,883	1,003,525		
Four years later	70,146	120,975	220,505	515,427	497,276	565,322	675,608			
Five years later	71,012	121,716	216,830	517,866	493,967	557,913				
Six years later	70,078	120,618	216,922	519,462	485,820					
Seven years later	69,499	120,582	215,805	514,978						
Eight years later	69,383	119,915	213,571							
Nine years later	69,071	118,333								
Ten years later	68,137									
Net cumulative redundancy (deficiency)	16,782	32,007	38,107	2,387	23,836	(27,843)	(82,948)	(96,742)	(99,588)	(18,557

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	Year Ended December 31,									
(Amounts in Thousands)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Cumulative amount of reserve paid, net of reinsurance recoverable through										
One year later	$14,436	$24,050	$38,010	$141,992	$102,644	$158,737	$253,309	$354,768	$333,460	$554,495
Two years later	25,113	35,894	83,671	184,875	182,260	291,824	426,656	536,346	596,343	
Three years later	33,049	49,625	98,495	229,227	261,397	388,821	516,315	686,421		
Four years later	39,855	53,853	109,422	270,522	311,112	434,906	600,057			
Five years later	42,628	55,885	116,282	295,135	331,733	476,843				
Six years later	42,983	57,094	122,185	303,689	352,925					
Seven years later	43,549	59,280	125,518	315,072						
Eight years later	44,772	60,424	127,588							
Nine years later	45,311	61,372								
Ten years later	45,690									
Net reserve – December 31,	84,919	150,340	251,678	517,365	509,656	530,070	592,660	906,783	1,246,188	2,628,545
Reinsurance Recoverable	14,445	17,667	44,127	258,027	504,404	561,874	670,877	972,392	1,180,212	1,739,689
Gross reserves – December 31,	99,364	168,007	295,805	775,392	1,014,060	1,091,944	1,263,537	1,879,175	2,426,400	4,368,234
Net re-estimated reserve	68,137	118,333	213,571	514,978	485,820	557,913	675,608	1,003,525	1,345,776	2,647,102
Re-estimated reinsurance recoverable	11,590	13,906	37,446	256,836	480,814	591,387	764,772	1,059,640	1,274,528	1,782,568
Gross re-estimated reserve	79,727	132,239	251,017	771,814	966,634	1,149,300	1,440,380	2,063,165	2,620,304	4,429,670
Gross cumulative redundancy (deficiency)	19,637	35,768	44,788	3,578	47,426	(57,356)	(176,843)	(183,990)	(193,904)	(61,436)

In 2014 and 2013, our liabilities for unpaid loss and LAE attributable to prior years increased by $18.6 million and $30.9 million, respectively, due to higher actuarial estimates based on actual losses.

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Investments

Our investment portfolio exclusive of life settlement contracts and other investments is summarized in the table below by type of investment.

	December 31, 2014			December 31, 2013		
(Amounts in Thousands)	Carrying Value	Percentage of Portfolio		Carrying Value	Percentage of Portfolio	
Cash, cash equivalents and restricted cash	$1,088,975	19.7	%	$930,461	22.4	%
Time and short-term deposits	63,916	1.2		114,202	2.7	
U.S. treasury securities	43,870	0.8		110,345	2.7	
U.S. government agencies	13,538	0.2		10,489	0.3	
Municipals	482,041	8.7		446,183	10.7	
Foreign government	112,731	2.0		160,105	3.8	
Commercial mortgage back securities	38,685	0.7		28,566	0.7	
Residential mortgage backed securities:						
Agency backed	975,782	17.7		423,137	10.2	
Non-agency backed	22,503	0.4		6,749	0.2	
Asset-backed securities	710	—		6,120	0.1	
Corporate bonds	2,563,414	46.6		1,909,242	45.9	
Preferred stocks	3,506	0.1		1,506	—	
Common stocks	104,287	1.9		13,642	0.3	
	$5,513,958	100.0	%	$4,160,747	100.0	%

Investments in foreign government securities include securities issued by national entities as well as instruments that are unconditionally guaranteed by such entities. As of December 31, 2014, our foreign government securities were issued or guaranteed primarily by governments in Canada and Europe.

The table below summarizes the credit quality of our fixed maturity securities as of December 31, 2014 and 2013, as rated by Standard and Poor’s.

	2014		2013	
U.S. Treasury	1.0	%	4.7	%
AAA	6.7		11.6	
AA	39.0		34.8	
A	27.9		23.8	
BBB, BBB+, BBB-	23.4		23.3	
BB, BB+, BB-	1.6		1.5	
B, B+, B-,	0.1		0.2	
Other	0.3		0.1	
Total	100.0	%	100.0	%

Our equity investments constitute approximately 2.0% of our investment portfolio and are generally split into two types of investment categories. One category consists mainly of large capitalized companies, for which the individual investments are generally liquid in nature and their market prices are typically reflective of their value. The second category is small capitalized companies with an average market capitalization of approximately $400 million, most without widespread distribution or trading of shares. We have invested in this second category of securities in which we believe true value is not properly reflected in the market price and where a catalyst, or event, will send the market price toward our estimate of true value. We typically have a holding period of 36 months for these equity securities. This catalyst, in many instances, takes up to 24 months to occur. Sometimes, a catalyst that does not occur soon after our initial investment requires the passage of another operating cycle, and the 24 month time frame allows for these types of situations. These equity securities tend to be relatively unknown stocks that have less trading volume than well-known or larger capitalized stocks and can, therefore, experience significant price fluctuations without fundamental reasons. These price fluctuations can be large on a percentage basis because many stocks in this category are also low-priced stocks that are often distressed or in a turnaround phase. We believe that in down markets, equity securities with lower turnover are more heavily penalized by the market, even when the underlying fundamentals of the security have held up. Therefore, we believe, and our experience bears out, that, for investments in small cap stocks, an unrealized loss of 35% or less is not necessarily indicative of a fundamental problem with the issuer. Prices of lower turnover stocks can also react significantly to a catalyst or an event that causes market participants to take an interest. When the market participants' interest increases in an equity security, causing trading volume and market bid to increase, we typically seek to exit these positions. For these reasons, we generally consider certain equity investments in this small capitalization category to be other than temporarily impaired when the investment is in an unrealized loss position in excess of 35% of cost basis for greater than 24 months.

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

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

Certain International Tax Considerations

We operate our business in several foreign countries and are subject to taxation in several foreign jurisdictions. A brief description of certain international tax considerations affecting us appears below.

Bermuda

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

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

During 2012, AII made a Section 953(d) election. This election, which became effective starting January 1, 2012, means that for U.S. federal income tax purposes, AII is now treated as a U.S. corporation that is subject to tax and is included in our consolidated U.S. tax return. The other remaining significant Bermuda operations are not currently subject to taxation in the U.S. These operations meet certain legislative exceptions in the Internal Revenue Code that allow for deferral of taxation on the earnings generated by these operations until such earnings are repatriated to the U.S.

Ireland

AmTrust International Underwriters Limited (“AIU”), a company incorporated in Ireland, is managed and controlled in Ireland and, therefore, is resident in Ireland for Irish tax purposes and subject to Irish corporation tax on its worldwide profits (including revenue profits and capital gains). Income derived by AIU from an Irish trade (that is, a trade that is not carried on wholly outside of Ireland) is subject to Irish corporation tax at the current rate of 12.5%. Other income (that is, income from passive investments, income from non-Irish trades and income from certain dealings in land) is generally subject to Irish corporation tax at the current rate of 25%.

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The Irish Revenue Commissioners have published a statement indicating that deposit interest earned by an insurance company on funds held for regulatory purposes is regarded as part of the insurance company's trading income, and accordingly is part of the profits taxed at 12.5%. This statement also indicates acceptance of case law that states that investment income of an insurance company is likewise considered as trading income where it is derived from assets required to be held for regulatory capital purposes. Other investment income earned by AIU is generally taxed in Ireland at a rate of 25%.

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

As long as our principal class of common stock is listed on a recognized stock exchange in an EU member state or country with which Ireland has a tax treaty (e.g., NASDAQ), and provided that such shares are substantially and regularly traded on that exchange, Irish dividend withholding tax does not apply to dividends and other distributions paid by AIU to its parent, provided that the parent makes an appropriate declaration, in prescribed form, to AIU before the dividend is paid.

AmTrust or any of our subsidiaries, other than AIU, will not be considered resident in Ireland for Irish tax purposes unless the central management and control of such companies is, as a matter of fact, located in Ireland.

Insurance companies are subject to an insurance premium tax in the form of a stamp duty charged at 3% of certain premium income. It applies to general insurance business, other than:

- reinsurance;
- life insurance;
- certain, maritime, aviation and transit insurance; and
- health insurance.

This tax applies to a premium in respect of a policy where the risk is located in Ireland. Legislation provides that risk is located in Ireland:

- in the case of insurance of buildings together with their contents, where the building is in Ireland;
- in the case of insurance of vehicles, where the vehicle is registered in Ireland;
- in the case of insurance of four months or less duration of travel or holiday if the policyholder took out the policy in Ireland; and
- in all three cases of insurance where the policyholder is resident in Ireland, or if not an individual, where the head office of the policyholder is in Ireland or its branch to which the insurance relates is in Ireland.

An additional contribution of 2% to the Insurance Compensation Fund applies to premiums received in relation to non-life insurance policies. Similar to the 3% non-life insurance level noted above, the contribution applies where premiums are received in respect of risks located in Ireland.

Luxembourg

We have eleven Luxembourg-based subsidiaries. AmTrust Insurance Luxembourg S.A., our non-life insurance company, is owned by AmTrust Equity Solutions, Ltd. AHL, a Luxembourg holding company, is owned by AII, our Bermuda insurance company. AHL owns all of the issued and outstanding stock of our seven Luxembourg-domiciled reinsurance companies. The reinsurance companies have accumulated equalization reserves, which are catastrophe reserves in excess of required reserves that are determined by a formula based on the volatility of the business reinsured. Because AII is an insurance company with the ability to cede premiums and losses, the reinsurance companies are well-positioned to either maintain or utilize their equalization reserves. Luxembourg does not impose any income, corporation or profits tax on AHL or its subsidiaries provided sufficient premium and/or associated losses cause the equalization reserves to be either maintained or exhausted. However, if the reinsurance companies cease to write business or are unable to utilize their equalization reserves, they will ultimately recognize income that will be taxed by Luxembourg at a rate of approximately 30%. To mitigate any potential tax liability, we restructured our Luxembourg operations by entering a fiscal unity structure for Luxembourg tax purposes. AHL entered into a common agreement, effective January 1, 2013, to benefit from the fiscal unity regime present in Luxembourg. Under the agreements, AHL and the Luxembourg reinsurance companies will benefit as any tax losses accrued by any members of the fiscal unity group will be available to offset any taxable profits to be realized by any other members of the group including, but not limited to, any income as a result of the reduction in the equalization reserves.

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

Dividend payments made by AmTrust Insurance Luxembourg S.A. or AHL to their respective parent companies are subject to withholding taxes of 15%.

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

United Kingdom

AIL, a company incorporated in the United Kingdom, is managed and controlled in the U.K. and, therefore, is treated as a resident in the U.K. for U.K. tax purposes and subject to corporation tax on its worldwide profits (including revenue profits and capital gains). AIL is a holding company of 44 subsidiaries, of which 26 are domiciled and managed in the U.K. Earnings derived by AIL and its U.K. domiciled subsidiaries are subject to British corporation tax at the rate of 21% from April 1, 2014 and 20% from April 1, 2015.

AIL's subsidiaries domiciled outside of the U.K. are subject to taxation in their respective countries. All of the foreign subsidiaries are treated as separate legal and taxing bodies that are not taxed in the U.K. These subsidiaries are located in Spain, Italy, Brazil, Germany, Singapore, Malaysia, Indonesia, India, Russia, Ireland, Cayman Island, and China.

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

AIL may pay dividends to its parent free of U.K. withholding tax. Dividends paid to AIL from its subsidiaries could be subject to potential withholding taxes from the countries in which the subsidiaries are domiciled. The withholding rates are subject to provisions within the double tax treaties. In the current structure of AIL, dividends paid by its indirectly owned China entity would be subject to a 5% withholding tax. Dividends paid by its indirectly owned Russia entity would be subject to a 5% withholding tax, and dividends paid by its indirectly owned Indonesia entity would be subject to a 10% withholding tax.

We do not expect AmTrust or any of its subsidiaries, other than AIL and its U.K. subsidiaries, to be resident in the U.K. for tax purposes unless the central management and control of such companies is, as a matter of fact, located in the U.K. A company not resident in the U.K. for tax purposes can be subject to corporation tax if it carries on a trade through a branch or agency in the U.K. or disposes of certain specified assets (e.g., land, minerals, or mineral rights, or unquoted shares deriving the greater part of their value from such assets). In such cases, the charge to corporation tax is limited to trading income connected with the branch or agency, capital gains on the disposal of assets used in the branch or agency which are situated in the U.K. at or before the time of disposal, capital gains arising on the disposal of specified assets, with tax imposed at the rates discussed above, plus U.K. income tax (generally by way of withholding) on certain U.K. source income.

Insurance companies are subject to an insurance premium tax at 6%. The premium tax applies to premiums for most general insurance, such as for buildings and contents and motor insurance, where the insured risk is in the U.K. Life assurance and other long term insurance remain exempt, though there are anti-avoidance rules surrounding long term medical care policies. As an anti-avoidance measure, the rate increases to 20% for insurance sold by suppliers of specified goods or services, e.g. mechanical breakdown insurance, travel insurance (irrespective of supplier), insurance sold with televisions and car hire, and, from April 1, 2004 forward, any “non-financial” GAP insurance sold through suppliers of motor vehicles or persons connected with them.

Ratings

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

These ratings were derived from an in-depth evaluation of these subsidiaries’ balance sheets strengths, operating performances and business profiles. A.M. Best evaluates, among other factors, the company’s capitalization, underwriting leverage, financial

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leverage, asset leverage, capital structure, quality and appropriateness of reinsurance, adequacy of reserves, quality and diversification of assets, liquidity, profitability, spread of risk, revenue composition, market position, management, market risk and event risk. A.M. Best ratings are intended to provide an independent opinion of an insurer's ability to meet its obligations to policyholders and are not an evaluation directed at investors.

Regulation

General

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

United States

As of December 31, 2014, we had fifteen operating insurance subsidiaries domiciled in the United States: AmTrust Insurance Company of Kansas, Inc. ("AICK"), Associated Industries Insurance Company, Inc., AmTrust Lloyd's Insurance Company of Texas ("ALIC"), Comp Options, Developers Surety and Indemnity Company, First Atlantic Title Insurance Corp., FNIC, Indemnity Company of California, Milwaukee Casualty Insurance Co. ("MCIC"), Rochdale Insurance Company ("RIC"), Sequoia Insurance Company ("SIC"), Sequoia Indemnity Company ("SID"), Security National Insurance Company ("SNIC"), Technology Insurance Company, Inc, ("TIC"), and Wesco Insurance Company ("WIC") (the "U.S. Insurance Subsidiaries").

Holding Company Regulation

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

The insurance laws in most states provide that all transactions among members of an insurance holding company system must be fair and reasonable. These laws require disclosure of material transactions within the holding company system and, in some cases, prior notice of or approval for certain transactions, including, among other things, (a) the payment of certain dividends, (b) cost sharing agreements, (c) intercompany agency, service or management agreements, (d) acquisition or divestment of control of or merger with domestic insurers, (e) sales, purchases, exchanges, loans or extensions of credit, guarantees or investments if such transactions are equal to or exceed certain thresholds, and (f) reinsurance agreements. All transactions within a holding company system affecting an insurer must have fair and reasonable terms and are subject to other standards and requirements established by law and regulation.

Dividends

Our U.S. Insurance Subsidiaries are subject to statutory requirements as to maintenance of policyholders' surplus and payment of dividends. In general, the maximum amount of dividends that the U.S. Insurance Subsidiaries may pay in any 12-month period without regulatory approval is the greater of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is generally defined for this purpose to be statutory net income, net of realized capital gains, for the calendar year preceding the date of the dividend. Also, most states restrict an insurance company's ability to pay dividends in excess of its statutory unassigned surplus or earned surplus. Lastly, state insurance regulators may limit or restrict an insurance company's ability to pay stockholder dividends as a condition to issuance of a certificate of authority or as a condition to approval of a change of control, or for other regulatory reasons.

Change of Control

State insurance holding company laws require advance approval by the respective state insurance departments of any change of control of an insurer. "Control" is generally defined as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the company, whether through the ownership of voting securities, by contract or otherwise. Control is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. In addition, insurance laws in many states contain provisions that require pre- and post-notification to the insurance departments of a change of control of certain non-domestic insurance companies licensed in those states, as well as post-notification of a change of control of certain agencies and third party administrators.

Any future transactions that would constitute a change of control, including a change of control of AmTrust and/or any of our U.S. Insurance Subsidiaries, would generally require the party acquiring or divesting control to obtain the prior approval of the department of insurance in the state in which the insurance company being acquired is domiciled (and in any other state in which the company may be deemed to be commercially domiciled by reason of concentration of its insurance business within such state) and may also require pre-notification in certain other states. Obtaining these approvals may result in the material delay of, or deter, any such transaction.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of AmTrust, including through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

State Insurance Regulation

Insurance companies are subject to regulation and supervision by the department of insurance in the state in which they are domiciled and, to a lesser extent, other states in which they are authorized to conduct business. The primary purpose of such regulatory powers is to protect individual policyholders. State insurance authorities have broad regulatory, supervisory and administrative powers, including, among other things, the power to (a) grant and revoke licenses to transact business, including individual lines of authority, (b) set the standards of solvency to be met and maintained, (c) determine the nature of, and limitations on, investments and dividends, (d) approve policy rules, rates and forms prior to issuance, (e) regulate and conduct specific examinations regarding marketing, unfair trade, claims and fraud prevention and investigation practices, and (f) conduct periodic comprehensive and risk-focused examinations of the financial condition of insurance companies domiciled in their state. In particular, the U.S. Insurance Subsidiaries' commercial policy rates and forms, including workers' compensation policies, are closely regulated in all states. Workers' compensation insurers are also subject to regulation by the specific workers' compensation regulators in the states in which they provide such insurance.

Our U.S. Insurance Subsidiaries are required to file detailed financial statements and other reports with the departments of insurance in all states in which they are licensed to transact business. These reports include details concerning claims reserves held by the insurer, specific investments held by the insurer, and numerous other disclosures about the insurer's financial condition and operations. These financial statements are subject to periodic examination by the department of insurance in each state in which they are filed.

State insurance laws and insurance departments also regulate investments that insurers are permitted to make. Limitations are placed on the amounts an insurer may invest in a particular issuer, as well as the aggregate amount an insurer may invest in certain types of investments. Certain investments (such as real estate) are prohibited by certain jurisdictions. Each of our domiciliary states has its own regulations and limitations on the amounts an insurer may invest in a particular issuer and the aggregate amount an insurer may invest in certain types of investments. In general, investments may not exceed a certain percentage of surplus, admitted assets or total investments. To ensure compliance in each state, we review our investment portfolio quarterly based on each state's regulations and limitations.

In addition, many states have laws and regulations that limit an insurer's ability to withdraw from a particular market. For example, states may limit an insurer's ability to cancel or not renew policies. Furthermore, certain states prohibit an insurer from withdrawing from one or more lines of business written in the state, except pursuant to a plan that is approved by the state insurance department. The state insurance department may disapprove any proposed plan that may lead to market disruption. Laws and regulations that limit cancellation and non-renewal and that subject program withdrawals to prior approval requirements may restrict the ability of our U.S. Insurance Subsidiaries to exit unprofitable markets.

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

Federal and State Legislative and Regulatory Changes

From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the National Association of Insurance Commissioners ("NAIC"). The NAIC has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulatory framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. In December 2010, the NAIC adopted amendments to the Insurance Holding Company System Regulatory Act ("Model Act 440") and the Insurance Holding Company System Model Regulation (the "Model Regulation 450") to introduce the concept of "enterprise risk" within an insurance company holding system. "Enterprise risk" is defined as any activity, circumstance, event or series of events involving one or more affiliates of an insurer that, if not remedied promptly, is likely to have a material adverse effect upon the financial condition or the liquidity of the insurer or its insurance holding company system as a whole. Model Act 440 and Model Regulation 450 impose more extensive informational requirements on us in order to protect the licensed insurance companies from enterprise risk. For example, Model Act 440 requires the insurance companies to submit an enterprise risk report that identifies the material risks within the insurance company holding system that could pose enterprise risk to the licensed insurer, the requirements of which are outlined in Model Regulation 450 under "Form F." This filing is submitted annually with the insurance company's Form B holding company registration statement. In addition, the Model Act 440 and Model Regulation 450 require any controlling person of a domestic insurer seeking to divest its controlling interest to file a notice of its proposed divestiture, which may be subject to approval by the insurance commissioner. Model Act 440 and Model Regulation 450 have been adopted in all the states in which our U.S. Insurance Companies are domiciled. Additionally, the NAIC has adopted the Risk Management and Own Risk and Solvency Assessment (ORSA) Model Act, which requires insurers to perform an ORSA and, upon request of a state, file an ORSA Summary Report with the state. The ORSA Summary Report is required to be filed in 2015, subject to the various dates of adoption by states, and will describe our process for assessing our own solvency. Also, as part of the Solvency Modernization Initiative, the NAIC has adopted the Corporate Governance Annual Filing Model Regulation and Corporate Governance Annual Disclosure Model Act to become effective in 2016 that will require us to file a confidential report prepared by the insurer or insurance group, the purpose of which is to provide the most relevant information necessary to permit state regulators to gain an understanding of the corporate governance structure, policies and practices utilized by the insurer.

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") that established a Federal Insurance Office (the "FIO") within the U.S. Department of the Treasury. The FIO was initially charged with monitoring certain aspects of the insurance industry, gathering data, and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. In 2013, the FIO issued a report entitled "How to Modernize and Improve the System of Insurance Regulation in the United States" (the "Report"), which recommended that Congress consider direct federal involvement should the states fail to accomplish necessary modernization reforms in the near term.The FIO continues to support the current state-based regulatory regime, but may consider federal regulation should the states fail to take steps to greater uniformity.

In addition, the Dodd-Frank Act gives the Federal Reserve supervisory authority over a number of financial services companies, including insurance companies, if they are designated by the Financial Stability Oversight Council as "systemically important." In such a case, the Federal Reserve's supervisory authority could include the ability to impose heightened financial regulation upon that insurance company and could impact its capital, liquidity and leverage requirements as well as its business and investment conduct.

The Dodd-Frank Act also incorporates the Non-Admitted and Reinsurance Reform Act ("NRRA"), which became effective on July 21, 2011. Among other things, the NRRA establishes national uniform standards on how states may regulate and tax surplus lines insurance and sets national standards concerning the regulation of reinsurance. In particular, the NRRA gives regulators in the state where an insurer is domiciled (or, if it's an alien insurer, its port of entry) exclusive authority to regulate and tax surplus lines insurance transactions, and regulators in a ceding insurer's state of domicile the sole responsibility for regulating the balance sheet credit that the ceding insurer may take for reinsurance recoverables.

The Terrorism Risk Insurance Act (“TRIA”), as extended by the Terrorism Risk Insurance Program Reauthorization Act of 2015 (“TRIPRA”), requires that commercial property and casualty insurance companies offer coverage (with certain exceptions, such as with respect to commercial auto liability) for certain acts of terrorism and has established a federal assistance program through the end of 2020 to help such insurers cover claims for terrorism-related losses. TRIA covers certified acts of terrorism, and the U.S. Secretary of the Treasury must declare the act to be a “certified act of terrorism” for it to be covered under this federal program. In addition, pursuant to TRIPRA, no certified act of terrorism will be covered by the TRIA program unless the aggregate insurance industry losses from the act exceed $100 million (increasing $20 million per year to $200 million in 2020). Under TRIPRA, the federal government covers 85% (decreasing 1% per year to 80% in 2020) for acts of the losses from covered certified acts of terrorism on commercial risks in the United States only, in excess of a deductible amount. This deductible is calculated as a percentage of an affiliated insurance group’s prior year premiums on commercial lines policies (with certain exceptions, such as commercial auto policies) covering risks in the United States. This deductible amount is 20% of such premiums.

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

State Insurance Department Examinations

As part of their regulatory oversight process, state insurance departments conduct periodic detailed and risk-focused financial examinations of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. The following is a list of our insurance companies that have scheduled or ongoing financial examinations and the periods under examination:

Company	State Insurance Department	Years of Examination
TIC	New Hampshire	2010-2013
RIC	New York	2009-2013
SIC	California	2009-2013
SID	Nevada	2009-2013
COIC	Florida	2009-2013

A second type of regulatory oversight examination of insurance companies involves a review by an insurance department of an authorized company's market conduct, which entails a review and examination of a company's compliance with laws governing marketing, underwriting, rating, policy-issuance, claims-handling and other aspects of its insurance business during a specified period of time. The following is a list of insurance companies that have scheduled or ongoing market conduct reviews and the periods under examination:

Company	State Insurance Department	Period of Examination
TIC	California	2013

Guaranty Fund Assessments

Most, if not all, of the states where we are licensed to transact business require that property and casualty insurers doing business within the state participate in a guaranty association, which is organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by the member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets.

Property and casualty insurance company insolvencies or failures may result in additional guaranty association assessments to our U.S. Insurance Subsidiaries at some future date. At this time, we are unable to determine the impact, if any, such assessments may have on their financial positions or results of their operations. As of December 31, 2014, each of our U.S. Insurance Subsidiaries has established accruals for guaranty fund assessments with respect to insurers that are currently subject to insolvency proceedings.

Residual Market Programs

Many of the states in which our U.S. Insurance Subsidiaries conduct business or intend to conduct business require that all licensed insurers that provide workers' compensation insurance participate in a program to provide workers' compensation insurance to those employers that have not or cannot procure coverage from an insurer on a voluntary basis. The level of required participation in such residual market programs of insurers is generally determined by calculating the volume of the voluntarily issued business in that state of the particular insurer as a percentage of all voluntarily issued business in that state by all insurers. The resulting factor is the proportion of the premiums the insurer must accept as a percentage of all premiums for policies issued in that state's residual market program.

Insurance companies generally can fulfill their residual market obligations by either issuing insurance policies to employers assigned to them, or participating in national and state reinsurance pools managed by a Plan Administrator where the results of all policies provided through these administered pools are shared by the participating companies. Currently, our U.S. Insurance Subsidiaries satisfy their residual market obligations by participating in the administered pools. None of our U.S. Insurance Subsidiaries issues policies to employers assigned to them except to the extent that TIC acts as a servicing carrier for workers' compensation assigned risk plans in multiple states ("Assigned Risk Plans") administered by NCCI, ICRB/CIS and AON.

Coverage provided by the Assigned Risk Plans is offered through servicing carriers, which issue policies to employers assigned to them by the Assigned Risk Plan's administrator. Polices issued pursuant to the Assigned Risk Plans are 100% reinsured by the administered pools, which are funded by assessments on insurers which write workers' compensation insurance in the states which participate in the pools.

As noted above, TIC acts as a servicing carrier for the Assigned Risk Plans. Servicing carrier contracts are generally awarded based on a competitive bidding process. As a servicing carrier, we receive fee income for our services but do not retain any underwriting risk, which is fully reinsured by the NCCI pools.

Second Injury Funds

A number of states operate trust funds that reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. These state-managed trust funds are funded through assessments against insurers and self-insurers providing workers' compensation coverage in a particular state. We received recoveries of approximately $5.7 million, $2.8 million and $2.7 million from such state-managed trust funds in 2014, 2013 and 2012, respectively. The aggregate amount of cash we paid for assessments to state-managed trust funds for the years ended December 31, 2014, 2013 and 2012 was approximately $14.6 million, $11.7 million and $8.8 million, respectively.

Risk-Based Capital Regulations

Our U.S. Insurance Subsidiaries are required to report their risk-based capital based on a formula developed and adopted by the NAIC that attempts to measure statutory capital and surplus needs based on the risks in the insurer's mix of products and investment portfolio. The formula is designed to allow insurance regulators to identify weakly-capitalized companies. Under the formula, a company determines its "risk-based capital" by taking into account certain risks related to the insurer's assets (including risks related to its investment portfolio and ceded reinsurance) and the insurer's liabilities (including underwriting risks related to the nature and experience of its insurance business). The insurance departments in our domiciliary states generally require a minimum total adjusted risk-based capital equal to 150% of an insurance company's authorized control level risk-based capital. At December 31, 2014, our U.S. Insurance Subsidiaries' risk-based capital levels exceeded the minimum level that would trigger regulatory attention.

Insurance Regulatory Information System Ratios

The NAIC Insurance Regulatory Information System, or IRIS, is part of a collection of analytical tools designed to provide state insurance regulators with an integrated approach to screening and analyzing the financial condition of insurance companies operating in their respective states. IRIS is intended to assist state insurance regulators in targeting resources to those insurers in greatest need of regulatory attention. IRIS consists of two phases: statistical and analytical. In the statistical phase, the NAIC database generates key financial ratio results based on financial information obtained from insurers' annual statutory statements. The analytical phase is a review of the annual statements, financial ratios and other automated solvency tools. The primary goal of the analytical phase is to identify companies that appear to require immediate regulatory attention. A ratio result falling outside the usual range of IRIS ratios is not considered a failing result; rather, unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside of the usual ranges. An insurance company may fall out of the usual range for one or more ratios because of specific transactions that are in themselves immaterial or because of certain reinsurance or pooling structures or changes in such structures.

