AmTrust International Insurance

An AmTrust Financial Company

AmTrust International Insurance, Ltd.

Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of AmTrust International Insurance, Ltd.

We have audited the accompanying consolidated financial statements of AmTrust International Insurance, Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of AmTrust International Insurance, Ltd. and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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Other Matter

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts in Note 12 to the basic financial statements be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
May 31, 2018

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED BALANCE SHEETS
(In Thousands of US Dollars, Except Par Value per Share)

	December 31,	
ASSETS	**2017**	**2016**
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost $3,492,267; $3,125,405)	$ 3,513,982	$ 3,182,162
Equity securities, available-for-sale, at fair value (cost $15,833; $186,948)	7,288	335,233
Short-term investments	136,905	–
Other investments (related party $7,770; $12,504)	88,906	78,791
Total investments	3,747,081	3,596,186
Cash and cash equivalents	537,337	252,043
Restricted cash	357,027	495,291
Accrued interest and dividends	32,551	23,520
Premiums receivable, net	1,658,787	1,959,692
Reinsurance recoverable (related party $3,026,834; $2,452,242)	3,986,964	2,845,520
Prepaid reinsurance premium (related party $1,172,332; $1,133,485)	1,360,585	1,245,098
Other assets (related party $300,030; $405,053; recorded at fair value $7,791; $225,030)	1,018,096	1,057,260
Due from affiliate	606,883	443,574
Deferred policy acquisition costs	646,171	468,896
Property and equipment, net	223,150	64,904
Goodwill	176,785	205,065
Intangible assets	195,805	223,240
Assets held for sale	59,570	–
Total Assets	$ 14,606,792	$ 12,880,289
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss adjustment expense reserves	$ 7,644,867	$ 6,682,092
Unearned premiums	3,140,302	2,864,012
Ceded reinsurance premiums payable (related party $402,461; $338,970)	588,448	573,501
Reinsurance payable on paid losses	1,747	1,113
Securities sold under agreements to repurchase, at contract value	–	160,270
Deferred gain on retroactive reinsurance	68,634	–
Accrued expenses and other liabilities (recorded at fair value $26,380; $29,695)	625,409	354,946
Debt	124,300	25,936
Liabilities held for sale	19,277	–
Total liabilities	12,212,984	10,661,870
Stockholders' equity:		
Common stock, $1 par value; 250 shares authorized, issued and outstanding in 2017 and 2016	250	250
Preferred stock	29,750	–
Additional paid-in capital	1,847,643	669,029
Accumulated other comprehensive income	(16,975)	30,584
Retained earnings	443,147	826,147
Total AmTrust International Insurance, Ltd. equity	2,303,815	1,526,010
Non-controlling interest	89,993	692,409
Total stockholders' equity	2,393,808	2,218,419
Total liabilities and stockholders' equity	$ 14,606,792	$ 12,880,289

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands of US Dollars)

	Year Ended December 31,	
	2017	**2016**
Revenues:		
Premium income:		
Net written premium	$ 2,683,516	$ 2,725,050
Change in unearned premium	(44,219)	(67,052)
Net earned premium	2,639,297	2,657,998
Service and fee income (related parties - $40,920; $37,533)	154,944	71,387
Net investment income	126,815	95,922
Net realized gain on investments	100,739	24,309
Total revenues	3,021,795	2,849,616
Expenses:		
Loss and loss adjustment expenses	2,175,261	1,945,720
Acquisition costs and other underwriting expenses (net of ceding commission and administrative services) - related party $609,321; $608,904)	1,025,940	708,698
Other	89,565	47,716
Total expenses	3,290,766	2,702,134
(Loss) income before other (expense) income, income taxes, and non-controlling interest	(268,971)	147,482
Other (expenses) income:		
Interest expense (net of interest income - related party - $4,654; $7,593)	(27,478)	(10,169)
Foreign currency (loss) gain	(153,788)	(23,881)
(Loss) gain on investment in life settlement contracts net of profit commission	(15,369)	33,389
Gain on acquisition	–	48,320
Total other (expenses) income	(196,635)	47,659
(Loss) income before income taxes and non-controlling interest	(465,606)	195,141
Income tax (expense) benefit	131,502	32,353
Net (loss) income	(334,104)	227,494
Net income attributable to non-controlling interests of subsidiaries	(48,896)	(187,943)
Net (loss) income attributable to stockholders	$ (383,000)	$ 39,551
Net realized gain on investments:		
Total other-than-temporary impairment losses	$ –	$ (29,478)
Portion of loss recognized in other comprehensive income	–	–
Net impairment losses recognized in earnings	–	(29,478)
Net realized gain on available for sale securities	85,665	50,020
Net realized gain on trading securities and other investment	14,859	3,767
Net realized gain on investments	$ 100,524	$ 24,309

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of US Dollars)

	Year Ended December 31,	
	2017	**2016**
Net (loss) income	$ (334,104)	$ 227,494
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	160,000	(85,448)
Change in fair value of interest rate swap	88	(120)
Minimum pension liability	(258)	(5,198)
Unrealized gain on securities:		
Gross unrealized holding (loss) gain	(106,206)	190,344
Less tax benefit (expense)	62,327	(52,594)
Net unrealized holding (loss) gain	(43,879)	137,750
Reclassification adjustment for investment gain included in net income, net of tax:		
Other-than-temporary impairment loss	–	23,038
Other net realized loss (gain) on investments	85,665	(50,020)
Reclassification adjustment for investment loss (gain) included in net income	85,665	(26,982)
Other comprehensive income, net of tax	$ 201,616	$ 20,002
Comprehensive (loss) income	(132,488)	247,496
Less: Comprehensive income attributable to non-controlling interest	104,419	160,485
Comprehensive loss (income) attributable to AmTrust International Insurance, Ltd.	$ (236,907)	$ 87,011

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands of US Dollars)
Year Ended December 31, 2017 and 2016

	Common Stock	Additional Paid-in Capital	Preferred Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total AmTrust International Insurance, Ltd. Equity	Non-controlling Interest	Total Stockholder's Equity
Balance, December 31, 2015	$ 250	$ 294,029	$ –	$ (16,876)	$ 762,366	$ 1,039,769	556,154	$ 1,595,923
Net income	–	–	–	–	39,551	39,551	187,943	227,494
Foreign currency translation, net of tax	–	–	–	(42,724)	–	(42,724)	(42,724)	(85,448)
Change in fair value of derivative, net of tax	–	–	–	(60)	–	(60)	(60)	(120)
Minimum pension liability, net of tax	–	–	–	(2,599)	–	(2,599)	(2,599)	(5,198)
Unrealized holding gain on investments, net of tax	–	–	–	105,692	–	105,692	32,058	137,750
Reclassification adjustment for securities sold during the year, net of tax	–	–	–	(12,849)	–	(12,849)	(14,133)	(26,982)
Reduction in percentage ownership of subsidiary	–	–	–	–	24,230	24,230	(24,230)	–
Capital contribution from parent	–	375,000	–	–	–	375,000	–	375,000
Balance, December 31, 2016	250	669,029	–	30,584	826,147	1,526,010	692,409	2,218,419
Net income	–	–	–	–	(383,000)	(383,000)	48,896	(334,104)
Foreign currency translation, net of tax	–	–	–	106,756	–	106,756	53,244	160,000
Change in fair value of derivative, net of tax	–	–	–	46	–	46	42	88
Minimum pension liability, net of tax	–	–	–	(129)	–	(129)	(129)	(258)
Unrealized holding gain on investments, net of tax	–	–	–	(46,245)	–	(46,245)	2,366	(43,879)
Reclassification adjustment for securities sold during the year, net of tax	–	–	–	(85,666)	–	(85,666)	–	(85,666)
Capital contributions (dividends) to subsidiaries	–	–	–	–	–	–	(40,649)	(40,649)
Increase in percentage ownership of subsidiary	–	578,614	29,750	(22,321)	–	586,043	(666,186)	(80,143)
Capital contribution from parent	–	600,000	–	–	–	600,000	–	600,000
Balance, December 31, 2017	$ 250	$ 1,847,643	$ 29,750	$ (16,975)	$ 443,147	$ 2,303,815	89,993	$ 2,393,808

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of US Dollars)

	Year Ended December 31,	
	2017	**2016**
Cash flows from operating activities:		
Net income	$ (334,104)	$ 227,494
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,543	18,062
Net amortization of bond premium or discount	7,395	16,255
Amortization of deferred gain	(554)	–
(Loss) gain on investment in life settlement contracts, net	15,369	(33,389)
Realized gain on marketable securities	(100,739)	(53,787)
Non-cash write-down of marketable securities	–	29,478
Non-cash write-down of investments	4,735	–
Non-cash write-down of goodwill	–	273
Discount on notes payable	278	–
Bad debt expense	39,717	3,557
Foreign currency loss	153,788	23,881
Acquisition gain	–	(48,320)
Changes in assets – (increase) decrease:		
Premiums and notes receivable	318,591	–
Reinsurance recoverable	(1,117,828)	–
Deferred policy acquisition costs, net	(163,006)	–
Prepaid reinsurance premiums	(93,475)	–
Prepaid expenses and other assets	(84,433)	–
Due from affiliate	(163,733)	
Changes in liabilities – increase (decrease):		
Reinsurance premium payable	58,883	–
Loss and loss expense reserves	768,240	–
Unearned premiums	130,988	–
Funds held under reinsurance treaties	(7,652)	–
Accrued expenses and other current liabilities	240,338	–
Other non-cash changes in assets and liabilities	–	(36,266)
Net cash (used in) provided by operating activities	(281,659)	147,238
Cash flows from investing activities:		
Purchases of:		
Fixed maturities, available-for-sale	(2,363,125)	(1,264,707)
Equity securities, available-for-sale	(192,849)	(180,255)
Equity securities, trading	–	(218,604)
Other investments	(11,018)	(36,072)
Property and equipment	(152,605)	(29,389)
Subsidiaries, net of cash received	(20,244)	(261,397)
Sales of:		
Fixed maturities, available-for-sale (includes maturities and paydowns)	2,192,192	1,338,682
Equity securities, available-for-sale	408,152	89,852
Equity securities, trading	–	214,670
Other investments	54,578	13,500
Life settlement contracts	171,895	–
Short term investments (purchases) sales, net	(122,923)	42,715
Receipt of life settlement contract proceeds	35,182	38,247
Advance on equity interest in life settlement contracts entity	17,662	–
Decrease (increase) in restricted cash and cash equivalents, net	148,302	(253,097)
Net cash provided by (used in) investing activities	165,199	(505,855)

AMTRUST INTERNATIONAL INSURANCE, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of US Dollars)

	Year Ended December 31,	
	2017	**2016**
Cash flows from financing activities:		
Capital contribution	466,667	—
Repurchase agreements, net	(160,270)	160,270
Secured loan agreement borrowings	97,716	15,600
Secured loan agreement payments	(201)	—
Financing fees	(313)	(278)
Contingent consideration payments	(11,600)	(11,600)
Non-controlling interest capital contributions (dividends) to consolidated subsidiaries, net	(38,121)	6,000
Net cash provided by financing activities	353,878	169,992
Effect of exchange rate changes on cash	50,854	(16,387)
Cash included in business classified as held for sale	(2,978)	—
Net increase (decrease) in cash and cash equivalents	285,294	(205,012)
Cash and cash equivalents, beginning year	252,043	412,543
Cash and cash equivalents, end of year	$ 537,337	$ 207,531
Supplemental Cash Flow Information		
Interest payments on debt	$ 8,388	$ 4,563
Income tax payments	3,026	10,228

1. Nature of Operations

AmTrust International Insurance, Ltd. (the “Company” or "AII") is a class 3B insurance company formed under the laws of Bermuda. The company is a wholly-owned subsidiary of AmTrust Financial Services, Inc. ("AFSI"), a company incorporated in the state of Delaware in the United States of America, which is listed on NASDAQ with the ticker symbol AFSI. The Company and its subsidiaries provide specialty property and casualty insurance focusing on workers’ compensation and commercial package coverage for small business, specialty risk and extended warranty coverage, and property and casualty coverage for middle market business.

The Company transacts business primarily through six major insurance subsidiaries domiciled in Europe and one insurance subsidiary domiciled in the United States. The Company's major subsidiaries are:

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

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

2. Significant Accounting Policies

Basis of Reporting — The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Premiums — Insurance premiums, except for certain specialty risk and extended warranty programs, are recognized as earned on a straight-line basis over the contract period. Insurance premiums on specialty risk and extended warranty programs are earned over the contract period in proportion to the costs expected to be incurred in performing services over the contract. These estimates are based on the expected distribution of losses at the inception of the contract and are evaluated for appropriateness throughout the life of the contract. 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 premiums for establishing its allowance for doubtful accounts. The Company reviews its allowance at least annually and makes adjustments as required. The allowance for doubtful accounts were approximately $20,810 and $13,163 as of December 31, 2017 and 2016, respectively.

Loss and Loss Adjustment Expense Reserves — Loss and loss adjustment expense (“LAE”) reserves represent the estimated ultimate net costs of all reported and unreported losses incurred. 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 in the period experience develops or new information becomes known.

2. Significant Accounting Policies (continued)

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-maturity 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. Fixed maturity securities and equity securities classified as available-for sale are reported at their estimated fair values based on quoted market prices or a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of comprehensive income in stockholders' equity. Realized gains and losses are determined on the specific identification method.

The Company analyzes its fixed maturity and equity securities in an unrealized loss position for other-than-temporary impairment ("OTTI") each reporting period. The Company considers an investment to be impaired when it has been in an unrealized loss position greater than a de minimis threshold for over 12 months, excluding securities backed by the U.S. government (e.g., U.S. treasury securities or agency-backed residential mortgage-backed securities). Additionally, the Company reviews whether any of the impaired positions are related to securities for which OTTI was previously recognized, and whether the Company intends to sell any of the securities in an unrealized loss position.

Once the Company completes the analysis described above, each security is further evaluated to assess whether the decline in the fair value of any investment below its cost basis is deemed other-than-temporary. The Company considers certain factors in completing its review of securities with unrealized losses for OTTI. For equity securities, the Company considers the length of time and the extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer, including any specific events that may influence the operations of the issuer, and the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value. For fixed maturity securities, the Company considers among other things, the length of time and the extent to which the fair value has been less than the amortized cost basis, adverse conditions and near-term prospects for improvement specifically related to the issuer, industry or geographic area, the historical and implied volatility of the fair value of the security, any information obtained from regulators and rating agencies, the issuer's capital strength and the payment structure of the security and the likelihood the issuer will be able to make payments in the future (or the historical failure of the issuer to make scheduled interest or principal payments, or payment of dividends).

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

The Company has the following major types of investments:

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

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

2. Significant Accounting Policies (continued)

(c) Fixed maturity and equity securities, available-for-sale — Fixed maturity 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.

(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) Other investments — Other investments consist primarily of equity investments in limited partnerships, including private equity limited partnerships and real estate partnerships. Limited partnerships primarily include investments in private equity limited partnerships and real estate partnerships. The Company applies the equity method of accounting for its investments in limited partnerships in which its ownership interest of the limited partnership enables the Company to exercise significant influence over the investee company, and does not result in a controlling financial interest in the investee. The Company's recognizes its proportionate share of the net income of these unconsolidated investees 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 sheets 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 earnings. The Company primarily utilizes interest rate swaps, which are valued in terms of the contract between the Company and the issuer of the swaps, which 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 maturity securities, adjusted for the amortization of premiums or discount, is recorded as income when earned. Investment expenses are accrued as incurred. Realized investment gains or losses are computed using the specific costs of securities sold, and, if applicable, include write-downs on investments having other-than-temporary declines in value.

Fair Value of Financial Instruments — The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 820 *Fair Value Measurement*. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value 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 securities is more subjective when markets are less liquid due to lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in the Level 1 hierarchy. The Company receives the quoted market prices from nationally recognized third-party pricing services ("pricing service"). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value. This pricing method is used, primarily, for fixed maturity securities. 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 in the Level 2 or Level 3 hierarchy.

2. Significant Accounting Policies (continued)

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

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

Derivatives. The Company estimates fair value using information provided by a pricing service for interest rate swaps and classifies derivatives as Level 2.

Service and Fee Revenue — Service and fee revenue includes fee revenue for extended warranty and service plans, commission and broker fees, asset management fees, business service fees, administration fees and other service fees. Service and fee income is recognized when the revenue is earned and realized or realizable. The Company considers revenues to be earned and realized or realizable when all of the following four conditions are met: (1) persuasive evidence of an arrangement exists, (2) the arrangement fee is fixed or determinable, (3) delivery or performance has occurred, and (4) collectability is reasonably assured.

The Company promotes and markets extended service plans ("ESP") to consumers through retailers and certain other marketing organizations usually with terms ranging from one to five years, commencing at the expiration of the manufacturers' warranty, if applicable. The Company generally insures the obligations under ESPs through contractual liability insurance issued by one of its insurance subsidiaries. In addition, under the terms of separate service agreements with various retailers, the Company provides for marketing and administrative services related to ESP. These service agreements are generally for one to five year terms and can be canceled by either party with thirty days' advance notice. The Company recognizes revenue related to administration services on a straight-line basis over the term of the ESP contracts. Warranty fee revenues are reported in service and fee income.

Commission and broker fees are generally recognized at the completion of the placement process, which is typically considered complete on the effective date of the related policy.

Asset management fees are recognized over time based on a percentage of assets under management.

All other business service fees, administration fees and other service fees are recognized at a point in time or over time when earned and realized or realizable.

Deferred Policy Acquisition Costs — The Company defers commission expenses, employee compensation and payroll related fringe benefits, premium taxes and assessments as well as underwriting and safety inspection costs that vary with and are primarily related to the successful acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. The Company may realize deferred policy acquisition costs only if the ratio of loss and loss adjustment expense reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%, the Company could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve. The Company considers anticipated investment income in determining whether a premium deficiency relating to short duration contracts exists. Deferred acquisition costs are presented net of ceding commissions.

Reinsurance — Reinsurance agreements that meet the transfer of risk criteria are recorded as prospective reinsurance agreements or retroactive reinsurance agreements based on whether the agreement reinsures future or past reinsured events covered by the underlying insurance contracts. Prospective reinsurance is reinsurance in which a reinsurer agrees to reimburse a ceding entity for losses that may be incurred as a result of future insurable events covered under insurance contracts subject to the reinsurance in exchange for ceded premiums paid to the reinsurer. Retrospective reinsurance is reinsurance in which a reinsurer agrees to reimburse a ceding entity for liabilities incurred as a result of past insurable events covered under insurance contracts subject to the reinsurance, in exchange for ceded premiums paid to the reinsurer.

2. Significant Accounting Policies (continued)

Prospective reinsurance premiums, losses and LAE ceded to reinsurers are accounted for on a basis consistent with the accounting for the underlying reinsured contracts. The Company records premiums earned and losses and LAE incurred and ceded to reinsurers 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 costs and other underwriting expenses. The Company earns commissions on reinsurance premiums ceded in a manner consistent with the recognition of the earned premiums on the underlying insurance policies, on a pro rata basis over the terms of the policies reinsured.

For retroactive reinsurance agreements, the ceded loss and LAE reserves recorded as reinsurance recoverable in excess of the premium for reinsurance is recorded as a deferred gain on retroactive reinsurance, and amortized to earnings using the interest method over the estimated claims settlement period. Any related development on the ceded loss and LAE reserves recoverable under the retroactive reinsurance agreement increases the deferred gain if unfavorable, or decreases the deferred gain if favorable, and a cumulative amortization adjustment based on the change in estimate is recorded to earnings. If the premium for reinsurance exceeds the ceded loss and LAE reserves, or the related favorable development on the ceded loss and LAE reserves entirely offsets the deferred gain on retroactive reinsurance, a loss on retroactive reinsurance is recognized to earnings immediately.

Reinsurance recoverable relates to the portion of reserves and paid losses and LAE that are ceded to reinsurers. Reinsurance does not discharge the Company from its primary liability to policyholders, and to the extent that a reinsurer is unable to meet its obligations, the Company is obligated to pay all claims. Amounts recoverable related to ceded loss and LAE reserves with respect to reinsurance agreements are substantially collateralized. The Company continuously monitors the financial condition of prospective and existing reinsurers. As a result, the Company purchases reinsurance from a number of financially strong reinsurers. The Company provides an allowance for reinsurance balances deemed uncollectible.

Ceding Commissions on Reinsurance Transactions — Ceding commissions on reinsurance transactions are commissions the Company receives from ceding gross written premiums to third party reinsurers. In connection with the Maiden Quota Share, which is the Company's primary source of ceding commissions, the amount the Company receives is a blended rate based on a contractual formula contained in the individual reinsurance agreements, and the rate may not correlate specifically to the cost structure of the individual segments. The ceding commissions the Company receives cover a portion of its capitalized direct acquisition costs and a portion of other underwriting expenses. Ceding commissions received from reinsurance transactions that represent recovery of capitalized direct acquisition costs are recorded as a reduction of capitalized unamortized deferred acquisition costs and the net amount is charged to expense in proportion to net earned premiums. Ceding commissions received from reinsurance transactions that represent the recovery of other underwriting expenses are recognized in the consolidated statements of income over the insurance contract period in proportion to the insurance protection provided, and classified as a reduction of acquisition costs and other underwriting expenses. Ceding commissions received, but not yet earned, that represent the recovery of other underwriting expenses are classified as a component of accrued expenses and other current liabilities.

Assessments — Insurance related assessments are accrued in the period in which they have been incurred. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. The Company is subject to a variety of assessments, such as assessments by state guaranty funds and workers’ compensation second injury funds. State guaranty funds assessments are used by state insurance regulators to cover losses of policyholders of insolvent insurance companies and for the operating expenses of such agencies. The Company uses estimated assessment rates in determining the appropriate assessment expense and accrual. The Company uses estimates derived from state regulators and/or National Association of Insurance Commissioners (“NAIC”) Tax and Assessments Guidelines. Assessment income/(expense) for the years ended December 31, 2017 and 2016 was $863 and $(2,533), respectively.

2. Significant Accounting Policies (continued)

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 of loss and LAE reserves by recording the acquired loss reserves based on the Company's existing accounting policies and then discounting them based on expected reserve payout patterns using a current risk-free rate of interest. This risk free interest rate is then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and the Company's best estimate of the fair value of such reserves at the acquisition date is recorded either an intangible asset or another liability, as applicable, and amortized proportionately to the decrease in the acquired loss and LAE reserves over the payout period for the acquired loss and LAE reserves. The Company records the fair value of unearned premiums based on the cash flows of the unexpired portion of the acquired insurance contracts. 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. Transaction costs associated with the acquisition of a business are expensed as 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. The Company accounts for business combinations under the acquisition method of 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. 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 statements of income. The Company tests for impairment of goodwill at the reporting unit level. The Company generally combines reporting units, which are a component of an operating segment when they have similar economic characteristics, nature of services, types of customer, distribution methods and regulatory environment. The Company had two reporting units as of December 31, 2017.

Property and Equipment — Property and equipment is recorded at cost. Maintenance and repairs are expensed as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, as follows:

Building	40 years
Equipment	5 to 7 years
Computer equipment and software	3 to 20 years (primarily 3 years)
Leasehold improvements	Lesser of lease term or 15 years

The Company accounts for its internal use software under ASC 350 *Intangibles — Goodwill and Other*. Accordingly, the Company capitalizes costs of computer software developed or obtained for internal use that is specifically identifiable, has determinable lives and relates to enhancements in functionality.

Equalization reserves — The Company owns one Luxembourg-domiciled reinsurance entity. In connection with this entity, the Company acquired cash and equalization reserves of the reinsurance company. An equalization reserve is a catastrophe reserve established in excess of required reserves as established by the laws of Luxembourg. Equalization reserves are required to be established for Luxembourg statutory and tax purposes, but are not recognized under U.S. GAAP. The equalization reserves were originally established by the seller of the reinsurance entity, and under Luxembourg law allowed the reinsurance company to reduce its income tax paid.

2. Significant Accounting Policies (continued)

Income Taxes — The Company's European subsidiaries file income tax returns in their respective local jurisdictions. The Company's parent, AFSI, files a consolidated United States income tax return, which includes our US insurance subsidiary. Additionally, the Company has elected under section 953(d) to be treated as a US taxpayer. As part of the consolidated U.S. income tax return filing, the Company is party to federal income tax allocation agreements amongst the includible entities. Under the tax allocation agreements, the Company pays to or receives from its subsidiaries the amount, if any, by which the AFSI federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return.

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

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

The Company recognizes tax benefits only for tax positions that are more likely than not to be sustained upon examination by taxing authorities. The Company's policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. Primarily tax years 2012 through 2016 are still subject to examination. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

For a discussion of the Tax Cuts and Jobs Act ("TCJA") on our 2017 financial statements, see Note. 17 "Income Taxes".

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 comprehensive income (loss). The foreign currency remeasurement and translation items are calculated using current exchange rates for the items reported on the balance sheets and average exchange rates for items recorded in earnings.

Concentration and Credit Risk — Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, reinsurance recoverables, investments and premiums 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. As of December 31, 2017 and 2016, the outstanding premiums receivable balance is generally diversified due to the number of entities composing the Company's customer base. To reduce credit risk, the Company performs ongoing evaluations of its customers' financial condition. The Company also has receivables from its reinsurers. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. However, the Company limits this credit risk by holding funds, letters of credit, assets in trust or other security. The Company periodically evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. It is the policy of management to review all outstanding receivables at period end as well as the bad debt write-offs experienced in the past and establish an allowance for doubtful accounts, if deemed necessary.

Non-controlling Interest — The ownership interest in consolidated subsidiaries that is not wholly-owned by the Company is accounted for as non-controlling interest and is presented in stockholder's equity. Net income or loss and comprehensive income or loss of any consolidated subsidiaries with non-controlling interest is attributed to the non-controlling interest in the consolidated statements of income and consolidated statements of comprehensive income.

2. Significant Accounting Policies (continued)

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions, which include the reserves for losses and loss adjustment expenses, are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with the recognition and amortization of deferred policy acquisition costs, the determination of fair value of invested assets and related impairments, and the determination of goodwill and intangible impairments and valuation of deferred tax assets require considerable judgment by management. On an on-going basis, management re-evaluates 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.

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the current year's presentation. The effect of these reclassifications had no impact on previously reported stockholders' equity or net income.

Recent Accounting Pronouncements

Recent Accounting Standards, Adopted

In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance specifies that when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted and prospective application is required. The Company adopted this guidance early effective on January 1, 2017. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations, or cash flows.

In March 2016, the FASB issued ASU 2016-07, *Investments-Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*, which eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The guidance requires the equity method investor to add the cost of acquiring additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The Company adopted this guidance on a prospective basis. The adoption of this guidance on January 1, 2017 did not have a material effect on the Company's financial position, results of operations, or cash flows.

In March 2016, the FASB issued ASU 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*, which clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815 does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The Company adopted this guidance on a modified retrospective basis. The adoption of this guidance on January 1, 2017 did not have a material effect on the Company's financial position, results of operations, or cash flows.

2. Significant Accounting Policies (continued)

In May 2015, the FASB issued ASU 2015-09, *Financial Services - Insurance (Topic 944): Disclosure about Short-Duration Contracts.* This ASU was issued to enhance disclosures about an entity's insurance liabilities, including the nature, amount, timing and uncertainty of cash flows related to those liabilities. The new guidance requires the following information related to unpaid claims and claim adjustment expenses be disclosed using an appropriate level of disaggregation so as not to obscure useful information: (a) net incurred and paid claims development information by accident year for the number of years for which claims incurred typically remain outstanding, but need not exceed 10 years; (b) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses, with separate disclosure of reinsurance recoverable on unpaid claims for each period presented in the statement of financial position; (c) for each accident year presented, the total of incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses; (d) for each accident year presented, quantitative information about claim frequency accompanied by a qualitative description of methodologies used for determining claim frequency information; and (e) for all claims, the average annual percentage payout of incurred claims by age. The Company adopted ASU 2015-09 during 2017 and presents the required disclosures of this updated accounting standard in Note 12. "Short Duration Contracts," to these consolidated financial statements.

Recent Accounting Standards, Not Yet Adopted

In February 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments allow an entity to elect to reclassify the income tax effects of the U.S. federal government enacted tax bill, Tax Cuts and Jobs Act, on items within accumulated other comprehensive income to retained earnings. If an entity elects to reclassify the income tax effects, the amount of that reclassification only includes the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, related to items remaining in accumulated other comprehensive income. An entity is not permitted to reclassify the effect of the change in the U.S. federal corporate income tax rate on gross valuation allowances that were originally charged to income from operations. An entity is required to disclose a description of the accounting policy for releasing income tax effects from accumulated other comprehensive income. An entity is permitted to apply the guidance either at the beginning of the period of adoption or retrospectively to each period (or periods) in which the income tax effects of the Tax Cuts and Jobs Act is recognized. This guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period. Early adoption is permitted, including adoption in any interim period. The Company plans to early adopt the new guidance, and currently estimates the cumulative effect adjustment to decrease retained earnings and increase accumulated other comprehensive income by approximately $4,770 as of January 1, 2018.

In March 2017, the FASB issued ASU 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The new guidance shortens the amortization period for the premium on callable debt securities to the earliest call date. The amortization period for the discount on callable debt securities is not changed by the new guidance, and continues to be amortized to maturity. The new guidance more closely aligns interest income recorded on debt securities held at a premium or a discount with the economics of the underlying instrument. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the guidance in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact this standard will have on its financial position, results of operations or cash flows.

In February 2017, the FASB issued ASU 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets,* which clarifies that ASC 610-20 applies to the derecognition of nonfinancial assets and in substance nonfinancial assets unless other specific guidance applies. As a result, the new guidance will not apply to the derecognition of businesses, non-profit activities, or financial assets (including equity method investments), or to revenue transactions (contracts with customers). The new guidance also clarifies that an in substance nonfinancial asset is an asset or group of assets for which substantially all of the fair value consists of nonfinancial assets and the group or subsidiary is not a business. In addition, transfers of nonfinancial assets to another entity in exchange for a noncontrolling ownership interest in that entity will be accounted for under ASC 610-20, removing specific guidance on such partial exchanges from ASC 845, *Nonmonetary Transactions*. As a result of the new guidance, the guidance specific to real estate sales in ASC 360-20 will be eliminated. As such, sales and partial sales of real estate assets will now be subject to the same derecognition model as all other nonfinancial assets. The guidance is effective for fiscal years beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company is currently evaluating the impact this standard will have on its financial position, results of operations or cash flows.