In 2014, three of our U.S. Insurance Subsidiaries, SNIC, TIC and WIC, had four or more ratios departing from the usual values. All three of these subsidiaries had unusual values for net written premium, which resulted from increased premium writings due to premium related to the Tower business and our expansion in the state of California. The investment yields were below the usual range in SNIC and TIC because their respective investment portfolios contained a high concentration of shorter duration, higher quality investments, for which interest rates have remained low compared to historical averages. All three subsidiaries had unusual values for gross change in policyholders' surplus. In addition, SNIC had an unusual value for change in adjusted policyholders' surplus. These two unusual values resulted from increased underwriting income due to additional premium described above and capital contributions to support the increase in premium writing. TIC's and WIC's other two and three unusual values,

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respectively, were caused by our intercompany reinsurance structure. Our intercompany reinsurance structure, by which TIC cedes 70% of written premium to AII and 10% to another affiliate, and WIC cedes 20% of written premium to TIC and 70% of written premium to AII, causes certain IRIS ratios to generate results that are outside of the usual ranges:

- Adjusted Liabilities to Liquid Assets - for purposes of calculating this ratio, insurance companies are required to adjust total liabilities by that portion of premium receivables that are classified as "deferred and not yet due." However, there is no corresponding offset to liquid assets for current receivables, which are known as "Uncollected premiums and agents balance in the course of collections." WIC/TIC's liabilities associated with its reinsurance structure (e.g., reinsurance payable or funds held under reinsurance agreements) are based on WIC/TIC's full amount of written premium, but WIC/TIC does not receive credit in the calculation for current receivables as a liquid asset.
- Gross Agent's balance (in collection) to Policyholder Surplus - WIC/TIC's policyholder surplus is maintained at a level sufficient for its net retained premium, as opposed to gross premium.
- Surplus Aid to Policyholder Surplus - This ratio compares ceding commissions on unearned ceded reinsurance premiums to the insurance company's policyholder surplus. If a large portion of policyholder surplus is dependent on surplus aid (and the insurance company's continued participation in its existing reinsurance treaties), there could be an impact on the insurance company's solvency. The NAIC considers a ratio above 15% to be unusual and WIC's ratio in 2014 was 26%. Within our intercompany reinsurance structure, WIC only retains 10% of its written premium, thereby generating a large amount of ceding commission on unearned premium and inflating its amount of surplus aid.

All of our remaining U.S. Insurance Subsidiaries had fewer than four ratios outside of the usual values.

Statutory Accounting Principles

Statutory accounting principles, or SAP, are a basis of accounting developed to assist insurance regulators in monitoring and regulating the solvency of insurance companies. SAP is primarily concerned with measuring an insurer's solvency. Statutory accounting focuses on valuing assets and liabilities of insurers at financial reporting dates in accordance with appropriate insurance law and regulatory provisions applicable in each insurer's domiciliary state.

GAAP, like SAP, is concerned with a company's solvency, but it is also concerned with other financial measurements, principally income and cash flows. Accordingly, GAAP gives more consideration to appropriately matching revenue and expenses and accounting for management's stewardship of assets than does SAP. As a direct result, different assets and liabilities and different amounts of assets and liabilities will be reflected in financial statements prepared in accordance with GAAP as compared to SAP.

Credit for Reinsurance

In addition to regulatory requirements imposed by the jurisdictions in which they are licensed, reinsurers' business operations are affected by regulatory requirements in various states governing "credit for reinsurance" that are imposed on their ceding companies. The NRRA, discussed above under "- Federal and State Legislative and Regulatory Changes," provides that if the state of domicile of a ceding insurer is an NAIC accredited state, or has financial solvency requirements substantially similar to the requirements necessary for NAIC accreditation, and recognizes credit for reinsurance for the insurer's ceded risk, then no other state may deny such credit for reinsurance. Because all states are currently accredited by the NAIC, the NRRA prohibits a state in which a U.S. ceding insurer is licensed but not domiciled from denying credit for reinsurance for the insurer's ceded risk if the cedant's domestic state regulator recognizes credit for reinsurance. The ceding company in this instance is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the ceding company's liability for unearned premium (which are that portion of premiums written that apply to the unexpired portion of the policy period), loss reserves and loss expense reserves to the extent ceded to the reinsurer. AII, which reinsures risks of our U.S. Insurance Subsidiaries, is not licensed, accredited or approved in any state in the United States. The great majority of states, however, permit a credit to statutory surplus resulting from reinsurance obtained from a non-licensed or non-accredited reinsurer to be recognized to the extent that the reinsurer provides a letter of credit, trust fund or other acceptable security arrangement. AII posts security to permit our U.S. Insurance Subsidiaries to receive credit for reinsurance on business ceded to AII pursuant to our intercompany reinsurance agreements.

Privacy Regulations

In 1999, Congress enacted the Gramm-Leach-Bliley Act, which, among other things, protects consumers from the unauthorized dissemination of certain personal information. Subsequently, states have implemented additional regulations to address privacy issues. Certain aspects of these laws and regulations apply to all financial institutions, including insurance and finance companies, and require us to maintain appropriate policies and procedures for managing and protecting certain personal information of our policyholders. We may also be subject to future privacy laws and regulations, which could impose additional costs and impact our

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results of operations or financial condition. In 2000, the NAIC adopted the Privacy of Consumer Financial and Health Information Model Regulation, which assisted states in promulgating regulations to comply with the Gramm-Leach-Bliley Act. In 2002, to further facilitate the implementation of the Gramm-Leach-Bliley Act, the NAIC adopted the Standards for Safeguarding Customer Information Model Regulation. Several states have now adopted similar provisions regarding the safeguarding of policyholder information. To the best of our knowledge, we are in compliance with all applicable privacy laws and regulations.

Telephone and Email Sales Regulations

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

Regulatory Coordination

State regulators in the United States and regulatory agencies outside the United States are increasingly coordinating the regulation of internationally active insurance groups ("IAIG") through participation in supervisory colleges. An IAIG is an insurance group that (a) writes business in not fewer than three jurisdictions and not less than 10% of its premium outside its home jurisdiction, which in our case is the United States, and (b) has, based on a rolling three-year average, total assets of not less than $50 billion or gross written premium of not less than $10 billion. A supervisory college, as defined by the International Association of Insurance Supervisors, is a forum for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of entities that belong to an insurance group; facilitating both the supervision of the group as a whole on a group-wide basis and improving the legal entity supervision of the entities within the insurance group. Model Act 440 and Model Regulation 450, discussed above under “–Federal and State Legislative and Regulatory Changes” provide an insurance commissioner with the power to participate in a supervisory college for any domestic insurer with international operations with other regulators charged with supervision of the insurer or its affiliates, including other state, federal, and international regulatory agencies, in order to determine compliance by the insurer with the Holding Company Act. The powers of the commissioner with respect to supervisory colleges include, but are not limited to, the following: initiating the establishment of a supervisory college; clarifying the membership and participation of other supervisors in the supervisory college; clarifying the functions of the supervisory college and the role of other regulators, including the establishment of a group-wide supervisor; coordinating the ongoing activities of the supervisory college, including planning meetings, supervisory activities, and processes for information sharing; and establishing a crisis management plan. Notwithstanding the size limitations, we expect our regulators to establish a supervisory college for our insurance group.

Ireland

AIU is a non-life insurance company organized under the laws of Ireland. AIU is subject to the regulation and supervision of the Central Bank of Ireland (the “Irish Central Bank”) pursuant to the Insurance Acts 1909 to 2000, as amended (the “Insurance Acts”), and the European Communities (Non Life Framework) Regulations 1994 (as amended) (the “Regulations”). AIU has been authorized to underwrite various classes of non-life insurance business. AIU,as an Irish authorized insurance company, is permitted to carry on insurance business in any other member state of the European Economic Area by way of freedom to provide services, on the basis that it has notified the Irish Central

Bank of its intention to do so, or by way of freedom of establishment, subject to the approval of the Irish Central Bank, and subject to complying with such conditions as may be laid down by the regulator of the jurisdiction in which the insurance activities are carried out for reasons of the “general good.”

Qualifying Shareholders

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

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

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

Financial Requirements and Regulatory Guidelines

AIU is required to establish and maintain an adequate solvency margin and a minimum guarantee fund, both of which must be free from all foreseeable liabilities. Currently, the solvency margin is calculated as the higher amount of a percentage of the annual amount of premiums (premiums basis) or the average burden of claims for the last three years (claims basis).

The amount of the minimum guarantee fund that AIU is required to maintain is equal to the minimum solvency margin, which at December 31, 2014 was approximately €31.3 million. The amount of the minimum guarantee fund may never be less than €3.7 million. In addition to the Insurance Acts and Regulations, AIU is expected to comply with various guidelines and codes issued by the Irish Central Bank.

Restrictions on Dividends

As a matter of Irish company law, AIU is restricted to declaring dividends only out of "profits available for distribution." Profits available for distribution are a company's accumulated realized profits less its accumulated realized losses. Such profits may not include profits previously distributed or capitalized and such losses do not include amounts previously written off in a reduction or reorganization of capital. In addition, one of the conditions imposed on AIU when authorized was a restriction on making dividend payments without the Irish Central Bank's prior approval.

Bermuda

Classification

AII is registered as a Class 3 insurer under the Insurance Act 1978 of Bermuda (the "Insurance Act - Bermuda"). As a Class 3 insurer, AII can carry on general business, broadly including all types of insurance business other than long-term business. AII is also licensed as a Class C insurer to carry on long-term business. Long-term business broadly includes life insurance and disability insurance with terms in excess of five years.

Principal Representative

AII, as an insurer, is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda.

Independent Approved Auditor

Every registered insurer must appoint an independent auditor (the “approved auditor”) who annually audits and reports on the statutory financial statements and the statutory financial return of the insurer, both of which, in the case of AII, are required to be filed annually with the Bermuda Monetary Authority (“BMA”). The approved auditor of AII must be approved by the BMA. AII’s approved auditor is Arthur Morris & Company Limited.

Loss Reserve Specialist

As a registered Class 3 insurer, AII is required to submit an opinion of an approved loss reserve specialist with its statutory financial return in respect of its loss and loss adjustment expense provisions. The loss reserve specialist, who is normally a qualified casualty actuary, must be approved by the BMA.

Approved Actuary

Long-term insurers, such as AII, are required to submit an annual actuary's certificate when filing their statutory financial returns. The actuary, who is normally a qualified life actuary, must be approved by the BMA.

Annual Statutory Financial Return

AII is required to file with the BMA statutory financial returns no later than four months after its financial year end (unless specifically extended). The statutory financial return for an insurer includes, among other matters, a report of the approved auditor on the statutory financial statements of such insurer, the solvency certificates, the declaration of statutory ratios, the statutory financial statements themselves, the opinion of the loss reserve specialist and the approved actuary's certificate. The solvency certificates must be signed by the principal representative and at least two directors of the insurer who are required to certify, among other matters, whether the minimum solvency margin has been met and whether the insurer complied with the conditions attached to its certificate of registration. The approved auditor is required to state whether, in his opinion, it was reasonable for the directors to so certify. Where an insurer's accounts have been audited for any purpose other than compliance with the Insurance Act - Bermuda, a statement to that effect must be filed with the statutory financial return. In addition, in compliance with the Insurance Code of Conduct, AII must confirm with the submission of its annual statutory financial return, in the form of a statutory declaration sworn by the principal representative and directors of AII, that its Board, assisted by management, has reviewed the provisions of the Insurance Code of Conduct and has determined that AII has complied with those provisions given the nature, scale and complexity of its operations.

Minimum Solvency Margin and Restrictions on Dividends and Distributions

Under the Insurance Act - Bermuda, the value of the general business assets of a Class 3 insurer, such as AII, must exceed the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margin. AII is required, with respect to its general business, to maintain a minimum solvency margin equal to the greatest of: $1.0 million; 20% of net premiums written up to $6.0 million plus 15% of net premiums written over $6.0 million; and 15% of loss and other insurance reserves.

AII would be prohibited from declaring or paying any dividends during any financial year if it is in breach of its minimum solvency margin or minimum liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio. In addition, if it has failed to meet its minimum solvency margin or minimum liquidity ratio on the last day of any financial year, AII is prohibited, without the approval of the BMA, from declaring or paying any dividends during the next financial year.

AII is prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital as set out in its previous year's financial statements. AII is required to establish and maintain a long-term business fund and no payment may be made directly or indirectly from AII's long-term business fund for any purpose other than a purpose related to AII's long-term business, unless such payment can be made out of any surplus certified by AII's approved actuary to be available for distribution otherwise than to policyholders. AII is required, with respect to its long-term business, to maintain a minimum solvency margin of $0.25 million. AII is required to obtain a certification from its approved actuary prior to declaring or paying any dividends. Such certificate will not be given unless the value of its long-term business assets exceeds its long-term business liabilities (as certified by the approved actuary) by the amount of the dividend and at least $0.25 million. The amount of any such dividend shall not exceed the aggregate of the excess referenced in the preceding sentence and other funds properly available for the payment of dividends, being funds arising out of its business, other than its long-term business.

Minimum Liquidity Ratio

The Insurance Act provides a minimum liquidity ratio for general business insurers. An insurer engaged in general business, such as AII, is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable and reinsurance balances receivable. There are certain categories of assets which, unless specifically permitted by the BMA, do not automatically qualify as relevant assets, such as

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unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined) and letters of credit and guarantees.

Notification of New or Increased Shareholder Control

Pursuant to Section 30E of the Insurance Act - Bermuda, any person who becomes a holder of at least 10%, 20%, 33% or 50% of our shares or AII's shares (a "shareholder controller") must notify the BMA in writing within 45 days of becoming such a holder. Pursuant to Section 30J of the Insurance Act - Bermuda, AII must notify the BMA in writing of the fact that any person has become a shareholder controller of AII within 45 days of becoming aware of the relevant facts. The BMA may, by written notice, object to such a person if it appears to the BMA that the person is not fit and proper to be such a holder. A person that does not comply with such a notice from the BMA will be guilty of an offense. AII must also list every person who has become or ceased to be a shareholder controller during the financial year at the time of filing its annual financial statements for that year, specifying the dates when such person either became or ceased to be an shareholder controller.

Objection to Existing Shareholder Controller

For so long as we have a subsidiary that is an insurer registered under the Insurance Act - Bermuda, the BMA may at any time, by written notice, object to a person holding 10% or more of our shares if it appears to the BMA that the person is not or is no longer fit and proper to be such a holder. In such a case, the BMA may require the shareholder to reduce its holding of our shares and direct, among other things, that such shareholder's voting rights shall not be exercisable. A person who does not comply with such a notice or direction from the BMA will be guilty of an offense.

Notification of Change of Officer

As a licensed insurer, AII must notify the BMA in writing of the fact that any person has become or ceased to be an officer of AII. Such notice must be served before the end of a period of 45 days beginning with the day on which AII became aware of the relevant facts. AII must also list every person who has become or ceased to be an officer during the financial year at the time of filing its annual financial statements for that year, specifying the dates when such person either became or ceased to be an officer. For these purposes, "officer" means a director, chief executive or senior executive performing duties of underwriting, actuarial, risk management, compliance, internal audit, finance or investment matters.

Luxembourg

AmTrust Insurance Luxembourg S.A. is a non-life insurance company, having its registered office in Luxembourg-city, organized under the laws of the Grand-Duchy of Luxembourg and governed by the law dated August 10, 1915 on commercial companies, as amended (the "Companies Act") and the law dated December 6, 1991 on the insurance sector as amended (the "Insurance Act - Luxembourg").

On January 19, 2012, AmTrust Insurance Luxembourg S.A. received its authorization from the Ministry of Treasury and Budget to carry out non-life insurance business in or from Luxembourg in compliance with Article 27 of the Insurance Act - Luxembourg. AmTrust Insurance Luxembourg S.A. is supervised by the Commissariat aux Assurances (the "CAA").

AmTrust Holdings Luxembourg S.A.R.L. owns seven reinsurance companies (the "Reinsurance Companies"). The Reinsurance Companies also have their registered offices in Luxembourg-city, are organized under the laws of the Grand-Duchy of Luxembourg and governed by the Companies Act and the Insurance Act - Luxembourg. In the

Grand-Duchy of Luxembourg, a reinsurance company is a company created or owned by an industrial, commercial or financial group, which aims at reinsuring exclusively all or part of the risks of the group to which it belongs and is subject to the same rules applicable to reinsurance undertakings. The Reinsurance Companies are also supervised by the CAA.

Qualifying Shareholders

Under the Insurance Act - Luxembourg, in order to obtain a license to do insurance and reinsurance business in the Grand-Duchy of Luxembourg, the reinsurance and insurance companies must provide the CAA with the identity of the shareholders or members, direct or indirect, private individuals or legal bodies, that hold in the undertaking a "qualified participation," as well as the amount of these participations. A qualified participation is a participation of at least 10% in the share capital of the company or the right to exert a significant influence on the management of the company.

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Change of Control

The Insurance Act - Luxembourg provides that any natural person or legal person that intends to directly or indirectly acquire a qualifying holding in a Luxembourg reinsurer or insurer must inform the CAA thereof in advance and indicate the amount of his/its holding. Any natural or legal person must also inform the CAA if it is contemplated to increase his/its qualifying holding in such a way that the proportion of voting rights or shares held by him/it would reach or exceed the thresholds of 20%, 33% or 50%, or if the Luxembourg reinsurance undertaking would become a subsidiary.

Financial Requirements and Regulatory Guidelines

- Solvency margin: The Grand-Ducal regulation dated December 14, 1994, as amended as of November 14, 2012 (“Regulation 1”), provides that insurance companies must at all times have a solvency margin that is adequate for their entire business. Regulation 1 requires the solvency margin correspond to the business assets of the insurance company, free of any financial commitments after deduction of the intangible assets. The Grand-Ducal regulation dated December 5, 2007, as amended as of July 4, 2014 (applicable as of January 1, 2015), provides that reinsurance companies must at all times have a solvency margin that is adequate for their entire business.

- Guarantee fund: Insurance companies and reinsurance companies must establish minimum guarantee funds that constitute one-third of their respective solvency margin. According to the Grand-Ducal regulation dated July 4, 2014 (applicable January 1, 2015), the size of the guarantee fund cannot be less than €3.6 million for professional reinsurance companies and €1.225 million for captive reinsurance companies.

- Equalization Reserves: The Insurance Act - Luxembourg provides that reinsurance undertakings must establish a compulsory volatility or catastrophe reserve in excess of required reserves determined by a formula based on the volatility of the business ceded to the reinsurance company.

As of December 31, 2014, our Luxembourg insurance and reinsurance companies were in compliance with these financial requirements and regulatory guidelines.

Restrictions on Dividends

A Luxembourg insurance company’s articles of association and the Companies Act govern annual dividend distributions. The Companies Act also provides specific conditions for the payment of interim dividends. Except for cases of reductions of subscribed capital, a Luxembourg insurance company cannot make a distribution to shareholders when, on the closing date of the financial year, the net assets as set out in the annual accounts are, or following such a distribution would become, lower than the amount of the subscribed capital plus the reserves. In addition, the amount of a distribution to shareholders may not exceed the amount of the profits at the end of the last financial year plus any profits carried forward and any amounts drawn from reserves that are available for that purpose, less any losses carried forward and sums to be placed to reserve.

United Kingdom

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

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

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Change in Control

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

A controller is a person or entity who (i) owns or controls 10% or more of the issued share capital or voting power of the authorized insurer, (ii) owns or controls 10% or more of the issued share capital or voting power of a controller of the authorized insurer, or (iii) who otherwise can exercise significant management control of the authorized insurer or one of its controllers. In the case of AEL, this includes AmTrust Financial Services, Inc., AII, AII Insurance Management Limited, AII Reinsurance Broker Ltd., AmTrust Equity Solutions, Ltd., AmTrust International Limited, AmTrust North America, Inc. and Barry Zyskind, Michael Karfunkel, Leah Karfunkel and George Karfunkel. In the case of MICL, it includes the aforementioned and Car Care Plan (Holdings) Limited.

Financial Requirements and Regulatory Guidelines

AEL and MICL are required to maintain regulatory capital resources equal to or in excess of the individual capital guidance (“ICG” or “Required Minimum Capital”) that the PRA issues in respect of each company. The ICG is the amount of capital resources that the PRA considers a company should maintain, taking into account the company’s business profile, structure and risk management systems. As of December 31, 2014, AEL and MICL each maintained capital resources in excess of their respective required ICG.

Restrictions on Dividends

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

Lloyd's

We participate in the Lloyd’s market through our ownership of AmTrust at Lloyd’s Limited, a managing agent for syndicates 1206 and 44, both of which are “fully aligned” AmTrust syndicates (i.e., AmTrust provides 100% of the syndicate capital). AmTrust at Lloyd’s Limited is in the process of becoming the managing agent for syndicate 2526, for which AmTrust provides 99.5% of the syndicate capital. AmTrust at Lloyd’s Limited is dual-regulated by the FCA and PRA. The Society of Lloyd’s, the FCA and the PRA have statutory responsibilities, including under the Lloyd’s Acts 1871 - 1982 and the Financial Services and Markets Act 2000, in relation to the supervision of insurance business underwritten in the Lloyd’s markets and the supervision of managing agents operating in the market at Lloyd’s.

The FCA, the PRA and Lloyd's have complementary objectives in ensuring that the Lloyd's market is appropriately regulated. To minimize duplication, there are arrangements between them for co-operation on supervision and enforcement.

Our Lloyd’s operations are also governed by The Council of Lloyd’s, which, through the Lloyd’s Franchise Board, is responsible for regulating and directing the business of insurance at Lloyd’s in line with its statutory powers, subject to its bylaws and in furtherance of the objects of Lloyd’s. Lloyd’s prescribes, in respect of its managing agents and corporate members, certain minimum standards relating to their management and control, solvency and various other requirements. By entering into a membership agreement with Lloyd’s, AmTrust at Lloyd’s Limited undertook to comply with Lloyd’s bylaws and regulations as well as the provisions of the Lloyd’s Acts and the Financial Services and Markets Act that are applicable to them. The operation of syndicates 1206 and 44, as well as the managing agent

and its directors, is subject to the Lloyd's supervisory regime.
Members of Lloyd's must support their underwriting capacity by providing a deposit (referred to as "Funds at Lloyd's" or "FAL") in the form of cash, securities or letters of credit in an amount determined by Lloyd's equal to a specified percentage of the member's underwriting capacity. Each member calculates the amount of such deposit through the completion of an annual capital adequacy exercise and submits the results of this exercise to Lloyd's for approval. Lloyd's then advises the member of the amount of deposit that is required. When a managing agent of a syndicate proposes to increase underwriting capacity for the following underwriting year, the consent of the Council of Lloyd's may be required.

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

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

Solvency II

The European Union’s executive body, the European Commission, is implementing new capital adequacy and risk management regulations called “Solvency II” that will apply to our businesses across the European Union (including the United Kingdom) and will impact AEL, MICL, our Lloyd's syndicates, AIU and our Luxembourg entities. Solvency II will become effective January 1, 2016, and during 2015, we will be required to ensure that we are able to comply with its requirements. Solvency II will impose new requirements with respect to capital structure, technical provisions, solvency calculations, governance, disclosure and risk management and we have undertaken considerable preparatory work to ensure that the impacted businesses will be compliant upon implementation. In addition, under Solvency II, it is possible that the U.S. parent of a European Union subsidiary could be subject to certain Solvency II requirements if the regulator determines that the subsidiary’s capital position is dependent on the parent company and the U.S. parent is not already subject to regulations deemed “equivalent” to Solvency II. Such regulation could result in a need for additional capital, increased costs of compliance, increased disclosure and less flexibility in our capital management.

Offices

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

Employees

As of December 31, 2014, we had approximately 5,100 employees worldwide.

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

Available Information

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

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

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Item 1A. Risk Factors

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

Risks Related to Our Business

During or following a period of systemic disruption in the financial markets, as markets continue a slow recovery, our business could be materially and adversely affected.

The financial markets have experienced significant volatility worldwide over the past seven years, and the United States, European and other foreign economies are experiencing a prolonged period of slow or limited economic growth, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. While economic conditions have improved over the most recent three years, financial markets continue to experience periodic volatility and uncertainty remains regarding the duration and strength of any economic recovery. The trend toward recovery and growth may not continue. Although the United States, European and other foreign governments have taken various actions to try to stabilize the financial markets, it is unclear what the effects of those actions will be over the long term and those actions could lead to an inflationary environment or could cease before the economic conditions sufficiently improve.

Additional uncertainty may come from the efforts and proposals of lawmakers to reduce the debt of the federal government through tax increases and/or spending cuts, or the failure of lawmakers to timely agree on a budget or appropriation legislation to fund the operations of the federal government, and financial markets' and businesses' reactions to those efforts, proposals or failures, which could impair economic growth and disrupt financial markets.

If financial markets experience significant disruption, it could materially adversely affect our results of operations, financial position and liquidity. Several of the risks we face, including those related to our investment portfolio, reinsurance arrangements, our estimates of loss reserves, emerging claim and coverage issues, the competitive environment and regulatory developments result from, or are made worse by, an economic slowdown or financial disruption.

Many of these risks could materialize, and our financial results could be negatively impacted, even as the economy is slowly recovering. During or following an economic downturn, lower levels of economic activity could reduce (and historically have reduced) exposure changes at renewal. An inflationary environment (which may follow government efforts to stabilize the economy) may also adversely impact our loss reserves and could adversely impact the valuation of our investment portfolio. Any or all of these risks could adversely affect our business.

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

We are liable for losses and loss adjustment expenses under the terms of the insurance policies we underwrite. Therefore, we must establish and maintain reserves for our estimated liability for loss and loss adjustment expenses with respect to our entire insurance business. If we fail to accurately assess the risks associated with the business and property that we insure, our reserves may be inadequate to cover our actual losses. We establish loss reserves that represent an estimate of amounts needed to pay and administer claims with respect to insured events that have occurred, including events that have occurred but have not yet been reported to us. Our loss reserves are based on estimates of the ultimate cost of individual claims and on actuarial estimation techniques. These estimates are based on historical information and on estimates of future trends that may affect the frequency of claims and changes in the average cost of claims that may arise in the future. They are inherently uncertain and do not represent an exact measure of actual liability. Judgment is required to determine the relevance of historical payment and claim settlement patterns under current facts and circumstances. The interpretation of this historical data can be impacted by external forces, principally legislative changes, economic fluctuations and legal trends.

If we change our reserve estimates for any line of business, these changes will result in adjustments to our reserves and our loss and loss adjustment expenses incurred in the period in which the estimates are changed. If the estimate is increased, our pre-tax income for the period in which we make the change will decrease by a corresponding amount. An increase in reserves could result in a reduction in our surplus, which could result in a downgrade in our A.M. Best rating. Such a downgrade could, in turn, adversely affect our ability to sell insurance policies.

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

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

Property and casualty insurers are subject to claims arising from catastrophes. Catastrophes can cause losses in multiple property and casualty lines, including property and workers' compensation. Workers' compensation constitutes approximately 40% of our business and we write commercial property insurance in our Specialty Program segment and our Small Commercial Business segment. In addition, we have a 50% investment in a crop insurance managing general agency through which we will issue policies that cover crop-related revenue shortfalls or production losses due to natural causes and other perils such as drought, excessive moisture, hail, wind, frost, insects, and disease. The incidence and severity of catastrophes, such as those due to natural disasters and also large-scale terrorist attacks, are inherently unpredictable, and our losses from catastrophes could be substantial.

Longer-term weather trends are changing and new types of catastrophe losses may be developing due to climate change, a phenomenon that may be associated with extreme weather events linked to rising temperatures, including effects on global weather patterns, sea, land and air temperature, sea levels, rain and snow. Climate change could increase the frequency and severity of catastrophe losses we experience in both coastal and non-coastal areas.

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

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

In general, the premiums for our insurance policies are established at the time the policy is issued and, therefore, before all of our underlying costs are known. Like other insurance companies, we rely on estimates and assumptions in setting our premium rates. Establishing adequate premiums is necessary, together with investment income, to generate sufficient revenue to offset losses, loss adjustment expenses and other underwriting expenses and to earn a profit. If we do not accurately assess the risks that we assume, we may not charge adequate premiums to cover our losses and expenses, which could reduce our net income and cause us to become unprofitable. For example, when initiating workers' compensation coverage on a policyholder, we estimate future claims expense based, in part, on prior claims information provided by the policyholder's previous insurance carriers. If this prior claims information were incomplete or inaccurate, we may underprice premiums by using claims estimates that are too low. As a result, our actual costs for providing insurance coverage to our policyholders may be significantly higher than our premiums. In order to accurately price our policies, we:

- collect and properly analyze a substantial volume of data from our insureds;
- develop, test and apply appropriate rating formulas;
- closely monitor and timely recognize changes in trends; and
- project both frequency and severity of our insureds' losses with reasonable accuracy.

Our ability to undertake these efforts successfully and, as a result, accurately price our policies, is subject to a number of risks and uncertainties, principally:

- insufficient reliable data;
- incorrect or incomplete analysis of available data;
- uncertainties generally inherent in estimates and assumptions;
- our failure to implement appropriate rating formulas or other pricing methodologies;
- regulatory constraints on rate increases;
- increases or changes in taxes;

- unexpected escalation in the costs of ongoing medical treatment;
- our failure to accurately estimate investment yields and the duration of our liability for loss and loss adjustment expenses; and
- unanticipated court decisions, legislation or regulatory action.

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

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

A.M. Best evaluates insurance companies based on their ability to pay claims. Our principal insurance subsidiaries are rated “A” (Excellent) by A.M. Best. An “A” rating is the third highest of the 16 categories used by A.M. Best, and is assigned to companies that have, in A.M. Best’s opinion, an excellent ability to meet their ongoing obligations to policyholders. The ratings of A.M. Best are subject to periodic review using, among other things, proprietary capital adequacy models, and are subject to revision or withdrawal at any time. Our competitive position relative to other companies is determined in part by the A.M. Best rating of our insurance subsidiaries. A.M. Best ratings are directed toward the concerns of policyholders and insurance agencies and are not intended for the protection of investors or as a recommendation to buy, hold or sell securities.

Any downgrade in ratings would likely adversely affect our business through the loss of certain existing and potential policyholders and the loss of relationships with independent agencies that might move to other companies with higher ratings. Some of our policyholders are required to maintain workers’ compensation coverage with an insurance company with an A.M. Best rating of “A-” (Excellent) or better. We are not able to quantify the percentage of our business, in terms of premiums or otherwise, that would be affected by a downgrade in our A.M. Best rating.

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

As part of our overall risk and capacity management strategy, we purchase quota share reinsurance and excess of loss and catastrophe reinsurance. The Maiden Quota Share and the reinsurance agreement for our European medical liability business reinsure approximately 40% of our net retained premiums. In addition, we purchase reinsurance on an excess of loss and catastrophe basis for protection against catastrophic events and other large losses. Market conditions beyond our control, in terms of price and available capacity, may affect the level of our business and profitability. The Maiden Quota Share was renewed through July 1, 2016 and our excess of loss and catastrophe reinsurance facilities are generally subject to annual renewal.

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

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

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

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

Reinsurance does not discharge our obligations under the insurance policies we write; it merely provides us with a contractual right to seek reimbursement on certain claims. We remain liable to our policyholders even if we are unable to make recoveries that we are entitled to receive under our reinsurance contracts. As a result, we are subject to credit risk with respect to our reinsurers. Losses are recovered from our reinsurers after underlying policy claims are paid. The creditworthiness of our reinsurers may

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change before we recover amounts to which we are entitled. Therefore, if a reinsurer were unable to meet its obligations to us, we would be responsible for claims and claim settlement expenses for which we would have otherwise received payment from the reinsurer. If we were unable to collect these amounts from our reinsurers, our costs would increase and our financial condition would be adversely affected. As of December 31, 2014, we had an aggregate amount of approximately $2.4 billion of recoverables from third-party reinsurers on paid and unpaid losses.