2. Significant Accounting Policies (continued)

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairment charges. Under the current guidance, if the fair value of a reporting unit is lower than its carrying amount, an entity calculates any impairment charge by comparing the implied fair value of goodwill with its carrying amount. The implied fair value of goodwill is calculated by deducting the fair value of all assets and liabilities of the reporting unit from the reporting unit's fair value. Under the new guidance, an entity will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value not to exceed the amount of goodwill allocated to that reporting unit. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is currently evaluating the impact this standard will have on its financial position, results of operations or cash flows.

In October 2016, the FASB issued ASU 2016-16, *Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory*. The ASU is part of the FASB's simplification initiative aimed at reducing complexity in accounting standards. The new guidance eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer's jurisdiction would also be recognized at the time of the transfer. This guidance is effective for the fiscal year beginning after December 15, 2017, including interim reporting periods within that reporting period. The adoption of this guidance is not expected to have a material impact on the Company's financial position, results of operations, or cash flows.

In August 2016, due to divergent practices for reporting certain cash receipts and cash payments on the statement of cash flows, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments provide guidance and clarification for eight specific cash flow issues, which include debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate and bank owned life insurance policies, distributions received from equity-method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within that reporting period. In November 2016, due to divergent practices for the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flows, the FASB issued final guidance on (ASC) 230, *Statement of Cash Flows,* that requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. Entities will also have to disclose the nature of their restricted cash and restricted cash equivalent balances. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The new standard requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected by recording an allowance for credit losses which change in the allowance recorded as credit loss expense based on management's current estimate of expected credit losses each period. The new standard also required impairment relating to credit losses on available-for-sale debt securities to be presented through an allowance for credit losses with changes in the allowance recorded in the period of the change as credit loss expense or reversal of credit loss expense. Any impairment amount not recorded through an allowance for credit losses on available-for-sale debt securities is recorded through other comprehensive income. This new standard is effective for fiscal years beginning after December 15, 2019, including interim reporting periods within that reporting period. The Company is currently evaluating the impact this standard will have on its financial position, results of operations or cash flows.

2. Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The new standard amends the guidance for leasing transactions. The guidance requires a lessee to classify lease contracts as finance or operating leases, and to recognize assets and liabilities for the rights and obligations created by leasing transactions with lease terms more than twelve months. The guidance substantially retains the criteria for classifying leasing transactions as finance or operating leases. For finance leases, a lessee recognizes a right-of-use asset and a lease liability initially measured at the present value of the lease payments, and recognizes interest expense on the lease liability separately from the amortization of the right-of-use asset. For operating leases, a lessee recognizes a right-of-use asset and a lease liability initially measured at the present value of the lease payments, and recognizes lease expense on a straight-line basis. The guidance requires a lessor to recognize lease income related to an operating lease generally on a straight-line basis over the lease term. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In January 2018, the FASB issued ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842* that provides a lessee or lessor the election to not assess whether land easements, not currently accounted for as leases under the current lease guidance, are leases under the new standard. On a prospective basis after adoption of the guidance, a lessee or lessor is required to apply the new standard to new or modified land easements. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that period. Early adoption is permitted. The Company is currently evaluating the impact this standard will have on its financial position, results of operations or cash flows.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically, the guidance (a) requires equity investments to be measured at fair value with changes in fair value recognized in earnings. However, an entity may choose to measure equity investments that do not have readily determinable fair value at cost minus impairment, if any, plus or minus changes resulted from observable price changes in orderly transactions for identical or similar investments of the same issuer, (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (c) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost, (d) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (e) requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option, (f) requires separate presentation of financial assets and liabilities by measurement category and form on the balance sheet or the notes to the financial statements, and (g) clarifies that the need for a valuation allowance on a deferred tax asset related to an available for sale security should be evaluated with other deferred tax assets. The Company will adopt the guidance on January 1, 2018 and apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values are required to be applied prospectively to equity investments that exist as of the date of adoption. The adoption of this guidance is not expected to have a material impact on the Company's financial position, results of operations, or cash flows.

In May 2014, the FASB issued ASU 2014-09, *Revenue From Contracts With Customers*. The new standard supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and eliminates industry-specific guidance. The core principal of the new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, an entity should apply the following steps; identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies a performance obligation. The new standard requires variable consideration to be estimated as part of the determination of the transaction price of a contract subject to a constraint based on a probability assessment of revenue reversal. The new standard also requires certain incremental costs incurred to obtain or fulfill a contract to be deferred and amortized on a systematic basis consistent with the transfer of goods or services to the customer. The guidance also requires additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts, including significant judgments and changes in judgments in determining the timing of satisfaction of performance obligations (over time or at a point in time), determining transaction price and amounts allocated to performance obligations, and assets recognized from the costs incurred to obtain or fulfill a contract. ASU 2014-09 does not apply to insurance contracts, leases, financial instruments, and certain other agreements that are within the scope of other GAAP guidance. Entities are permitted to use either a full retrospective or a modified retrospective approach for the adoption of the new standard. The Company will adopt the standard effective January 1, 2018 using the modified retrospective approach that requires a cumulative adjustment to retained earnings.

The Company has completed its initial assessment of its revenue streams to identify contracts with customers that are in the scope of the new standard, and reviewed a selection of representative in-scope contracts (“key contracts”) to identify the impact on revenue recognition and changes to processes and controls. The Company is continuing to evaluate ASU 2014-09 and the related amendments and interpretive guidance to assess any changes to accounting policies, processes, and controls to enable compliance with the new standard.

As a provider of property and casualty insurance products, the Company’s insurance contracts are not in the scope of the new guidance. The Company also provides services to its customers in exchange for consideration that may be considered fixed or variable under the guidance. From its review of key contracts, the Company expects to recognize revenue as services are transferred to its customers either over time or at a point in time depending on the nature of its performance obligations and the timing of when its performance obligations are satisfied. The current pattern of revenue recognition is not expected to change significantly upon adoption of the new standard. From its review of key contracts, the Company expects to be constrained from including variable consideration in the determination of transaction price in many of its contracts until the uncertainty associated with variable consideration is resolved.

In addition, the new standard requires an entity to defer the incremental costs of obtaining a contract with a customer and to amortize those costs over the anticipated life of the contract as services are transferred to the customer. The incremental costs incurred to obtain and fulfill a contract are required to be deferred when the costs (a) relate directly to a specific contract or anticipated contract (b) generate or enhance resources of the entity that will be used in satisfying performance obligations in the future, and (c) are expected to be recovered.

The Company has completed its initial assessment of its costs incurred to obtain or fulfill contracts with customers. The Company expects to continue to defer incremental costs incurred to obtain and fulfill extended service plan contacts and to amortize deferred costs over the performance period. The Company expects to continue to expense certain commissions paid to third parties related to commission revenues earned at a point in time when an insurance policy is bound and the performance obligation is satisfied. The Company is continuing to assess its costs incurred directly related to contracts that meet the criteria for deferral and the basis for amortization of deferred costs. As its assessment continues, the Company may identify additional costs that are currently expensed which are required to be deferred as incremental costs to fulfill contracts under the new guidance. The Company may also determine the basis of amortization of deferred costs is required to change, to meet the requirements of the new standard.

The Company is finalizing its assessment of the impact of the new standard and related amendments on its consolidated financial statements. The new standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows, however the Company expects to make additional disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers as required by the new standard. The Company continues to identify the appropriate changes to its business processes, systems and controls to support revenue recognition and disclosure under the new guidance.

3. Investments

(a) Available-for-Sale Securities

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

As of December 31, 2017	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturity securities:				
U.S. treasury securities	$ 47,812	$ 2	$ (719)	$ 47,095
U.S. government agencies	12,782	1	(299)	12,484
Municipal bonds	189,840	1,183	(628)	190,395
Foreign government	118,504	2,887	(3,078)	118,313
Corporate bonds:				
Finance	893,029	28,226	(10,556)	910,699
Industrial	1,037,499	27,240	(22,294)	1,042,445
Utilities	190,839	7,438	(2,046)	196,231
Commercial mortgage backed securities	186,302	1,791	(6,771)	181,322
Residential mortgage backed securities:				
Agency backed	372,727	3,751	(10,504)	365,974
Non-agency backed	4,908	5	(79)	4,834
Collateralized loan / debt obligations	424,123	6,522	(299)	430,346
Asset backed securities	13,902	16	(74)	13,844
Total fixed maturity securities	$ 3,492,267	$ 79,062	$ (57,347)	$ 3,513,982
Equity securities:				
Preferred stock	$ 499	$ —	$ (22)	$ 477
Common stock	15,334	54	(8,577)	6,811
Total equity securities	$ 15,833	$ 54	$ (8,599)	$ 7,288

As of December 31, 2016	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturity securities:				
U.S. treasury securities	$ 40,435	$ 15	$ (93)	$ 40,357
U.S. government agencies	24,298	126	(13)	24,411
Municipal bonds	57,748	562	(723)	57,587
Foreign government	124,170	4,094	(600)	127,664
Corporate bonds:				
Finance	801,569	23,368	(3,516)	821,421
Industrial	957,847	29,953	(6,717)	981,083
Utilities	105,553	2,773	(1,002)	107,324
Commercial mortgage backed securities	86,624	1,168	(1,882)	85,910
Residential mortgage backed securities:				
Agency backed	472,422	8,839	(4,172)	477,089
Non-agency backed	46,683	476	(829)	46,330
Collateralized loan / debt obligations	395,120	5,652	(648)	400,124
Asset backed securities	12,936	16	(90)	12,862
Total fixed maturity securities	$ 3,125,405	$ 77,042	$ (20,285)	$ 3,182,162
Equity securities:				
Common stock	$ 186,948	$ 149,183	$ (898)	$ 335,233
Total equity securities	$ 186,948	$ 149,183	$ (898)	$ 335,233

Proceeds from the sale of investments in available-for-sale securities during the years ended December 31, 2017 and 2016 were approximately $2,600,344 and $1,428,534, respectively.

A summary of the Company's available-for-sale fixed maturity securities as of December 31, 2017 and 2016, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 93,722	$ 92,034	$ 197,263	$ 197,520
Due after one through five years	1,007,468	1,032,833	1,083,518	1,110,266
Due after five through ten years	1,238,652	1,241,722	775,471	796,573
Due after ten years	150,463	151,072	55,368	55,488
Mortgage and asset backed securities	1,001,962	996,320	1,013,785	1,022,315
Total fixed maturity securities	$ 3,492,267	$ 3,513,981	$ 3,125,405	$ 3,182,162

There were no OTTI charges of our fixed maturity and equity securities classified as available-for-sale and other investments for the year ended December 31, 2017. Amounts for the year ended December 31, 2016 are shown below:

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

A progression of the credit portion of other-than-temporary impairments on fixed maturity securities for which the non-credit portion of an impairment has been recognized in other comprehensive income for the years ended December 31, 2017 and 2016 is shown in the table below:

	Year Ended December 31,	
	2017	2016
Credit losses as of the beginning of the year	$ 3,810	$ 9,911
Credit losses on securities for which an OTTI was not previously recognized	—	29,478
Reductions for securities sold, matured, or called	(3,623)	(35,579)
Credit losses as of the end of the year	$ 187	$ 3,810

See Note 2. "Significant Accounting Policies", for additional information on how the Company tests securities for OTTI.

The following tables summarize the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized loss position as of December 31, 2017 and 2016:

	Less Than 12 Months		12 Months or More		Total	
As of December 31, 2017	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
U.S. treasury securities	$ 25,462	$ (411)	$ 18,340	$ (308)	$ 43,802	$ (719)
U.S. government agencies	12,063	(287)	122	(12)	12,185	(299)
Municipal bonds	18,536	(596)	5,445	(32)	23,981	(628)
Foreign government	45,160	(2,085)	16,588	(993)	61,748	(3,078)
Corporate bonds:						
Finance	294,740	(9,028)	43,535	(1,528)	338,275	(10,556)
Industrial	360,596	(15,892)	89,786	(6,402)	450,382	(22,294)
Utilities	53,218	(1,927)	10,941	(119)	64,159	(2,046)
Commercial mortgage backed securities	64,553	(3,823)	33,572	(2,948)	98,125	(6,771)
Residential mortgage backed securities:						
Agency backed	73,027	(4,518)	116,969	(5,986)	189,996	(10,504)
Non-agency backed	1,252	(15)	659	(64)	1,911	(79)
Collateralized loan / debt obligations	48,287	(234)	4,023	(65)	52,310	(299)
Asset-backed securities	308	(7)	968	(67)	1,276	(74)
Total fixed maturity securities	$ 997,202	$ (38,823)	$ 340,948	$ (18,524)	$ 1,338,150	$ (57,347)
Equity securities:						
Preferred stock	477	(22)	—	—	477	(22)
Common stock	6,546	(8,577)	—	—	6,546	(8,577)
Total equity securities	$ 7,023	$ (8,599)	$ —	$ —	$ 7,023	$ (8,599)

	Less Than 12 Months		12 Months or More		Total	
As of December 31, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
U.S. treasury securities	$ 36,223	$ (93)	$ —	$ —	$ 36,223	$ (93)
U.S. government agencies	5,800	(13)	—	—	5,800	(13)
Municipal bonds	28,770	(722)	28	(1)	28,798	(723)
Foreign government	65,276	(600)	—	—	65,276	(600)
Corporate bonds:						
Finance	259,410	(3,444)	2,960	(72)	262,370	(3,516)
Industrial	260,025	(4,737)	58,928	(1,980)	318,953	(6,717)
Utilities	15,315	(231)	8,820	(771)	24,135	(1,002)
Commercial mortgage backed securities	41,933	(1,255)	5,792	(627)	47,725	(1,882)
Residential mortgage backed securities:						
Agency backed	197,497	(4,172)	—	—	197,497	(4,172)
Non-agency backed	21,207	(829)	—	—	21,207	(829)
Collateralized loan / debt obligations	78,880	(338)	27,018	(310)	105,898	(648)
Asset-backed securities	3,566	(90)	—	—	3,566	(90)
Total fixed maturity securities	$ 1,013,902	$ (16,524)	$ 103,546	$ (3,761)	$ 1,117,448	$ (20,285)
Equity securities:						
Common stock	$ 7,234	$ (323)	$ 3,056	$ (575)	$ 10,290	$ (898)
Total equity securities	$ 7,234	$ (323)	$ 3,056	$ (575)	$ 10,290	$ (898)

There were 1,016 and 780 securities at December 31, 2017 and 2016, respectively, that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. At December 31, 2017, the Company has determined that the unrealized losses on fixed maturities were primarily due to market interest rate movements since their date of purchase. As of December 31, 2017, for the $18,524 of unrealized losses related to securities in unrealized loss positions for a period of twelve or more consecutive months, $8,544 of those unrealized losses were related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost.