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

As of December 31, 2014, our principal stockholders, Michael Karfunkel, Leah Karfunkel (the wife of Michael Karfunkel and sole trustee of the Trust), George Karfunkel and Barry Zyskind own or control approximately 6.2%, 7.6%, 9.3% and 5.1%, respectively, of the issued and outstanding capital stock of Maiden Holdings, Ltd. (“Maiden”), a publicly-held Bermuda insurance holding company. Our Chief Executive Officer, Barry Zyskind, serves as the non-executive chairman of Maiden’s board of directors.

We own 13.2% of the issued and outstanding common stock of NGHC, a publicly-held insurance holding company. NGHC's two largest stockholders, who collectively own 48.8% of the issued and outstanding stock of NGHC, are the Trust and Michael Karfunkel, individually. Michael Karfunkel is our Chairman and the father-in-law of Barry Zyskind, our Chief Executive Officer. The ultimate beneficiaries of the Trust include Michael Karfunkel’s children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman, President and Chief Executive Offer of NGHC.

ACP Re, Ltd. (“ACP Re”) is a privately-held Bermuda reinsurance holding company formed by Michael Karfunkel, and a subsidiary of the Trust. As of December 31, 2014, the Trust beneficially owned 12.9% of our issued and outstanding stock. Michael Karfunkel is the chairman of ACP Re.

Conflicts of interest could arise with respect to business opportunities that could be advantageous to Maiden, NGHC, ACP Re or their subsidiaries, on the one hand, and us or our subsidiaries, on the other hand. In addition, potential conflicts of interest may arise should our interests and those of Maiden, NGHC or ACP Re diverge.

In addition to the relationships discussed above, two members of our Board of Directors, Donald T. DeCarlo, who is an independent member of our Board of Directors, and Mr. Zyskind, are also members of NGHC’s board of directors. Mr. Zyskind’s service as our President and Chief Executive Officer, as non-executive chairman of the board of Maiden, and as a member of NGHC’s board, and Mr. DeCarlo’s services as a member of our Board and NGHC’s board could raise a potential challenge under anti-trust laws. Section 8 of the Clayton Antitrust Act prohibits a person from serving as a director or officer in any two competing corporations under certain circumstances. If we and Maiden or NGHC were in the future deemed to be competitors within the meaning of the Clayton Antitrust Act and certain thresholds relating to direct competition between us and Maiden or NGHC are met, the Department of Justice and Federal Trade Commission could challenge the arrangement.

For additional information about our relationships with Maiden, NGHC and ACP Re, see the discussion found in Note 14. “Related Party Transactions.”

We receive significant ceding commission from Maiden.

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

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

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

We receive significant service and fee income from NGHC and Maiden through asset management agreements, by which we manage the invested assets of certain of Maiden’s and NGHC’s subsidiaries, a reinsurance brokerage agreement with Maiden, by which we provide Maiden Reinsurance certain reinsurance brokerage services, and a master services agreement with NGHC, by which we provide NGHC and its affiliates information technology development services in connection with the development and licensing of a policy management system and printing and mailing services for policy and policy related materials, such as invoices,

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quotes, notices and endorsements, associated with the policies we process for NGHC and its affiliates on the policy management system.

Pursuant to the asset management agreements, we receive from each of Maiden and NGHC fees at an annual rate of 0.20% for periods in which each company's respective average invested assets are $1.0 billion or less and an annual rate of 0.15% for periods in which each company’s respective average invested assets exceeds $1.0 billion. Pursuant to the brokerage agreement with Maiden Reinsurance, we provide brokerage services relating to the Maiden Quota Share for a fee equal to 1.25% of reinsured premium.

Pursuant to the master services agreement with NGHC, we provide NGHC and its affiliates the information technology development services described above at a cost of 1.25% of gross written premium of NGHC and its affiliates plus our costs for development and support services. We provide the printing and mailing services at a per piece cost for policy and policy related materials.

We may be unable to maintain these arrangements. If we no longer provide these services to Maiden and NGHC and do not replace them with services provided to other parties on equally favorable terms and at similar levels, our service and fee income could decline, which may adversely affect our results of operations and financial condition.

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

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

In addition, our growth strategy of expanding in our existing markets, opportunistically acquiring books of business, other insurance companies or producers, entering new geographic markets and further developing our relationships with independent agencies and extended warranty/service contract administrators subjects us to various risks, including risks associated with our ability to:

- identify profitable new geographic markets for entry;
- attract and retain qualified personnel for expanded operations;
- identify, recruit and integrate new independent agencies and extended warranty/service contract administrators;
- integrate information technology systems;
- manage risks associated with the acquisition of entities in foreign markets with which we are less familiar;
- expand existing agency relationships; and
- augment our internal monitoring and control systems as we expand our business.

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

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

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

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

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

Our operations depend on the reliable and secure processing, storage and transmission of confidential and other information in our computer systems and networks. Computer viruses, hackers, employee misconduct and other external hazards could expose our data systems to security breaches, cyber-attacks or other disruptions. In addition, we routinely transmit and receive personal, confidential and proprietary information by electronic means. Our systems and networks may be subject to breaches or interference. Any such event may result in operational disruptions as well as unauthorized access to or the disclosure or loss of our proprietary information or our customers' information, which in turn may result in legal claims, regulatory scrutiny and liability, damage to our reputation, the incurrence of costs to eliminate or mitigate further exposure, the loss of customers or affiliated advisers or other damage to our business. In addition, the trend toward broad consumer and general public notification of such incidents and negative media attention could exacerbate the harm to our business, financial condition or results of operations. Even if we successfully protect our technology infrastructure and the confidentiality of sensitive data, we could suffer harm to our business and reputation if attempted security breaches are publicized. Advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments could compromise or breach the technology or other security measures protecting the networks and systems used in connection with our business.

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

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

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

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We are required to perform goodwill impairment tests at least annually and whenever events or circumstances indicate that the carrying value may not be recoverable from estimated future cash flows. If we determine that the goodwill has been impaired, we would be required to write down the goodwill by the amount of the impairment, with a corresponding charge to net income. Such write downs could have a material adverse effect on our results of operations or financial position.

Intangible assets represent the amount of fair value assigned to certain assets when we acquire a subsidiary or a book of business. Intangible assets are classified as having either a finite or an indefinite life. We test the recoverability of our intangible assets at least annually. We test the recoverability of finite life intangibles whenever events or changes in circumstances indicate that the carrying value of a finite life intangible may not be recoverable. We recognize an impairment if the carrying value of an intangible asset is not recoverable and exceeds its fair value, in which circumstances we must write down the intangible asset by the amount of the impairment with a corresponding charge to net income. Such write downs could have a material adverse effect on our results of operations or financial position.

Our Specialty Risk and Extended Warranty business is dependent upon the sale by third parties of products covered by warranties and service contracts.

Our Specialty Risk and Extended Warranty segment primarily covers manufacturers, administrators, service providers and retailers for the cost of performing their obligations under extended warranties and service contracts (and, as required by applicable law, insurance products) provided in connection with the sale or lease of various types of consumer electronics, automobiles, light and heavy construction equipment and other consumer and commercial products. Thus, any decrease in the sale or leasing of these products, whether due to economic factors or otherwise, is likely to have an adverse impact upon our Specialty Risk and Extended Warranty business. We cannot materially influence the success of our specialty risk clients' primary product sales and leasing efforts.

Some of the largest purchasers of our specialty risk insurance products in the United States are manufacturers, administrators, service providers and retailers that issue extended warranties or service contracts for consumer and commercial-grade goods, including coverage against accidental damage to the goods covered by the warranty or service contract (where currently permitted in the applicable jurisdiction). We insure these policyholders against the cost of repairing or replacing such goods in the event of such accidental damage. State insurance regulators may take the position that certain of the extended warranties or service contracts issued by our policyholders constitute insurance contracts that may only be issued by entities licensed to sell insurance. In that event, the extended warranty or service contract business of our policyholders may have to be restructured, which could adversely affect our Specialty Risk and Extended Warranty business.

If we cannot sustain our business relationships, including our relationships with independent agencies and third-party warranty administrators, manufacturers, services providers or retailers, we may be unable to operate profitably.

Our business relationships are generally governed by agreements with manufacturers, services providers and retailers, agents and warranty administrators that may be terminated on short notice. We market our insurance and specialty risk and extended warranty products primarily through independent wholesale and retail agencies, in addition to working directly with manufacturers, services providers and retailers. Except in connection with certain acquisitions, independent agencies generally are not obligated to promote our products and may sell insurance and specialty risk and extended warranty products offered by our competitors. As a result, our continued profitability depends, in part, on the marketing efforts of our independent agencies and on our ability to offer our products and insurance and maintain financial strength ratings that meet the requirements and preferences of our independent agencies and their policyholders.

We use third-party managing general agents and administrators to underwrite policies and manage claims on our behalf for some portions of our business, including our Specialty Risk and Extended Warranty segment and our Specialty Program Business segment. We are dependent on the skills and performance of these parties, and we cannot control their actions, although we do provide underwriting guidelines and periodically audit their performance. The loss of the services of these providers, or our inability to contract and retain other skilled service providers from a limited pool of qualified insurance service providers, could delay or prevent us from fully implementing our business strategy or could otherwise adversely affect us.

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

We have a significant amount of indebtedness. As of December 31, 2014, our total consolidated indebtedness was approximately $758 million. This $758 million does not include approximately $168 million aggregate principal amount of a loan made by Maiden Reinsurance to us in connection with a reinsurance agreement between AII and

Maiden Reinsurance that requires Maiden Reinsurance to provide sufficient collateral to secure its proportionate share of AII's obligations. This amount is accounted for as a note payable on our balance sheet. We may incur additional indebtedness to meet future financing needs. Our indebtedness could have significant negative consequences for our business, results of operations and financial condition, including:

- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring the dedication of portions of our cash flow from operations to service our indebtedness, thereby reducing the amount of our cash flow available for other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business;
- restricting our operational flexibility due to restrictive covenants that will limit our ability to explore certain business opportunities, dispose of assets and take other actions;

- increasing dilution experienced by our existing stockholders as a result of the conversion of our convertible senior notes due 2021 into shares of common stock; and
- placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

As of December 31, 2014, our annual debt service obligation on our outstanding indebtedness was approximately $24 million. We may be unable to maintain sufficient cash reserves, our business may not generate cash flow from operations at levels sufficient to permit us to pay principal, premium, if any, and interest on our indebtedness, or our cash needs may increase. If we were unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we failed to comply with the various requirements of any indebtedness that we have incurred or may incur in the future, we would be in default, which would permit the holders of the affected indebtedness to accelerate the maturity of such indebtedness and could cause us to default under our other indebtedness. Any default under any indebtedness that we have incurred or may incur in the future could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

Our credit facilities and indentures governing our convertible senior notes and 6.125% notes due 2023 contain covenants that limit our ability, among other things, to borrow money, make particular types of investments or other restricted payments, sell assets, merge or consolidate. These covenants could restrict our ability to achieve our business objectives, and therefore, could have an adverse effect on our financial condition. In addition, our credit facilities and the indenture governing our 6.125% notes due 2023 also require us to maintain specific financial ratios. If we fail to comply with these covenants or meet these financial ratios, the lenders under our credit facilities could cancel their commitments to lend and/or issue letters of credit and the lenders under our credit facilities and our noteholders could declare a default and demand immediate repayment of all amounts owed to them.

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

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

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

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

Our investment portfolio consists substantially of fixed income securities. As of December 31, 2014, our investment in fixed income securities was approximately $4.25 billion, or 77% of our total investment portfolio.

The fair market value of these assets and the investment income from these assets fluctuate depending on general economic and market conditions. The fair market value of fixed income securities generally decreases as interest rates rise. Conversely, if interest rates decline, the fair market value of fixed income securities generally increases. However, investment income earned from future investments in fixed income securities will decrease due to being reinvested at lower interest rates. In addition, some fixed income securities, such as mortgage-backed and other asset-backed securities, carry prepayment risk as a result of interest rate fluctuations. Based upon the composition and duration of our investment portfolio at December 31, 2014, a 100 basis point increase in interest rates would result in a decrease in the fair value of our investments of approximately $207.3 million.

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

To a large degree, the credit risk we face is a function of the economy; accordingly, we face a greater risk in an economic downturn or recession. As a result of the risks set forth above, the value of our investment portfolio could decrease, our net investment income could decrease, or we could experience realized and/or unrealized investment losses, all of which could materially and adversely affect our results of operations and liquidity.

A portion of our financial assets consist of life settlement contracts that are subject to certain risks.

As of December 31, 2014, the fair value of our portfolio of life settlement contracts was approximately $265 million and constituted approximately 4.5% of the fair value of our cash and investment portfolio (inclusive of these life settlement contracts). We have a 50% ownership interest in the entities that hold the life settlement contracts.

Our estimates of fair value of the life settlement contracts we hold are subjective and based upon, among other factors, the cost of the policy at the 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 mortality tables and life expectancy reports prepared by nationally recognized and independent third party medical underwriters. The actual value to us of any life settlement contract we acquire cannot be determined until the policy matures (i.e., the insured has died and the insurance carrier has paid out the death benefit to the holder). A significant negative difference between the estimated fair value of a contract and actual death benefits received at maturity for any life settlement contract we hold could adversely affect our financial condition and results of operations.

We apply an investment discount rate to the expected cash flow generated by the policies in our portfolio, net of policy-specific adjustments and reserves, which accounts for the cost of borrowing, liquidity risk and credit risk associated with the portfolio. We establish policy-specific reserves for the following uncertainties: improvements in mortality, the possibility that high net worth individuals represented in the portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to us, and the future expenses related to the administration of the portfolio. The application of the investment discount rate to the expected cash flow generated by the portfolio, net of these policy-specific reserves, yields the fair value of the portfolio. If the discount rate changes, the value of the life settlement contract will also change. Generally, if discount rates increase, the fair value of a life settlement contract decreases. If a life settlement contract is sold or otherwise disposed of in the future under a relatively higher interest rate environment, the contract may have a lower value than the value it had when we acquired it.

In addition, our results of operations and earnings may fluctuate depending on the number of life settlement contracts acquired in a given period and the fair value of those assets at the end of the applicable period. Any reduction in the fair value of these assets will be a charge to our gross income in the period in which the reduction occurs and could adversely affect our financial results for that period.

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Furthermore, the market for life settlement contracts is relatively illiquid when compared to that for other asset classes, and there is currently no established trading platform or market by which investors in the life settlement market buy and sell life settlement contracts. Although we do not currently intend to sell significant numbers of life settlement contracts in the secondary life settlement market, if we were (or needed) to sell a life settlement contract, it is possible that the lack of liquidity at that time could make the sale of such life settlement contract difficult or impossible. Therefore, we bear the risks of having to sell life settlement contracts at substantial discounts or not being able to sell life settlement contracts in a timely manner or at all which may result in a material adverse effect on our financial condition and results of operations.

We are subject to a number of risks associated with our business outside the United States.

We conduct business outside the United States primarily in the United Kingdom, Bermuda, Italy, Ireland, France, and Luxembourg. While our business outside of the United States currently constitutes approximately 21% of our gross written premium, we are subject to a number of significant risks in conducting such business. These risks include restrictions such as price controls, capital controls, exchange controls and other restrictive government actions, which could have an adverse effect on our business and our reputation. Investments outside the United States also subject us to additional domestic and foreign laws and regulations, including the Foreign Corrupt Practices Act, the U.K. Bribery Act and similar laws in other countries that prohibit the making of improper payments to foreign officials. If our controls are ineffective and an employee or intermediary fails to comply with applicable laws and regulations, we could suffer civil and criminal penalties and our business and our reputation could be adversely affected. In addition, some countries have laws and regulations that lack clarity and, even with local expertise and effective controls, it can be difficult to determine the exact requirements of the local laws. Failure to comply with local laws in a particular market could have a significant and negative effect not only on our business in that market but also on our reputation generally.

Our operating results may be adversely affected by currency fluctuations and our ability to repatriate cash from our foreign operations.

Our functional currency is the U.S. dollar. For the years ended December 31, 2014 and 2013, approximately 21% and 27%, respectively, of our gross written premiums written were written in currencies other than the U.S. dollar. As of December 31, 2014 and 2013, approximately 21% and 27%, respectively, of our cash and investments were denominated in non-U.S. currencies. We hold investments denominated in Euros and British Pounds because we write business in the EU and the United Kingdom, and may, from time to time, experience losses resulting from fluctuations in the values of these non-U.S. currencies or be unable to repatriate cash to the United States, or otherwise make available cash in the United States, and to do so at a favorable foreign exchange rate and with favorable tax ramifications, all of which could adversely affect our operating results.

We may be subject to taxes on our Luxembourg affiliates' equalization reserves.

During the past six years, we have made several acquisitions of Luxembourg-domiciled reinsurance companies. In connection with these transactions, we acquire cash and the associated equalization reserves of the reinsurance companies. An "equalization reserve" is a catastrophe reserve in excess of required reserves determined by a formula based on the volatility of the business ceded to the reinsurance company and is established pursuant to Luxembourg law. Luxembourg reinsurance companies are required to establish equalization reserves for Luxembourg statutory and tax purposes, but the equalization reserves are not recognized under U.S. GAAP. For a more detailed description of the acquisitions of these Luxembourg-domiciled reinsurance companies, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Acquisitions - AHL."

Provided that we are 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, 2014, we had approximately $314 million of unutilized equalization reserves and an associated deferred tax liability of approximately $94 million. During the year ended December 31, 2014, we were able to reduce our overall expenses by a net amount of approximately $30 million to reflect the net reduction of the deferred tax liability offset by goodwill impairment charges related to the utilization of the equalization reserves.

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

Our provision for income taxes, our recorded tax liabilities and net deferred tax assets, including any valuation allowances, are recorded based on estimates. These estimates require us to make significant judgments regarding a number of factors, including, among others, the applicability of various federal and state laws, our interpretation of tax laws and the interpretations given to

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those tax laws by taxing authorities and courts, the timing of future income and deductions, and our expected levels and sources of future taxable income. Additionally, from time to time there are changes to tax laws and interpretations of tax laws that could change our estimates of the amount of tax benefits or deductions expected to be available to us in future periods. In either case, changes to our prior estimates would be reflected in the period changed and could have a material effect on our effective tax rate, financial position, results of operations and cash flows.

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

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

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

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

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

Payment of dividends by our insurance subsidiaries is restricted by insurance laws of various states, and the laws of certain foreign countries in which we do business (primarily Ireland, United Kingdom and Bermuda), including laws establishing minimum solvency and liquidity thresholds. As a result, at times, we may not be able to receive dividends from our insurance subsidiaries, which would affect our ability to pay dividends on our common stock and preferred stock, as discussed below. As of December 31, 2014, our insurance subsidiaries collectively could pay dividends to us of $844 million without prior regulatory approval. Any dividends paid by our subsidiaries would reduce their surplus. The inability of our operating subsidiaries to pay dividends and other permitted payments in an amount sufficient to enable us to meet our cash requirements at the holding company level would have a material adverse effect on our operations.

Risks Related to Our Industry

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

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

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

Although we engage in other businesses, approximately 40% of our gross written premium currently is attributable to workers' compensation insurance. As a result, negative developments in the economic, competitive or regulatory conditions affecting the workers' compensation insurance industry could have an adverse effect on our financial condition and results of operations. For example, in certain states in which we do business, insurance regulators set the premium rates we may charge. In addition, if legislators in one of our larger markets were to enact legislation to increase the scope or amount of benefits for employees under workers' compensation insurance policies without related premium increases or loss control measures, this could negatively affect the workers' compensation insurance industry. Negative developments in the workers' compensation insurance industry could have a greater effect on us than on more diversified insurance companies that also sell many other types of insurance.

A decline in the level of business activity of our policyholders could negatively affect our earnings and profitability.

Primarily all of our workers' compensation gross premiums written were derived from small businesses. Because workers' compensation premium rates are calculated, in general, as a percentage of a policyholder's payroll expense, premiums fluctuate depending upon the level of business activity and number of employees of our policyholders. Small businesses may be more vulnerable to changes in economic conditions because of their size. We believe that the most common reason for policyholder non-renewals is business failure. As a result, our workers' compensation gross premiums written are primarily dependent upon economic conditions where our policyholders operate.

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

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

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

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until after we have issued insurance policies that are affected by the changes. As a result, the full extent of our liability under an insurance policy may not be known until many years after the policy is issued. For example, medical costs associated with permanent and partial disabilities may increase more rapidly or be higher than we currently expect. Changes of this nature may expose us to higher claims than we anticipated when we wrote the underlying policy. Unexpected increases in our claim costs many years after policies are issued may also result in our inability to recover from certain of our reinsurers the full amount that they would otherwise owe us for such claims costs because certain of the reinsurance agreements covering our business include commutation clauses that permit the reinsurers to terminate their obligations by making a final payment to us based on an estimate of their remaining liabilities. In addition, the potential passage of new legislation designed to expand the right to sue, to remove limitations on recovery, to deem by statute the existence of a covered occurrence, to extend the statutes of limitations or otherwise repeal or weaken tort reforms could have an adverse impact on our business. The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict and could be harmful to our business and have a material adverse effect on our results of operations.

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

Our insurance subsidiaries are subject to extensive regulation in the jurisdictions in which they do business. For a discussion of the various types of regulation we face, see “Item 1. Business – Regulation.” Insurance regulation generally is intended to protect policyholders, not stockholders. In the United States, insurance regulation generally is administered by each state through its state insurance department. States regulate, among other things:

- solvency;
- the lines of business we may transact;
- certain transactions between our insurance subsidiaries and affiliates, including us;
- the nature, quality and concentration of our investments;

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- rates we may charge and the terms and conditions of our policy forms; and
- dividends paid by our insurance subsidiaries.

As more fully described in “Item 1. Business – Regulation – United States – Federal and State Legislative and Regulatory Changes,” in recent years, the state insurance regulatory framework has come under increased scrutiny, and some state legislatures have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. Further, the NAIC and state insurance regulators are continually reexamining existing laws and regulations, specifically focusing on modifications to statutory accounting principles, interpretations of existing laws and the development of new laws and regulations. The NAIC has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulation framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance.

Although the U.S. federal government has not historically regulated the insurance business, there have been proposals from time to time, including during and after the financial crisis in 2008, to impose federal regulation on the insurance industry. On July 21, 2010, the U.S. President signed into law the Dodd-Frank Act, which is more fully described in “Item 1. Business – Regulation – United States – Federal and State Legislative and Regulatory Changes.” In addition, our business can be indirectly affected by changes in healthcare, occupational safety and health, and tax and financial regulations. Since healthcare costs are a large component of our claims costs, we may be impacted by changes in healthcare legislation, such as the ongoing implementation of the Affordable Care Act, which could affect healthcare costs and delivery in the future. These types of state and federal regulations could impose significant burdens on us, including impacting the ways in which we conduct our business, increasing compliance costs, and could result in a competitive disadvantage.

Our non-U.S. subsidiaries are subject to regulation in the jurisdictions in which they operate. In the event that a regulatory authority determines that we have failed to comply with regulatory requirements applicable to our business, we could be subject to actions that could have a material adverse effect on our business, such as fines, penalties or orders to cease transacting business. Furthermore, the enactment of new laws and regulations and changes in the interpretations of existing laws and regulations that are not yet contemplated could have a material adverse effect on our business.

The European Union’s executive body, the European Commission, is implementing new capital adequacy and risk management regulations called “Solvency II” that will apply to our businesses across the European Union (including the United Kingdom), as more fully described in “Item 1. Business – Regulation – Solvency II.” Such regulation could result in a need for additional capital, increased costs of compliance, increased disclosure and less flexibility in our capital management. It is possible that Solvency II may increase our capital requirements and the new regulations have the potential to adversely affect the profitability of our businesses subject to Solvency II. In addition, at this point, it is unclear whether the new regulations will apply only to our businesses across the European Union (including the United Kingdom) or to all of our operations, both within and outside of the European Union. If the regulations do apply to our holding company in the U.S., we could be subject to even more onerous requirements under the new regulations, which could have a significant adverse effect on our ability to operate profitably.

Regulators in Bermuda and other jurisdictions in which we operate are also considering various proposals for financial and regulatory reform. The future impact of such initiatives, if any, on our results of operations or our financial condition cannot be determined at this time. We are unable to predict whether any of these laws and regulations will be adopted, the form in which any such laws and regulations would be adopted, or the effect, if any, these developments would have on our operations and financial condition.

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

U.S. insurers are required by state and federal law to offer coverage for terrorism in certain commercial lines, including workers' compensation. As discussed under "Item 1. Business – Regulation – United States – Federal and State Legislative and Regulatory Changes," in response to the September 11, 2001 terrorist attacks, the U.S. Congress enacted legislation designed to ensure, among other things, the availability of insurance coverage for foreign terrorist acts, including the requirement that insurers offer such coverage in certain commercial lines. The Terrorism Risk Insurance Act, or TRIA, as extended by the Terrorism Risk Insurance Program Reauthorization Act of 2015, or TRIPRA, requires commercial property and casualty insurance companies to offer coverage for acts of terrorism, whether foreign or domestic, and established a federal assistance program through the end of 2020 to help such insurers cover claims related to future terrorism-related losses. The impact of any terrorist act is unpredictable, and the ultimate impact on us would depend upon the nature, extent, location and timing of such an act. Although we reinsure a portion of the terrorism risk we retain under the program, our terrorism reinsurance does not provide full coverage for an act stemming from nuclear, biological or chemical terrorism.

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Our policies providing specialty risk and extended warranty coverage are not intended to provide coverage for losses arising from acts of terrorism. Accordingly, we have not obtained reinsurance for terrorism losses nor taken any steps to preserve our rights to the benefits of the TRIA program for this line of business and would not be entitled to recover from our reinsurers or the TRIA program if we were required to pay any terrorism losses under our Specialty Risk and Extended Warranty segment. There have been no claims filed under the TRIA program as of yet, so there is still a great deal of uncertainty regarding how the federal government will implement the rules governing such claims. It is possible that the fact that we have not taken steps to preserve our right to the benefits of the TRIA program for the U.S. portion of our Specialty Risk and Extended Warranty segment may adversely affect our ability to collect under the program generally.

The effects of litigation on our business are uncertain.

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

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

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

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

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

- general market, economic and political conditions.

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

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

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

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

Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC require an annual management assessment of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm attesting to the effectiveness of our internal control over financial reporting at the end of the fiscal year. If we fail to maintain the adequacy of our internal control over financial reporting, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC. If we cannot in the future favorably assess, or our independent registered public accounting firm is unable to provide an unqualified attestation report on, the effectiveness of our internal control over financial reporting, investor confidence in the reliability of our financial reports may be adversely affected, which could have a material adverse effect on our common and preferred stock prices.

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

Based on the number of shares outstanding as of December 31, 2014, Barry D. Zyskind, Michael Karfunkel, Leah Karfunkel (wife of Michael Karfunkel and sole trustee of the Trust) and George Karfunkel, directly or indirectly, collectively own or control approximately 57% of our outstanding common stock. As a result, these stockholders, acting together, have the ability to control all matters requiring approval by our stockholders, including the election and removal of directors, amendments to our certificate of incorporation and bylaws, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. These stockholders may have interests that are different from other stockholders. In addition, we are a "controlled company" as defined in NASDAQ Listing Rule 5615(c). At present, a majority of the members of our Board of Directors are independent. As a controlled company, each of our Board committees, except our audit committee, may include non-independent directors. The audit committee independence requirements imposed by the Sarbanes-Oxley Act of 2002 apply to us, and we have organized our audit committee to meet these requirements.

If we were to cease being a controlled company as a result of the issuance of common stock by us or dispositions of common stock beneficially held by Barry D. Zyskind, Michael Karfunkel, Leah Karfunkel and George Karfunkel, we would have to comply with the board committee independence requirements of the NASDAQ Global Select Market within specified periods, which would involve having an entirely independent compensation committee and nominating and corporate governance committees within one year after ceasing to be a controlled company. If we are unable to achieve compliance with these requirements, our common stock could be de-listed from the NASDAQ Global Select Market.

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

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

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

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

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

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

Our shares of Series A Preferred Stock and the Series B and C Preferred Stock represented by depositary shares are equity interests and do not constitute indebtedness. As such, the Series A Preferred Stock and the Series B and C Preferred Stock represented by depositary shares rank junior to all of our indebtedness and other non-equity claims of our creditors with respect to assets available to satisfy our claims, including our liquidation, dissolution and winding up. As of December 31, 2014, our total consolidated debt was $758 million and our total consolidated liabilities were approximately $11.7 billion. We may incur additional debt and liabilities in the future. Our existing and future indebtedness may restrict payments of dividends on the Series A Preferred Stock and the Series B and C Preferred Stock represented by depositary shares. Additionally, unlike indebtedness, where principal and interest would customarily be payable on specified due dates, in the case of the Series A Preferred Stock and the Series B and C Preferred Stock represented by depositary shares, dividends are payable only if declared by our Board of Directors (or a duly authorized committee of the Board of Directors). Our ability to pay dividends on the Series A Preferred Stock and the Series B and C Preferred Stock represented by depositary shares may be limited by the terms of our agreements governing our existing and future indebtedness and by the provisions of other existing and future agreements.

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

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

We may not have the ability to raise the funds necessary to finance any required purchases of our convertible senior notes due 2021 and 2044 upon the occurrence of a “fundamental change,” which would constitute an event of default under the indentures.

If a fundamental change (as such term is defined in the indentures governing our convertible senior notes due 2021 and 2044) occurs, holders of our convertible senior notes will have the right, at their option, to require us to purchase for cash any or all of the notes, or any portion of the principal amount thereof such that the principal amount that remains outstanding of each note purchased in part equals $1,000 or an integral multiple of $1,000 in excess thereof. The fundamental change purchase price will equal 100% of the principal amount of the convertible senior notes to be purchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date. However, we may not have sufficient funds at the time we are required to purchase the convertible senior notes surrendered therefor and we may not be able to arrange necessary financing on acceptable terms, if at all.

We have not established a sinking fund for payment of the convertible senior notes due 2021 or 2044, nor do we anticipate doing so. In addition, our ability to purchase the convertible senior notes may be limited by law, by regulatory authority or we may in the future enter into credit agreements or other agreements that may contain provisions prohibiting redemption or repurchase of the notes under certain circumstances, or may provide that a designated event constitutes an event of default under that agreement. If a fundamental change occurs at a time when we are prohibited from purchasing the convertible senior notes, we could seek a waiver from the holders of these notes or attempt to refinance these notes. If we were not able to obtain consent, we would not be permitted to purchase the convertible senior notes. Our failure to purchase tendered convertible senior notes would constitute an event of default under the indenture governing the notes, which might constitute a default under the terms of our other indebtedness.

The conditional conversion features of the convertible senior notes due 2021 and 2044, if triggered, may adversely affect our financial condition.

If one of the conversion contingencies in our convertible senior notes due 2021 and 2044 is triggered, holders of our convertible senior notes will be entitled to convert the notes at any time during specified periods. If one or more holders elect to convert their convertible senior notes, we may be required to settle all or a portion of our conversion obligation through the payment of cash, which could adversely affect our liquidity and various aspects of our business.

As discussed in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under “Convertible Senior Notes,” as of December 31 2014, the price of our common stock exceeded the conversion price threshold trigger for our convertible senior notes due 2021. Accordingly, the convertible senior notes due 2021 were convertible at the option of each holder through December 31, 2014. If a holder elects to convert its convertible notes due 2021, we are permitted to settle the conversion value in cash, stock, or a combination thereof. If we choose to settle in a combination of cash and stock, we currently have the intent and the ability, based on current facts and circumstances, to settle the principal amount of the convertible senior notes due 2021 in cash. However, if the principal amount of the convertible senior notes due 2021 that holders actually elect to convert exceeds our cash on hand and cash from operations, we may elect to settle in stock or may need to draw cash from existing financing or pursue additional sources of financing to settle the convertible senior notes due 2021 in cash. We may not be able to obtain new sources of financing on terms acceptable to us or at all.

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

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

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following is a list of locations of buildings we own and their approximate size:

Location	Square Feet	
Alpharetta, Georgia	66,000	
Boca Raton, Florida	51,000	
Cleveland, Ohio	63,000	
Cleveland, Ohio(1)	475,000	(1)

(1) The building is owned through a subsidiary that is 50% owned.

In addition, we lease an aggregate of approximately 829,200 square feet of office space in 95 locations. See Item 13. "Certain Relationships and Related Transactions, and Director Independence."

Item 3. Legal Proceedings

We and certain of our officers are defendants in related putative securities class action lawsuits filed in February 2014 in the United States District Court for the Southern District of New York. Plaintiffs in the lawsuits purport to represent a class of our stockholders who purchased shares between February 15, 2011 and December 11, 2013. On April 24, 2014, the court issued an order consolidating the related actions, appointing lead plaintiff and approving the selection of co-lead counsel. On September 4, 2014, the plaintiffs filed a consolidated amended complaint. The amended complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, Section 11 of the Securities Act of 1933, as amended, and seeks damages in an unspecified amount, attorney's fees and other relief. Plaintiffs assert the Section 11 claim on behalf of persons or entities who purchased our Series A preferred stock in or traceable to our public offering on June 5, 2013 and did not sell those shares of Series A preferred stock prior to December 12, 2013. We believe the allegations to be unfounded and will vigorously pursue its defenses; however, we cannot reasonably estimate the potential range of loss, if any. In addition, we have received three stockholder demands for production, pursuant to Section 220 of the Delaware General Corporation Law, of our books and records.

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

Item 4. Mine Safety Disclosures

None.

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PART II

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

Shareholders

Our common stock trades on the NASDAQ Global Market under the symbol "AFSI". We have one class of authorized common stock for 150,000,000 shares at a par value of $0.01 per share. As of February 17, 2015, there were approximately 151 registered record holders of our common stock. This figure does not include beneficial owners who hold shares in nominee name.

Price Range of Common Stock

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

2014	High	Low	Dividends Declared
First quarter	$39.64	$30.29	$0.20
Second quarter	$47.10	$35.55	$0.20
Third quarter	$46.02	$38.25	$0.20
Fourth quarter	$59.31	$39.80	$0.25
2013	High	Low	Dividends Declared
First quarter [(1)]	$33.10	$26.39	$0.14
Second quarter [(1)]	$33.51	$26.24	$0.14
Third quarter [(1)]	$41.72	$32.45	$0.14
Fourth quarter	$42.64	$27.90	$0.14

[(1)] The prices have been adjusted for a ten percent stock dividend that was paid during the third quarter of 2013.

On February 17, 2015, the closing price per share for our common stock was $55.55.

Dividend Policy

Our Board of Directors has historically declared the payment of quarterly cash dividends. Any determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon our results of operations and cash flows, our financial position and capital requirements. On August 6, 2013, our Board of Directors declared a 10% stock dividend applicable to all stockholders as of the close of business on August 20, 2013. Such stock dividend was paid on September 4, 2013. Each of our stockholders as of the record date received 0.10 additional shares of common stock for each one share of common stock they held as of the close of business on the record date. Holders of fractional shares of common stock received cash in lieu of fractional shares.

We are a holding company that transacts business through our operating subsidiaries. Our primary assets are the capital stock of these operating subsidiaries. Payments from our insurance subsidiaries pursuant to management agreements and tax sharing agreements, as well as fee income we generate from providing services discussed throughout this report, are our primary source of funds to pay our direct expenses. We anticipate that such payments, together with dividends paid to us by our subsidiaries, will continue to be the primary source of funds. The ability to pay dividends to our stockholders largely depends upon the surplus and earnings of our subsidiaries and their ability to pay dividends to us. Payment of dividends by our insurance subsidiaries is regulated by insurance laws of various states, and the laws of certain foreign countries in which we do business, including laws establishing minimum solvency and liquidity thresholds. In addition, the terms of our junior subordinated debentures, revolving credit facility and convertible senior notes limit, in the event of certain circumstances, our ability to pay dividends on our common stock, and future borrowings may include prohibitions and restrictions on dividends. As a result, at times, we may not be able to receive dividends from our insurance subsidiaries and may not receive dividends in amounts necessary to pay dividends on our capital stock. As of December 31, 2014, our insurance subsidiaries could pay dividends to us of $844 million without prior regulatory approval. Any dividends paid by our subsidiaries would reduce their surplus. During 2014, our insurance subsidiaries paid us dividends of $7.4 million.

Share Repurchase Plan

In December 2013, our Board of Directors approved a $150 million share repurchase program. The Board of Directors may suspend, modify or terminate the repurchase program at any time without prior notice. Under this repurchase program, we are not obligated to repurchase any particular number of shares. Unless terminated earlier by resolution of our Board of Directors, the program will expire when we have repurchased the full value of the shares authorized. During the three months ended December 31, 2014 we repurchased 367,379 shares pursuant to the authorized plan from December 2013.

During the three months ended December 31, 2014, we repurchased 92,448 shares of our common stock from one employee in connection with the vesting of restricted stock issued to this employee under our 2010 Omnibus Incentive Plan, as amended ("the Plan"). The shares were withheld at the direction of the employee as permitted under the Plan in order to pay the minimum amount of tax liability owned by the employee from the vesting of restricted stock.

The following table summarizes our stock repurchases for the three-month period ended December 31, 2014:

Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased Under Plan or Program
October 1 - 31, 2014	367,379	$ 39.69	367,379	$ 90,875,816
November 1 - 30, 2014	—	—	—	—
December 1 - 31, 2014	92,448	56.25	—	$ 90,875,816
Total	459,827	$ 39.72	367,379	$ 90,875,816

[1] Includes 92,448 shares that were withheld to satisfy tax withholding amounts due from the employee upon the vesting of previously issued restricted shares.

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Common Stock Performance Graph

Set forth below is a line graph comparing the cumulative total stockholder return on our common stock for the period beginning December 31, 2009 and ending on December 31, 2014 with the cumulative total return on the NASDAQ Global Market Index and a peer group comprised of the NASDAQ Insurance Index. The graph shows the change in value of an initial $100 investment on December 31, 2009.

Comparative Cumulative Total Returns Since 12/31/09 for AmTrust Financial
Services, Inc.: NASDAQ Composite and NASDAQ Insurance

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

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Item 6. Selected Financial Data

The following tables set forth our selected historical consolidated financial and operating information for the periods ended and as of the dates indicated. The selected consolidated income statement data for the years ended December 31, 2014, 2013 and 2012 and the balance sheet data as of December 31, 2014 and 2013 are derived from our audited financial statements included elsewhere in this report, which have been audited by BDO USA, LLP, our independent auditors. These historical results are not necessarily indicative of results to be expected from any future period. You should read the following selected consolidated financial information together with the other information contained in this report, including "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in Part IV of this report.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Amounts in Thousands)				
Selected Income Statement Data[1]					
Gross written premium	$6,087,965	$4,116,911	$2,749,326	$2,150,472	$1,560,822
Ceded gross written premium	(2,131,347)	(1,551,238)	(1,101,289)	(873,875)	(733,596)
Net written premium	$3,956,618	$2,565,673	$1,648,037	$1,276,597	$827,226
Change in unearned premium	(430,054)	(299,683)	(229,185)	(239,736)	(81,567)
Net earned premium	$3,526,564	$2,265,990	$1,418,852	$1,036,861	$745,659
Service and fee income	409,743	331,559	172,174	108,660	62,067
Net investment income	131,601	84,819	68,167	55,515	50,517
Net realized gain (loss) on investments	16,423	15,527	8,981	2,768	5,953
Total revenues	$4,084,331	$2,697,895	$1,668,174	$1,203,804	$864,196
Loss and loss adjustment expense	2,342,619	1,517,361	922,675	678,333	471,481
Acquisition costs and other underwriting expenses [2]	856,923	533,162	356,005	271,367	157,711
Other[3]	436,350	291,617	177,709	117,090	56,403
Total expenses	$3,635,892	$2,342,140	$1,456,389	$1,066,790	$685,595
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	$448,439	$355,755	$211,785	$137,014	$178,601
Other income (expense):					
Interest expense	(45,857)	(34,691)	(28,508)	(16,079)	(12,902)
Loss on extinguishment of debt	(9,831)	—	—	—	—
Gain on investment in life settlement contracts net of profit commission	12,306	3,800	13,822	46,892	11,855
Foreign currency gain (loss)	60,245	(6,533)	(242)	(2,418)	684
Acquisition gain on purchase	—	48,715	—	5,850	—
Gain on sale of subsidiary	6,631	—	—	—	—
Total other income (expense)	$23,494	$11,291	$(14,928)	$34,245	$(363)
Income before income taxes and equity in earnings of unconsolidated subsidiaries	$471,933	$367,046	$196,857	$171,259	$178,238
Provision (benefit) for income taxes	53,686	98,019	21,292	(15,023)	53,890
Income before equity in earnings of unconsolidated subsidiaries and non-controlling interest	418,247	269,027	175,565	186,282	124,348
Equity in earnings of unconsolidated subsidiaries – related party	28,351	11,566	9,295	4,882	23,226

Net income	446,598	280,593	184,860	191,164	147,574
Net loss (income) attributable to non-controlling and redeemable non-controlling interest of subsidiaries	416	1,633	(6,873)	(20,730)	(5,109)
Net income attributable to AmTrust Financial Services, Inc.	$447,014	$282,226	$177,987	$170,434	$142,465
Dividends on preference stock	(12,738)	(3,989)	—	—	—
Net income attributable to AmTrust common stockholders	$434,276	$278,237	$177,987	$170,434	$142,465

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	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Amounts in Thousands, Except Percentages and per Share Data)				
Per Share Data					
Net income allocated to AmTrust Financial Services, Inc. common stockholders – basic	$5.78	$3.75	$2.42	$2.34	$1.97
Basic weighted average common shares outstanding	74,933	74,163	73,269	72,685	72,302
Diluted Income Per Share:					
Net income allocated to AmTrust Financial Services, Inc. common stockholders – diluted	$5.45	$3.56	$2.34	$2.29	$1.95
Diluted weighted average common shares outstanding	79,517	77,984	75,620	74,431	73,194
Dividend declared per common share	$0.85	$0.56	$0.39	$0.34	$0.29
Selected Insurance Ratios and Operating Information					
Net loss ratio(4)	66.4 %	67.0 %	65.0 %	65.4 %	63.2 %
Net expense ratio(5)	24.3 %	23.5 %	25.1 %	26.2 %	22.1 %
Net combined ratio(6)	90.7 %	90.5 %	90.1 %	91.6 %	85.3 %
Return on equity(7)	28.4 %	22.5 %	17.5 %	21.2 %	22.2 %

	As of December 31,				
	2014	2013	2012	2011	2010
	(Amounts in Thousands)				
Selected Balance Sheet Data					
Cash, cash equivalents and restricted cash	$1,088,975	$930,461	$493,132	$429,951	$201,949
Investments	4,575,881	3,657,309	2,203,270	1,656,687	1,357,012
Reinsurance recoverable	2,440,627	1,929,848	1,318,395	1,098,569	775,432
Premiums receivable, net	1,851,682	1,593,975	1,251,262	932,992	727,561
Goodwill and intangibles assets	667,681	665,393	532,839	392,455	204,139
Total assets	13,847,368	11,279,126	7,436,511	5,762,419	4,205,741
Reserves for loss and loss adjustment expense	5,664,205	4,368,234	2,426,400	1,879,175	1,263,537
Unearned premiums	3,447,203	2,680,982	1,773,593	1,366,170	1,024,965
Deferred income tax liability	106,363	274,519	264,032	148,297	33,171
Revolving credit facility	120,000	—	—	—	—
Notes payable	250,000	250,000	—	—	6,667
2.75% Convertible senior notes due 2044	157,679	—	—	—	—
5.5% Convertible senior notes due 2021	56,745	164,218	161,218	138,506	—
Junior subordinated debt	123,714	123,714	123,714	123,714	123,714
Common stock, preferred stock and additional paid in capital less treasury stock	1,026,163	864,173	468,226	282,805	249,086
Total AmTrust Financial Services, Inc. equity	2,037,020	1,441,005	1,144,121	890,563	716,514

(1) Results for a number of periods were affected by our various acquisitions from 2010 to 2014.
(2)

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

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

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

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

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

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

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

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

Overview

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

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

Our former segment, Personal Lines Reinsurance, is in run-off. Through July 31, 2013, we reinsured 10% of the net premiums of National General Holdings Corp.'s personal lines business, pursuant to the Personal Lines Quota Share with National General Holdings Corp.'s personal lines insurance companies. On August 1, 2013, we received notice, effective August 1, 2013, terminating our participation in the Personal Lines Quota Share. The termination was on a run-off basis, meaning we continued to receive net premiums and assume net losses with respect to policies in force as of July 31, 2013 through the expiration of such policies. As we retained all assumed written premium through July 31, 2013 and the continuing cash flows associated with the business, we did not present the Personal Lines Reinsurance segment as a discontinued operation in accordance with ASC 205-20 Discontinued Operations.

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

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

We evaluate our operations by monitoring key measures of growth and profitability, including return on equity and net combined ratio. Our return on equity was 28.4%, 22.5% and 17.5% for the years ended December 31, 2014, 2013 and 2012, respectively. Our overall financial objective is to produce a return on equity of 15.0% or more over the long term. In addition, we target a net combined ratio of 95.0% or lower over the long term, while seeking to maintain optimal operating leverage in our insurance subsidiaries commensurate with our A.M. Best rating objectives. Our net combined ratio was 90.7%, 90.5% and 90.1% for the years ended December 31, 2014, 2013 and 2012, respectively. A key factor in achieving our targeted net combined ratio is a continuous focus on our net expense ratio. Our strategy across our segments is to maintain premium rates, deploy capital judiciously, manage our expenses and focus on the businesses in which we have expertise, which we believe should provide opportunities for greater returns.

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Investment income is also an important part of our business. Because the period of time between our receipt of premiums and the ultimate settlement of claims is often several years or longer, we are able to invest cash from premiums for significant periods of time. Our net investment income was $131.6 million, $84.8 million and $68.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. We held 19.7% and 20.8% of total invested assets in cash and cash equivalents as of December 31, 2014 and 2013, respectively.

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

Significant Acquisitions

Comp Options Insurance Company, Inc.

On October 1, 2014, we acquired Comp Options Insurance Company, Inc. (“Comp Options”), a Florida-based workers' compensation insurer, from an affiliate of Blue Cross & Blue Shield of Florida, for approximately $34.3 million in cash. Comp Options offers workers' compensation insurance to small businesses with low-hazard risk profiles in the state of Florida and generated approximately $70.0 million of premium during the 12 months prior to acquisition. The goodwill and intangible assets, as well as Comp Options results of operations, are included as a component of the Small Commercial Business segment. We are in the process of completing our acquisition accounting and expect to have it completed in 2015. As a result of this acquisition, we recorded approximately $18.7 million of written premium and $1.0 million of service and fee income for the year ended December 31, 2014.

Tower Renewal Rights Agreement

In January 2014, we entered into a cut through quota share reinsurance agreement (the “Cut Through Reinsurance Agreement”) with Tower Group International, Ltd. (“Tower”) to provide a 100% quota share for a majority of Tower's in force commercial lines policies and most new and renewal commercial lines business. At the inception of the Cut Through Reinsurance Agreement, we initially assumed $174 million of unearned premium. During 2014, we assumed approximately $475 million of premium, earned approximately $387 million of premium, and incurred approximately $225 million of loss and loss adjustment expense, respectively, related to the Cut Through Reinsurance Agreement. During the year ended December 31, 2014, we also incurred approximately $92 million of commission expense and approximately $16 million of unallocated claims expense as part of the Cut Through Reinsurance Agreement. Additionally, we recorded approximately $34 million of prepaid claim expense as of December 31, 2014, which is reported as a component of other assets.

In conjunction with ACP Re, Ltd.'s (“ACP Re”) merger with Tower, on September 15, 2014, we entered into various agreements with Tower including, primarily, a renewal rights agreement and a quota share reinsurance agreement. Based on the terms of the renewal rights agreement, we are required to pay a maximum amount of $30 million over a three year period based on 3% of gross written premium of the Tower commercial lines business. The quota share reinsurance agreement allows us to reinsure 100% of all losses for Tower’s new and renewal commercial lines business written after September 15, 2015. The quota share agreement replaced the Cut Through Reinsurance Agreement. As a result of the renewal rights transaction, we generated approximately $133 million of gross written premium for the year ended December 31, 2014. Additionally, we loaned ACP Re $125 million to finance their purchase of Tower.

The Insco Dico Group

On January 3, 2014, we completed the acquisition of Insco Insurance Services, Inc. (“Insco Dico”) and its subsidiaries for a purchase price of approximately $88.7 million. The transaction was funded with our existing working capital. Insco Dico's subsidiaries include Developers Surety and Indemnity Company and Indemnity Company of California, which offer surety insurance to developers and contractors in all 50 states with California as the largest state. In addition, Insco Dico's subsidiary, Builders Insurance Services, markets general liability insurance policies to contractors in several states in the western region of the U.S. The goodwill and intangible assets, as well as Insco Dico's results of operations, are included as a component of the Small Commercial Business segment. The identifiable intangible assets consist of agency relationships, which have a 20 year life, and licenses that have an indefinite life. As a result of this transaction, we recorded approximately $55.5 million of written premium and approximately $3.7 million of service and fee income for the year ended December 31, 2014.

Sagicor Europe Limited

On December 23, 2013, we, through one of its subsidiaries, completed the acquisition of Sagicor Europe Limited and its wholly owned subsidiaries, including Sagicor at Lloyd's Limited (“Sagicor”), from Sagicor Financial Corporation for approximately $93.1 million. Sagicor Europe Limited and Sagicor at Lloyd's Limited subsequently changed their names to AmTrust Lloyd's Holdings Limited and AmTrust at Lloyd's Limited, respectively. AmTrust at Lloyd's Limited is a managing agency and owner of Lloyd's property/casualty insurance syndicate 1206 with stamp capacity of $330.0 million and Lloyd's life insurance syndicate 44 with stamp capacity of $16.5 million. The goodwill and intangible assets, as well as AmTrust Lloyd's Holdings Limited's results of operations, are included as a component of the Specialty Risk and Extended Warranty segment. As a result of this transaction, we recorded approximately $322.8 million of written premium for the year ended December 31, 2014.

Mutual Insurers Holding Company

On May 13, 2013, we completed the acquisition of Mutual Insurers Holding Company (“MIHC”) and its subsidiaries. MIHC's primary operating subsidiary, First Nonprofit Insurance Company (“FNIC”), is a of property and casualty insurance products to nonprofit organizations in the U.S. Immediately prior to the acquisition, MIHC converted from a mutual form to a stock form of ownership in a transaction “sponsored” by us. As required by the plan of conversion and applicable Delaware law, we offered shares of our common stock, at a discount to the market price, to the members of MIHC who held policies as of December 31, 2012 and the directors, officers and employees of MIHC and its subsidiaries. We received subscriptions for approximately $0.5 million, resulting in the issuance by us of 18,052 shares of our common stock at a discounted price of 20% from our market trading price, or approximately $0.1 million. Pursuant to the stock purchase agreement, after the expiration of the offering, we purchased all of the authorized shares of capital stock of MIHC at a purchase price equal to the greater of the gross proceeds received by us in the offering, and $8.0 million. We made a payment to MIHC of $48.5 million, which included the $0.5 million in proceeds we received in the offering, for the stock of FNIC. Additionally, as part of the transaction, we were required to make a contribution to First Nonprofit Foundation, a tax exempt corporation principally funded by FNIC's predecessor and managed for the benefit of nonprofit organizations, in the amount of $7.9 million, which represented $8.0 million, as discussed above, less the discount of approximately $0.1 million on the shares issued by us in the transaction. The remaining $40.6 million of cash contributed to MIHC was retained by us. Additionally, we assumed $6.5 million of debt in the transaction. In accordance with FASB ASC 805-10 Business Combinations, we recorded an acquisition price of approximately $14.5 million.
In accordance with FASB ASC 944-805 Business Combinations, we adjusted to fair value FNIC's loss and LAE reserves by taking the acquired loss reserves recorded and discounting them based on expected reserve payout pattern using a current risk free rate. This risk free interest rate was then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent

uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and our best estimate of the fair value of such reserves at acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves and was approximately $4.5 million. Additionally, we recorded intangible assets in the amount of $6.1 million, which consisted of state licenses and have an indefinite life. The intangible assets, as well as FNIC's results of operations from the date of acquisition, are included as a component of the Small Commercial Business segment. As a result of this transaction, we recorded an acquisition gain of approximately $18.0 million.

As a result of this transaction, we recorded approximately $58.1 million and $32.1 million of written premium for the years ended December 31, 2014 and 2013, respectively.

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AMTCS Holdings, Inc.

On May 3, 2013, we, through our wholly-owned subsidiary AMT Warranty Corp., completed the acquisition of CPPNA Holdings, Inc. (“CPPNA”) from CPP Group LLC, a company based in the United Kingdom, for approximately $40.0 million. CPPNA subsequently changed its name to AMTCS Holdings, Inc. (“AMTCS”). AMTCS provides administrative services for consumer protection products in the United States, including identity theft protection and warranties related to credit card purchases, to customers of AMTCS's financial services partners. In accordance with FASB ASC 805-10 Business Combinations, we recorded a purchase price of approximately $40.0 million, which consisted primarily of goodwill and an intangible asset of approximately $17.3 million and $34.7 million, respectively, and a deferred tax liability of $12.1 million. The intangible asset consisted of customer relationships and has a life of 12 years. The goodwill and intangibles, as well as AMTCS's results of operations, are included as a component of the Specialty Risk and Extended Warranty segment from the date of acquisition. As a result of this transaction, we recorded approximately $58.4 million and $44.5 million of fee income during the years ended December 31, 2014 and 2013, respectively.

Sequoia Insurance Company

On April 19, 2013, we completed the acquisition of all the issued and outstanding shares of common stock of Sequoia Insurance Company and its subsidiaries, Sequoia Indemnity Company and Personal Express Insurance Company (“Sequoia”) for approximately $60.0 million. Sequoia offers low hazard, property/casualty insurance products, including workers' compensation and commercial package insurance, to small businesses in several western states, with California representing Sequoia's largest market.

In accordance with FASB ASC 944-805 Business Combinations, we adjusted to fair value Sequoia's loss and LAE reserves by taking the acquired loss reserves recorded and discounting them based on expected reserve payout pattern using a current risk free rate. This risk free interest rate was then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and our best estimate of the fair value of such reserves at acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves and was approximately $7.4 million. Additionally, we recorded $11.8 million of intangible assets that consist primarily of licenses and trademarks and have an indefinite life. The intangible assets, as well as Sequoia's results of operations, are included as a component of the Small Commercial Business segment from the date of acquisition. As a result of this transaction, we recorded an acquisition gain of approximately $5.2 million.

We recorded approximately $68.3 million and $79.7 million of written premium for the years ended December 31, 2014 and 2013, respectively.

Car Care

On February 28, 2013, we, through our wholly-owned subsidiary AmTrust International Limited (“AIL”), acquired all of the issued and outstanding shares of capital stock of Car Care Plan (Holdings) Limited (“CCPH”) from Ally Insurance Holdings, Inc (“AIH”). CCPH is an administrator, insurer and provider of auto extended warranty, guaranteed asset protection (GAP), Wholesale Floorplan Insurance and other complementary insurance products. CCPH underwrites its products and the products of third-party administrators through its subsidiary Motors Insurance Company Limited, a United Kingdom based insurer. CCPH has operations in the United Kingdom, Europe, China, North America and Latin America. We paid $72.4 million for the purchase of CCPH. In connection with the closing of the transaction, the parties (or their affiliates) entered into certain other agreements, including a transition services agreement, pursuant to which AIH provides certain transitional services to AIL and us, and two reinsurance agreements, pursuant to which affiliates of AIH reinsure certain insurance contracts of such affiliates with affiliates of AIL.

We recorded intangible assets of approximately $34.3 million related to customer relationships and assigned a life of fifteen years. CCPH is included as a component of our Specialty Risk and Extended Warranty segment. As a result of this transaction, we recognized a gain on the acquisition of approximately $25.5 million.

As a result of this transaction, we recorded approximately $110.8 million and $98.9 million of written premium for the years ended December 31, 2014 and 2013, respectively. In addition, we recorded $42.4 million and $31.6 million of fee income for the years ended December 31, 2014 and 2013, respectively.

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AHL

During 2013, AHL completed two acquisitions described below. AHL is a holding company that purchases Luxembourg-domiciled reinsurance entities. In connection with these transactions, we acquire cash and equalization reserves of the reinsurance companies. 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, we cede premium and associated losses to the reinsurance companies through intercompany reinsurance arrangements. Provided we are 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, 2014, we had approximately $314 million of unutilized equalization reserves and an associated deferred tax liability of approximately $94 million. During 2014, 2013 and 2012, we were able to reduce the overall expenses by a net amount of approximately $30.4 million, $0.2 million, and $9.3 million, respectively, to reflect the net reduction of the deferred tax liability offset by goodwill impairment charges related to the utilization of the equalization reserves. Under our business plans currently in effect, we expect 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 our gross and net loss reserves or loss ratio.

In December 2013, AHL acquired all the issued and outstanding stock of Atlas COPCO Reinsurance S.A., a Luxembourg domiciled reinsurance company, from ATLAS COPCO AB. The purchase price of Atlas COPCO Reinsurance S.A. was approximately $80.7 million. We recorded approximately $89.1 million of cash, goodwill of $16.9 million and a deferred tax liability of $25.3 million. Atlas COPCO Reinsurance S.A. subsequently changed its name to AmTrust Re Aries S.A.

In November 2013, AHL acquired all the issued and outstanding stock of Re'A FIN S.A., a Luxembourg domiciled reinsurance company, from SRIW Finance SA and SPARXIS SA. The purchase price of Re'A FIN S.A. was approximately $93.4 million. We recorded approximately $102.8 million of cash, goodwill of $18.7 million and a deferred tax liability of $28.1 million. Re'A FIN S.A. subsequently changed its name to AmTrust Re Taurus S.A.

Strategic Investments

Investment in National General Holdings Corp.

We have a 13.2% ownership interest in National General Holding Corp. (“NGHC”). NGHC is publicly-held insurance holding company (Nasdaq: NGHC) that operates fifteen insurance companies in the United States and writes consumer property and casualty insurance business through independent agents for automobiles. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. NGHC's two largest stockholders are The Michael Karfunkel 2005 Grantor Retained Annuity Trust (the “Trust”) and Michael Karfunkel individually. Michael Karfunkel is the Chairman of our Board of Directors and the father-in-law of Barry D. Zyskind, our Chief Executive Officer. The ultimate beneficiaries of the Trust include Michael Karfunkel’s children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the chairman of the board of directors of NGHC. In accordance with ASC 323-10-15, Investments-Equity Method and Joint Ventures, we continue to account for our investment in NGHC under the equity method as we have the ability to exert significant influence on NGHC's operations. We

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recorded $28.4 million, $11.6 million and $9.3 million of income during the years ended December 31, 2014, 2013 and 2012, respectively, related to our equity investment in NGHC.

Master Services Agreement

We provide NGHC and its affiliates information technology development services in connection with the development and licensing of a policy management system at a cost which is currently 1.25% of gross written premium of NGHC and its affiliates plus our costs for development and support services. In addition, we provide NGHC and its affiliates printing and mailing services at a per piece cost for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies we process for NGHC and its affiliates on the policy management system. We recorded recorded approximately $25.6 million, $24.2 million and $14.4 million of fee income for the years ended December 31, 2014, 2013 and 2012, respectively, related to this agreement. Additionally, we provided certain consulting services to NGHC related to Luxembourg-domiciled reinsurance entities in 2014, for which we received $1.1 million for the year ended December 31, 2014.

Asset Management Agreement

We manage the assets of NGHC and certain of its subsidiaries, including the assets of reciprocal insurers managed by subsidiaries of NGHC, for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1 billion or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1 billion. We managed approximately $1.4 billion of assets as of December 31, 2014 related to this agreement. As a result of this agreement, we earned approximately $2.0 million, $1.7 million and $1.5 million of asset management fees for the years ended December 31, 2014, 2013 and 2012, respectively.

As a result of the above service agreements with NGHC, we recorded fees totaling approximately $28.7 million, $25.9 million and $15.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, the outstanding balance payable by NGHC related to these service fees and reimbursable costs was approximately $16.4 million.

Life Settlement Contracts

We currently have a 50% ownership interest in each of four entities for the purpose of acquiring life settlement contracts, with a subsidiary of NGHC owning the other 50%. 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. The entities (collectively, the “LSC Entities”) are:

- Tiger Capital LLC (“Tiger”);
- AMT Capital Alpha, LLC (“AMT Alpha”);
- AMT Capital Holdings, S.A. (“AMTCH”); and
- AMT Capital Holdings II, S.A. (“AMTCH II”).