The net unrealized gains on available-for-sale securities for the years ended December 31, 2017 and 2016 were as follows:

	Year Ended December 31,	
	2017	2016
Fixed maturity securities	$ 21,715	$ 56,757
Equity securities	(8,545)	148,285
Total net unrealized gain	13,170	205,042
Deferred income tax expense	(4,438)	(66,765)
Cumulative net unrealized gain, net of tax	8,732	138,277
(Decrease) Increase in net unrealized gains, net of deferred income tax	$ (129,545)	$ 110,768

(b) Investment Income

Net investment income for the years ended December 31, 2017 and 2016 was derived from the following sources:

	Year Ended December 31,	
	2017	2016
Fixed maturities, available-for-sale	$ 105,867	$ 92,873
Equity securities, available-for-sale	2,528	2,800
Affiliate loan interest	17,555	—
Other invested assets	(4,326)	—
Cash and short term investments	5,944	4,584
Total investment income	127,568	100,257
Investment expenses and interest expense on securities sold under agreement to repurchase	(753)	(4,335)
Net investment income	$ 126,815	$ 95,922

Net investment income on fixed maturity securities classified as trading was immaterial for the years ended December 31, 2017 and 2016.

(c) Realized Gains and Losses

The tables below summarize the gross realized gains and (losses) for the years ended December 31, 2017 and 2016.

Year Ended December 31, 2017	Gross Realized Gains	Gross Realized Losses	Net Realized Gains and (Losses)
Fixed maturities, available-for-sale	$ 33,778	$ (3,538)	$ 30,240
Equity securities, available-for-sale	110,305	(54,665)	55,640
Other invested assets	14,859	—	14,859
Total	$ 158,942	$ (58,203)	$ 100,739

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

On June 9, 2017, The Company announced that is entered into agreements to sell 6,154 common shares of National General Holdings Corp. ("NGHC"), a related party, at a price of $20.00 per share (representing a discount of 8.3% to NGHC's common stock closing market price on the Nasdaq Stock Exchange on June 8, 2017). The sale was completed through separate, privately negotiated purchase agreements with unaffiliated third parties and resulted in a $96,306 realized gain, which is reflected in Net realized gain on investments in the Consolidated Statements of Income. Also during 2017, the Company sold 5,000 common shares of AFSI common stock to a related party. The sale resulted in a $54,220 realized loss, which is reflected in Net realized gain on investments in the Consolidated Statements of Income. These shares were held in common stock at December 31, 2016.

There were no securities classified as trading at December 31, 2017 and 2016.

(d) Restricted Cash and Investments

The Company, in order to conduct business in certain jurisdictions, is required to maintain letters of credit or assets on deposit to support mandated regulatory requirements and certain third party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets held are primarily in the form of cash or certain high grade securities. The fair values of our restricted assets as of December 31, 2017 and 2016 are as follows:

	December 31,	
	2017	**2016**
Restricted cash	$ 357,027	$ 495,291
Restricted investments	1,750,886	1,586,712
Total restricted cash and investments	$ 2,107,913	$ 2,082,003

(e) Other

From time to time, the Company enters into repurchase agreements that are subject to a master netting arrangement, which are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities that it invests or holds in short term or fixed income securities. As of December 31, 2017, the Company has no repurchase agreements outstanding. As of December 31, 2016, the Company had thirteen repurchase agreements with an outstanding principal amount of $160,270, which approximates fair value, at interest rates between 0.75% and 0.90%. The Company had approximately $175,700 of collateral pledged in support of these agreements. Interest expense associated with these repurchase agreements for the year ended December 31, 2017 and 2016 was $1,715 and $554, respectively.

4. Fair Value of Financial Instruments

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of December 31, 2017 and 2016:

As of December 31, 2017	Total	Level 1	Level 2	Level 3
Financial Assets				
U.S. treasury securities	$ 47,095	$ 47,095	$ —	$ —
U.S. government securities	12,484	—	12,484	—
Municipal bonds	190,395	—	190,395	—
Foreign government	118,313	—	118,313	—
Corporate bonds and other bonds:				
Finance	910,699	—	910,699	—
Industrial	1,042,445	—	1,042,445	—
Utilities	196,231	—	196,231	—
Commercial mortgage backed securities	181,322	—	161,169	20,153
Residential mortgage backed securities:				
Agency backed	365,974	—	365,974	—
Non-agency backed	4,834	—	4,834	—
Collateralized loan / debt obligations	430,346	—	430,346	—
Asset-backed securities	13,844	—	13,844	—
Equity securities, available-for-sale	7,288	6,804	7	477
Short term investments	136,905	—	136,905	—
Other investments	5,000	—	—	5,000
Life settlement contracts	7,791	—	—	7,791
Total financial assets	$ 3,670,966	$ 53,899	$ 3,583,646	$ 33,421
Financial Liabilities				
Life settlement contract profit commission	$ 308	$ —	$ —	$ 308
Contingent consideration	26,072	—	—	26,072
Total financial liabilities	$ 26,380	$ —	$ —	$ 26,380

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

Transfers between Level 1 and Level 2 for all periods presented are due to changes in the availability of observable market information and re-evaluation of the observability of pricing inputs. During the year ended December 31, 2017, $11,206 was transferred from Level 2 to Level 1. There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2016.

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets and liabilities for the years ended December 31, 2017 and 2016: The transfers into and out of Level 3 were due to changes in the availability of market observable inputs. All transfers are reflected in the table at fair value as of the end of the reporting period.

	Balance as of January 1, 2017	Net income (loss)	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into Level 3	Balance as of December 31, 2017
Equity securities, available-for-sale	428	41	214	499	(278)	(427)	477
Fixed maturities, available-for-sale	34,380	(112)	(515)	3,515	(4,645)	(12,470)	20,153
Other investments	—	—	—	—	5,000	—	5,000
Life settlement contracts	225,030	33,315	—	—	(250,554)	—	7,791
Life settlement contract profit commission	(941)	633	—	—	—	—	(308)
Contingent consideration	(28,655)	(5,498)	—	(7,446)	15,527	—	(26,072)
Total	$ 230,242	$ 28,379	$ (301)	$ (3,432)	$ (234,950)	$ (12,897)	$ 7,041

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

A reconciliation of net income for life settlement contracts in the above table to gain on investment in life settlement contracts net of profit commission included in the Consolidated Statements of Income for the years ended December 31, 2017 and 2016 is as follows:

	Year Ended December 31,	
	2017	**2016**
Net income	$ 33,315	$ 94,692
Premium paid	(46,909)	(54,064)
Profit commission	633	(5,941)
Other expenses	(2,408)	(1,298)
(Loss) gain on investment in life settlement contracts	$ (15,369)	$ 33,389

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

- *Equity and Fixed Maturity Investments:* Fair value disclosures for these investments are disclosed elsewhere in Note 2. "Significant Accounting Policies". As of December 31, 2017, the Company's Level 3 equity securities consisted primarily of privately placed warrants of companies that have publicly traded common stock. The fair value of these equity securities as of December 31, 2017 was derived from the quoted price of the underlying common stock adjusted for other inputs that are not market observable.
- *Cash and Cash Equivalents, Restricted Cash and Cash Equivalents, and Short Term Investments:* The carrying value of cash and cash equivalents, restricted cash and cash equivalents, and short term investments approximate their respective fair value and are classified as Level 1 in the fair value hierarchy.
- *Premiums Receivable, Accrued Interest, Reinsurance Recoverables:* The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values due to the short term nature of the asset and are classified as Level 1 in the financial hierarchy.
- *Debt:* The fair value of the Company's debt arrangements was as follows:

	December 31, 2017	
	Carrying Value	Fair Value
Secured loan agreements	$ 124,300	$ 124,300

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

- *Contingent Consideration*: The fair value of contingent consideration is based on a discounted cash flow methodology and is classified as Level 3 in the fair value hierarchy. The discount rate used for contingent consideration was primarily 11%.
- *Life Settlement Contracts and Life Settlement Contract Profit Commission:* The fair value of life settlement contracts as well as life settlement profit commission liability is based on information available to the Company at the end of the reporting period. These financial instruments are classified as Level 3 in the fair value hierarchy. The Company considers the following factors in its fair value estimates: cost at date of purchase, recent purchases and sales of similar investments (if available and applicable), financial standing of the issuer, changes in economic conditions affecting the issuer, maintenance cost, premiums, benefits, standard actuarially developed mortality tables and life expectancy reports prepared by nationally recognized and independent third party medical underwriters. The Company estimates the fair value of policies in the portfolio based on the expected cash flow to be generated by the policies (death benefits less premium payments), discounted to reflect the cost of funding, policy specific adjustments and reserves. In order to confirm the integrity of their calculation of fair value, the Company, quarterly, retains an independent third-party actuary to verify that the actuarial modeling used by the Company to determine fair value was performed correctly and that the valuation, as determined through the Company's actuarial modeling, is consistent with other methodologies. The Company considers this information in its assessment of the reasonableness of the life expectancy and discount rate inputs used in the valuation of these investments.

The Company adjusts the standard mortality for each insured for the insured's life expectancy based on reviews of the insured's medical records and the independent life expectancy reports based thereon. The Company establishes policy specific reserves for the following uncertainties: improvements in mortality, the possibility that the high net worth individuals represented in its portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, and the future expenses related to the administration of the portfolio, which incorporates current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available. The application of the investment discount rate to the expected cash flow generated by the portfolio, net of the policy specific reserves, yields the fair value of the portfolio. The effective discount rate reflects the relationship between the fair value and the expected cash flow, gross of these reserves.

During 2017, the Company sold all but three of its life settlement contracts with an aggregate fair value of $7,791 as December 31, 2017. Refer to Note 6. "Investments in Life Settlements" for more information.

The following table summarizes data utilized in estimating the fair value of the portfolio of life insurance policies as of December 31, 2017 and 2016 and, as described in Note 6. "Investments in Life Settlements", only includes data for policies to which the Company assigned value at those dates:

	2017	2016
Average age of insured	84.2	81.5
Average life expectancy, months [1]	87	114
Average face amount per policy (Amounts in thousands)	$ 9,000	$ 6,379
Effective discount rate [2]	13.1%	12.4%

[1] Standard life expectancy as adjusted for specific circumstances.
[2] Effective discount rate ("EDR") is the Company's estimated internal rate of return on its life settlement contract portfolio and is determined from the gross expected cash flows and valuation of the portfolio. The EDR is inclusive of the reserves and the gross expected cash flows of the portfolio. The Company anticipates that the EDR's range is between 10.0% and 15.0% and reflects the uncertainty that exists surrounding the information available as of the reporting date. As the accuracy and reliability if information improves (declines), the EDR will decrease (increase). The change in the EDR from December 31, 2016 to December, 31, 2017 resulted from routine updating of life expectancies and other factors relating to operational risk.

The Company's assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The fair value measurements used in estimating the present value calculation are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonably vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value amount. If the life expectancies were increased or decreased by 4 months and the discount factors were increased or decreased by 1% while all other variables are held constant, the carrying value of the investment in life insurance policies would increase or (decrease) by the unaudited amounts summarized below for the years ended December 31, 2017 and 2016:

	Change in life expectancy	
	Plus 4 Months	Minus 4 Months
Investment in life policies:		
December 31, 2017	$ (868)	$ 773
December 31, 2016	$ (33,851)	$ 34,941

	Change in discount rate [1]	
	Plus 1%	Minus 1%
Investment in life policies:		
December 31, 2017	$ (621)	$ 680
December 31, 2016	$ (21,517)	$ 24,028

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

Non-recurring fair value measurements

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets and goodwill, which are recognized at fair value during the period in which an acquisition is completed, from updated estimates and assumptions during the measurement period, or when they are considered to be impaired. These non-recurring fair value measurements, primarily for intangible assets acquired, were based on Level 3 unobservable inputs. In the event of an impairment, the Company determines the fair value of the goodwill and intangible assets using a discounted cash flow approach or price to invested assets multiple, which contain significant unobservable inputs and therefore is considered a Level 3 fair value measurement. The unobservable inputs in the analysis generally include future cash flow projections and a discount rate. See Note 7. "Intangible Assets and Goodwill" for additional information on how the Company tests goodwill for impairment.

The Company recognized non-recurring fair value adjustments related to impairment of intangible assets of $0 and $1,100 during 2017 and 2016, respectively and non-recurring adjustments related to impairment to goodwill of $0 and $273 during the years ended December 31, 2017 and 2016, respectively. Additionally, there were certain adjustments to the initial fair value estimates of the assets and liabilities assumed at the acquisition date (as disclosed in Note 5. "Acquisitions" to these consolidated financial statements) from updated estimates and assumptions during the measurement period. The measurement period may be up to one year from the acquisition date. The Company records any measurement period adjustments to the fair value of assets acquired and liabilities assumed, with the corresponding offset to goodwill.

5. Acquisitions

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

The following significant acquisitions occurred during the years ended December 31, 2017 and 2016:

ANV Holdings B.V.

On November 7, 2016, the Company completed the acquisition of ANV Holdings B.V. and its affiliates ("ANV") from Ontario Teachers' Pension Plan for approximately $203,277 in cash. ANV is a specialty insurance company that underwrites a variety of commercial property and casualty insurance products through its three Lloyd's syndicates and managing general underwriter. In addition, the Company now supports ANV's Funds at Lloyd's, which included replacing of Ontario Teachers' Pension Plan's participation.

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

Assets		
Cash and investments	$	415,968
Premium receivable		166,536
Accrued interest and dividends		635
Reinsurance recoverable		128,595
Other assets		142,786
Deferred tax assets		14,488
Property and equipment, net		11,741
Goodwill and intangible assets		147,235
Total assets acquired	$	1,027,984
Liabilities		
Loss and loss adjustment expense reserves	$	438,724
Unearned premiums		230,604
Deferred tax liabilities		17,066
Accrued expenses and other liabilities		138,313
Total liabilities acquired	$	824,707
Acquisition price	$	203,277

The intangible assets consist primarily of syndicate capacity of $45,000, agency relationships of $32,000, and trademarks of $3,000. The syndicate capacity has an indefinite life and other intangible asset lives range from three to fifteen years. The goodwill is not deductible for income tax purposes. As a result of this acquisition, the Company recorded approximately $644,038 and $85,033, respectively, of gross written premium for the years ended December 31, 2017 and 2016.

Trust Risk Group

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

Nationale Borg

On May 31, 2016, the Company completed the acquisition of N.V. Nationale Borg-Maatscappij and its affiliates ("Nationale Borg") for €163,053 (or $181,478 as of the acquisition date). Nationale Borg is an Amsterdam-based international direct writer and reinsurer of surety and trade credit insurance in over 70 countries that has been in existence for approximately 120 years.

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

Assets		
Cash and investments	$	216,801
Premium receivable		5,676
Accrued interest and dividends		83
Reinsurance recoverable		8,587
Other assets		14,734
Property and equipment		10,319
Goodwill and intangible assets		57,319
Total assets acquired	$	313,519
Liabilities		
Loss and loss adjustment expense reserves	$	78,909
Unearned premiums		24,782
Accrued expenses and other liabilities		28,350
Total liabilities acquired	$	132,041
Acquisition price	$	181,478

The intangible assets consist primarily of customer relationships of $19,007, tradenames of $1,556, licenses of $389, software of $778, and value of business acquired ("VOBA") of $17,437. The tradenames and licenses have an indefinite life and the other intangible assets have lives ranging from three to fifteen years. The goodwill is not deductible for income tax purposes. As a result of this acquisition, the Company recorded approximately $128,540 and $64,420, respectively, of gross written premium during the years ended December 31, 2017 and 2016.

Genworth

On May 9, 2016, the Company completed the acquisition of Genworth Financial Mortgage Insurance Ltd. ("Genworth"). Genworth provides mortgage insurance in Europe, primarily in the U.K., Finland, Italy and Germany. The consideration given for Genworth consisted of cash of approximately $54,500.