The LSC Entities may also acquire premium finance loans made in connection with the borrowers’ purchase of life insurance policies that are secured by the policies. The LSC Entities acquire the underlying policies through the borrowers’ voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator of the Tiger and AMTCH II life settlement contract portfolios, for which it receives an administrative fee. The third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. We provide certain actuarial and finance functions related to the LSC Entities. In conjunction with our 13.2% ownership percentage of NGHC, we ultimately receive 56.6% of the profits and losses of the LSC Entities. As such, in accordance with ASC 810-10, Consolidation, we have been deemed the primary beneficiary and, therefore, consolidate the LSC Entities.

We account for investments in life settlements in accordance with ASC 325-30, Investments in Insurance Contracts, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. We have elected to account for these policies using the fair value method. We determine fair value based upon our estimate of the discounted cash flow related to policies (net of the reserves for improvements in mortality, the possibility that the high net worth individuals represented in our portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to us, 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.

Total capital contributions of $36.1 million and $70.8 million were committed to the LSC Entities during the years ended December 31, 2014 and 2013, respectively, of which our proportionate share was $17.9 million and $35.4 million in those same periods. $1.3 million of this $17.9 million capital contribution was funded in January 2015. The LSC Entities used the contributed capital to pay premiums and purchase policies. Our investments in life settlements and premium finance loans were approximately $264.5 million and $233.0 million as of December 31, 2014 and 2013, respectively, and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. We recorded a gain on investment in life settlement contracts net of profit commission of approximately $12.3 million, $3.8 million and $13.8 million, for the years ended December 31, 2014, 2013 and 2012, respectively.

Principal Revenue and Expense Items

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

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

Net Earned Premium. Net earned premium is the earned portion of our net written premiums. We earn insurance premiums on a pro rata basis over the term of the policy. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums, which are earned in subsequent periods over the remaining term of the policy. Our workers' compensation insurance and commercial package policies typically have a term of one year. Thus, for a one-year policy written on July 1, 2014 for an employer with a constant payroll during the term of the policy, we would earn half of the premiums in 2014 and the other half in 2015. We earn our specialty risk and extended warranty coverages over the estimated exposure time period. The terms vary depending on the risk.The coverages range in duration from one month to 120 months. Our U.S. warranty business has an average duration of 42 months, while our European warranty business has an average duration of 19 months and our European casualty business has average duration of 12 months.

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

- Product warranty registration and service — Our Specialty Risk and Extended Warranty business generates fee revenue for product warranty registration and claims handling services provided to unaffiliated third party retailers, manufacturers and dealerships. Additionally, we provide credit monitoring services for a fee.
- Servicing carrier — We act as a servicing carrier for workers' compensation assigned risk plans in multiple states. In addition, we also offer claims adjusting and loss control services for fees to unaffiliated third parties.
- Management services — We provide services to insurance consumers, traditional insurers and insurance producers by offering flexible and cost effective alternatives to traditional insurance tools in the form of various risk retention groups and captive management companies, as well as management of workers' compensation and commercial property programs. We also offer programs and alternative funding options for non-profit and public sector organizations for the management of their state unemployment insurance obligations.
- Insurance fees — We recognize fee income associated with the issuance of workers' compensation policies for installment fees, in jurisdictions where it is permitted and approved, and reinstatement fees, which are fees charged to reinstate a policy after it has been canceled for non-payment, in jurisdictions where it is permitted and approved. Additionally, we recognize broker commissions and policy management fees associated with general liability policies

placed by one of our managing general agencies.

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

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

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

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

- Policy acquisition expenses comprise commissions directly attributable to those agents, wholesalers or brokers that produce premiums written on our behalf. In most instances, we pay commissions based on collected premium, which reduces our credit risk exposure associated with producers in case a policyholder does not pay a premium. We pay state and local taxes, licenses and fees, assessments and contributions to various state guaranty funds based on our premiums or losses in each state. Surcharges that we may be required to charge and collect from insureds in certain jurisdictions are recorded as accrued liabilities, rather than expense. These expenses are offset by ceding commissions received.
- Salaries and benefits expenses are those salaries and benefits expenses for employees that are directly involved in the origination, issuance and maintenance of policies, claims adjustment and accounting for insurance transactions. We classify salaries and benefits associated with employees that are involved in fee generating activities as other expenses.
- General and administrative expenses are comprised of other costs associated with our insurance activities, such as federal excise tax, postage, telephones and internet access charges, as well as legal and auditing fees and board and bureau charges.
- Ceding commission on reinsurance transactions is a commission we receive from ceding gross written premium to third party reinsurers, and is netted against acquisition costs and other underwriting expenses. In connection with the Maiden Quota Share, which is our primary source of ceding commissions, the amount we receive is a blended rate based on a contractual formula contained in the individual reinsurance agreements, and the rate may not correlate specifically to the cost structure of the individual segments. The ceding commissions we receive cover a portion of our capitalized direct acquisition costs and a portion of other underwriting expenses. Ceding commissions received from reinsurance transactions that represent recovery of capitalized direct acquisition costs are recorded as a reduction of capitalized unamortized deferred acquisition costs and the net amount is charged to expense in proportion to net

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

Gain (loss) on Investment in Life Settlement Contracts. The gain (loss) on investment in life settlement contracts includes the gain (loss) on acquisition of life settlement contracts, the gain (loss) realized upon a mortality event and the change in fair value of the investments in life settlements as evaluated at the end of each reporting period. We determine fair value based upon our estimate of the discounted cash flow related to policies (net of the reserves for improvements in mortality, the possibility that the high net worth individuals represented in our portfolio may have access to better health care, the volatility inherent in determining

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the life expectancy of insureds with significant reported health impairments, the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to us and the future expenses related to the administration of the portfolio), which incorporates current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the policies as no comparable market pricing is available. The gain (loss) realized upon a mortality event is the difference between the death benefit received and the recorded fair value of that particular policy. We allocate gain (loss) on investment in life settlement contracts to our segments based on gross written premium by segment.

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

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

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

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

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

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

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

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

Critical Accounting Policies

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

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

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The following is a description of our critical accounting policies.

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

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

We utilize a combination of our incurred loss development factors and industry-wide incurred loss development factors. Our actuaries generates a range within which it is reasonably likely that our ultimate loss and loss adjustment expenses for claims incurred in a particular time period, typically the calendar year, will fall. The low end of the range is established by assigning a weight of 100% to our ultimate losses obtained by application of our own loss development factors. The high end is established by assigning a weight of 50% each to our ultimate losses as developed through application of Company and industry wide loss development factors. The determination to assign particular weights to ultimate losses developed through application of our loss development factors and industry-wide loss development factors is made by our actuary and is a matter of actuarial judgment. In the selection of our reserves, we have given greater consideration over time to the results attributable to our own loss development factors.

We believe this method, by which we track the development of claims incurred in a particular time period, is the best method for projecting our ultimate liability. Loss development factors are dependent on a number of elements, including frequency and severity of claims, length of time to achieve ultimate settlement of claims, projected inflation of medical costs and wages (for workers' compensation), insurance policy coverage interpretations, judicial determinations and existing laws and regulations. The predictive ability of loss development factors is dependent on consistent underwriting, claims handling, and inflation, among other factors, and predictable legislatively and judicially imposed legal requirements. If all things remain equal, losses incurred in 2015 should develop similarly to losses incurred in 2014 and prior years. Thus, if the Net Loss Ratio for premiums written in year one is 55.0%, we expect that the Net Loss Ratio for premiums written in year two also would be 55.0%. However, due to the inherent uncertainty in the loss development factors, our actual liabilities may differ significantly from our original estimates.

Notwithstanding the inherent uncertainty, we have not experienced material variability in our loss development factors. We believe that it is reasonably likely that we could experience a 5% deviation in our loss and loss adjustment expense reserves due to changes in the elements that underlie loss development, such as claims frequency or severity. For example, as of December 31, 2014, the average cost per workers' compensation claim was $11,277, which was a 4.1% decrease over the claims severity from 2001 – 2013 of $11,763. In 2014, claims frequency (number of claims per $1.0 million of payroll) increased to 1.018 from .948, an increase of 7.4%, for the period between 2001 and 2014.

In the event of a 5% increase in claims frequency as measured by our workers compensation insureds' payroll, which we believe is the most important assumption regarding our business, our loss reserves as of December 31, 2014 would be understated by $40 million and would result in an after tax reduction in stockholders' equity of $26 million. In the event of a 5% increase in claim severity, which is the average incurred loss per claim, our loss and loss adjustment expense reserves would be understated by $18.1 million and would result in an after tax reduction in stockholders' equity of $11.7 million.

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On a monthly basis, we review our reserves to determine whether they are consistent with our actual results. In the event of a discrepancy, we would seek to determine the causes (underwriting, claims, inflation, regulatory) and would adjust our reserves accordingly. For example, if the development of our total incurred losses were 5% greater than the loss development factors would have predicted, we would adjust our reserves for the periods in question. In 2014, 2013 and 2012, our liabilities for unpaid losses and LAE attributable to prior years increased by $18.6 million, $30.9 million and $12.9 million, respectively, primarily as result of unfavorable loss development in our Small Commercial Business and Specialty Program segments as well as a portion of our European Casualty business in 2013 and in our Specialty Program segment in 2013 and 2012, due to higher actuarial estimates based on actual losses. We do not anticipate that we will make any material reserve adjustments, but will continue to monitor the accuracy of our loss development factors and adequacy of our reserves.

There is generally more uncertainty in the unearned premium reserve than in the IBNR reserve in our Specialty Risk and
Extended Warranty segment because warranty is short-duration business. Claims are generally reported immediately after they occur and are closed within months of reporting. In the Specialty Risk and Extended Warranty segment, the reserve for unearned premium is, in general, an estimate of our liability for projected future losses emanating from the unearned portion of written policies and is inherently more uncertain. Approximately 69% of polices written have policy terms exceeding one year and currently range between 13 months and 120 months. A portion of these policies are earned on a method other than evenly over the contract period. For those policies that are not earned evenly over the contract period, they are earned over the period of risk in proportion to the amount of insurance protection provided. As of December 31, 2014, we had unearned premium of approximately $749.4 million on these policies. An upward/downward movement of 5% on the entire pool of the earn out pattern for these policies would result in an increase/decrease in unearned premium of approximately $37.5 million. In 2014, we had no material changes to prior period estimates of these claim patterns. Our liability for return of unearned premium is not significant.

Additional information regarding our reserves for loss and loss adjustment expenses can be found in “Item 1A. Risk Factors” and “Item 1. Business — Loss Reserves.”

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

Deferred Policy Acquisition Costs. We defer commission expenses, premium taxes and assessments as well as certain underwriting and safety 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. We 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%, we 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.

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

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

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

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

Other Investments. Other investments consisted primarily of investments in limited partnerships, an interest in a syndicated term loan, and annuities. Other investments accounted for only approximately 0.6% of our investment portfolio as of December 31, 2014. We estimate the fair value of other investments based on significant unobservable inputs in the valuation process. As a result, we classified the fair value estimates as Level 3 in the financial hierarchy. We have determined that our investments in Level 3 securities are not material to our financial position or results of operations.

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

- the current fair value compared to amortized cost;
- the length of time the security's fair value has been below its amortized cost;
-

specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments;

- whether management intends to sell the security and, if not, whether it is not more than likely than not that we will be required to sell the security before recovery of its amortized cost basis;
- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings;
- 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.

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. We write down investments immediately that we consider to be impaired based on the above criteria collectively.

Based on guidance in FASB ASC 320-10-65, in the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is not more than likely than not that such holder will be required to sell the debt security before recovery of its amortized cost basis, is required to separate the decline in fair value into (a) the amount representing the credit loss and (b) the amount related to other factors. The amount of total decline in fair value related to the credit loss shall be recognized in earnings as an OTTI with the amount related to other factors recognized in accumulated other comprehensive loss, net of tax. OTTI credit losses result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of the loss realization. During 2014, 2013 and 2012, we recorded impairment write-downs of approximately $8.0 million, $2.9 million and $3.0 million, respectively, after determining that certain of our investments were OTTI.

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

Life Settlement Profit Commission. We retain a third party service provider to perform certain administration functions to effectively manage the life settlement contracts held by Tiger Capital, LLC and AMT Capital Holdings II S.A. and a portion of their fee is contingent on the overall profitability of the life settlement contracts. 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. In addition, we accrue a best estimate in relation to profit commission due on certain life settlement contracts acquired subsequent to December 31, 2010 as no contractual relationship currently exists.

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

We expense costs associated with the acquisition of a business in the period incurred. We include the results of operations of an acquired business in our consolidated financial statements from the date of the acquisition.

Goodwill and Intangible Assets. We account for goodwill and intangible assets in accordance with ASC 820, Business Combinations and ASC 350, Intangibles — Goodwill and Other. We record a purchase price paid that is in excess of net assets ("goodwill") arising from a business combination as an asset, and it is not amortized. We amortize intangible assets with a finite life over the estimated useful life of the asset. We do not amortize intangible assets with an indefinite useful life. We test goodwill and intangible assets for impairment on an annual basis or more frequently if events or 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.

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

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

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

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Results of Operations

Consolidated Results of Operations

	Year End December 31,		
	2014	2013	2012
	(Amounts in Thousands)		
Gross written premium	$6,087,965	$4,116,911	$2,749,326
Net written premium	$3,956,618	$2,565,673	$1,648,037
Change in unearned premium	(430,054)	(299,683)	(229,185)
Net earned premium	3,526,564	2,265,990	1,418,852
Service and fee income (related parties – $58,428, $51,545, and $29,041)	409,743	331,559	172,174
Net investment income	131,601	84,819	68,167
Net realized gain on investments	16,423	15,527	8,981
Total revenues	4,084,331	2,697,895	1,668,174
Loss and loss adjustment expense	2,342,619	1,517,361	922,675
Acquisition costs and other underwriting expenses (net of ceding commission - related party - $405,071, $276,556, and $196,982)	856,923	533,162	356,005
Other	436,350	291,617	177,709
Total expenses	3,635,892	2,342,140	1,456,389
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	448,439	355,755	211,785
Other income (expense):			
Interest expense	(45,857)	(34,691)	(28,508)
Loss on extinguishment of debt	(9,831)	—	—
Net gain on investment in life settlement contracts net of profit commission	12,306	3,800	13,822
Foreign currency gain (loss)	60,245	(6,533)	(242)
Acquisition gain on purchase	—	48,715	—
Gain on sale of subsidiary	6,631	—	—
Total other income (expense)	23,494	11,291	(14,928)
Income before income taxes and equity in earnings of unconsolidated subsidiaries	471,933	367,046	196,857
Provision for income taxes	53,686	98,019	21,292
Income before equity in earnings of unconsolidated subsidiaries	418,247	269,027	175,565
Equity in earnings of unconsolidated subsidiaries – related party	28,351	11,566	9,295
Net income	$446,598	$280,593	$184,860
Non-controlling and redeemable non-controlling interest	416	1,633	(6,873)
Net income attributable to AmTrust Financial Services, Inc.	$447,014	$282,226	$177,987
Dividends on preference stock	(12,738)	(3,989)	—
Net income attributable to AmTrust common stockholders	$434,276	$278,237	$177,987
Net realized gain on investments:			
Total other-than-temporary impairment losses	$(8,039)	$(2,869)	$(2,965)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(8,039)	(2,869)	(2,965)
Other net realized gain on investments	24,462	18,396	11,946
Net realized investment gain	$16,423	$15,527	$8,981

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Consolidated Results of Operations 2014 Compared to 2013

Gross Written Premium. Gross written premium increased $1,971.1 million, or 47.9%, to $6,088.0 million from $4,116.9 million for the years ended December 31, 2014 and 2013, respectively. The increase of $1,971.1 million was attributable to growth in all three of our segments and we grew both organically as well as from acquisitions. The increase in Small Commercial Business resulted primarily from the assumption of premium through the Cut Through Reinsurance Agreement with Tower, the acquisitions of Comp Options, FNIC, Insco Dico, and Sequoia, and increases in the number of policies issued. The largest increases came from the states of California, Florida, New Jersey and New York. The increase in Specialty Risk and Extended Warranty resulted from the acquisition of AmTrust at Lloyd's in 2013 and expansion of existing programs in the U.S. The increase in Specialty Program resulted primary from growth in existing programs.

Net Written Premium. Net written premium increased $1,390.9 million, or 54.2%, to $3,956.6 million from $2,565.7 million for the years ended December 31, 2014 and 2013, respectively. The increase by segment was: Small Commercial Business — $947.1 million; Specialty Risk and Extended Warranty — $389.7 million; and Specialty Program — $120.0 million. The increase was partially offset by a decrease in Personal Lines Reinsurance — $65.8 million. Net written premium increased for the year ended December 31, 2014 compared to the same period in 2013 due to the increase in gross written premium in 2014 compared to 2013, and the increase in retention of gross written premium because of growth in lines of business in our Small Commercial Business segment and Specialty Risk and Extended Warranty segment that are not covered by the Maiden Quota Share. Our overall retention of gross written premium was 65.0% and 62.3% for the years ended December 31, 2014 and 2013, respectively.

Net Earned Premium. Net earned premium increased $1,260.6 million, or 55.6%, to $3,526.6 million from $2,266.0 million for the years ended December 31, 2014 and 2013, respectively. The increase by segment was: Small Commercial Business — $773.0 million; Specialty Risk and Extended Warranty — $420.4 million; and Specialty Program — $158.2 million. The increase was partially offset by a decrease in Personal Lines Reinsurance — $91.1 million. The increase in net earned premium resulted from the increase in gross written premium in 2014 and the increase in retention of gross written premium to 65.0% in 2014 compared to 62.3% in 2013.

Service and Fee Income. Service and fee income increased $78.2 million, or 23.6%, to $409.7 million from $331.6 million for the years ended December 31, 2014 and 2013, respectively. The Specialty Risk and Extended Warranty segment increased fees by approximately $54.1 million during the year ended December 31, 2014 for the administration of commercial property and casualty insurance, and from product warranty registration and claims handling services. Additionally, we had an increase of $11.0 million in fees related to a small acquisition during the second quarter of 2014. Finally, services provided to ACP Re, Maiden and NGHC also generated higher fees of approximately $6.9 million during 2014 compared to 2013.

Net Investment Income. Net investment income increased $46.8 million, or 55.2%, to $131.6 million from $84.8 million for the years ended December 31, 2014 and 2013, respectively. The increase resulted primarily from having a higher average portfolio of fixed security investment securities during 2014 compared to 2013, as a result of the acquisitions of AmTrust at Lloyd's, Insco Dico and Comp Options, the issuance of preferred stock and cash generated from operations, partially offset by lower overall yields.

Net Realized Gains (Losses) on Investments. We had net realized gains on investments of $16.4 million and $15.5 million for the years ended December 31, 2014 and 2013, respectively. We impaired approximately $8.0 million and $2.9 million of investments in 2014 and 2013, respectively, which reduced our overall gains. The increase in realized gains, excluding impairments, resulted primarily from having a larger portfolio of investments in 2014 compared to 2013.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $825.3 million, or 54.4%, to $2,342.6 million for the year ended December 31, 2014 from $1,517.4 million for the year ended December 31, 2013. Our loss ratio for the years ended December 31, 2014 and 2013 was 66.4% and 67.0%, respectively. The loss ratio remained stable year over year as current accident year selected ultimate losses remained consistent with selected ultimate losses from prior years in our Specialty Risk and Extended Warranty and Specialty Program segments. Current accident year selected ultimate losses were lower than selected ultimate losses from prior years in our Small Commercial Business segment. This was partially offset by premium assumed in 2014 through the Cut Through Reinsurance Agreement with Tower, which had higher ultimate loss selections than our policies in similar lines of business, and having a higher percentage of earned premium from worker's compensation policies in the state of California in 2014, for which we assign a higher ultimate loss selection than for worker's compensation policies written in other states. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $323.8 million, or 60.7%, to $856.9 million for the year ended December 31, 2014 from $533.2 million for the year ended December 31, 2013. Acquisition costs and other underwriting expenses were reduced in each period by ceding commission

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primarily earned through the Maiden Quota Share, whereby we receive a ceding commission of 31% of premiums ceded for all business except retail commercial package business, and 34.375% for retail commercial package business. The ceding commission earned during the years ended December 31, 2014 and 2013 was $405.1 million and $276.6 million, respectively. Ceding commission increased period over period as a result of increased premium writings and was reasonably consistent period over period as a percentage of ceded earned premiums. The expense ratio increased to 24.3% in 2014 from 23.5% in 2013, and was impacted primarily by higher policy acquisition expenses in 2014 in our Specialty Risk and Extended Warranty segment.

Other. Other expenses increased $144.7 million, or 49.6%, to $436.4 million for the year ended December 31, 2014 from $291.6 million for the year ended December 31, 2013. The increase resulted primarily from the expansion of our business attributable to product warranty registration and claims handling services for CNH and AMTCS. Additionally, 2014 goodwill impairment related to our Luxembourg reinsurance companies increased by approximately $51.3 million compared to 2013.

Income Before Other Income (Expense), Income Taxes and Equity in Earnings of Unconsolidated Subsidiaries. Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries increased $92.7 million, or 26.1%, to $448.4 million from $355.8 million for the years ended December 31, 2014 and 2013, respectively. The change in income from 2014 to 2013 resulted primarily from the increase in underwriting income of approximately $112 million and an increase in income from our investment portfolio of $47 million, partially offset by higher goodwill impairment in 2014.

Interest Expense. Interest expense for the years ended December 31, 2014 and 2013 was $45.9 million and $34.7 million, respectively. The increase was primarily related to interest expense on the $250 million of 6.125% notes due 2023 issued in August of 2013 and the letter of credits outstanding under our ING Credit Agreement.

Net Gain on Investment in Life Settlement Contracts. We recognized a gain on investment in life settlement contracts of $12.3 million for the year ended December 31, 2014 compared to a gain of $3.8 million for the year ended December 31, 2013. The increase in the gain from the life settlement contracts resulted from a higher number of maturities in 2014 than in 2013.

Acquisition Gain on Purchase. We recognized a gain on acquisition of approximately $48.7 million related to the purchases of CCPH, FNIC and Sequoia during 2013. We did not recognize any gains on acquisition during 2014.

Provision for Income Tax. Income tax expense for the year ended December 31, 2014 was $53.7 million, which resulted in an effective tax rate of 11.4%. Income tax expense for the year ended December 31, 2013 was $98.0 million, which resulted in an effective tax rate of 26.7%. The majority of the decrease in the effective tax rate in 2014 related to a tax benefit attributable to the reduction of our deferred tax liability associated with the equalization reserves of our Luxembourg reinsurers, which was $92.4 million and $10.0 million during the years ended December 31, 2014 and 2013, respectively. The effect of this benefit decreased our effective rate by approximately 19.6% and 2.7% in 2014 and 2013, respectively.

Equity in Earnings of Unconsolidated Subsidiaries — Related Party. Equity in earnings of unconsolidated subsidiaries — related party increased by $16.8 million for the year ended December 31, 2014 to $28.4 million compared to $11.6 million for the year ended December 31, 2013. A majority of the increase resulted from an increase in earnings from our proportionate share of equity income from NGHC's results of operations. Additionally, we had equity income from NGHC of $14.7 million and $8.6 million in 2014 and 2013, respectively, related to decreases in our ownership percentages of NGHC related to their public offerings in 2014 and 2013.

Consolidated Results of Operations 2013 Compared to 2012

Gross Written Premium. Gross written premium increased $1,367.6 million, or 49.7%, to $4,116.9 million from $2,749.3 million for the years ended December 31, 2013 and 2012, respectively. The increase of $1,367.6 million was primarily attributable to growth in our three primary segments. The increase in Small Commercial Business resulted primarily from increases in the number of policies issued as well as average policy size and the impact of the Sequoia and FNIC acquisitions. The largest increases came from the states of California, Florida, Illinois, New Jersey, New York and Pennsylvania. Additionally, in our Small Commercial Business segment, we had an increase in our assigned risk premium. The increase in Specialty Risk and Extended Warranty resulted from organic growth in Europe and domestically, the acquisition of CCPH and non-recurring insurance policies written in the second quarter of 2013. The increase in Specialty Program resulted primary from growth in existing workers' compensation programs and commercial package programs.

Net Written Premium. Net written premium increased $917.6 million, or 55.7%, to $2,565.7 million from $1,648.0 million for the years ended December 31, 2013 and 2012, respectively. The increase by segment was: Small Commercial Business - $460.9 million; Specialty Risk and Extended Warranty - $319.5 million; and Specialty Program - $189.5 million. The increase was partially offset by a decrease in Personal Lines Reinsurance - $52.3 million. Net written premium increased for the year ended December 31, 2013 compared to the same period in 2012 due to the increase in gross written premium in 2013 compared to 2012, as well as higher retention of business in our Small Commercial Business segment and Specialty Risk and Extended Warranty segment that is not covered by the Maiden Quota Share. Our overall retention of gross written premium was 62.3% and 59.9% for the years ended December 31, 2013 and 2012, respectively.

Net Earned Premium. Net earned premium increased $847.1 million, or 59.7%, to $2,266.0 million from $1,418.9 million for the years ended December 31, 2013 and 2012, respectively. The increase by segment was: Small Commercial Business - $417.2 million; Specialty Risk and Extended Warranty - $270.3 million; and Specialty Program - $171.8 million. The increase was partially offset by a decrease in Personal Lines Reinsurance - $12.2 million. The increase in net earned premium resulted from the increase in gross written premium in 2013 and the increase in retention of gross written premium to 62.3% in 2013 compared to 59.9% in 2012.

Service and Fee Income. Service and fee income increased $159.4 million, or 92.6%, to $331.6 million from $172.2 million for the years ended December 31, 2013 and 2012, respectively. The increase primarily related to additional fee income from acquisitions, as well as organic growth. We produced additional fee income of approximately $115 million during the year ended December 31, 2013 related to the acquisitions of CCPH and AMTCS in 2013, and FNC and CNH in the second half of 2012. We also increased our warranty administration fees by approximately $13 million in 2013 compared to 2012. Additionally, we had higher technology fee income from NGHC of approximately $10 million and higher reinsurance brokerage fees from Maiden of approximately $9 million.

Net Investment Income. Net investment income increased $16.7 million, or 24.4%, to $84.8 million from $68.2 million for the years ended December 31, 2013 and 2012, respectively. The increase resulted primarily from having a higher average portfolio of fixed security investment securities during 2013 compared to 2012, as a result of the acquisitions of CCPH, Sequoia and FNIC, and the net cash proceeds obtained through the issuance of $250 million of 6.125% notes due 2023 and $115 million of preferred stock in 2013, partially offset by lower overall yields.

Net Realized Gains (Losses) on Investments. We had net realized gains on investments of $15.5 million and $9.0 million for the years ended December 31, 2013 and 2012, respectively. The increase in 2013 resulted from our decision to sell more positions in 2013 than in 2012 as a result of the increase in market values of our equity securities in 2013. We impaired approximately $3 million of investments in 2013 and 2012.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $594.7 million, or 64.5%, to $1,517.4 million for the year ended December 31, 2013 from $922.7 million for the year ended December 31, 2012. Our loss ratio for the years ended December 31, 2013 and 2012 was 67.0% and 65.0%, respectively. The increase in the loss ratio in 2013 primarily impacted our Specialty Risk and Extended Warranty segment and our Small Commercial Business segment. The increases resulted from higher ultimate loss selections in our European casualty business and changes in the proportionate share of business written by segment. Additionally, in 2013, our workers' compensation business in the state of California, for which we assign a higher ultimate loss selection than for workers' compensation policies written in other states, increased to approximately 24% of total written premium in the Small Commercial Business segment compared to 17% of total written premium in 2012. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $177.2 million, or 49.8%, to $533.2 million for the year ended December 31, 2013 from $356.0 million for the year ended December 31, 2012. Acquisition costs and other underwriting expenses were reduced in each period by ceding commission primarily earned through the Maiden Quota Share, whereby we receive a ceding commission of 31% of premiums ceded for all business except retail commercial package business, and 34.375% for retail commercial package business. The ceding commission earned during the years ended December 31, 2013 and 2012 was $276.6 million and $197.0 million, respectively. Ceding commission increased period over period as a result of increased premium writings and was consistent period over period as a percentage of earned premiums. The expense ratio decreased to 23.5% in 2013 from 25.1% in 2012, and was distributed across our three primary segments. The decrease in the expense ratio resulted from both a change in our business mix and economies of scale. During the year ended December 31, 2013, a higher percentage of the gross written premium was attributable to workers' compensation business in both the Small Commercial Business and Specialty Program segments, which have lower policy acquisition expenses.

Other. Other expenses increased $113.9 million, or 64.1%, to $291.6 million for the year ended December 31, 2013 from $177.7 million for the year ended December 31, 2012. The increase resulted primarily from the inclusion of operating costs for FNC and AMTCS in 2013, as well as the inclusion of operating costs for CNH for all of 2013 compared to six months in 2012. The increase was partially offset by a decrease in goodwill impairment on our Luxembourg reinsurance companies in 2013 compared to 2012.

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Income Before Other Income (Expense), Income Taxes and Equity in Earnings of Unconsolidated Subsidiaries. Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries increased $144.0 million, or 68.0%, to $355.8 million from $211.8 million for the years ended December 31, 2013 and 2012, respectively. The change in income from 2013 from 2012 resulted primarily from the increase in underwriting income of approximately $75 million, income from our investment portfolio of $17 million and income derived from service and fee income of approximately $45 million.

Interest Expense. Interest expense for the years ended December 31, 2013 and 2012 was $34.7 million and $28.5 million, respectively. The increase was primarily related to interest expense on the $250 million of 6.125% notes due 2023 issued in August of 2013.

Net Gain on Investment in Life Settlement Contracts. We recognized a gain on investment in life settlement contracts of $3.8 million for the year ended December 31, 2013 compared to a gain of $13.8 million for the year ended December 31, 2012. The decrease in the gain from the life settlement contracts resulted from a lower net increase in fair value of the life settlement contracts.

Acquisition Gain on Purchase. We recognized a gain on acquisition related to the purchase of CCPH, FNIC and Sequoia during the year ended December 31, 2013 of approximately $48.7 million compared to recognizing no gain on acquisition for the year ended December 31, 2012.

Provision for Income Tax. Income tax expense for the year ended December 31, 2013 was $98.0 million, which resulted in an effective tax rate of 26.7%. Income tax expense for the year ended December 31, 2012 was $21.3 million, which resulted in an effective tax rate of 10.8%. The increase in our effective tax rate during 2013 compared to 2012 resulted primarily from the gain recognized on the acquisitions of CCPH, Sequoia and FNIC and the recognition of non-recurring gains related to a third quarter internal reorganization of our European operations. Additionally, for the years ended December 31, 2013 and 2012, income tax expense included a tax benefit of $10.0 million and $25.6 million, respectively, attributable to the reduction of the deferred tax liability associated with the equalization reserves of our Luxembourg reinsurers. The effect of this $10.0 million and $25.6 million tax benefit reduced the effective rate by approximately 3% and 10% in 2013 and 2012, respectively.

Equity in Earnings of Unconsolidated Subsidiaries - Related Party. Equity in earnings of unconsolidated subsidiaries - related party increased by $2.3 million for the year ended December 31, 2013 to $11.6 million compared to $9.3 million for the year ended December 31, 2012. The increase resulted primarily from a realized gain of approximately $8.6 million from a decrease in our ownership percentage of NGHC from 21.25% to 15.4% as a result of NGHC's sale of shares in a Rule 144A offering in June 2013, partially offset by a decline in earnings from our proportionate share of equity income from NGHC's results of operations.

Small Commercial Business Segment — Results of Operations

	Year End December 31,		
	2014	2013	2012
	(Amounts in Thousands)		
Gross written premium	$2,999,714	$1,659,980	$933,740
Net written premium	$1,882,383	$935,313	$474,381
Change in unearned premium	(275,578)	(101,501)	(57,816)
Net earned premium	1,606,805	833,812	416,565
Loss and loss adjustment expense	(1,055,521)	(548,598)	(270,843)

Acquisition costs and other underwriting expenses	(416,965)	(212,824)	(110,895)
	(1,472,486)	(761,422)	(381,738)
Underwriting income	$134,319	$72,390	$34,827
Key Measures:			
Net loss ratio	65.7%	65.8%	65.0%
Net expense ratio	25.9%	25.5%	26.6%
Net combined ratio	91.6%	91.3%	91.6%

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Small Commercial Business Segment Results of Operations 2014 Compared to 2013

Gross Written Premium. Gross written premium increased $1,339.7 million, or 80.7%, to $2,999.7 million for the year ended December 31, 2014 from $1,660.0 million for the year ended December 31, 2013. The majority of the increase, approximately $669 million, resulted from an increase in the number of policies issued as well as average policy size for both workers compensation policies and commercial package policies. Approximately 70% of this increase were from the states of California, Florida, New Jersey and New York. During 2014, we entered into the Cut Through Reinsurance Agreement with Tower, which resulted in our assumption of approximately $475 million of premium. Additionally, we wrote approximately $133 million of direct written premium from the renewal of Tower's commercial lines business. We also had incremental growth in gross written premium of approximately $90 million in 2014 related to the acquisitions of Comp Options, FNIC, Insco Dico and Sequoia.

Net Written Premium. Net written premium increased $947.1 million, or 101.3%, to $1,882.4 million from $935.3 million for the years ended December 31, 2014 and 2013, respectively. The increase in net premium resulted from an increase in gross written premium for the year ended December 31, 2014 compared to the year ended December 31, 2013, as well as an increase in the retention of gross written premium period over period caused by growth in lines of business that are not covered by the Maiden Quota Share. Our retention of gross written premium for the segment was 62.8% and 56.3% for the years ended December 31, 2014 and 2013, respectively.

Net Earned Premium. Net earned premium increased $773.0 million, or 92.7%, to $1,606.8 million for the year ended December 31, 2014 from $833.8 million for the year ended December 31, 2013. As premiums written earn ratably over an annual period, the increase in net premium earned resulted from higher net written premium for the year ended December 31, 2014 compared to the year ended December 31, 2013, as well as an increase in our retention of gross written premium to 62.8% in 2014 from 56.3% in 2013. Additionally, during the year ended December 31, 2014, we earned, in full, the $174 million of unearned premium we assumed from Tower during the first quarter of 2014 pursuant to the Cut Through Reinsurance Agreement with Tower.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $506.9 million, or 92.4%, to $1,055.5 million for the year ended December 31, 2014 from $548.6 million for the year ended December 31, 2013. Our loss ratio for the segment for the year ended December 31, 2014 decreased to 65.7% from 65.8% for the year ended December 31, 2013. The loss ratio remained stable year over year as current accident year selected ultimate losses were lower than selected ultimate losses from prior years. This was partially offset by premium assumed in 2014 through the Cut Through Reinsurance Agreement with Tower, which had higher ultimate loss selections than our policies in similar lines of business. Additionally, we wrote approximately 25.7% of the segment's gross written premium in the state of California in 2014 compared to 23.8% in 2013. We assign a higher ultimate loss selection to policies written in the state of California than for workers' compensation policies written in other states. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $204.1 million, or 95.9%, to $417.0 million for the year ended December 31, 2014 from $212.8 million for the year ended December 31, 2013. Acquisition costs and other underwriting expenses were reduced by ceding commission earned during the years ended December 31, 2014 and 2013 of $197.7 million and $117.1 million, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, as the segment received a larger allocation of ceding commission for its proportionate share of our overall policy acquisition expense. The expense ratio increased to 25.9% for the year ended December 31, 2014 compared to 25.5% for the year ended December 31, 2013. The slight increase in expense ratio period over period was attributable to higher policy acquisition costs in 2014 from changes in business mix, which resulted from the assumption of business through the Cut Through Reinsurance Agreement, and an increase in commercial package and excess and surplus lines business, which have higher policy acquisition costs than other business we write.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio increased to $134.3 million for the year ended December 31, 2014 compared to $72.4 million for the year ended December 31, 2013. The increase resulted primarily from an increase in the level of earned premium during the year ended December 31, 2014 compared to 2013, partially offset by higher loss and loss adjustment expenses during the year ended December 31, 2014 as compared to the year ended December 31, 2013.

Small Commercial Business Segment Results of Operations 2013 Compared to 2012

Gross Written Premium. Gross written premium increased $726.2 million, or 77.8%, to $1,660.0 million for the year ended December 31, 2013 from $933.7 million for the year ended December 31, 2012. The increase resulted primarily from the increase in the number of policies issued as well as average policy size. The majority of the increase, which was approximately $506 million, related to workers' compensation policies. The increase came primarily from the states of California, Florida, Illinois, New Jersey, New York and Pennsylvania. The segment also benefited in 2013 from the acquisition of Sequoia and FNIC, which added approximately $110 million of total gross written premium. Additionally, we had an increase in our assigned risk premium of approximately $56 million.

Net Written Premium. Net written premium increased $460.9 million, or 97.2%, to $935.3 million from $474.4 million for the years ended December 31, 2013 and 2012, respectively. The increase in net premium resulted from an increase in gross written premium for the year ended December 31, 2013 compared to the year ended December 31, 2012, as well as an increase in the retention rate of gross written premium period over period. Our retention of gross written premium for the segment was 56.3% and 50.8% for the years ended December 31, 2013 and 2012, respectively. This was partially offset by an increase in our assigned risk business in 2013, for which we cede 100 percent of our gross written business.

Net Earned Premium. Net earned premium increased $417.2 million, or 100.2%, to $833.8 million for the year ended December 31, 2013 from $416.6 million for the year ended December 31, 2012. As premiums written earn ratably over an annual period, the increase in net premium earned resulted from higher net written premium for the year ended December 31, 2013 compared to the year ended December 31, 2012, as well as an increase in the retention of gross written premium to 56.3% in 2013 from 50.8% in 2012.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $277.8 million, or 102.6%, to $548.6 million for the year ended December 31, 2013 from $270.8 million for the year ended December 31, 2012. Our loss ratio for the segment for the year ended December 31, 2013 increased to 65.8% from 65.0% for the year ended December 31, 2012. The increase in the loss ratio in the year ended December 31, 2013 resulted primarily from higher current accident year selected ultimate losses as compared to selected ultimate losses in prior accident years.The higher current accident year selected ultimate losses resulted primarily from writing approximately 23.8% of gross written premium in the state of California in 2013 compared to approximately 17.3% in 2012, consisting primarily of workers' compensation business. We believe the ultimate loss ratio on California policies, on average, is higher than other states in which we conduct business. The increase in the loss ratio was not the result of adverse reserve development. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $101.9 million, or 91.9%, to $212.8 million for the year ended December 31, 2013 from $110.9 million for the year ended December 31, 2012. The expense ratio decreased to 25.5% for the year ended December 31, 2013 compared to 26.6% for the year ended December 31, 2012. The decrease in the expense ratio resulted both from a change in our business mix and economies of scale. During the year ended December 31, 2013, a higher percentage of the gross written premium increase was attributable to workers' compensation business, which has lower policy acquisition expenses. Additionally, salary expense increased at a slower rate than earned premium due to the leveraging of our existing employee base. Acquisition costs and other underwriting expenses were reduced by ceding commission earned during the years ended December 31, 2013 and 2012 of $117.1 million and $69.9 million, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, as the segment received its allocation of ceding commission for its proportionate share of our overall policy acquisition expense.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio increased to $72.4 million for the year ended December 31, 2013 compared to $34.8 million for the year ended December 31, 2012. This increase resulted primarily from an increase in the level of earned premium during the year ended December 31, 2013 compared to 2012, partially offset by higher loss and loss adjustment expenses during the year ended December 31, 2013 as compared to the year ended December 31, 2012.

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Specialty Risk and Extended Warranty Segment — Results of Operations

	Year End December 31,		
	2014	2013	2012
	(Amounts in Thousands)		
Gross written premium	$1,983,052	$1,511,649	$1,118,710
Net written premium	$1,333,747	$944,081	$624,555
Change in unearned premium	(101,509)	(132,244)	(82,982)
Net earned premium	1,232,238	811,837	541,573
Loss and loss adjustment expense	(817,780)	(545,516)	(341,196)
Acquisition costs and other underwriting expenses	(253,794)	(151,188)	(112,491)
	(1,071,574)	(696,704)	(453,687)
Underwriting income	$160,664	$115,133	$87,886
Key measures:			
Net loss ratio	66.4%	67.2%	63.0%
Net expense ratio	20.6%	18.6%	20.8%
Net combined ratio	87.0%	85.8%	83.8%

Specialty Risk and Extended Warranty Segment Results of Operations 2014 Compared to 2013

Gross Written Premium. Gross written premium increased $471.4 million, or 31.2%, to $1,983.1 million for the year ended December 31, 2014 from $1,511.6 million for the year ended December 31, 2013. The majority of the increase, approximately $323 million, related to the acquisition of AmTrust at Lloyd's in 2013. Additionally, the segment experienced growth in our existing business in both the U.S. and in Europe. We also benefited from an increase in the British Pound Sterling's average exchange rate in 2014 compared to 2013, which represented approximately 7% of the increase in gross written premium.

Net Written Premium. Net written premium increased $389.7 million, or 41.3%, to $1,333.7 million from $944.1 million for the years ended December 31, 2014 and 2013, respectively. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2014 compared to the year ended December 31, 2013, as well as a higher retention of business during 2014 compared to 2013. Our overall retention of gross written premium for the segment was 67.3% and 62.5% for the years ended December 31, 2014 and 2013, respectively, as certain new programs written during the year ended December 31, 2014 are not covered by the Maiden Quota Share.

Net Earned Premium. Net earned premium increased $420.4 million, or 51.8%, to $1,232.2 million for the year ended December 31, 2014 from $811.8 million for the year ended December 31, 2013. As premiums written earn ratably over the term of a policy, the increase in net premium earned resulted from growth in net written premium in 2014 and 2013. The increase related to the assumption of approximately $222 million of unearned premium from the acquisition of AmTrust at Lloyd's in 2013, which consisted primarily of specialty property and casualty business and earned at a faster rate than warranty business in this segment.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expense increased $272.3 million, or 49.9%, to $817.8 million for the year ended December 31, 2014 from $545.5 million for the year ended December 31, 2013. Our loss ratio for the segment for the year ended December 31, 2014 decreased to 66.4% from 67.2% for the year ended December 31, 2013. The decrease in the loss ratio for the year ended December 31, 2014 resulted primarily from lower ultimate loss selections in our European casualty business and U.S. business in the year ended

December 31, 2014 compared to 2013. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $102.7 million, or 67.9%, to $253.8 million for the year ended December 31, 2014 from $151.2 million for the years ended December 31, 2013. Acquisition costs and other underwriting expenses were reduced by ceding commission earned during the year ended December 31, 2014 and 2013 of $120.3 million and $83.2 million, respectively. Although ceding commission increased period over period, the segment received a smaller allocation of ceding commission for its proportionate share of our

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overall policy acquisition expense as a result of the growth in our Small Commercial Business segment. As a result, our expense ratio increased to 20.6% for the year ended December 31, 2014 compared to 18.6% for the year ended December 31, 2013. Additionally, the increase in the expense ratio in 2014 related to higher policy acquisition costs incurred by AmTrust at Lloyd's, which was acquired at the end of 2013.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio increased to $160.7 million for the year ended December 31, 2014 compared to $115.1 million for the year ended December 31, 2013. This increase resulted primarily from an increase in the level of earned premium during the year ended December 31, 2014 compared to 2013, partially offset by a higher expense ratio during the year ended December 31, 2014 as compared to the year ended December 31, 2013.

Specialty Risk and Extended Warranty Segment Results of Operations 2013 Compared to 2012

Gross Written Premium. Gross written premium increased $392.9 million, or 35.1%, to $1,511.6 million for the year ended December 31, 2013 from $1,118.7 million for the year ended December 31, 2012. This segment experienced growth both in Europe and the United States. The growth in Europe was driven primarily by the acquisition of CCPH, which had premium writings of approximately $99 million, a non-recurring insurance policy totaling approximately $78 million and a new program written by a European subsidiary of approximately $47 million. The growth in the United States resulted from the underwriting of new programs, including programs related to our acquisition of CNH in July 2012 and AMTCS in 2013.

Net Written Premium. Net written premium increased $319.5 million, or 51.2%, to $944.1 million from $624.6 million for the years ended December 31, 2013 and 2012, respectively. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2013 compared to the year ended December 31, 2012, as well as a higher retention of business during 2013 compared to 2012. Our overall retention of the gross written premium for the segment was 62.5% and 55.8% for the years ended December 31, 2013 and 2012, respectively, as certain new programs written during the year ended December 31, 2013 are not covered by the Maiden Quota Share.

Net Earned Premium. Net earned premium increased $270.3 million, or 49.9%, to $811.8 million for the year ended December 31, 2013 from $541.6 million for the year ended December 31, 2012. As premiums written earn ratably over the term of a policy, the increase in net premium earned resulted from growth in net written premium in 2013 and 2012.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expense increased $204.3 million, or 59.9%, to $545.5 million for the year ended December 31, 2013 from $341.2 million for the year ended December 31, 2012. Our loss ratio for the segment for the year ended December 31, 2013 increased to 67.2% from 63.0% for the year ended December 31, 2012. The increase in the loss ratio for the year ended December 31, 2013 resulted primarily from higher ultimate loss selections in our European casualty business in the year ended December 31, 2013 compared to 2012. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $38.8 million, or 34.5%, to $151.2 million for the year ended December 31, 2013 from $112.5 million for the year ended December 31, 2012. The expense ratio decreased to 18.6% for the year ended December 31, 2013 compared to 20.8% for the year ended December 31, 2012. The decrease resulted from a decline in writing of legal expense policies, which have a higher commission structure, coupled with premium expansion in businesses that have lower direct acquisition costs. Acquisition costs and other underwriting expenses were reduced by ceding commission earned during the years ended December 31, 2013 and 2012 of $83.2 million and $65.1 million, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, as the segment received its allocation of ceding commission for its proportionate share of our overall policy acquisition expense.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio increased to $115.1 million for the year ended December 31, 2013 compared to $87.9 million for the year ended December 31, 2012. This increase resulted primarily from an increase in the level of earned premium during the year ended December 31, 2013 compared to 2012, partially offset by higher loss and loss adjustment expenses during the year ended December 31, 2013 as compared to the year ended December 31, 2012.

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Specialty Program Segment — Results of Operations

	Year End December 31, 2014	2013	2012
	(Amounts in Thousands)		
Gross written premium	$1,105,199	$879,455	$578,735
Net written premium	$740,488	$620,452	$430,960
Change in unearned premium	(61,876)	(100,081)	(82,392)
Net earned premium	678,612	520,371	348,568
Loss and loss adjustment expense	(456,422)	(355,067)	(238,302)
Acquisition costs and other underwriting expenses	(183,541)	(138,650)	(98,415)
	(639,963)	(493,717)	(336,717)
Underwriting income	$38,649	$26,654	$11,851
Key measures:			
Net loss ratio	67.3 %	68.2 %	68.4 %
Net expense ratio	27.0 %	26.6 %	28.2 %
Net combined ratio	94.3 %	94.9 %	96.6 %

Specialty Program Segment Results of Operations 2014 Compared to 2013

Gross Written Premium. Gross written premium increased $225.7 million, or 25.7%, to $1,105.2 million for the year ended December 31, 2014 from $879.5 million for the year ended December 31, 2013. The segment benefited primarily from the growth in existing programs, primarily in general liability and workers' compensation programs. Additionally, the segment had an increase of approximately 10% in gross written premium related to new programs.

Net Written Premium. Net written premium increased $120.0 million, or 19.3%, to $740.5 million for the year ended December 31, 2014 from $620.5 million for the year ended December 31, 2013. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2014 compared to the year ended December 31, 2013, partially offset by a lower retention of gross written premium during 2014 compared to 2013. Our overall retention of gross written premium for the segment was 67.0% and 70.5% for the years ended December 31, 2014 and 2013, respectively. The decrease in the retention of gross written premium in 2014 related to an increase in business covered under the Maiden Quota Share.

Net Earned Premium. Net earned premium increased $158.2 million, or 30.4%, to $678.6 million for the year ended December 31, 2014 from $520.4 million for the year ended December 31, 2013. As premiums written earn ratably over an annual period, the increase in net premium earned resulted from higher net written premium for 2014 compared to 2013. Additionally, increase in net earned premium was positively impacted in 2014 from the segment having 81% of its total net written premium for the year generated during the first nine months of 2014 compared to 77% in 2013.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $101.4 million, or 28.6%, to $456.4 million for the year ended December 31, 2014 compared to $355.1 million for the year ended December 31, 2013. Our loss ratio for the segment for the year ended December 31, 2014 decreased to 67.3% from 68.2% for the year ended December 31, 2013. The decrease in the loss ratio for the year ended December 31, 2014 resulted primarily from a change in business mix. During the year ended December 31, 2014, we wrote a higher percentage of workers' compensation policies, which have lower ultimate loss selections than other types of policies issued in this segment. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $44.9 million, or 32.4%, to $183.5 million for the year ended December 31, 2014 from $138.7 million for the year ended December 31, 2013. Acquisition costs and other underwriting expenses were reduced by ceding commission earned during the years ended December 31, 2014 and 2013 by $87.1 million and $76.3 million, respectively. Although ceding commission increased period over period, the segment received a smaller allocation of ceding commission for its proportionate share of our overall policy acquisition expense. The expense ratio increased to 27.0% for the year ended December 31, 2014 from 26.6% for the year ended

December 31, 2013. The increase related primarily to receiving a smaller allocation of ceding commission in 2014 compared to 2013.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio were $38.6 million and $26.7 million for the years ended December 31, 2014 and 2013, respectively. The increase of $12.0 million resulted primarily from an increase in earned premium and by a reduction in the combined ratio in 2014 compared to 2013.

Specialty Program Segment Results of Operations 2013 Compared to 2012

Gross Written Premium. Gross written premium increased $300.7 million, or 52.0%, to $879.5 million for the year ended December 31, 2013 from $578.7 million for the year ended December 31, 2012. The segment benefited from growth in new programs and existing programs, including both workers' compensation and commercial package policy programs. Increases in written premium on existing programs accounted for approximately 60% of the total growth, while new programs accounted for approximately 27% of the total increase in gross written premium for the year ended December 31, 2013.

Net Written Premium. Net written premium increased $189.5 million, or 44.0%, to $620.5 million for the year ended December 31, 2013 from $431.0 million for the year ended December 31, 2012. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2013 compared to the year ended December 31, 2012, partially offset by a lower retention of gross written premium during 2013 compared to 2012. Our overall retention of gross written premium for the segment was 70.5% and 74.5% for the years ended December 31, 2013 and 2012, respectively.

Net Earned Premium. Net earned premium increased $171.8 million, or 49.3%, to $520.4 million for the year ended December 31, 2013 from $348.6 million for the year ended December 31, 2012. As premiums written earn ratably over an annual period, the increase in net premium earned resulted from higher net written premium for 2013 compared to 2012.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $116.8 million, or 49.0%, to $355.1 million for the year ended December 31, 2013 compared to $238.3 million for the year ended December 31, 2012. Our loss ratio for the segment for the year ended December 31, 2013 decreased to 68.2% from 68.4% for the year ended December 31, 2012. The loss ratio for 2013 and 2012 were consistent as current accident year selected ultimate losses were consistent with selected ultimate losses from prior years. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $40.2 million, or 40.8%, to $138.7 million for the year ended December 31, 2013 from $98.4 million for the year ended December 31, 2012. The expense ratio decreased to 26.6% for the year ended December 31, 2013 from 28.2% for the year ended December 31, 2012. The decrease in the expense ratio resulted both from a change in business mix and economies of scale. During the year ended December 31, 2013, a higher percentage of gross written premium was attributable to workers' compensation business, which has lower policy acquisition expenses than other types of business written in this segment. Acquisition costs and other underwriting expenses were reduced by ceding commission earned during the years ended December 31, 2013 and 2012 of $76.3 million and $62.0 million, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, as the segment received its allocation of ceding commission for its proportionate share of our overall policy acquisition expense.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio were $26.7 million and $11.9 million for the years ended December 31, 2013 and 2012, respectively. The increase of $14.8 million resulted primarily from an increase in earned premium and by a reduction in the expense ratio in 2013 compared to 2012.

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Personal Lines Reinsurance - Run Off — Results of Operations

	Year End December 31,		
	2014	2013	2012
	(Amounts in Thousands)		
Gross written premium	$—	$65,827	$118,141
Net written premium	—	65,827	118,141
Change in unearned premium	8,909	34,143	(5,995)
Net earned premium	8,909	99,970	112,146
Loss and loss adjustment expense	(12,896)	(68,180)	(72,334)
Acquisition costs and other underwriting expenses	(2,623)	(30,500)	(34,204)
	(15,519)	(98,680)	(106,538)
Underwriting income	$(6,610)	$1,290	$5,608
Key measures:			
Net loss ratio	144.8%	68.2%	64.5%
Net expense ratio	29.4%	30.5%	30.5%
Net combined ratio	174.2%	98.7%	95.0%

Personal Lines Reinsurance - Run Off Segment Results of Operations 2014 Compared to 2013

On August 1, 2013, we received a termination notice from Integon National Insurance Company related to our participation in the Personal Lines Quota Share effective August 1, 2013. The termination was on a run-off basis, meaning we are involved with the continuing cash flows associated with this business with respect to policies in force as of July 31, 2013. As such, the Personal Lines Reinsurance segment, which contains the results of operations from the Personal Lines Quota Share, is not presented as a discontinued operation in accordance with ASC 205-20 Discontinued Operations. The overall results of the Personal Lines Reinsurance segment were immaterial for the years ended 2014 and 2013, respectively.

Personal Lines Reinsurance - Run Off Segment Results of Operations 2013 Compared to 2012

We assumed $65.8 million and $118.1 million of premium from the insurance companies of NGHC for the years ended December 31, 2013 and 2012, respectively. The assumption of premium was flat between 2013 and 2012, as increases in assumed premium during the first seven months in 2013 were offset by the termination of the Personal Lines Quota Share in August 2013. Net earned premium decreased 10.9% in 2013 compared to 2012 due to termination of the quota share arrangement. Loss and loss adjustment expense increased 5.8% in 2013 compared to 2012, which resulted in a higher loss ratio. The increase in the net loss ratio in 2013 from 2012 resulted from experiencing higher ultimate losses in 2013 compared to 2012. The net expense ratio in 2013 compared to 2012 was consistent year over year.

Investment Portfolio

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

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Mortgage Association, the Federal Home Loan Mortgage Corporation, Federal Farm Credit entities, and asset-backed securities and commercial mortgage obligations. Our equity securities include common stocks of U.S. and Canadian corporations.

Our investment portfolio, which consists of cash, cash equivalents, restricted cash and cash equivalents, fixed maturity securities, equity securities, and short-term investments, but excludes life settlement contracts, other investments, and equity investments, increased $1.0 billion, or 23.3%, to $5.5 billion at December 31, 2014 from $4.5 billion as of December 31, 2013. Our investment portfolio is classified as available-for-sale, as defined by ASC 320, Investments — Debt and Equity Securities. This increase in our investment portfolio during the year ended December 31, 2014 related, primarily, to the acquisitions of Insco Dico and Comp Options, the issuance of preferred stock and the utilization of cash from higher gross written premium. Our fixed maturity securities, gross, had a fair value of $4.3 billion and an amortized cost of $4.1 billion as of December 31, 2014. Our equity securities, including equity securities classified as trading securities, are reported at fair value and totaled $107.8 million with a cost of $109.5 million as of December 31, 2014. Securities sold but not yet purchased represent our obligations to deliver the specified security at the contracted price and thereby create a liability to purchase the security in the market at prevailing rates. We account for sales of securities under repurchase agreements as collateralized borrowing transactions and we record these sales at their contracted amounts.

Our investment portfolio exclusive of our life settlement contracts and other investments is summarized in the table below by type of investment:

	December 31, 2014			December 31, 2013		
	Carrying Value	Percentage of Portfolio		Carrying Value	Percentage of Portfolio	
	(Amounts in Thousands)					
Cash, cash equivalents and restricted cash	$1,088,975	19.7	%	$930,461	20.8	%
Time and short-term deposits	63,916	1.2		114,202	2.6	
U.S. treasury securities	43,870	0.8		159,260	3.6	
U.S. government agencies	13,538	0.2		10,489	0.2	
Municipals	482,041	8.7		446,183	10.0	
Foreign government	112,731	2.0		160,105	3.6	
Commercial mortgage back securities	38,685	0.7		28,566	0.6	
Residential mortgage back securities:						
Agency backed	975,782	17.7		685,740	15.3	
Non-agency backed	22,503	0.4		6,749	0.2	
Asset-backed securities	710	—		6,120	0.1	
Corporate bonds	2,563,414	46.6		1,909,242	42.7	
Preferred stocks	3,506	0.1		1,506	—	
Common stocks	104,287	1.9		13,642	0.3	
	$5,513,958	100.0	%	$4,472,265	100.0	%
Less: Securities pledged	—			311,518		
	$5,513,958			$4,160,747		

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The table below summarizes the credit quality of our fixed maturity securities as of December 31, 2014 and 2013, as rated by Standard and Poor's.

	December 31, 2014	December 31, 2013
U.S. Treasury	1.0 %	4.7 %
AAA	6.7	11.6
AA	39.0	34.8
A	27.9	23.8
BBB, BBB+, BBB-	23.4	23.3
BB, BB+, BB-	1.6	1.5
B, B+, B-	0.1	0.2
Other	0.3	0.1
Total	100.0 %	100.0 %

The table below summarizes the average duration by type of fixed maturity as well as detailing the average yield as of December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	Average Yield%	Average Duration in Years	Average Yield%	Average Duration in Years
U.S. treasury securities	1.95	3.9	1.80	4.0
U.S. government agencies	2.80	4.5	3.16	2.0
Foreign government	2.30	5.8	1.91	4.0
Corporate bonds	3.09	5.3	3.36	5.3
Municipals	3.48	5.3	3.72	7.3
Mortgage and asset backed	3.24	4.1	3.41	5.1

As of December 31, 2014, the weighted average duration of our fixed income securities was 5.0 years and had a yield of 3.1%.

Other investments represented approximately 0.6% of our total investment portfolio as of December 31, 2014 and 2013. At December 31, 2014, other investments consisted primarily of limited partnerships totaling $16.1 million, an interest in a syndicated term loan of $13.0 million, and an annuity of $2.0 million. At December 31, 2013, other investments consisted primarily of limited partnerships or hedge funds totaling $13.7 million, a mutual fund of $6.6 million, an interest in a biopharmaceutical company of $4.2 million and an annuity of $1.3 million.

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

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

- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings;
- 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

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• 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.

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. We write down investments immediately that we consider to be impaired based on the above criteria collectively.

The impairment charges of our fixed-maturities and equity securities for the years ended December 31, 2014, 2013 and 2012 are presented in the table below:

	2014	2013	2012
	(Amounts in Thousands)		
Equity securities	$2,646	$2,869	$2,965
Fixed maturity securities	5,393	—	—
	$8,039	$2,869	$2,965

Additionally, we had gross unrealized losses of $34.5 million related to fixed maturity securities and $7.9 million related to marketable equity securities as of December 31, 2014, none of which we deem to be OTTI.

Corporate bonds represent 60.3% of the fair value of our fixed maturities and 88.2% of the total unrealized losses of our fixed maturities. We own 1,439 corporate bonds in the industrial, bank and financial and other sectors, which have a fair value of approximately 28.8%, 28.3% and 3.2%, respectively, and 15.9%, 67.4% and 4.9% of total unrealized losses, respectively, of our fixed maturities as of December 31, 2014. We believe that the unrealized losses in these securities are the result, primarily, of general economic conditions and not the condition of the issuers, which we believe are solvent and have the ability to meet their obligations. Therefore, we expect that the market price for these securities should recover within a reasonable time. Additionally, we do not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost basis.
Our investment in marketable equity securities consist of investments in preferred and common stock across a wide range of sectors. We evaluated the near-term prospects for recovery of fair value in relation to the severity and duration of the impairment and have determined in each case that the probability of recovery is reasonable and we have the ability and intent to hold these investments until a recovery of fair value. We believe the gross unrealized losses of $7.9 million as of December 31, 2014 are not material to our financial position.