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

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

The Company determined that the fair value of any intangible assets associated with the acquisition were immaterial. As a result of this acquisition, the Company recorded approximately $18,763 and $17,254, respectively, of gross written premium during the years ended December 31, 2017 and 2016. Subsequent to acquisition the entity was renamed to AMT Mortgage Insurance Limited.

Other

In addition, the Company completed other additional immaterial acquisitions, the total purchase consideration paid for which was approximately $21,392 and $47,833, respectively during the years ended December 31, 2017 and 2016. No individual acquisition or acquisitions in the aggregate were material and, therefore, the Company is not required to include any pro forma financial information in this report.

6. Investment in Life Settlements

At the beginning of the year, the Company had a 50% ownership interest in each of two entities (collectively, the "LSC Entities") formed for the purpose of acquiring life settlement contracts, with a subsidiary of National General Holdings Corp. ("NGHC") owning the remaining 50%. The LSC Entities are: Tiger Capital LLC ("Tiger") and AMT Capital Alpha, LLC ("AMT Alpha"). AMT Alpha was merged with Tiger effective January 1, 2017.

During 2017, Tiger had life settlement contracts mature for approximately $35,182.

On August 16, 2017, the Company sold 114 life settlement contracts from the Tiger portfolio for consideration of $100,000, which included a payment of $90,000 on the closing date. In addition, a payment of $5,000 is due on the next two anniversaries of the closing date. Tiger paid a dividend to its members of $90,000, with $45,127 going to NGHC and the remaining portion retained in the Company.

On December 28, 2017, Tiger contributed 85 life settlement contracts to a limited partnership managed and operated by an unrelated third party. The consideration for the transaction included $99,557 of cash (including an advance of $17,662 on future payments from the limited partnership) and the right to receive certain contingent earn-out payments. Tiger has a 13.34% non-controlling equity interest in the limited partnership. As of December 31, 2017, Tiger's carrying value of the investment in the limited partnership was $31,666.

As of December 31, 2017, Tiger directly held three life settlement contracts. The Company recorded a loss on investment on investment in life settlement contracts, net of profit commission, of $15,369 for the year ended December 31, 2017. The Company recorded a gain on investment on investment in life settlement contracts, net of profit commission, of $33,389 for the year ended December 31, 2016.

The following tables describe the Company's investment in life settlements as of December 31, 2017 and 2016:

	December 31, 2017			December 31, 2016		
Expected Maturity Term in Years	Life Settlement Contracts	Fair Value	Face Value	Life Settlement Contracts	Fair Value [1]	Face Value
0 – 1	—	—	—	—	$ —	$ —
1 – 2	—	—	—	1	6,995	10,000
2 – 3	—	—	—	6	36,835	58,000
3 – 4	—	—	—	1	2,277	10,000
4 – 5	—	—	—	3	6,456	26,000
Thereafter	3	7,791	27,000	193	172,467	1,170,783
Total	3	7,791	27,000	204	$ 225,030	$ 1,274,783

[1] As of December 31, 2016, the Company determined the fair value of 18 of policies premiums to be paid to be negative and, therefore, assigned a fair value of zero to those policies.

For contracts where the Company determined the fair value to be negative and therefore assigned a fair value of zero, the following table details the amount of premiums paid and the death benefits received for the year ended December 31, 2017 and 2016:

	Year Ended December 31,	
	2017	2016
Number of policies with a negative value from discounted cash flow model	—	18
Premiums paid for the year ended	$ —	$ 2,640
Death benefit received	$ —	$ —

The following table details premiums to be paid by Tiger for each of the five succeeding fiscal years to keep the life insurance policies in force as of December 31, 2017:

	Premiums Due on Life Settlement Contracts
2018	$ 435
2019	492
2020	612
2021	1,225
2022	1,218
Thereafter	5,904
Total premiums to be paid	$ 9,886

7. Intangible Assets and Goodwill

The composition of intangible assets is summarized as follows:

December 31, 2017	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Renewal rights	$ 14,406	$ 6,081	$ 8,325	4 years
Distribution networks	49,114	9,681	39,433	5 to 15 years
Software	3,730	2,702	1,028	3 to 20 years
Customer relationships	87,244	29,748	57,496	5 to 15 years
Trademarks	3,000	1,167	1,833	3 years
Trademarks	4,056	—	4,056	Indefinite Life
Licenses	1,789	—	1,789	Indefinite Life
Use rights	83,823	—	83,823	Indefinite Life
Other	38,589	19,317	19,272	1 to 3 years
Less: Assets classified as held for sale (see Note 22)	(32,500)	(11,250)	$ (21,250)	N/A
Total intangible assets	$ 253,251	$ 57,446	$ 195,805	7 years average

As of December 31, 2016	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Renewal rights	$ 12,716	$ 1,716	$ 11,000	4 years
Distribution networks	40,004	4,717	35,287	5 to 15 years
Software	12,322	2,330	9,992	3 to 20 years
Customer relationships	85,106	22,500	62,606	5 to 15 years
Trademarks	2,951	167	2,784	3 years
Trademarks	4,205	—	4,205	Indefinite Life
Licenses	1,768	—	1,768	Indefinite Life
Use rights	79,680	—	79,680	Indefinite Life
Other	18,698	2,780	15,918	1 to 3 years
Total intangible assets	$ 257,450	$ 34,210	$ 223,240	7 years average

Finite lived intangible assets are generally amortized under the straight-line method, except for renewal rights, which the Company amortizes using a 125% accelerated method, and certain customer relationships, which are amortized based on cash flows associated with the respective customer relationships. Amortization expense for the years ended December 31, 2017 and 2016 was $34,486 and $14,120, respectively The estimated aggregate amortization expense for each of the next five years is:

2018	$	28,886
2019		24,732
2020		16,359
2021		12,173
2022		10,705
Thereafter		34,532
Less: Assets classified as held for sale (See Note 22)		(17,750)
Total amortization of intangible assets with finite lives	$	109,637

The Company identifies reporting units for goodwill impairment testing in accordance with ASC 350-20-35 *Intangibles - Goodwill and Other*. The Company generally combines reporting units, which are a component of an operating segment, when they have similar economic characteristics, nature of services, types of customer, distribution methods and regulatory environment. For the years ended December 31, 2017 and 2016, the Company had two reporting units that it tested for goodwill impairment. Goodwill is typically tested as of October 1st. However, due to the announcement of the entry into an agreement to sell a majority interest in its U.S.-based fee business in the fourth quarter, the Company concluded that a triggering event had occurred. Therefore, an additional goodwill impairment analysis was performed as of the date of the announcement on all reporting units. Based on the impairment tests performed as of November 6, 2017, October 1, 2017 and October 1, 2016, the fair values exceeded the carrying values of the respective reporting units. As a result of the impairment test, certain goodwill attributable to the Specialty Risk and Extended Warranty - Europe reporting unit was impaired for $0 and $273 in 2017 and 2016, respectively, due to deterioration in a subsidiary's operating performance with which the goodwill was associated.

A rollforward of the changes in cumulative goodwill impairment losses for the years ended December 31, 2017 and 2016 are as follows:

Goodwill	$	253,947
Accumulated impairment losses		(182,222)
Balance as of December 31, 2015		71,725
Goodwill additions		138,254
Goodwill impairment		(273)
Foreign currency translation and other		(4,641)
Goodwill		387,560
Accumulated impairment losses		(182,495)
Balance as of December 31, 2016	$	205,065
Goodwill additions		—
Goodwill impairment		—
Foreign currency translation and other		4,077
Goodwill		391,637
Accumulated impairment losses		(182,495)
Less: Assets classified as held for sale (See Note 22)		(32,357)
Balance as of December 31, 2017	$	176,785

No goodwill was added during 2017. Goodwill added during 2016 resulted primarily from the acquisitions of Nationale Borg and ANV.

8. Other Assets

Included within other assets are the following:

	December 31, 2017	December 31, 2016
Funds held with reinsurance companies (related party $29,782; $215,618)	$ 66,015	$ 369,351
Other receivables (related party $80,127; $62,737)	376,340	226,990
Life settlement contracts	7,791	225,030
Loan receivable (related party $256,787; $126,298)	256,942	126,453
Other	88,671	61,701
Deferred tax asset	103,255	27,899
Federal tax receivable	121,413	19,836
Less: Assets classified as held for sale (see Note 22)	(2,331)	—
Total other assets	$ 1,018,096	$ 1,057,260

9. Property and Equipment, Net

Property and equipment consist of the following:

	December 31, 2017	December 31, 2016
Land	$ 1,958	$ 1,688
Building	204,513	52,943
Software	17,947	4,405
Computer equipment	9,111	6,134
Other equipment	12,190	2,543
Leasehold improvements	3,481	7,093
Property and equipment, gross	249,200	74,806
Less: Accumulated depreciation and amortization	(26,050)	(9,902)
Property and equipment, net	$ 223,150	$ 64,904

Depreciation expense was $11,057 and $3,933 for the years ended December 31, 2017 and 2016, respectively.

10. Accrued Expenses and Other Liabilities

Included within accrued expenses and other liabilities are the following:

	December 31,	
	2017	2016
Accounts payable and other accrued expenses	$ 340,475	$ 198,554
Deferred revenue	48,298	57,627
Premium taxes, assessments and surcharges payable	104,856	53,663
Contingent consideration	26,072	24,820
Commission payable	124,985	20,282
Less: Liabilities classified as held for sale (see Note 22)	(19,277)	—
Total accrued expenses and other liabilities	$ 625,409	$ 354,946

11. Loss and Loss Adjustment Expense Reserves

The following table provides a reconciliation of the beginning and ending balances for loss and loss adjustment expense reserves ("Loss and LAE"), reported in the accompanying consolidated balance sheet as of December 31, 2017 and 2016:

	December 31,	
	2017	**2016**
Loss and LAE, at beginning of year	$ 6,682,092	$ 5,011,973
Less: reinsurance recoverables at beginning of year	2,497,614	1,949,319
Net loss and LAE, at beginning of year	4,184,478	3,062,654
Incurred related to:		
Current year	1,930,977	1,730,882
Prior year	244,284	214,838
Total incurred during the year	2,175,261	1,945,720
Paid related to:		
Current year	(648,281)	(693,339)
Prior year	(1,433,675)	(933,207)
Total paid during the year	(2,081,956)	(1,626,546)
Retroactive reinsurance recoverable	(138,421)	—
Impact of affiliated company pooling transactions	(315,149)	—
Loss portfolio transfers	—	312,049
Acquired outstanding loss and loss adjustment reserves	—	458,836
Effect of foreign exchange rates	148,998	31,765
Net loss and LAE, at end of year	3,973,211	4,184,478
Plus: reinsurance recoverables at end of year	3,671,656	2,497,614
Loss and LAE, at end of year	$ 7,644,867	$ 6,682,092

In 2017 and 2016, the Company's liabilities for unpaid losses and LAE attributable to prior years increased by $244,284 and $214,838, respectively.

Consistent with prior years, the actuarial process was driven by updated and new incurred and paid loss data, continued review of actuarial diagnostics, which led to additional in-depth claims reviews or further development being recognized, and update of frequency and severity trends, which have continued to develop adversely. The adverse reserve development in 2017 was primarily driven by unfavorable development related to emerging loss experience beyond the prior indications based on new and updated data in relation to the workers compensation line of business, particularly in accident years 2013 and subsequent, driven by higher severity of claims in New York and softening market conditions in California. The US auto liability line of business also contributed to prior years' incurred loss as a result of adverse trends impacting the broader commercial auto insurance industry as well as a disproportionate adverse impact from a small number of large, mono-line auto programs providing limits in excess of the standard $1 million that the Company's affiliates write. Additionally, there was significant adverse development on US casualty surplus lines covering contracting and habitational programs written at the Company's European affiliates, Syndicate exposures to professional liability exposures, as well as terminated long-tailed general liability programs written in the US. The final material elements for the Company's adverse development emanated from the international medical malpractice line of business was related to lower than expected benefits on from claim savings strategies and the failure of legislative initiatives to yield significant savings and international property book where the development was the result of the resolution of Syndicate litigation related to large property claims.

The adverse development in 2016 was primarily as a result of unfavorable loss development due to higher actuarial estimates based on actual losses in the business assumed from the AmTrust Ceding Insurers in their Small Commercial Business and Specialty Program lines of business. In the Small Commercial Business line of business, this adverse prior period development was driven primarily by commercial auto and general liability businesses, as well as increases to the AmTrust Ceding Insurers' non-California related workers' compensation prior selected ultimate losses, which were offset by prior selected ultimate losses for the California

workers' compensation business assumed. In the AmTrust Ceding Insurers' Specialty Program line of business, the adverse prior period development was driven primarily by commercial auto and general liability programs (including public entity, habitational and non-admitted programs). The percentage of the Company's unpaid losses and LAE related to IBNR was 48.4% and 50.9% and as of December 31, 2017 and 2016, respectively.

In setting its reserves, the Company utilizes a combination of Company loss development factors and industry-wide loss development factors. In the event that the Company's losses develop more favorably (adversely) than the industry, as a whole, the Company's liabilities for unpaid losses and LAE may decrease (increase). The Company's management believes that its use of both its historical experience and industry-wide loss development factors provide a reasonable basis for estimating future losses. In either case, future events beyond the control of management, such as changes in law, judicial interpretations of law, and inflation may favorably or unfavorably impact the ultimate settlement of the Company's Loss and LAE reserves.

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

12. Short Duration Contracts

The following is information about the incurred and paid claims for the year ended December 31, 2017, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claim amounts. Additionally, incurred and paid claims information is presented for the years ended December 31, 2008 through December 31, 2016 as supplementary information.

The Company's reserves relate to short-duration contracts ("SDC") with characteristics including type of coverage, geography, and claim development. The Company considered these characteristics in determining an appropriate level of disaggregation related to its short duration contracts. The following table indicates the level of disaggregation included herein:

Lines of Business
US Casualty & US Casualty Non-Proportional
International Motor, Casualty Non-Motor
International Property
International Credit/Surety

The Company records reserves for estimated losses under insurance policies that it writes and for loss adjustment expenses related to the investigation and settlement of policy claims. The Company's 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 its reserves, the Company does not use loss discounting, which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income. The Company estimates its reserves for loss and loss adjustment expenses using case-by-case valuations and actuarial analysis. The allocated loss adjustment expenses included in this disclosure are also referred to as defense and cost containment ("DCC") expenses.

The Company utilizes various generally accepted actuarial methods including paid and incurred loss development factor approaches, expected loss ratio methods and paid and incurred Bornhuetter-Ferguson approaches to estimate its reserves for loss and loss adjustment expenses. Embedded within these actuarial methods are loss development assumptions selected by either a review of the Company's specific loss development history, industry loss development characteristics, or a combination of both depending on the line of business and the maturity of the loss experience to date.

Loss development factors are a key assumption underlying many of the actuarial methods utilized. Loss development factors are the ratio of losses at successive evaluations for a defined group of claims (e.g., accident year, accident quarter, etc.). Loss development factors may be dependent on a number of elements, including frequency and severity of claims, length of time to achieve ultimate settlement of claims, case reserving practices, projected inflation of medical costs and wages (for workers' compensation), insurance policy coverage interpretations, judicial determinations and existing laws and regulations. The predictive ability of loss development factors is dependent on consistent underwriting, claims handling, and inflation, among other factors, and predictable legislatively and judicially imposed legal requirements.