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The table below summarizes the gross unrealized losses of our available-for-sale fixed maturity and available-for-sale equity securities by length of time the security has continuously been in an unrealized loss position as of December 31, 2014:

	Less than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
	(Amounts in Thousands)							
Common and preferred stock	$38,970	$(7,764)	21	$400	$(98)	2	$39,370	$(7,862)
U.S. treasury securities	1,030	(54)	7	3,219	(50)	9	4,249	(104)
U.S. government securities	1,736	(3)	3	222	(2)	4	1,958	(5)
Municipal bonds	24,695	(240)	64	93,201	(1,315)	98	117,896	(1,555)
Foreign government	7,644	(83)	4	—	—	—	7,644	(83)
Corporate bonds:								
Finance	192,520	(4,297)	143	66,715	(1,174)	27	259,235	(5,471)
Industrial	236,845	(17,230)	194	60,511	(6,045)	43	297,356	(23,275)
Utilities	12,188	(490)	22	13,908	(1,187)	3	26,096	(1,677)
Commercial mortgage backed securities	15	—	2	4,729	(169)	8	4,744	(169)
Residential mortgage backed securities:								
Agency backed	41,187	(101)	10	66,172	(1,777)	29	107,359	(1,878)
Non-agency backed	5,092	(263)	3	28	(1)	2	5,120	(264)
Asset-backed securities	148	—	1	110	(1)	2	258	(1)
Total temporarily impaired	$562,070	$(30,525)	474	$309,215	$(11,819)	227	$871,285	$(42,344)

There are 701 securities at December 31, 2014 that account for the gross unrealized loss, none of which we deem to be OTTI. Significant factors influencing our determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that we will be required to sell these investments before anticipated recovery of fair value to our cost basis.

For further information on our investments and related performance, see Note 3. "Investments" in the audited consolidated financial statements included elsewhere in this report.

Liquidity and Capital Resources

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

We may generate liquidity through a combination of debt or equity securities issuances, as well as financing through borrowing and sales of securities. During 2014, we issued $185 million of preferred stock and completed a convertible debt exchange and issuance, which resulted in cash proceeds of approximately $68 million. Additionally, we amended our existing revolving credit facility to increase our borrowing capacity from $200 million to $350 million, and we amended our £200 million funds at Lloyd's credit facility to increase our borrowing capacity to £235 million. In 2013, we issued $250 million of our 6.125% notes due 2023, $115 million of preferred stock and entered into a £200 million credit facility to support our Lloyd's underwriting capacity.

Our principal sources of operating funds are premiums, service and fee income, investment income and proceeds from sales and maturities of investments. Our primary uses of operating funds include payments of claims and operating expenses. Currently, we pay claims using cash flow from operations and invest our excess cash primarily in fixed maturity and equity securities. We expect that projected cash flow from operations will provide us sufficient liquidity to fund our anticipated growth, by providing capital to increase the surplus of our insurance subsidiaries, as well as for payment of claims and operating expenses, payment of interest and principal on debt facilities and other holding company expenses for at least the next twelve months. However, if our

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growth attributable to potential acquisitions, internally generated growth or a combination of these, exceeds our projections, we may have to raise additional capital sooner to support our growth. If we cannot obtain adequate capital on favorable terms or at all, we may be unable to support future growth or operating requirements and, as a result, our business, financial condition and results of operations could be adversely affected.

The laws of the jurisdictions in which our insurance subsidiaries are organized regulate and restrict, under certain circumstances, their ability to pay dividends to us. As of December 31, 2014 and 2013, respectively, our insurance subsidiaries would have been permitted to pay dividends in the aggregate of approximately $844.0 million and $473.3 million, respectively. Our insurance subsidiaries paid dividends to us of $7.4 million, $6.9 million and $7.2 million in 2014, 2013 and 2012, respectively. In addition, the terms of our debt arrangements limit our ability to pay dividends on our common stock, and future borrowings may include prohibitions and restrictions on dividends. Additional information regarding our dividends is presented in “Item 1. Business — Regulation”, in “Item 1A. Risk Factors” and in “Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchase of Equity Securities — Dividend Policy” appearing elsewhere in this Form 10-K.

We forecast claim payments based on our historical trends. We seek to manage the funding of claim payments by actively managing available cash and forecasting cash flows on a short-term and long-term basis. Cash payments for claims were $1,441.2 million, $953.2 million, and 691.7 million in 2014, 2013 and 2012, respectively. Historically, we have funded claim payments from cash flow from operations (principally premiums) net of amounts ceded to our third party reinsurers. We presently expect to maintain sufficient cash flow from operations to meet our anticipated claim obligations and operating and capital expenditure needs. Our total investment portfolio has increased from $4.47 billion (excluding $25.7 million of other investments) at December 31, 2013 to $5.51 billion (excluding $31.2 million of other investments) at December 31, 2014. We do not anticipate selling securities in our investment portfolio to pay claims or to fund operating expenses. Should circumstances arise that would require us to do so, we may incur losses on such sales, which would adversely affect our results of operations and financial condition and could reduce investment income in future periods.

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

Comparison of Years Ended December 31, 2014 and 2013

Net cash provided by operating activities was approximately $1,155.5 million for the year ended December 31, 2014, compared to $915.4 million for the same period in 2013. The increase in cash provided from operations resulted primarily from an increase in gross written premium written in 2014 compared to 2013.

Net cash used in investing activities was $1,052.0 million for the year ended December 31, 2014. Net cash used in investing activities was $929.6 million for the year ended December 31, 2013. In 2014, net cash used in investing activities primarily included approximately $736 million for the net purchase of fixed maturity and equity securities, $125 million for a loan to ACP Re, approximately $81 million for acquisitions, approximately $25 million for the acquisition of life settlement contracts, approximately $77 million for capital expenditures and approximately $85 million for an increase of restricted cash, partially offset by the receipt of cash for approximately $10 million from life settlement contract payouts and $20 million from the sale of a subsidiary. In 2013, net cash used in investing activities primarily included approximately $816 million for the net purchase of fixed maturities and equity securities, approximately $51 million for the acquisition of life settlement contracts, approximately $40 million for capital expenditures and approximately $21 million for an increase of restricted cash, partially offset by the receipt of cash for approximately $20 million from life settlement contract payouts.

Net cash used in financing activities was $15.1 million for the year ended December 31, 2014 compared to net cash provided by financing activities in 2013 of $426.9 million. In 2014, we paid approximately $293 million to settle repurchase agreements, approximately $68 million for preferred and common share dividends and approximately $59 million for share repurchases, which was partially offset by proceeds received of approximately $99 million and $179 million from the issuance of notes and preferred shares, respectively, as well as $120 million from borrowings under our revolving credit facility. Additionally, we received approximately $18 million from non-controlling interest capital contributions to our subsidiaries. In 2013, we received net proceeds of approximately $247 million and $111 million from the issuance of notes and preferred shares, respectively, as well as $58 million from repurchase agreements. Additionally, we received approximately $36 million from non-controlling interest capital contributions to our subsidiaries, partially offset by approximately $33 million of total dividend payments.

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Credit Sources

Credit Facilities

$350 million credit facility

Our five-year, $350 million credit facility is a revolving credit facility with a letter of credit sublimit of $175 million and an expansion feature of not more than an additional $150 million. In September 2014, we replaced our $200 million credit facility with this current facility. As of December 31, 2014, we had outstanding borrowings of $120 million and outstanding letters of credit of $97.3 million, which reduced the availability for letters of credit to $77.7 million, and the total aggregate availability under the facility to $132.7 million.

Borrowings under this facility 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 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 our consolidated leverage ratio. Eurodollar borrowings 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 our consolidated leverage ratio. The interest rate as of December 31, 2014 was 1.563%.

Fees payable under this facility 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 our consolidated leverage ratio, which was 0.175%).

Interest expense, including amortization of the deferred origination costs and fees associated with letters of credit, was approximately $1.7 million, $1.8 million, and $1.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

ING letter of credit facility

We use this £235 million letter of credit facility to support our capacity at Lloyd's as a member and/or reinsurer of Syndicates 2526, 1206 and 44 for the 2015 underwriting year of account, as well as prior open years of account. The facility is 40% secured by a pledge of a collateral account.

Fees payable under this letter of credit facility include a letter of credit issuance fee payable on the secured portion of the letters of credit at the rate of 0.50% and on the unsecured portion of the letters of credit determined based on AII's then-current financial strength rating issued by A.M. Best. As of December 31, 2014, the applicable letter of credit fee rate on the unsecured portion was 1.15% based on AII's A.M. Best financial strength rating of "A". We also pay a commitment fee of 0.35% per year on the aggregate unutilized and un-canceled amount of the facility, and paid a facility fee upon closing of 0.15% of the total aggregate commitment.

As of December 31, 2014, we had outstanding letters of credit of £228.0 million (or $355.2 million) in place under this letter of credit facility. The aggregate unutilized amount under the facility was £7.0 million (or $10.9 million) as of December 31, 2014. We recorded total interest expense of $2.8 million for the year ended December 31, 2014. Interest expense recorded in 2013 was not material.

Other Letter of Credit Facilities

We, through one of our subsidiaries, have a secured letter of credit facility with Comerica Bank that we utilize to comply with the deposit requirements of the State of California and the U.S. Department of Labor as security for our obligations to workers' compensation and federal Longshore and Harbor Workers' Compensation Act policyholders. The credit limit is for $75 million, of which $48.5 million was utilized as of December 31, 2014. We are required to pay a letter of credit participation fee for each letter of credit in the amount of 0.40%. In addition, we, through certain subsidiaries, have additional existing stand-by letters of credit with various lenders in the amount of $6.3 million as of December 31, 2014.

For further information on these credit facilities, including applicable restrictive covenants and events of default, see Note 12. "Debt" in the audited consolidated financial statements included elsewhere in this report.

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Outstanding Notes

Convertible Debt

We have outstanding $158 million of Convertible Senior Notes due 2044 (“2044 Notes”) that bear interest at a rate equal to 2.75% per year, payable semiannually in arrears on June 15th and December 15th of each year. Additionally, we have outstanding $57 million of Convertible Senior Notes due 2021 (“2021 Notes”) that bear interest at a rate equal to 5.5% per year, payable semiannually in arrears on June 15th and December 15th of each year. Interest expense recognized on the 2021 Notes was $13.9 million, $14.5 million, and $14.0 million for the years ended December 31, 2014, 2013 and 2012, respectively. Interest expense recognized on the 2044 Notes was $0.5 million for the year ended December 31, 2014. For further information on the 2044 Notes and the 2021 Notes, including contingent interest on the 2044 Notes, conversion triggers, redemption and repurchase features and the exchange of 2021 Notes for 2044 Notes, see Note 12. “Debt” in the audited consolidated financial statements included elsewhere in this report.

6.125% Notes due 2023

We have outstanding $250 million aggregate principal amount of our 6.125% notes due 2023 that bear interest at a rate equal to 6.125% per year, payable semiannually in arrears on February 15th and August 15th of each year. The interest rate will increase by 0.50% per year if our consolidated leverage ratio exceeds 30% and will increase an additional 1.00% per year (for an aggregate increase of 1.50% per year) if our consolidated leverage ratio exceeds 35%. As of December 31, 2014, the consolidated leverage ratio was less than 30%. Interest expense, including amortization of deferred origination costs, recognized on these notes was approximately $15.6 million and $5.8 million for the year ended December 31, 2014 and 2013, respectively. For further information on these notes, including restrictive covenants and events of default, see Note 12. “Debt” in the audited consolidated financial statements included elsewhere in this report.

Short-term borrowings

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

Other Material Changes in Financial Position

	December 31,	
	2014	2013
	(Amounts in Thousands)	
Selected Assets:		
Fixed maturities, available-for-sale	$4,253,274	$3,100,936
Securities pledged	—	311,518
Reinsurance recoverable, net	2,440,627	1,929,848
Other assets	1,094,943	890,333
Selected Liabilities:		
Loss and loss expense reserves	$5,664,205	$4,368,234
Unearned premium	3,447,203	2,680,982
Accrued expenses and other current liabilities	795,877	672,575
Securities sold under agreements to repurchase, at contract value	—	293,222
Debt	757,871	560,174

In 2014, fixed maturities increased $1,152.3 million and resulted primarily from acquisitions during 2014, utilizing cash from preferred share offerings and use of cash generated from operations. Securities pledged and securities sold under agreements to repurchase, at contract value, decreased as a result of settling all repurchase agreements outstanding in 2014. The increase in reinsurance recoverable is directly related to the increase in loss and loss expense reserves. Other assets increased $204.6 million and resulted primarily from our continued investment in life settlement contracts and a loan of $125 million to ACP Re in conjunction with its merger with Tower.

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Loss and loss expense reserves increased $1,296.0 million and unearned premium increased $766.2 million in 2014 due primarily to higher premium writings in 2014 compared to 2013 as well as assumed amounts from acquisitions in 2014. Accrued expenses and other liabilities increased $123.3 million primarily from acquisitions and increases in premium taxes, assessments and surcharges payable related to growth in premiums. Debt increased by $197.7 million in 2014 primarily as a result of borrowings on our revolving credit facility of $120 million and a net increase of approximately $50 million related to convertible debt associated with an exchange of 2021 Notes and issuance of 2044 Notes in 2014.

Reinsurance

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

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

In our proportional reinsurance programs, we generally receive a commission on the premium ceded to reinsurers. This “ceding commission” compensates our insurance companies for the direct costs associated with production of the business, the servicing of the business during the term of the policies ceded, and the costs associated with placement of reinsurance that benefits the proportional programs. In addition, certain of our reinsurance treaties allow us to share in any net profits generated under such treaties with the reinsurers. Various reinsurance brokers may arrange for the placement of this reinsurance coverage on our behalf and are compensated, directly or indirectly, by the reinsurers. We also place reinsurance with direct markets and enter reinsurance relationships with third-party captives formed by agents and other business partners as a mechanism for sharing risk and profit. In order to reduce our exposure to reinsurance credit risk, we evaluate the financial condition of our reinsurers and place our reinsurance with a diverse group of companies and syndicates that we believe to be financially sound. We carefully monitor the credit quality of our reinsurers when we place new and renewal reinsurance, as well as on an ongoing, current basis. We use objective criteria to select and retain our reinsurers, including requiring minimum surplus of $500 million and a financial strength rating of “A-” or better from A.M. Best or Standard & Poor's Corporation. We approve exceptions to these criteria when warranted.

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

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The following table summarizes the top ten reinsurers that account for approximately 83% of our reinsurance recoverables on paid and unpaid losses and loss adjustment expenses as of December 31, 2014:

Reinsurer	A.M. Best Rating	Amount Recoverable as of December 31, 2014
	(Amounts in Thousands)	
Maiden Reinsurance Ltd.	A-	$1,517,499
National Workers' Compensation Reinsurance Pool (NWCRP)[1]	NR	231,586
American Home Assurance Company	A+	59,590
Twin Bridges Ltd.[2]	NR	48,080
Hannover Ruckversicherungs AG	A+	47,596
Midwest Employers Casualty Company	A+	33,071
Trinity Universal Insurance Company[3]	A-	32,033
Motors Insurance Corporation	B++	20,149
Markel Bermuda Ltd	A	19,303
Lloyd's Underwriter Syndicate No. 2003 SJC	A	15,547

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

(2) At the time of the Majestic loss portfolio transfer, this entity was a reinsurer of Majestic. We currently hold collateral of approximately $28 million in a trust account related to cessions for Twin Bridges, as well as approximately $20 million of funds held.

(3) Amount recoverable from Trinity Universal is the result of the UBI acquisition. Prior to our acquisition, MCIC, SNIC, AICK and ALIC ceded all of their net retention to Trinity Universal.

Reinsurance Programs and Retentions

The following tables provide a summary of our primary treaty reinsurance programs as of December 31, 2014 for the United States and internationally:

	2014 Domestic Reinsurance Program		
Type of Reinsurance	Retention	Event Protection	Coverage
Workers' Compensation, Excess of Loss	$5,000,000	$510,000,000	98.5% of $505,000,000
Property, Per Risk Excess of Loss	$2,000,000	$30,000,000	95% of $28,000,000
Property, Occurrence Excess of loss	$20,000,000	$400,000,000	99% of $380,000,000
Surety, Excess of Loss	$500,000	$20,000,000	70% of $19,500,000
Casualty/Umbrella, Excess of Loss and Quota Share	$2,500,000	$50,000,000	95% of $50,000,000
Equipment Breakdown, Quota Share	$—	$100,000,000	100% of $100,000,000

	2014 International Reinsurance Program		
Type of Reinsurance	Retention	Event Protection	Coverage
Property, Per Risk Excess of Loss	$800,000	$4,400,000	100% of $3,600,000
Property, Occurrence Excess of Loss	$8,000,000	$160,000,000	97% of $152,000,000
Surety, Excess of Loss and Quota Share	$4,500,000	$45,000,000	100% of $41,500,000
Casualty, Excess of Loss	$3,000,000	$15,000,000	100% of $12,000,000
Latent Defect, Excess of Loss	$3,200,000	$40,000,000	100% of $36,800,000

Accident and Health, Excess of Loss	$800,000	$32,000,000	100% of $31,200,000
Car Care, Excess of Loss	$1,000,000	$105,000,000	97.5% of $104,000,000
Medical Malpractice, Quota Share	$7,800,000	$13,000,000	40% of $13,000,000

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	2014 AmTrust at Lloyds Reinsurance Programs		
Type of Reinsurance	Retention	Event Protection	Coverage
Property, Per Risk Excess of Loss	$1,600,000	$8,000,000	100% of $6,400,000
Property, Occurrence Excess of Loss	$20,000,000	$120,000,000	98% of $90,000,000
Casualty, Excess of Loss	$4,000,000	$20,000,000	100% of $16,000,000
Personal Accident, Excess of Loss	$2,000,000	$50,000,000	100% of $48,000,000
Pecuniary Risks	$5,000,000	$35,000,000	100% of $30,000,000

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

Maiden Quota Share

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

Effective January 1, 2013, AII receives a ceding commission of 31% of ceded written premiums with respect to all Covered Business other than retail commercial package business, for which the ceding commission remains 34.375%. With regards to the Specialty Program portion of Covered Business only, we will be responsible for ultimate net loss otherwise recoverable from Maiden Reinsurance to the extent that the loss ratio to Maiden Reinsurance, which will be determined on an inception to date basis from July 1, 2007 through the date of calculation, is between 81.5% and 95% (the “Specialty Program Loss Corridor”). For purposes of determining whether the loss ratio falls within the Specialty Program Loss Corridor, workers’ compensation business written in our Specialty Program segment from July 1, 2007 through December 31, 2012 is excluded from the loss ratio calculation.

The Maiden Quota Share was renewed through July 1, 2016 and will automatically renew for successive three-year terms unless either AII or Maiden Reinsurance notifies the other of its election not to renew not less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on thirty days’ notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Reinsurance, run-off, or a reduction of 50% or more of the stockholders’ equity of Maiden Reinsurance or the combined stockholders’ equity of AII and the AmTrust Ceding Insurers.

We recorded approximately $405.1 million, $276.6 million and $197.0 million of ceding commission during 2014, 2013 and 2012, respectively, as a result of the Maiden Quota Share.

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Contractual Obligations and Commitments

The following table sets forth certain of our contractual obligations as of December 31, 2014:

	Payment Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	(Amounts in Thousands)				
Loss and loss adjustment expenses(1)	$5,664,205	$2,322,323	$1,840,867	$679,705	$821,310
Loss-based insurance assessments(2)	42,831	13,706	13,278	5,140	10,707
Operating lease obligations	102,708	19,573	32,120	22,572	28,443
Purchase obligations(3)	41,705	13,588	23,117	5,000	—
Employment agreement obligations	26,670	13,616	11,111	1,521	422
Life insurance policy premiums related to life settlement contracts and premium finance loans(4)	779,933	40,961	106,499	79,894	552,579
Debt and interest(5)	1,469,143	208,105	240,527	68,935	951,576
Total	$8,127,195	$2,631,872	$2,267,519	$862,767	$2,365,037

(1) The loss and loss adjustment expense payments due by period in the table above are based upon the loss and loss adjustment expense estimates as of December 31, 2014 and actuarial estimates of expected payout patterns and are not contractual liabilities as to a time certain. Our contractual liability is to provide benefits under the policy. As a result, our calculation of loss and loss adjustment expense payments due by period is subject to the same uncertainties associated with determining the level of loss and loss adjustment expenses generally and to the additional uncertainties arising from the difficulty of predicting when claims (including claims that have not yet been reported to us) will be paid. For a discussion of our loss and loss adjustment expense estimate process, see "Item 1. Business — Loss Reserves." Actual payments of loss and loss adjustment expenses by period will vary, perhaps materially, from the table above to the extent that current estimates of loss and loss adjustment expenses vary from actual ultimate claims amounts and as a result of variations between expected and actual payout patterns. See "Item 1A. Risk Factors — Risks Related to Our Business — Our loss reserves are based on estimates and may be inadequate to cover our actual losses" for a discussion of the uncertainties associated with estimating loss and loss adjustment expenses.

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

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

on profitability of certain subsidiary companies.

(4) We currently own 274 life settlement contracts with a carrying value of $264.5 million. In order for us to derive the economic benefit of the face value of the policies, we are required to make these premium payments. The contractual obligations are on a consolidated basis. As we have a 50% ownership interest in these life insurance policies and premium finance loans, NGHC has an obligation for 50% of the above contractual obligations.

(5) The interest related to the debt by period is as follows: $23.9 million — less than 1 year, $44.3 million — 1 – 3 years, $42.2 million — 3 – 5 years and $148.3 million — more than 5 years. In addition, included within debt and interest is $168 million related to the Maiden collateral loan and $1.8 million of associated interest.

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Inflation

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk. We had fixed maturity securities (excluding $63.9 million of time and short-term deposits) with a fair value of $4.3 billion and a amortized cost of $4.1 billion as of December 31, 2014 that are subject to interest rate risk. Interest rate risk is the risk that we may incur losses due to adverse changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of our fixed maturity securities. We manage our exposure to interest rate risk through a disciplined asset and liability matching and capital management process. In the management of this risk, the characteristics of duration, credit and variability of cash flows are critical elements. These risks are assessed regularly and balanced within the context of our liability and capital position.

The table below summarizes the interest rate risk associated with our fixed maturity securities by illustrating the sensitivity of the fair value and carrying value of our fixed maturity securities as of December 31, 2014 to selected hypothetical changes in interest rates, and the associated impact on our stockholders' equity. We anticipate that we will continue to meet our obligations out of income. We classify our fixed securities and equity securities primarily as available-for-sale. Temporary changes in the fair value of our fixed maturity securities impact the carrying value of these securities and are reported in our stockholders' equity as a component of other comprehensive income, net of deferred taxes.

The selected scenarios in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the fair value and carrying value of our fixed maturity securities and on our stockholders' equity, each as of December 31, 2014.

Hypothetical Change in Interest Rates	Fair Value	Estimated Change in Fair Value	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
	(Amounts in Thousands)		
200 basis point increase	$3,850,272	$(403,002)	(11.9)%
100 basis point increase	4,045,991	(207,283)	(6.1)
No change	4,253,274	—	—
100 basis point decrease	4,468,563	215,289	6.4
200 basis point decrease	4,699,991	446,717	13.2

Changes in interest rates would affect the fair market value of our fixed rate debt obligations but would not have an impact on our earnings or cash flow. We currently have $925.8 million of debt instruments of which $631.4 million are fixed rate debt instruments. A fluctuation of 100 basis points in interest on our variable rate debt instruments, which are tied to LIBOR, would affect our earnings and cash flows by $2.9 million before income tax, on an annual basis, but would not affect the fair market value of the variable rate debt. Additionally, our variable rate debt is effectively converted to a fixed rate through the use of an interest rate swap agreements.

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

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

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

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

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

Foreign Currency Risk. We write insurance in the United Kingdom and certain other European Union member countries through AIU, AEL and Motors Insurance Company, Ltd. ("MIC"). While the functional currencies of AIU, AEL and MIC are the Euro and British Pound, we write coverages that are settled in local currencies, including, primarily, the Euro and British Pound. We attempt to maintain sufficient local currency assets on deposit to minimize our exposure to realized currency losses. Assuming a 5% increase in the exchange rate of the local currency in which the claims will be paid and that we do not hold that local currency, we would recognize a $85.1 million before tax realized currency loss based on our outstanding foreign denominated reserves of $1,702,390 million at December 31, 2014.

Equity Price Risk. Equity price risk is the risk that we may incur losses due to adverse changes in the market prices of the equity securities we hold in our investment portfolio, which include common stocks, non-redeemable preferred stocks and master limited partnerships. We classify our portfolio of equity securities either as available-for-sale or trading and carry these securities on our balance sheet at fair value. Accordingly, adverse changes in the market prices of our equity securities result in a decrease in the value of our total assets and a decrease in our stockholders' equity. As of December 31, 2014, the equity securities in our investment portfolio had a fair value of $107.8 million, representing approximately 2.0% of our total invested assets on that date.

The table below illustrates the impact on our equity portfolio and financial position given a hypothetical movement in the broader equity markets. The selected scenarios in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the carrying value of our equity portfolio and on stockholders' equity as of December 31, 2014.

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

			Shareholders' Equity
	(Amounts in Thousands)		
25% increase	$134,741	$26,948	0.8 %
No change	107,793	—	—
25% decrease	80,845	(26,948)	(0.8)

Off Balance Sheet Risk. We do not have off balance sheet risk as of December 31, 2014.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in the reports we file or submit under the Exchange Act is timely recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Internal Control Over Financial Reporting

We, as management of the Company, are responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the SEC, internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2014, based on the control criteria established in a report entitled Internal Control — Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that our internal control over financial reporting is effective as of December 31, 2014. Management excluded from its design and assessment of internal control over financial reporting Insco Insurance Services, Inc. and its subsidiaries and Comp Options Insurance Company, Inc. during 2014, whose total assets and total revenues on a combined basis constitute approximately 2.4% and 1.6%, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2014. Companies are allowed to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company under guidelines established by the SEC. Our internal control over financial reporting as of December 31, 2014 has been audited by BDO USA, LLP, our external auditors, who also audited our consolidated financial statements for the year ended December 31, 2014. As stated in their report, BDO expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2014.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
AmTrust Financial Services, Inc.
New York, New York

We have audited AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AmTrust Financial Services, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, AmTrust Financial Services, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

The scope of management's assessment of the effectiveness of internal control over financial reporting excluded the internal control over financial reporting of Insco Insurance Services, Inc. and its subsidiaries ("Insco Dico") and Comp Options Insurance Company, Inc. ("Comp Options"), whose total assets and total revenues on a combined basis constitute approximately 2.4% and 1.6%, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2014. Our audit of internal control over financial reporting of AmTrust Financial Services, Inc. also excluded an evaluation of the internal control and financial reporting of Insco Dico and Comp Options.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AmTrust Financial Services, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 and our report dated March 2, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
March 2, 2015

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement for our Annual Meeting of Stockholders to be held May 20, 2015 (the "Proxy Statement") under the captions "Proposal 1: Election of Directors," "Executive Officers," "Corporate Governance — Code of Business Conduct and Ethics," "Corporate Governance — Board Committees" and "Security Ownership of Management — Section 16(a) Beneficial Ownership Reporting Compliance." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 30, 2015.

Item 11. Executive Compensation

The information required by Item 11 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions "Executive Compensation," "Compensation of Directors," "Compensation Discussion and Analysis," "Corporate Governance — Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 30, 2015.

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

A portion of the information required by Item 12 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 30, 2015.

Equity Compensation Plan Information

The table below shows information regarding awards outstanding and shares of common stock available for issuance as of December 31, 2014 under the AmTrust Financial Services, Inc. 2010 Omnibus Incentive Plan:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (2)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	3,514,716	$11.60	4,569,111
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	3,514,716	$11.60	4,569,111

(1)

Includes restricted stock unit awards that, upon vesting, provide the holder with the right to receive common shares on a one-to-one basis. Performance share units are included at their target value. For further discussion of these awards, see Note 16. “Share Based Compensation.”

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

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

The information required by Item 13 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions “Certain Relationships and Related Transactions” and “Corporate Governance — Independence of Directors.” The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 30, 2015.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions “Audit and Non-Audit Fees” and “Pre-approval Policies and Procedures of the Audit Committee.” The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 30, 2015.

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

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

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SIGNATURES

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

	AMTRUST FINANCIAL SERVICES, INC.
March 2, 2015	By: /s/ Ronald E. Pipoly, Jr.
	Name: Ronald E. Pipoly, Jr.
	Title: Chief Financial Officer

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

Signature	Title	Date
/s/ Barry D. Zyskind Barry D. Zyskind	Chief Executive Officer, President and Director (Principal Executive Officer)	March 2, 2015
/s/ Ronald E. Pipoly, Jr. Ronald E. Pipoly, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer)	March 2, 2015
/s/ Michael Karfunkel Michael Karfunkel	Chairman of the Board	March 2, 2015
/s/ George Karfunkel George Karfunkel	Director	March 2, 2015
/s/ Donald T. DeCarlo Donald T. DeCarlo	Director	March 2, 2015
/s/ Susan Fisch Susan Fisch	Director	March 2, 2015
/s/ Abraham Gulkowitz Abraham Gulkowitz	Director	March 2, 2015
/s/ Jay J. Miller Jay J. Miller	Director	March 2, 2015

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AMTRUST FINANCIAL SERVICES, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
AmTrust Financial Services, Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of AmTrust Financial Services, Inc. as of December 31, 2014 and 2013 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmTrust Financial Services, Inc. at December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 3, 2014 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
March 2, 2015

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

	December 31, 2014	2013
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at market value (amortized cost $4,137,146; $3,107,043)	$4,253,274	$3,100,936
Equity securities, available-for-sale, at market value (cost $84,075; $16,010)	81,044	15,148
Equity securities, trading, at market value (cost $25,407; $0)	26,749	—
Short-term investments	63,916	114,202
Equity investment in unconsolidated subsidiaries – related parties	119,712	89,756
Other investments	31,186	25,749
Securities pledged (amortized cost of $0; $316,576)	—	311,518
Total investments	4,575,881	3,657,309
Cash and cash equivalents	902,750	830,022
Restricted cash and cash equivalents	186,225	100,439
Accrued interest and dividends	42,173	27,800
Premiums receivable, net	1,851,682	1,593,975
Reinsurance recoverable (related party $1,517,499; $1,144,168)	2,440,627	1,929,848
Prepaid reinsurance premium (related party $918,505; $739,719)	1,302,848	1,011,304
Other assets (related party $136,516 $0; recorded at fair value $264,517; $233,024)	1,094,943	890,333
Deferred policy acquisition costs	628,383	468,404
Property and equipment, net	154,175	104,299
Goodwill	352,685	373,591
Intangible assets	314,996	291,802
	$13,847,368	$11,279,126
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss expense reserves	$5,664,205	$4,368,234
Unearned premiums	3,447,203	2,680,982
Ceded reinsurance premiums payable (related party $410,075; $393,941)	683,421	635,588
Reinsurance payable on paid losses	3,947	18,818
Funds held under reinsurance treaties	10,653	27,574
Note payable on collateral loan – related party	167,975	167,975
Securities sold but not yet purchased, at market	13,052	—
Securities sold under agreements to repurchase, at contract value	—	293,222
Accrued expenses and other current liabilities (recorded at fair value $18,567; $11,945)	795,877	672,575
Deferred income taxes	106,363	274,519
Debt	757,871	560,174
Total liabilities	11,650,567	9,699,661
Commitments and contingencies		
Redeemable non-controlling interest	600	600
Stockholders' equity:		
Common stock, $.01 par value; 150,000 shares authorized, 98,211 and 98,122 issued in 2014 and 2013, respectively; 77,739 and 74,765 outstanding in 2014 and 2013, respectively	980	980
	300,000	115,000

Preferred stock, $.01 par value; 10,000 shares authorized, 4,785 and 4,600 issued and outstanding in 2014 and 2013, respectively		
Additional paid-in capital	1,022,769	1,033,084
Treasury stock at cost; 20,472 and 23,357 shares in 2014 and 2013, respectively	(297,586)	(284,891)
Accumulated other comprehensive income (loss)	56,123	(8,164)
Retained earnings	954,734	584,996
Total AmTrust Financial Services, Inc. equity	2,037,020	1,441,005
Non-controlling interest	159,181	137,860
Total stockholders' equity	2,196,201	1,578,865
	$13,847,368	$11,279,126

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2014	2013	2012
Revenues:			
Premium income:			
Net written premium	$3,956,618	$2,565,673	$1,648,037
Change in unearned premium	(430,054)	(299,683)	(229,185)
Net earned premium	3,526,564	2,265,990	1,418,852
Service and fee income (related parties – $58,428, $51,545, and $29,041)	409,743	331,559	172,174
Net investment income	131,601	84,819	68,167
Net realized gain on investments	16,423	15,527	8,981
Total revenues	4,084,331	2,697,895	1,668,174
Expenses:			
Loss and loss adjustment expense	2,342,619	1,517,361	922,675
Acquisition costs and other underwriting expenses (net of ceding commission - related party - $405,071, $276,556, and $196,982)	856,923	533,162	356,005
Other	436,350	291,617	177,709
Total expenses	3,635,892	2,342,140	1,456,389
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	448,439	355,755	211,785
Other income (expenses):			
Interest expense (net of interest income - related party - $2,601, $0, and $0)	(45,857)	(34,691)	(28,508)
Loss on extinguishment of debt	(9,831)	—	—
Gain on investment in life settlement contracts net of profit commission	12,306	3,800	13,822
Foreign currency gain (loss)	60,245	(6,533)	(242)
Acquisition gain on purchase	—	48,715	—
Gain of sale of subsidiary	6,631	—	—
Total other income (expenses)	23,494	11,291	(14,928)
Income before income taxes and equity in earnings of unconsolidated subsidiaries	471,933	367,046	196,857
Provision for income taxes	53,686	98,019	21,292
Income before equity in earnings of unconsolidated subsidiaries	418,247	269,027	175,565
Equity in earnings of unconsolidated subsidiary – related party	28,351	11,566	9,295
Net income	446,598	280,593	184,860
Net loss (income) attributable to non-controlling interests and redeemable non-controlling interests of subsidiaries	416	1,633	(6,873)
Net income attributable to AmTrust Financial Services, Inc.	$447,014	$282,226	$177,987
Dividends on preference stock	(12,738)	(3,989)	—
Net income attributable to AmTrust common stockholders	$434,276	$278,237	$177,987
Earnings per common share:			
Basic earnings per share	$5.78	$3.75	$2.42
Diluted earnings per share	$5.45	$3.56	$2.34
Dividends declared per common share	$0.85	$0.56	$0.39
Weighted average common shares outstanding - basic	74,933	74,163	73,269
Weighted average common shares outstanding - diluted	79,517	77,984	75,620
Net realized gain on investments:			

Total other-than-temporary impairment losses	$(8,039)	$(2,869)	$(2,965)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(8,039)	(2,869)	(2,965)
Other net realized gain on investments	24,462	18,396	11,946
Net realized investment gain	$16,423	$15,527	$8,981

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Net income	$446,598	$280,593	$184,860
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	(17,358)	12,943	6,730
Change in fair value of interest rate swap	664	1,028	(733)
Minimum pension liability	(1,055)	(1,738)	—
Unrealized gain (loss) on securities:			
Unrealized holding gain (loss) arising during period	86,954	(90,286)	63,917
Reclassification adjustment for gain (loss) included in net income	(4,918)	5,658	4,316
Other comprehensive income (loss), net of tax	$64,287	$(72,395)	$74,230
Comprehensive income	510,885	208,198	259,090
Less: Comprehensive income (loss) attributable to non-controlling and redeemable non-controlling interest	(416)	(1,633)	6,873
Comprehensive income attributable to AmTrust Financial Services, Inc.	$511,301	$209,831	$252,217

See accompanying notes to consolidated financial statements.
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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)
Years Ended December 31, 2014, 2013, 2012

	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2011	$849	$—	$582,321	$(300,365)	$ (9,999)	$617,757	$890,563
Net income	—	—	—	—	—	184,860	184,860
Foreign currency translation, net of tax	—	—	—	—	6,730	—	6,730
Change in fair value of derivatives, net of tax					(733)		(733)
Unrealized holding loss on investments, net of tax	—	—	—	—	63,917	—	63,917
Reclassification adjustment for securities sold during the year, net of tax	—	—	—	—	4,316	—	4,316
Non-controlling interest in subsidiaries	—	—	—	—	—	(6,873)	(6,873)
Acquisition of non-controlling interest in subsidiary	—	—	6,900	—	—	—	6,900
Equity component of 5.5% convertible senior notes, net of income taxes and issues costs			3,306				3,306
Issuance of restricted stock	—	—	(2,378)	2,378	—	—	—
Stock option compensation	—	—	7,172	—	—	—	7,172
Exercise of stock options, other	2	—	4,675	4,196	—	—	8,873
Share dividend	61		159,109			(159,170)	—
Common stock dividend	—	—	—	—	—	(24,910)	(24,910)
Balance, December 31, 2012	912	—	761,105	(293,791)	64,231	611,664	1,144,121
Net income	—	—	—	—	—	280,593	280,593
Foreign currency translation, net of tax	—	—	—	—	12,943	—	12,943
Change in fair value of derivatives, net of tax	—	—	—	—	1,028	—	1,028
Minimum pension liability, net of tax	—	—	—	—	(1,738)	—	(1,738)
Unrealized holding gain on investments, net of tax	—	—	—	—	(90,286)	—	(90,286)
Reclassification adjustment for securities sold during the year, net of tax	—	—	—	—	5,658	—	5,658
Non-controlling interest in subsidiaries	—	—	—	—	—	1,633	1,633

Common share issuance	—	—	251	221	—	—	472
Issuance of restricted stock	—	—	(1,902)	1,902	—	—	—
Stock option compensation	—	—	11,186	—	—	—	11,186
Exercise of stock options, other	2	—	1,283	6,777	—	—	8,062
Preferred share issuance	—	115,000	(3,870)	—	—	—	111,130
Preferred stock dividend	—	—	—	—	—	(3,989)	(3,989)
Share dividend	66		265,031			(265,097)	—
Common stock dividend	—	—	—	—	—	(39,808)	(39,808)
Balance, December 31, 2013	980	115,000	1,033,084	(284,891)	(8,164)	584,996	1,441,005

See accompanying notes to consolidated financial statements.

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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS’ EQUITY(continued)
(In Thousands)
Years Ended December 31, 2014, 2013, 2012

	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Net income	$—	$—	$—	$—	$ —	$446,598	$446,598
Foreign currency translation, net of tax	—	—	—	—	(17,358)	—	(17,358)
Change in fair value of derivative, net of tax	—	—	—	—	664	—	664
Minimum pension liability, net of tax	—	—	—	—	(1,055)	—	(1,055)
Unrealized holding loss on investments, net of tax	—	—	—	—	86,954	—	86,954
Reclassification adjustment for securities sold during the year, net of tax	—	—	—	—	(4,918)	—	(4,918)
Non-controlling interest in subsidiaries	—	—	—	—	—	910	910
Common share repurchase	—	—	—	(59,154)	—	—	(59,155)
Preferred share issuance	—	185,000	(6,359)	—	—	—	178,641
Extinguishment of 5.5% convertible senior notes	—	—	(19,011)	—	—	—	(19,011)
Issuance of shares in convertible senior note exchange	—	—	(33,409)	33,409	—	—	—
Equity component of 2.75% convertible senior notes, net of income taxes and issue costs	—	—	33,624	—	—	—	33,624
Issuance of restricted stock	—	—	(6,444)	6,444	—	—	—
Stock option compensation	—	—	19,114	—	—	—	19,114
Exercise of stock options, other	—	—	2,170	6,606	—	—	8,776
Distribution of redeemable non-controlling interest	—	—	—	—	—	(494)	(494)
Preferred stock dividend	—	—	—	—	—	(12,738)	(12,738)
Common stock dividend	—	—	—	—	—	(64,538)	(64,538)
Balance, December 31, 2014	$980	$300,000	$1,022,769	$(297,586)	$ 56,123	$954,734	$2,037,020

Non-controlling interest in equity of consolidated subsidiaries:	
	$69,098

Balance, December 31, 2011	
Capital contributions to subsidiaries	34,273
Acquisition of non-controlling interest in subsidiary	(6,900)
Income attributable to non-controlling interests	6,873
Balance, December 31, 2012	$103,344
Capital contributions to subsidiaries	36,149
Loss attributable to non-controlling interests	(1,633)
Balance, December 31, 2013	$137,860
Capital contribution to subsidiaries	25,359
Foreign currency translation	(3,128)
Loss attributable to non-controlling interests	(910)
Balance, December 31, 2014	$159,181

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31, 2014	2013	2012
Cash flows from operating activities:			
Net income	$446,598	$280,593	$184,860
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	63,093	53,118	28,602
Net amortization of bond premium or discount	15,395	18,925	3,905
Equity earnings on investment in unconsolidated subsidiaries	(28,351)	(11,566)	(9,295)
Gain on investment in life settlement contracts, net	(12,306)	(3,800)	(13,822)
Realized gain on marketable securities	(24,463)	(18,396)	(11,946)
Non-cash write-down of marketable securities	8,039	2,869	2,965
Non-cash write-down of goodwill	62,898	10,226	16,389
Discount on notes payable	3,095	3,000	2,936
Stock based compensation	19,114	11,186	7,172
Loss on extinguishment of debt	9,831	—	—
Bad debt expense	24,294	24,334	11,348
Foreign currency (gain) loss	(60,245)	6,533	242
Gain on sale of subsidiary	(6,631)	—	—
Acquisition gain	—	(48,715)	—
Dividend received from equity investment	—	12,203	—
Changes in assets – (increase) decrease:			
Premiums and notes receivable	(251,544)	(189,503)	(329,618)
Reinsurance recoverable	(503,926)	(547,578)	(219,826)
Deferred policy acquisition costs, net	(159,979)	(97,561)	(68,135)
Prepaid reinsurance premiums	(291,544)	(133,787)	(167,747)
Prepaid expenses and other assets	(123,621)	(310,177)	(83,692)
Changes in liabilities – increase (decrease):			
Reinsurance premium payable	48,656	87,520	190,814
Loss and loss expense reserves	1,219,993	1,177,625	547,225
Unearned premiums	706,976	586,219	380,738
Funds held under reinsurance treaties	(10,397)	(6,372)	(15,303)
Accrued expenses and other current liabilities	75,585	(13,071)	67,350
Deferred tax liability	(75,024)	21,623	6,293
Net cash provided by operating activities	1,155,536	915,448	531,455
Cash flows from investing activities:			
Purchases of fixed maturities, available-for-sale	(2,425,101)	(2,473,116)	(1,466,424)
Purchases of equity securities, available-for-sale	(293,554)	(41,374)	(30,468)
Purchases of equity securities, trading	(84,493)	—	—
Purchases of other investments	(20,207)	(17,228)	(1,884)
Sales of fixed maturities, available-for-sale	1,749,897	1,612,580	905,697
Sales of equity securities, available-for-sale	238,369	68,585	47,491
Sales of equity securities, trading	78,974	—	—
Sales of other investments	17,854	6,102	5,717

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2014	2013	2012
Net sales (purchases) of short term investments	50,286	9,550	118,283
Acquisition of and capitalized premiums for life settlement contracts	(25,419)	(51,070)	(51,031)
Receipt of life settlement contract proceeds	10,035	20,054	10,074
Loan to ACP Re	(125,000)	—	—
Acquisition of reinsurance entities, net of cash obtained	—	17,811	15,473
Acquisition of subsidiaries, net of cash obtained	(80,736)	(20,182)	(63,855)
Sale of subsidiary	20,059	—	—
Increase in restricted cash and cash equivalents	(85,786)	(21,677)	(55,658)
Purchase of property and equipment	(77,172)	(39,586)	(27,388)
Net cash used in investing activities	(1,051,994)	(929,551)	(593,973)
Cash flows from financing activities:			
Revolving credit facility borrowings	220,000	—	—
Revolving credit facility payments	(100,000)	—	—
Repurchase agreements, net	(293,222)	58,311	43,193
Secured loan agreement borrowings	30,500	—	—
Secured loan agreement payments	(3,009)	(1,299)	(1,021)
Promissory note borrowings	—	—	13,000
Promissory note payments	(10,695)	—	(12,500)
Senior notes proceeds	—	250,000	—
Convertible senior notes proceeds	68,400	—	25,000
Financing fees	(5,188)	(2,740)	(2,180)
Common share (repurchase) issuance	(59,155)	472	—
Preferred share issuance, net	178,641	111,130	—
Non-controlling interest capital contributions to consolidated subsidiaries	18,223	36,149	22,607
Stock option exercise and other	8,776	8,062	8,873
Dividends distributed on common stock	(55,599)	(29,236)	(30,201)
Dividends distributed on preference stock	(12,738)	(3,989)	—
Net cash (used in) provided by financing activities	(15,066)	426,860	66,771
Effect of exchange rate changes on cash	(15,748)	2,895	3,270
Net increase in cash and cash equivalents	72,728	415,652	7,523
Cash and cash equivalents, beginning year	830,022	414,370	406,847
Cash and cash equivalents, end of year	$902,750	$830,022	$414,370
Supplemental Cash Flow Information			
Interest payments on debt	$36,679	$20,768	$20,435
Income tax payments	85,619	65,652	8,414

See accompanying notes to consolidated financial statements.
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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

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

1. Nature of Operations

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

The Company transacts business primarily through fifteen insurance company subsidiaries domiciled in the United States and five insurance subsidiaries domiciled outside the United States. The Company's fifteen domestic insurance subsidiaries are:

Company	Abbreviation	Domiciled in
AmTrust Insurance Company of Kansas, Inc.	AICK	Kansas
Associated Industries Insurance Company, Inc.	AIIC	Florida
AmTrust Lloyd's Insurance Company of Texas	ALIC	Texas
Comp Options Insurance Company	COIC	Florida
Developers Surety and Indemnity Company	DSIC	Iowa
First Atlantic Title Insurance Corp.	FATIC	New York
First Nonprofit Insurance Company	FNIC	Delaware
Indemnity Company of California	ICC	California
Milwaukee Casualty Insurance Company	MCIC	Wisconsin
Rochdale Insurance Company	RIC	New York
Sequoia Insurance Company	SIC	California
Sequoia Indemnity Company	SID	Nevada
Security National Insurance Company	SNIC	Delaware
Technology Insurance Company, Inc.	TIC	New Hampshire
Wesco Insurance Company	WIC	Delaware

The Company's five primary foreign insurance subsidiaries are:

Company	Abbreviation	Domiciled in
AmTrust International Insurance Ltd.	AII	Bermuda
AmTrust International Underwriters Limited	AIU	Ireland
AmTrust Europe, Ltd.	AEL	England
Motors Insurance Company Ltd.	MIC	England
AmTrust at Lloyd's (Syndicate 1206)	ATL	England

2. Significant Accounting Policies

Basis of Reporting — The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries. The Company uses the equity method of accounting for its investment in National General Holding Corp. (“NGHC”) in which it owns a 13.2% ownership interest. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Premiums — Insurance premiums, except for certain specialty risk and extended warranty programs, are recognized as earned on the straight-line basis over the contract period. Insurance premiums on specialty risk and extended warranty programs are earned

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

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

based on an estimated program coverage period. These estimates are based on the expected distribution of coverage periods by contract at inception, and because a single contract may contain multiple coverage period options, these estimates are revised based on the actual coverage period selected by the insured. Unearned premiums represent the portion of premiums written which is applicable to the unexpired term of the contract or policy in force. Premium adjustments on contracts and audit premiums are based on estimates made over the contract period. Premiums earned but not yet billed to insureds are estimated and accrued, net of related costs. These estimates are subject to the effects of trends in payroll audit adjustments. Although considerable variability is inherent in such estimates, management believes that the accrual for earned but unbilled premiums is reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The Company historically has used a percentage of premium for establishing its allowance for doubtful accounts. The Company reviews its bad debt write-offs at least annually and adjusts its premium percentage as required. Allowance for doubtful accounts were approximately $45,024 and $32,132 at December 31, 2014 and 2013, respectively.

Loss and Loss Adjustment Expenses — Loss and loss adjustment expenses (“LAE”) represent the estimated ultimate net costs of all reported and unreported losses incurred through December 31, 2014. The reserves for unpaid losses and LAE are estimated using individual case-basis valuations and statistical analysis and are not discounted. Although considerable variability is inherent in the estimates of reserves for losses and LAE, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

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

Quarterly, the Company’s Investment Committee (“Committee”) evaluates each security that has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment (“OTTI”). The Company generally considers an investment to be impaired 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. In addition, 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;
- 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.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

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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. 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.

In 2014, the Company also classified certain of its equity securities as trading securities. Equity securities classified as trading securities are generally held for resale in anticipation of short-term market movement. Trading securities are stated at estimated fair market value. Gains and losses, both realized and unrealized, are included in the net realized gain or loss on investment on the Consolidated Statements of Income.

The Company has the following types of investments:

(a) 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. As of December 31, 2014 and 2013, short term investments consisted primarily of money market investments.

(b) 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.

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

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

(e) Limited partnerships — The Company uses the equity method of accounting for investments in limited partnerships in which its ownership interest of the limited partnership enables the Company to influence the operating or financial decisions of the investee company, but the Company's interest in the limited partnership does not require consolidation. The Company's proportionate share of equity in net income of these unconsolidated affiliates is reported in net investment income.

(f) 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.

(g)

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.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

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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 Measurements and Disclosures. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect 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. Fair values of other financial instruments approximate their carrying values.

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 prices. The Company’s Level 2 investments include obligations of U.S. government agencies, municipal bonds, corporate debt securities and other mortgage backed securities.

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

Other Investments. Other investments consisted primarily of investments in limited partnerships, an interest in syndicated term loan, and annuities. Other investments accounted for approximately 0.6% of the Company's investment portfolio as of December 31, 2014. The Company estimates the fair value of other investments based on significant unobservable inputs in the valuation process. As a result, the Company classified the fair value estimates as Level 3 in the financial hierarchy. The Company has determined that its investments in Level 3 securities are not material to its financial position or results of operations.

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 either by direct purchase or following a default on a premium finance loan, the life insurance premium for such policy is accounted for as an investment in life settlements. Investments in life settlements are accounted for in accordance with ASC 325-30, Investments in Insurance Contracts, which states that an investor shall elect to account for its investments in life settlement contracts using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these investments using the fair value method. Fair value of the investment in policies is determined using unobservable Level 3 inputs and is calculated by performing a net present value calculation of the face amount of the life policies less premiums for the total portfolio. The unobservable Level 3 inputs use new or updated information that affects the Company's assumptions about remaining life expectancy, credit worthiness of the policy issuer, funds needed to maintain the asset until maturity, and discount rates.

Life Settlement Profit Commission — Investments in life settlements are accounted for in accordance with ASC 325-30, Investments in Insurance Contracts, and the Company has elected to account for its investment in life settlements using the fair value method. The Company retains a third party service provider to perform certain administration functions to effectively manage the life settlement contracts held by Tiger Capital, LLC and AMT Capital Holdings II S.A. and a portion of their fee is contingent on the overall profitability of the life settlement contracts. The Company accrues 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. 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 as no contractual relationship currently exists.

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 coverage ranging from one to three 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. Under the terms of service agreements with various retailers, the Company provides for marketing and administrative services related to ESP. These agreements are generally for one-year terms and can be canceled by either party with thirty days advance notice. The Company recognizes revenue related to promotion, marketing and administration services at the time of the sale of ESP. However, the Company defers a portion of service revenue based upon an estimate of administrative services to be provided in future periods.

Deferred Policy Acquisition Costs — The Company defers commission expenses, premium taxes and assessments as well as underwriting and safety 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. The change in net deferred acquisition costs was $159,979, $97,561 and $68,135 for the years ended December 31, 2014, 2013 and 2012, respectively. The amortization for deferred acquisition costs was approximately $538,710, $367,288, and $242,887 in 2014, 2013 and 2012, respectively.

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. The Company remains contingently liable for all loss payments in the event of failure to collect from the reinsurer.

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

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

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(In Thousands, Except Per Share Data)

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

Assessments — Insurance related assessments are accrued in the period in which they have been incurred. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. The Company is subject to a variety of assessments, such as assessments by state guaranty funds and workers’ compensation second injury funds. State guaranty funds assessments are used by state insurance regulators to cover losses of policyholders of insolvent insurance companies and for the operating expenses of such agencies. The Company uses estimated assessment rates in determining the appropriate assessment expense and accrual. The Company uses estimates derived from state regulators and/or National Association of Insurance Commissioners (“NAIC”) Tax and Assessments Guidelines. Assessment expense for the years ended December 31, 2014, 2013 and 2012 was approximately $23,205, $33,772 and $39,546, respectively.

Business Combinations — The Company accounts for business combinations under the acquisition method of accounting, which requires the Company to record assets acquired, liabilities assumed and any non-controlling interest in the acquiree at their respective fair values as of the acquisition date in the Company's consolidated financial statements. The Company accounts for the insurance and reinsurance contracts under the acquisition method as new contracts, which requires the Company to record assets and liabilities at fair value. The Company adjusts the fair value loss and LAE reserves by recording the acquired loss reserves based on the Company’s existing accounting policies and then discounting them based on expected reserve payout patterns using a current risk-free rate of interest. This risk free interest rate is then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and the Company’s best estimate of the fair value of such reserves at the acquisition date is recorded either an 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 seven reporting units as of December 31, 2014.

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Property and Equipment — Property and equipment are 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 future use.

Equalization reserves — The Company owns several Luxembourg-domiciled reinsurance entities. In connection with these entities, the Company acquires cash and equalization reserves of the reinsurance companies. An equalization reserve is a catastrophe reserve established in excess of required reserves as established by the laws of Luxembourg. The equalization reserves were originally established by the seller of the reinsurance entities, and under Luxembourg law allowed the reinsurance company to reduce its income tax paid.

Income Taxes — The Company files a consolidated United States ("US") income tax return for its eligible domestic subsidiaries. The Company's non-domestic subsidiaries file income tax returns in their respective local jurisdictions. As part of the US consolidated income tax return filing, the Company is party to federal income tax allocation agreements amongst the includible entities. Under the tax allocation agreements, the Company pays to or receives from its subsidiaries the amount, if any, by which the group’s federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return.

Deferred income taxes reflect the impact of “temporary differences” between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The deferred tax asset primarily consists of book versus tax differences for premiums earned, loss and loss adjustment expense reserve discounting, policy acquisition costs, earned but unbilled premiums, and unrealized holding gains and losses on marketable equity securities. 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.

In assessing the 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 2009 through 2013 are still subject to examination. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

Pensions — The Company accounts for its pension plan by recognizing in its balance sheets the overfunded or underfunded status of defined benefit plans measured as the difference between the fair value of plan assets and the projected benefit obligation. The Company recognizes the change in the funded status of the plan in the year in which the change occurs through Accumulated Other Comprehensive Income.

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

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are calculated using current exchange rates for the items reported on the balance sheets and average exchange rates for items recorded in earnings.

Stock Compensation Expense — The Company follows ASC 720 Compensation — Stock Compensation and recognizes compensation expense for its share-based payments based on the fair value of the awards. Share-based payments include restricted stock, restricted stock units, performance share units and stock option grants under the Company’s 2005 Equity Incentive Plan and 2010 Omnibus Incentive Plan. ASC 720 requires share-based compensation expense recognized to be based on estimated grant date fair value.

Earnings Per Share — The Company accounts for earnings per share under the two-class method, as described in ASC 260, Earnings Per Share. Under the two-class method, earnings for the period are allocated between common stockholders and other stockholders based on their respective rights to receive dividends. Restricted stock awards granted to employees under the Company’s 2005 Equity Incentive Plan and 2010 Omnibus Incentive Plan are considered participating securities as they receive dividends on this stock. Additionally, the Company follows the treasury stock method related to its contingently convertible debt, as the Company has the ability to settle the conversion premium in either cash or stock. The Company had contingently convertible shares that were dilutive for the Company's earnings per share calculations in 2014 and 2013 and anti-dilutive in 2012.

Treasury Stock — The Company accounts for the treasury stock at the repurchase price as a reduction to stockholders’ equity.

Concentration and Credit Risk — Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, 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, 2014 and 2013, 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. 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 require considerable judgment by management. On an on-going basis, management reevaluates its assumptions and the methods of calculating its estimates. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

Reclassifications — Certain accounts in the prior years' consolidated financial statements have been reclassified for comparative purposes to conform to the current year's presentation.

Recent Accounting Literature

In November 2014, the FASB issued Accounting Standards Update ("ASU") 2014-16, Derivative and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity, which requires an entity (an issuer or an investor) of hybrid financial instruments to determine the nature of the host

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contract by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. The updated guidance is effective for the period ending March 15, 2016. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

In June 2014, the FASB issued ASU 2014-11, Transfers and Serving (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, which amends accounting for repurchase-to-maturity transactions and associated repurchase financing to secured borrowing. The revised guidance also requires expanded disclosure for certain transactions comprising (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction, as well as expands disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The updated guidance is effective for the period ending March 31, 2015. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, to clarify how entities should treat performance targets that can be met after the requisite service period of a share-based payment award. The ASU states that the share-based payment award should be treated as a performance condition that affects vesting and, therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity’s satisfaction of a performance target until it becomes probable that the performance target will be met. No new disclosures are required under this ASU. ASU 2014-12 is effective beginning after December 15, 2015. Early adoption is permitted. In addition, all entities will have the option of applying the guidance either prospectively (i.e., only to awards granted or modified on or after the effective date of the issue) or retrospectively. Retrospective application would only apply to awards with performance targets outstanding at or after the beginning of the first annual period presented (i.e., the earliest presented comparative period). The adoption of this guidance is not expected to have an impact on the Company's results of operations, financial condition or liquidity.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to clarify the principles for recognizing revenue. While insurance contracts are not within the scope of this updated guidance, the Company’s service and fee income will be subject to this updated guidance. The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. The updated guidance is effective for the quarter ending March 31, 2017. The Company is currently evaluating the impact this guidance will have on the Company's results of operations, financial position or liquidity.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statement (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity, which provides revised guidance to reduce diversity in practice for reporting discontinued operations. Under the previous guidance, any component of an entity that was a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group was eligible for discontinued operations presentation. The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity) and that have a major effect on a reporting entity's operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The updated guidance is effective for the period ending March 31, 2015. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

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In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides guidance on the presentation of an unrecognized tax benefit when a net operating loss ("NOL") carry-forward, a similar tax loss, or a tax credit carry-forward exists. Under the ASU, an entity must present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a NOL carry-forward, similar tax loss, or a tax credit carry-forward. There are two exceptions to this form of presentation as follows:

- To the extent a NOL carry-forward, a similar tax loss, or a tax credit carry-forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position; and

- The entity does not intend to use the deferred tax asset for this purpose.

If either of these conditions exists, an entity should present an unrecognized benefit in the financial statements as a liability and should net the unrecognizable tax benefit with a deferred tax asset. The amendments in this update were effective for fiscal years, and interim periods within those years, beginning after December 31, 2013. The adoption of this guidance did not have a material impact on the Company's results of operations, financial condition or liquidity.

In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity, with the objective of resolving the diversity about whether ASC 810-10, Consolidation - Overall, or ASC 830-30, Foreign Currency Matters - Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in-substance real estate or conveyance of oil and gas mineral rights) within a foreign entity.

Under this guidance, when a reporting entity that is also the parent entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to apply the guidance in ASC 830-30 to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Additionally, for an equity method investment that is a foreign entity, the partial sale guidance in ASC 830-30-40 continues to be applicable. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Furthermore, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment); and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The amendments in this ASU are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The update was adopted effective January 1, 2014. The adoption of this guidance did not have an impact on the Company's results of operations, financial condition or liquidity.

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3. Investments

(a) Available-for-Sale Securities

The amortized cost, estimated fair value and gross unrealized appreciation and depreciation of fixed and equity securities are presented in the tables below:

(Amounts in Thousands) As of December 31, 2014	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$3,349	$158	$(1)	$3,506
Common stock	80,726	4,673	(7,861)	77,538
U.S. treasury securities	42,416	1,558	(104)	43,870
U.S. government agencies	12,968	575	(5)	13,538
Municipal bonds	469,646	13,950	(1,555)	482,041
Foreign government	106,054	6,760	(83)	112,731
Corporate bonds:				
Finance	1,167,011	60,322	(5,471)	1,221,862
Industrial	1,187,818	38,317	(23,275)	1,202,860
Utilities	137,169	3,200	(1,677)	138,692
Commercial mortgage backed securities	36,964	1,890	(169)	38,685
Residential mortgage backed securities:				
Agency backed	954,320	23,340	(1,878)	975,782
Non-agency backed	22,071	696	(264)	22,503
Asset backed securities	709	2	(1)	710
	$4,221,221	$155,441	$(42,344)	$4,334,318

(Amounts in Thousands) As of December 31, 2013	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$1,498	$82	$(74)	$1,506
Common stock	14,512	1,156	(2,026)	13,642
U.S. treasury securities	158,915	1,196	(851)	159,260
U.S. government agencies	10,466	107	(84)	10,489
Municipal bonds	461,325	4,781	(19,923)	446,183
Foreign government	160,459	971	(1,325)	160,105
Corporate bonds:				
Finance	1,057,542	41,027	(13,970)	1,084,599
Industrial	768,161	7,695	(21,439)	754,417
Utilities	70,924	1,310	(2,008)	70,226
Commercial mortgage backed securities	28,970	—	(404)	28,566
Residential mortgage backed securities:				
Agency backed	694,001	5,657	(13,918)	685,740
Non-agency backed	6,737	19		