The expected loss ratio (ELR) approach is generally relied upon for only the most recent accident periods for which claim experience may be too immature or volatile to rely upon for a projection of ultimate loss and loss adjustment expenses. The ELR is generally based on the business plan, trended historical results, or recent industry trends, all supplemented by discussions with various stakeholders including underwriting and claims. The ELR, when applied to earned premiums for an accident period, will provide an indication for estimated incurred claims and allocated claim adjustment expenses for the period.

The Bornhuetter-Ferguson method (BFM) is a weighted blend of the loss development factor method and the ELR method. The BFM splits the ultimate claims into two components: actual reported (or paid) claims to date and expected unreported (or unpaid) claims. As experience matures, more weight is given to actual claims experience while the expected claims component becomes gradually less important.

The Company's actuarial department estimates ultimate loss estimates and resulting unpaid claim and allocated claim adjustment expense reserve levels using the methodologies outlined above. The Company has increased its internal actuarial resources over time, and the assumptions employed in these methodologies are subject to regular review and update as experience

matures. Management establishes the Company's loss and DCC reserves by assessing the results of the aforementioned actuarial techniques as prepared by both the internal and external actuarial resources, followed by a review of specific underwriting, claims handling and other operational considerations. In utilizing its judgment, management makes certain assumptions regarding the Company's business, including, among other things, frequency of claims, severity of claims and claim closure rates. Management's estimation process has been generally consistent over time.

In order to establish the adjusting and other ("AO") reserves, the Company reviews its past adjustment expenses in relation to past claims and estimates its future costs based on expected claims activity and duration.

Because the Company determines its reserves based on assumptions that may give significant weight to industry incurred development patterns, the Company's ultimate losses may differ substantially from estimates produced by the above methods.

The Company does not have any material changes to the actuarial methodologies utilized since year-end 2015. However, the Company does note that it increased its internal actuarial staff in 2015, which enabled us to engage in more in-depth and frequent actuarial analyses, drawing attention to the areas of business and/or accident years that were less profitable than originally anticipated.

The information presented below reflects acquired business on a retrospective basis, that is, the historical development tables have been presented including historical development from acquired businesses in the tables both before and after the acquisition date.

The loss development for international operations is presented for all accident years using the current exchange rate as of December 31, 2017. Although this approach requires restating all prior accident year information, the changes in exchange rates do not impact incurred and paid loss development trends.

Where practicable, the Company has included claim count information as a measure of claim frequency. For our International lines of business, it is not practicable to provide claim count data due to limited and inconsistent availability of underlying claim reporting from our international business (e.g., use of bordereaux reporting without claim count detail). Where practicable, the Company has included claim counts by counting the number of occurrences.

The Company has calculated the average annual percentage payout based on the historical information contained within each claims development table. First, the Company converts the Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance into incremental payment amounts (e.g., 0-12 months, 12-24 months, etc.) for each accident year, and then divides each incremental payment amount by the current evaluation of Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance, in order to determine the historical annual percentage payout for each incremental period for each accident year. The Company averages available observations of annual percentage payout for each incremental period across accident years to determine the historical average annual percentage.

Note that the historical average annual percentage payout may sum to an amount different than 100%. This may be due to the length of the development pattern; for example, very long tailed lines of business may have payout periods that are in excess of the number of years included in the tables below. Furthermore, fluctuation in the annual percentage payout for individual incremental periods due to the uncertainty inherent in the loss settlement process may even cause the sum of the average annual payout percentage to exceed 100%.

US Casualty & US Casualty Non-Proportional

The Company's core US Casualty business includes the retail business written and grown organically since 1998, as well as large acquired portfolios (both renewal rights and existing liabilities from periods pre-acquisition). Additionally, US Casualty includes the programs business written through Managing General Agents.

This segment focuses on writing smaller, niche business typically underserved by the broader insurance market. The Company typically writes policies for auto liability and general liability, which have limits of $1 million, limiting the severity impact of any particular claim to our overall portfolio, as well as Workers' Compensation coverage at statutory limits less any inuring reinsurance.

The Company targets writing small, niche workers' compensation exposures in generally low-hazard occupations. This has been the core strategy for the Company's organic business and re-underwriting goals for acquired businesses. The core worker's compensation portfolio has experienced adverse development, particularly accident years 2013 and subsequent. This is largely driven by higher severity of claims in New York and softening market conditions in California. Development in accident years prior to 2013 are influenced by legacy claims portfolios acquired by the Company.

As part of the renewal rights acquisition of the Tower Group International, Ltd.'s commercial lines business in connection with Tower's merger with ACP Re, Ltd. in 2014, there has been substantial business growth in the commercial auto line of business year over year beginning with 2014. The Company experienced adverse development in recent accident years and development periods, particularly AYs 13 and 14 when the Company began to write a significantly higher amount of Commercial Auto business. The Company's results have been impacted by adverse trends impacting the broader commercial auto industry, including increasing frequency and severity of claims above expectation.

Similar to the Company's commercial auto business, there has been substantial growth in the general liability line subsequent to the renewal rights acquisition of Tower's commercial lines business. The portfolio has been subject to careful risk selection and focus on more profitable risks. The Company experienced adverse development in recent accident years, some of which was related to development within the Company's excess and surplus and umbrella lines of business.

The Company also writes Program business through Managing General Agents as part of the US Casualty portfolio. The Company typically writes programs in coverage packages. For example, the Company may write commercial auto with workers' compensation or property coverage. When pricing a particular risk, the Company focuses on overall profitability and may be willing to accept more (or less) pricing adequacy in a certain coverage and less (or more) pricing adequacy on another line. However, the Company's initial estimates of loss for commercial auto have tended to prove too low; the resulting adverse development has been exacerbated by worsening industry trends for frequency and severity.

The Company typically writes policies that have limits of $1 million, limiting the severity impact of any particular claim to our overall portfolio. However, as the Company grew its Specialty Program - Commercial Auto business, the Company underwrote a small number of large, mono-line auto programs at limits higher than its traditional $1 million cap. These policies had a disproportionate impact on the adverse loss experience embedded in the triangle. The development during the year was slightly favorable, as the Company has now terminated or non-renewed these mono-line auto programs and focused on achieving rate increases on renewed programs.

The Program - general liability line of business within US Casualty contains a mix of exposures from retail operations, contractors, manufacturers, and other premises. The propensity for loss from these exposures is driven by judicial and economic developments that are difficult to forecast. Additionally, claims may be reported as many as three years or more after an occurrence and the Company may not receive the information required to set an accurate reserve in a timely manner.

Within US Casualty, General liability has been the line of business most subject to re-underwriting and review since bringing in additional actuarial and management resources in early 2015. Management, in concert with new underwriting/management, identified a number of non-admitted and habitational programs as the significant driver of the adverse experience. The risk profile of these non-admitted programs necessitated an extended loss development expectation versus management's original expectations. Many of these programs are now terminated and in run-off. The significant adverse development observed during 2017 is primarily driven by the continued unfavorable performance of these long-tailed, terminated programs.

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	For the Year Ended December 31,										December 31, 2017	
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of Incurred-but not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
2008	$ 182,844	$ 185,323	$ 185,367	$ 187,674	$ 191,795	$ 199,830	$ 201,006	$ 201,521	$ 206,323	$ 210,892	11,052	26,567
2009	—	203,851	203,027	214,461	221,826	234,789	236,906	239,230	241,259	244,038	14,186	34,162
2010	—	—	196,878	213,684	227,510	250,797	255,481	262,669	263,569	269,054	18,810	36,651
2011	—	—	—	217,004	244,974	285,859	293,216	299,251	302,995	307,889	22,384	43,012
2012	—	—	—	—	244,859	342,341	349,458	356,322	383,567	395,212	37,576	62,961
2013	—	—	—	—	—	432,914	427,817	438,621	504,992	542,112	63,582	86,797
2014	—	—	—	—	—	—	757,832	723,059	784,598	834,223	111,444	131,273
2015	—	—	—	—	—	—	—	751,187	811,295	856,520	196,070	145,042
2016	—	—	—	—	—	—	—	—	797,550	830,920	333,551	140,689
2017	—	—	—	—	—	—	—	—	—	636,999	384,837	114,581
Incurred claims and allocated claim adjustment expenses, net of reinsurance										$ 5,127,859		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	For the Year Ended December 31,									
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
2008	$ 39,379	$ 90,616	$ 126,175	$ 151,886	$ 167,680	$ 178,453	$ 184,817	$ 189,279	$ 192,335	$ 196,221
2009	—	42,186	102,878	142,646	172,315	192,457	204,170	211,721	217,660	222,587
2010	—	—	46,662	106,724	150,168	182,491	206,267	221,855	234,517	242,340
2011	—	—	—	50,193	123,080	174,988	210,716	236,798	255,389	268,811
2012	—	—	—	—	58,394	141,392	207,920	264,402	303,347	328,628
2013	—	—	—	—	—	65,599	165,914	259,762	352,674	416,481
2014	—	—	—	—	—	—	108,223	302,497	448,692	579,318
2015	—	—	—	—	—	—	—	116,998	310,956	469,158
2016	—	—	—	—	—	—	—	—	115,235	297,515
2017	—	—	—	—	—	—	—	—	—	92,353
Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance										$ 3,113,412
All outstanding liabilities before 2008, net of reinsurance										77,121
Liabilities for claims and claim adjustment expenses, net of reinsurance										$ 2,091,568

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
US Casualty & US Casualty Non-Proportional	15.1%	22.5%	17.0%	13.6%	9.1%	5.6%	3.8%	2.5%	1.7%	1.8%

International Motor, Casualty Non-Motor

International Casualty primarily consists of the Company's Medical Malpractice and Professional Indemnity/Other Liability exposures.

The Company entered the medical malpractice line of business, primarily in Italy, in 2010. The Company believes this market niche provides significant opportunities in what has traditionally been an under-performing market. The Company's initial recorded results have developed adversely; however, over time the Company has developed greater market knowledge, underwriting experience, and knowledge of various class and region distinctions, as well as numerous hospital and legal partnerships that allow the Company to exercise more leverage in the adjudication of claims. The adverse development observed during 2017 was primarily related to lower than expected benefits on claim savings strategies and failure of legislative initiatives to yield significant savings.

The Company's professional indemnity and other liability lines of business include a mix of both international and domestic liability exposures. This book of business does have exposure to business with longer tailed claims, such as construction and structural defect. The development observed in this line is largely due to professional lines claims settling adversely within the 1206 and 1861 syndicates. The continued development on surplus lines programs written in the United States, primarily the non-admitted contracting and habitational programs, has also contributed to the adverse development observed in this portfolio.

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	For the Year Ended December 31,										December 31, 2017	
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of Incurred-but not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
2008	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	NP
2009	—	132	228	444	539	655	687	682	704	786	34	NP
2010	—	—	71,970	95,618	116,866	130,438	134,488	137,400	141,774	144,538	7,506	NP
2011	—	—	—	158,001	208,897	227,448	238,907	252,349	262,135	264,451	15,437	NP
2012	—	—	—	—	224,712	257,961	273,969	298,231	311,195	324,469	18,401	NP
2013	—	—	—	—	—	238,711	252,439	287,715	307,835	327,343	22,264	NP
2014	—	—	—	—	—	—	281,501	310,693	347,678	359,429	41,411	NP
2015	—	—	—	—	—	—	—	277,583	312,176	323,926	79,504	NP
2016	—	—	—	—	—	—	—	—	308,976	317,125	144,776	NP
2017	—	—	—	—	—	$ —	—	—	—	336,159	227,174	NP
									Incurred claims and allocated claim adjustment expenses, net of reinsurance	$ 2,398,226		

NP = Not practicable

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										
For the Year Ended December 31,										
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
2008	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
2009	—	—	21	191	420	514	549	607	641	661
2010	—	—	9,420	43,178	71,356	87,556	100,127	110,891	118,988	122,709
2011	—	—	—	34,689	82,448	119,066	156,199	179,399	195,686	209,362
2012	—	—	—	—	32,584	74,024	123,749	165,515	197,633	229,434
2013	—	—	—	—	—	20,356	63,246	116,214	166,371	204,648
2014	—	—	—	—	—	—	33,048	89,662	147,640	194,674
2015	—	—	—	—	—	—	—	36,188	85,050	134,266
2016	—	—	—	—	—	—	—	—	37,835	82,502
2017										33,090
Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance										$ 1,211,346
All outstanding liabilities before 2008, net of reinsurance										—
Liabilities for claims and claim adjustment expenses, net of reinsurance										$ 1,186,880

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance										
Years	1	2	3	4	5	6	7	8	9	10
International Motor, Casualty Non-Motor	8.7%	14.4%	16.8%	15.9%	10.2%	7.0%	6.0%	3.5%	2.4%	—%

International Property

The Company's International Property book developed adversely in 2017, largely due to resolved Syndicate litigation on large property claims. The 2017 accident year has been affected by catastrophe losses within the Lloyds syndicate business. Going forward, the Company has placed increasing focus on disciplined non-catastrophe risk selection and catastrophe reserving.

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance												
	For the Year Ended December 31,										December 31, 2017	
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of Incurred-but not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
2008	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	NP
2009	—	3,739	36,238	40,012	42,219	43,642	39,573	40,562	41,411	42,335	(55)	NP
2010	—	—	86,817	144,052	160,605	165,133	163,539	163,252	163,467	165,912	248	NP
2011	—	—	—	177,997	210,224	225,817	221,184	220,389	223,326	228,168	622	NP
2012	—	—	—	—	191,636	177,551	172,301	166,194	169,509	178,060	7,705	NP
2013	—	—	—	—	—	175,522	172,302	164,529	166,139	169,241	1,147	NP
2014	—	—	—	—	—	—	175,045	152,890	157,003	153,666	2,008	NP
2015	—	—	—	—	—	—	—	157,435	172,539	172,813	7,417	NP
2016	—	—	—	—	—	—	—	—	211,035	208,737	13,798	NP
2017	—	—	—	—	—	—	—	—	—	270,709	63,840	NP
Incurred claims and allocated claim adjustment expenses, net of reinsurance										$ 1,589,641		

NP = Not practicable

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										
	For the Year Ended December 31,									
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
2008	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
2009	—	—	20,678	29,851	35,394	38,077	35,620	37,861	38,493	39,075
2010	—	—	29,845	82,361	113,869	131,919	140,259	153,172	154,453	157,549
2011	—	—	—	83,817	152,495	187,204	198,733	206,610	213,880	219,715
2012	—	—	—	—	70,746	130,662	152,778	157,265	162,605	166,406
2013	—	—	—	—	—	58,460	110,430	134,225	144,580	151,995
2014	—	—	—	—	—	—	69,193	116,021	135,475	142,042
2015	—	—	—	—	—	—	—	74,562	121,188	149,803
2016	—	—	—	—	—	—	—	—	82,891	152,413
2017	—	—	—	—	—	—	—	—	—	117,042
Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance										$ 1,296,040
All outstanding liabilities before 2008, net of reinsurance										—
Liabilities for claims and claim adjustment expenses, net of reinsurance										$ 293,601

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance										
Years	1	2	3	4	5	6	7	8	9	10
International Property	33.3%	33.2%	15.9%	7.0%	4.4%	1.8%	2.9%	1.7%	1.4%	—%

International Credit/Surety

The Credit/Surety line includes the Company's Warranty business and a range of underlying classes classified as credit/surety. Warranty covers include auto, mobile phones and consumer electronics. Other significant covers include surety bonds and "After the Event" (ATE) legal coverage. The adverse development seen largely in accident years 2013 and 2016 is due to deterioration reflected in our political risks book subsequent to updated actuarial/claims studies. Additionally, the Personal Legal Expenses ATE class deteriorated due to an increased frequency, particularly in respect of the Clinical Negligence business from a coverholder now in run-off. In addition a large loss on the Commercial Legal Expenses ATE class increased the expected ultimate losses on the older underwriting years.

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance												
	For the Year Ended December 31,										December 31, 2017	
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of Incurred-but not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
2008	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	NP
2009	—	—	—	—	—	—	—	—	—	—	—	NP
2010	—	—	22,070	71,083	93,714	111,811	118,764	126,656	131,930	134,772	187	NP
2011	—	—	—	65,375	72,692	88,208	93,584	101,483	105,930	107,558	428	NP
2012	—	—	—	—	84,992	107,044	112,842	121,760	127,694	129,665	1,464	NP
2013	—	—	—	—	—	169,954	158,177	168,598	180,887	186,067	7,677	NP
2014	—	—	—	—	—	—	179,346	183,272	204,358	208,184	19,102	NP
2015	—	—	—	—	—	—	—	198,226	228,741	236,617	32,325	NP
2016	—	—	—	—	—	—	—	—	278,934	280,274	74,205	NP
2017	—	—	—	—	—	—	—	—	—	334,576	184,065	NP
										$ 1,617,713		

NP = Not practicable

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Year Ended December 31,

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
2008	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
2009	—	—	—	—	—	—	—	—	—	—
2010	—	—	1,544	56,732	86,408	105,885	114,461	123,578	129,757	133,776
2011	—	—	—	24,170	54,198	75,730	85,376	95,431	101,254	105,073
2012	—	—	—	—	37,063	81,111	99,624	112,039	120,582	126,081
2013	—	—	—	—	—	69,773	117,340	144,786	162,038	173,065
2014	—	—	—	—	—	—	77,144	144,640	173,228	186,219
2015	—	—	—	—	—	—	—	96,928	162,296	194,444
2016	—	—	—	—	—	—	—	—	120,338	201,395
2017	—	—	—	—	—	—	—	—	—	143,959
Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance										$ 1,264,012
All outstanding liabilities before 2008, net of reinsurance										—
Liabilities for claims and claim adjustment expenses, net of reinsurance										$ 353,701

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
International Credit/Surety	31.7%	31.1%	16.4%	9.7%	7.1%	5.5%	4.1%	3.0%	—%	—%

The following table presents the reconciliation of net incurred and paid claims development tables to the liability for claims and claim adjustment expenses for the year ended December 31, 2017.

		December 31, 2017
Net Liability for unpaid losses and loss adjustment expenses:		
US Casualty & US Casualty Non-Proportional	$	2,091,568
International Motor, Casualty Non-Motor		1,186,880
International Property		293,601
International Credit/Surety		353,701
Other Short Duration Lines		561,061
Total		4,486,811
US Casualty reserves ceded as retroactive reinsurance and included above		(576,276)
International reserves ceded as retroactive reinsurance and included above		(138,421)
Reinsurance Recoverable on loss and loss adjustment expenses:		
Reinsurance Recoverable		3,533,235
International reserves ceded as retroactive reinsurance and included above		138,421
Total reinsurance recoverable on loss and loss adjustment expense		3,671,656
Insurance not presented in the tables above:		
Reserves related to NCCI pooling arrangement		69,102
Unallocated claims adjustment expense		131,995
Total		201,097
Total gross liability for unpaid loss and adjustment expense	$	7,644,867

13. Debt

The Company's outstanding debt consisted of the following as of December 31, 2017 and 2016:

	December 31,			
	2017		2016	
Secured loan agreements	$	124,300	$	25,936

Aggregate scheduled maturities of the Company's outstanding debt as of December 31, 2017 are:

2018	$	492
2019		506
2020		520
2021		10,306
2022		9,581
Thereafter		102,895
Total scheduled payments	$	124,300

Secured Loan Agreements

On April 6, 2016, the Company through a wholly-owned subsidiary, entered into a five-year secured term loan agreement with Lloyd's Bank PLC in the aggregate amount of £7,800 (or $10,542 at December 31, 2017) to finance the purchase of a commercial office building in Nottingham, U.K. The loan bears a variable rate of interest based on LIBOR plus a margin and was 2.68% as of December 31, 2017. The Company had deferred financing costs of £78 (or $105 at December 31, 2017) related to the term loan. The

mortgage requires quarterly principal payments of £30 and interest for the term of the loan with the remaining principal to be paid at maturity. The Company recorded interest expense, including amortization of the deferred origination costs and fees associated with the loan agreement, of approximately $289 and $236 for the years ended December 31, 2017 and 2016 , respectively. Pursuant to a covenant in the agreement, if the loan exceeds 70% of the fair value of the property, the Company is required to pay the lender the entire amount necessary to reduce the outstanding principal balance to be equal to or less than 70% of the fair value of the building.

The Company, through a wholly-owned subsidiary, entered into a ten-year mortgage agreement in the aggregate principal amount of $6,000 to finance the purchase of a building on July 7, 2016. The mortgage bears interest at an annual rate equal to 4.41% and matures on August 1, 2026. The mortgage did not require monthly installments of principal until September 2017, but now requires monthly installment payments of $33. The final monthly payment will equal the then outstanding principal balance of the mortgage, together with all accrued and unpaid interest. The Company recorded interest expense of approximately $264 and $115 for the years ended December 31, 2017 and 2016, respectively, related to this agreement.

On September 18, 2015, the Company, through a subsidiary, entered into a seven-year mortgage agreement in the aggregate principal amount of $10,250 to finance the purchase of a building. The mortgage bears interest at an annual rate equal to 3.75% and matures on September 18, 2022, with an option to extend the maturity date for an additional five years. The mortgage did not require monthly installments of principal until November 2017, but now requires monthly installment payments of $47. The final monthly payment will equal the then outstanding principal balance of the mortgage, together with all accrued and unpaid interest. The Company recorded interest expense of approximately $390 and $391 for the years ended December 31, 2017 and 2016, respectively, related to this agreement.

On January 12, 2017, the Company, through three wholly-owned subsidiaries, entered into a ten-year secured loan agreement with Teachers Insurance and Annuity Association of America in the aggregate amount of £73,500 (or $99,321 at December 31, 2017) to finance the purchase of a commercial office building in London, England. The loan bears interest at an annual rate of 3.45% and matures on January 15, 2027. The loan requires quarterly interest payments for the term of the loan, with the principal and any accrued interest to be paid at maturity. The Company recorded interest expense of approximately $3,158 for the year ended December 31, 2017 related to this agreement.

Additionally, the Company utilizes various letters of credit in its operations. The following is a summary of the Company's letters of credit as of December 31, 2017:

	Letters of Credit Limit	Letters of Credit Outstanding	Letters of Credit Available
Revolving credit facility [1]	$ 175,000	$ 173,072	$ 1,928
Funds at Lloyd's facility	614,842	573,554	41,288
ING Bank N.V., BHF Bank Aktiengesellschaft, and Deutsche Bank AG facilities	104,084	72,228	31,856
Other letters of credit, in aggregate	138,010	138,010	—

[1] Letters of credit outstanding includes $613 in letters of credit issued to AFSI.

Revolving Credit Agreement

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

The Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. There are also financial covenants that require AFSI to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum consolidated fixed charge coverage ratio and a minimum consolidated risk-based capital. AFSI was in compliance with all of its covenants as of December 31, 2017.

As of December 31, 2017, the Company had no borrowings and $172,459 letters of credit outstanding under this Credit Agreement. Together with AFSI' borrowings of $130,000 and $613 letters of credit outstanding, the total availability for letters of credit was reduced to $1,928, and the total aggregate availability under the facility to $46,928.

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

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

Funds at Lloyd's Facility

On November 8, 2017, the Company, AFSI as Guarantor, and certain of its wholly-owned subsidiaries entered into an Amending and Restating Agreement ("Funds at Lloyd's Facility") relating to its existing £515,000 (or $695,920 at December 31, 2017) credit facility agreement ("Preceding Credit Facility") dated November 3, 2016 with ING Bank N.V., London Branch, the Bank of Nova Scotia, London Branch and Bank of Montreal, London Branch. The amended and restated Funds at Lloyd's Facility decreased the maximum amount of the letter of credit facility to £455,000 (or $614,842 at December 31, 2017) to be used to support the Company's capacity at Lloyd's as a member and/or reinsurer of Syndicates 2526, 1206, 44, 1861 and 5820 for the 2018 underwriting year of account, as well as prior open years of account. The reduction in the size of the facility resulted from a restructuring of the facility to exclude solvency deficits as the Company will fund such deficits by alternative means, which, over time, the Company anticipates will reduce costs and enhance investment income. ING Bank's commitment is £175,000 (or $236,478 at December 31, 2017), the Bank of Nova Scotia's commitment is £160,000 (or $216,208 at December 31, 2017) and the Bank of Montreal's commitment is £120,000 (or $162,156 at December 31, 2017) under the Funds at Lloyd's Facility.

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

The facility is 35% secured by a pledge of a collateral account established in the U.S. pursuant to a pledge and security agreement and in the United Kingdom pursuant to Account Security Deeds dated as of November 26, 2013, November 24, 2015, April 14, 2016 and November 3, 2016. In addition to an event of default as discussed above, the collateral account will be required to be 100% funded upon the occurrence of certain specified events, including the A.M. Best financial strength rating of the Company falling below A-, the forecast underwriting losses exceeding a certain level for any year supported by a letter of credit, any net unfunded solvency deficit on any open years of account that is not funded by June 30 or December 31 of the corresponding calendar year, or any non-extension notice is given with respect to any letter of credit.

Fees payable by the Company under the Funds at Lloyd's Facility include a letter of credit issuance fee, payable quarterly in arrears, on the secured portion of the letters of credit at the rate of 0.50% and on the unsecured potion of the letters of credit determined based on the Company's then-current financial strength rating issued by A.M. Best. As of December 31, 2017, the applicable letter of credit fee rate on the unsecured portion was 1.15% based on the Company's A.M. Best financial strength rating of "A". The Company also pays a commitment fee of 0.35% per year on the aggregate unutilized and un-canceled amount of the facility.

Other Letters of Credit Facilities and Standby Letters of Credit

The Company, through its subsidiaries Nationale Borg Reinsurance N.V. and AmTrust International Underwriters DAC, has credit facilities with Deutsche Bank AG, BHF Bank AG and ING Bank N.V. pursuant to which trade related guarantees and comparable standby letters of credit are issued primarily to secure obligations owed by such subsidiaries to third parties in the normal course of business. The credit limit under these facilities is approximately €86,716 (or $104,084). The credit facilities were utilized for €60,181 (or $72,228) as of December 31, 2017. The Company recorded total letter of credit interest expense of $632 and $486, respectively, for the years ended December 31, 2017 and 2016. In addition, the Company assumed other bank guarantees totaling approximately €425 (or $510 at December 31, 2017).

In addition, the Company, through certain subsidiaries, has additional existing stand-by letters of credit with various lenders in the amount of $138,010 as of December 31, 2017.

Interest Expense

Interest expense as well as applicable bank fees, related to the Company's outstanding debt and letters of credit for the years ended December 31, 2017 and 2016 was:

	Year Ended December 31,	
	2017	**2016**
Secured loan agreements	$ 4,105	$ 742
Revolving credit facility	2,176	402
Funds at Lloyd's facility	5,231	4,484
Other, including interest income	15,966	4,541
Total interest expense	$ 27,478	$ 10,169

14. Reinsurance

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

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

In its proportional reinsurance programs, the Company generally receives a commission on the premium ceded to reinsurers. This “ceding commission” compensates the Company's insurance companies for the direct costs associated with production of the business, the servicing of the business during the term of the policies ceded, and the costs associated with placement of reinsurance that benefits the proportional programs. In addition, certain of the Company's reinsurance treaties allow it to share in any net profits generated under such treaties with the reinsurers. Various reinsurance brokers may arrange for the placement of this reinsurance coverage on the Company's behalf and are compensated, directly or indirectly, by the reinsurers. The Company also places reinsurance with direct reinsurance markets and enters reinsurance relationships with third-party captives formed by agents and other business partners as a mechanism for sharing risk and profit.

In order to reduce its exposure to reinsurance credit risk, the Company evaluates the financial condition of its reinsurers and places its reinsurance with a diverse group of companies and syndicates that it believes to be financially sound. The Company carefully monitors the credit quality of its reinsurers when the Company places new and renewal reinsurance, as well as on an ongoing, current basis. The Company uses objective criteria to select and retain its reinsurers, including requiring them to be fully collateralized, maintain minimum surplus of $500,000 or have a financial strength rating of “A-” or better from A.M. Best Company, Inc. or Standard & Poor's Corporation. The Company approves exceptions to these criteria when warranted.

The Company monitors its financial exposure to the reinsurance market and takes necessary actions in an attempt to mitigate its exposure to possible loss. The Company limits its liquidity exposure for uncollected recoverables by holding funds, letters of credit or other security, with the result that net balances due from reinsurers are significantly less than the gross balances shown in its consolidated balance sheets. The Company monitors the collectability of its reinsurance recoverables and records a reserve for uncollectible reinsurance when it determines an amount is potentially uncollectible. The Company's evaluation is based on its periodic reviews of its disputed and aged recoverables, as well as its assessment of recoverables due from reinsurers known to be in financial difficulty. In some cases, the Company makes estimates as to what portion of a recoverable may be uncollectible. The Company's estimates and judgment about the collectability of the recoverables and the financial condition of reinsurers can change, and these changes can affect the level of reserve required.

Reinsurance Programs and Retentions

The following tables provide a summary of the Company's primary reinsurance programs as of December 31, 2017 for the European and American subsidiaries:

	2017 European Reinsurance Programs		
Type of Reinsurance	**Retention**	**Event Protection**	**Coverage**
Property, Per Risk Excess of Loss (AEL)	$ 640	$ 6,400	100% of $5,760
Property, Catastrophe Excess of Loss (AEL and ATL)	$ 6,000	$ 78,000	100% of $72,500
Property, Per Risk Excess of Loss (ATL)	$ 2,500	$ 10,000	100% of $7,500
Surety, Excess of Loss and Quota Share (AEL)	$ 5,650	$ 39,550	100% of $33,900
Casualty, Excess of Loss (AEL)	$ 3,000	$ 15,000	100% of $12,000
Accident and Health, Excess of Loss (AEL)	$ 800	$ 25,600	100% of $24,960
Car Care, Excess of Loss (AEL)	$ 1,000	$ 65,000	100% of $64,000
Medical Malpractice, Quota Share (AEL)	$ 10,400	$ 13,000	20% of $13,000
Medical Malpractice, Quota Share (AIUL)	$ 7,800	$ 13,000	40% of $13,000
Personal Accident, Excess of Loss (ATL)	$ 2,000	$ 60,000	100% of $58,000
Pecuniary Risks (AEL and ATL)	$ 3,000	$ 49,000	100% of $46,000

	2017 United States Reinsurance Programs		
Type of Reinsurance	**Retention**	**Event Protection**	**Coverage**
Workers' Compensation, Excess of Loss	$ 10,000	$ 710,000	100% of $700,000
Property, Per Risk Excess of Loss	$ 3,000	$ 36,000	100% of $33,000
Property, Catastrophe Excess of Loss	$ 20,000	$ 830,000	100% of $810,000
Surety, Excess of Loss	$ 500	$ 30,000	89% of $29,500
Casualty/Professional, Excess of Loss	$ 3,000	$ 50,000	100% of $47,000
Umbrella, Quota Share	$ 1,500	$ 10,000	100% of $8,500
Equipment Breakdown, Quota Share	$ —	$ 100,000	100% of $100,000

If the Company incurs catastrophe losses and loss settlement expenses that exceed the coverage limits of its reinsurance program, many of its property catastrophe programs have a fixed number of reinstatements. For example, if the Company incurs a property catastrophe loss, it is required to pay the reinsurers a reinstatement premium equal to the percentage of the limit exhausted by the loss, multiplied by the amount of the original reinsurance premium.

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

Effective June 30, 2017, the Company, along with two wholly-owned subsidiaries of AFSI, entered into an adverse loss development cover agreement with Premia Reinsurance Ltd. ("Premia"). Under the agreement, Premia will pay AFSI for ultimate net losses paid in excess of a retention of $5,962,230, subject to an aggregate limit of $1,025,000, which provides $400,000 of coverage in excess of the AFSI' carried loss reserves as of March 31, 2017 in the amount of approximately $6,587,230.

The consideration for this agreement is a premium amount of $675,000, of which $50,000 represents a payment for the coverage above the carried loss reserves of approximately $6,587,230, and an annual claims monitoring fee paid to Premia. AFSI deposited a total of $679,785 representing the premium amount of $675,000 and interest of $4,785 into a collateral trust account established to secure Premia's claims payment obligation to AFSI. Premia deposited an incremental $100,000 of excess collateral at inception, and is obligated to deposit incremental collateral in accordance with a pre-agreed schedule.

The Company accounts for the agreement as retroactive reinsurance. For the year ended December 31, 2017, AFSI recorded $400,000 of net adverse loss development covered under this agreement, which increased the retroactive reinsurance recoverable to the aggregate limit of $1,025,000 as of December 31, 2017. The Company's share of net adverse loss development and the reinsurance recoverable totaled $75,921 and $138,421, respectively. The Company recorded the retroactive reinsurance recoverable in excess of the consideration as a deferred gain that is amortized to earnings using the interest method over the estimated claims settlement period. As of December 31, 2017, the deferred gain of $68,634, net of accretion and amortization, is reported as "Deferred gain on retroactive reinsurance" on the Consolidated Balance Sheets.

The effect of reinsurance with related and unrelated companies on premiums and losses for 2017 and 2016 are as follows:

	Year Ended December 31,			
	2017		2016	
	Written	Earned	Written	Earned
Premiums:				
Direct	$ 2,222,087	$ 1,798,332	$ 1,891,295	$ 1,835,574
Assumed	2,792,460	2,868,104	2,987,529	2,927,866
Ceded	(2,331,031)	(2,027,139)	(2,153,774)	(2,105,442)
Total	$ 2,683,516	$ 2,639,297	$ 2,725,050	$ 2,657,998

	As of December 31,			
	2017		2016	
	Assumed	Ceded	Assumed	Ceded
Loss and LAE reserves	$ 4,262,293	$ (3,671,656)	$ 3,822,155	$ (2,497,614)
Unearned premiums	1,366,718	(1,360,585)	1,476,391	(1,245,098)
Loss and LAE expense incurred	2,332,185	(1,682,853)	2,267,067	(1,372,135)

The Company continuously updates the reserves on these lines of business based on information available from the ceding insurers. The Company had $0 and $4,746 of commutations that were included in ceded reinsurance treaties, as of 2017 and 2016, respectively.

15. Related Party Transactions

Significant Transactions with AmTrust Financial Services, Inc.

Reinsurance Agreements and Assets in Trust

During 2016 and until September 30, 2017, the Company reinsured the underwriting activities of certain companies related through common ownership ("the AmTrust Ceding Insurers"), net of unaffiliated inuring reinsurance. The AmTrust Ceding Insurers provide specialty property and casualty insurance focusing on workers' compensation and commercial package coverage for small business, specialty risk and extended warranty coverage, and property and casualty coverage for middle market business in the United States.

Effective October 1, 2017, Technology Insurance Company ("TIC"), a wholly-owned subsidiary of AFSI, entered into an intercompany reinsurance pooling agreement ("Pooling Agreement") with sixteen of their U.S. property casualty insurance affiliates (Pool affiliates). Under the Pooling Agreement, the Pool affiliates agreed to cede and transfer to TIC and TIC agreed to assume (1) 100% of the Pool Affiliates' respective liabilities on all insurance policies and all assumed reinsurance contracts that were in force as of October 1, 2017, or that had expired or had been terminated or non-renewed as of October 1, 2017; and (2) 100% of the Pool Affiliates' respective liabilities on all insurance policies and all assumed reinsurance contracts issued subsequent to October 1, 2017.

Concurrent with the Pooling Agreement and effective September 30, 2017, the quota share agreements between each Pool affiliate and the Company were commuted, with insurance business obligations outstanding under the quota share agreements commuted at book value. The net receivable arising from commutation is $717,404 and is included in Premiums receivable. Following the commutations and effective October 1, 2017, the Company and TIC entered into a new quota share reinsurance agreement, whereby TIC retrocedes and AII assumes 65% of its customary insurance business obligations, which consist primarily of unearned premiums as of the effective date, gross written premiums, reserves for loss and LAE and unallocated LAE, written as of October 1, 2017, and 50% of the customary insurance business obligations written on or after October 1, 2017. The quota share agreement has a continuous term with a one year termination notice period and covers all policies issued by TIC. The Company pays a ceding commission equal to its proportionate share of TIC's acquisition cost. This reinsurance agreement is collateralized by assets in trust accounts, funds withheld, or letters of credit. The assets in trust are included as restricted cash and investments in Note 3. "Investments."

Due from Affiliate

The Due from affiliate balance represents balances receivable and payable with companies under common control of AFSI and consisted of the following at December 31, 2017 and 2016:

As of December 31, 2017	**Principal**	**Accrued Interest**	**Total**
Secured promissory notes receivable	$ 425,280	$ 17,625	$ 442,905
Due from parent, net	65,212	2,226	67,438
Other balances payable	96,540	—	96,540
Net balances due from affiliate	$ 587,032	$ 19,851	$ 606,883

As of December 31, 2016	**Principal**	**Accrued Interest**	**Total**
Secured promissory notes receivable	$ 435,000	$ 516	$ 435,516
Due from parent, net	2,724	(391)	2,333
Other balances receivable	5,725	—	5,725
Net balances due from affiliate	$ 443,449	$ 125	$ 443,574

Secured Promissory Notes Receivable

During 2016, a group of 6 affiliated companies collectively issued a promissory note to the Company in the amount $50,000. These companies used proceeds from the note to purchase real estate investment properties. The note is collateralized by the properties acquired and guaranteed by certain other affiliated entities including AFSI. The note receivable accrues interest of 6.80% per annum and interest is due to the Company quarterly in arrears. During 2017, the Company received repayment of $6,169 on the note. The promissory note matures on December 20, 2021, with all unpaid principal and interest due on the maturity date. The Company recorded interest income of $3,447 and $104 for the years ended December 31, 2017 and 2016, respectively.

Also during 2016, an affiliated company issued a series of 7 promissory notes to the Company with an aggregate principal amount of $385,000. These notes are guaranteed by AFSI. The notes receivable accrue interest of 3.50% per annum and interest is due to the Company semi-annually in arrears. The promissory notes mature on December 20, 2023, with all unpaid principal and interest due on the maturity date. The Company recorded interest income of $13,662 and $412 for the years ended December 31, 2017 and 2016, respectively. Subsequent to year end, the Company received complete repayment of the notes.

Due from Parent, net

The balance due from AFSI at December 31, 2016 was $117,724 and was unsecured, interest free and due on demand. On March 24, 2017, the Company entered into a loan agreement with AFSI under which the balance due from AFSI at December 31, 2016 was converted to a loan receivable upon signing of the loan agreement. Under this loan agreement, AFSI may borrow up to an aggregate principal amount of $300,000 from the Company. The loan to AFSI is unsecured and bears interest at an annual rate equal to 2.05%. The loan matures on the earlier of March 24, 2022 or the date that the Company requests repayment. All unpaid principal and interest are due on the maturity date. At December 31, 2017, the loan balance outstanding totaled $44,763. During 2017, the Company recorded interest income of $3,890 in relation to the loan.

The Company, through a wholly-owned subsidiary, entered into a loan agreement with the Company's parent in the aggregate principal amount of $115,000 to finance the purchase of a subsidiary during 2016. The loan is unsecured, bears interest at an annual rate equal to 2.26%, and matures on November 7, 2026 or the date the lender requests payment with 90 days prior written notice. The loan does not require monthly payments and any unpaid interest is capitalized annually on December 31, starting on December 31, 2017. All principal outstanding shall be repaid on the maturity date. During 2017, the Company made principal repayments of $100,000 and recorded interest expense of $1,248 and $391 for the years ended December 31, 2017 and 2016, respectively.

Other balances due from affiliate are in relation to operating transactions yet to be settled and are unsecured, interest free, and due on demand.

Significant Transactions with Maiden Holdings, Ltd.

The Company has various reinsurance and service agreements with Maiden Holdings, Ltd. ("Maiden"). Maiden is a publicly-held Bermuda insurance holding company (Nasdaq: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, principal stockholders, and, respectively, the former chairman of the board of directors of AFSI, a director of AFSI, and the current Chairman, Chief Executive Officer and President of AFSI, the Company's parent. As of December 31, 2017, two of AFSI' principal stockholders, Leah Karfunkel (one of AFSI' directors and co-trustee of the Michael Karfunkel Family 2005 Trust (the "Trust")), and Barry Zyskind, owned or controlled approximately 8.2%, and 7.7%, respectively, of the issued and outstanding capital stock of Maiden. Mr. Zyskind serves as the non-executive chairman of Maiden’s board of directors. Maiden Reinsurance Ltd. ("Maiden Reinsurance"), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer. The following section describes the agreements in place between the Company and Maiden.

Reinsurance Agreements with Maiden Holdings, Ltd.

In 2007, AFS and Maiden entered into a master agreement, as amended, by which the parties caused the Company and Maiden Reinsurance to enter into a quota share reinsurance agreement (the “Maiden Quota Share”), as amended, by which the Company retrocedes to Maiden Reinsurance certain lines of business assumed by the Company from TIC as well as its insurance company subsidiaries (excluding Motors Insurance Company Limited, AMT Mortgage Insurance Limited, and the Lloyd’s syndicates), net of the cost of unaffiliated inuring reinsurance (and in the case of the Company’s U.K. insurance subsidiary, AmTrust Europe Ltd. ("AEL"), net of commissions), an amount equal to 40% of the premium written by such subsidiaries and AmTrust Ceding Insurers. The Company also retrocedes 40% of the losses. Effective July 1, 2018, with respect to AEL only, the Company will assume from

AEL and retrocede to Maiden Reinsurance an amount equal to 20% of AEL's premium and 20% of related losses. Certain business that the Company commenced writing after the effective date of the Maiden Quota Share, including, among other lines, the Company's European medical liability business discussed below and business assumed from Tower Group International, Ltd. ("Tower") pursuant to the cut-through quota share reinsurance agreement, is not ceded to Maiden Reinsurance under the Maiden Quota Share (ceded business defined as "Covered Business").

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

The Maiden Quota Share was renewed through June 30, 2019 and will automatically renew for successive three-year terms unless either the Company or Maiden Reinsurance notifies the other of its election not to renew no less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on thirty days' notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of the Company or Maiden Reinsurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Reinsurance or the combined shareholders' equity of the Company and the AmTrust Ceding Insurers.

The Company, through its subsidiaries AEL and AIU, has a reinsurance agreement with Maiden Reinsurance by which the Company cedes to Maiden Reinsurance 40% of its European medical liability business, including business in force at April 1, 2011. From April 1, 2011 through June 30, 2016, that percentage ceded by both AEL and AIU was 40%. Effective July 1, 2016, the percentage ceded by AEL decreased to 32.5%, and, effective July 1, 2017, decreased to 20%. The quota share had an initial term of one year and was renewed through March 31, 2019. The agreement can be terminated by either party on four months' prior written notice. Maiden Reinsurance pays the Company a 5% ceding commission, and the Company will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%. The Company did not receive any profit commissions for this business for the years ended December 31, 2017 and 2016.

The following is the effect on the Company's results of operations for the year ended December 31, 2017 and 2016 related to the Maiden Quota Share agreement:

	Year Ended December 31,	
	2017	**2016**
Results of operations:		
Premium written – ceded	$ (2,044,770)	$ (2,012,452)
Change in unearned premium – ceded	38,433	66,938
Earned premium – ceded	$ (2,006,337)	$ (1,945,514)
Ceding commission on premium written	$ 649,280	$ 654,140
Ceding commission – deferred	(39,959)	(54,631)
Ceding commission – earned	$ 609,321	$ 599,509
Incurred loss and loss adjustment expense – ceded	$ 1,561,261	$ 1,312,347

Collateral for Proportionate Share of Reinsurance Obligations

In conjunction with the Maiden Quota Share, as described above, the Company and Maiden Reinsurance entered into a Reinsurer Trust Assets Collateral agreement effective December 1, 2008, whereby Maiden Reinsurance is required to provide AII the assets required to secure Maiden's proportional share of AII's obligations to the AmTrust Ceding Insurers. In addition, pursuant to the quota share reinsurance agreement among AEL, AIU and Maiden Reinsurance for the Company's European medical liability business, Maiden Reinsurance is required to provide AEL and AIU the assets required to secure AEL's and AIU's obligations. The aggregate amount of this collateral as of December 31, 2017 was approximately $3,552,623. Maiden retains ownership of the collateral in the trust account.

Reinsurance Brokerage Agreement

The Company, through a subsidiary, has a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, the Company provides brokerage services relating to the Maiden Quota Share for a fee equal to 1.25% of reinsured premium. The Company recorded $24,177 and $26,091 of brokerage commission during the years ended December 31, 2017 and 2016, respectively. The brokerage commission was recorded as a component of service and fee income.

Asset Management Agreement

A subsidiary of the Company manages the assets of certain of Maiden' subsidiaries for an annual rate of 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1,000,000 or less, and an annual rate of 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is more than $1,000,000. The Company managed approximately $4,974,676 of assets as of December 31, 2017, related to this agreement. As a result of this agreement, the Company recorded approximately $7,474 and $6,925 of asset management fees for the years ended December 31, 2017 and 2016, respectively. The asset management fees were recorded as a component of service and fee income.

Significant Transactions with National General Holding Corp.

NGHC is a publicly-held specialty personal lines insurance holding company (Nasdaq: NGHC) that operates twenty-two insurance companies in the United States and provides a variety of insurance products, including personal and commercial automobile, homeowners and umbrella, and supplemental health. NGHC's two largest stockholders are the Trust and a grantor retained annuity trust controlled by Leah Karfunkel. Leah Karfunkel, who is co-trustee of the Trust along with Barry Zyskind, is a member of the AFSI' board of directors and the mother-in-law of Barry Zyskind, AFSI' Chairman, President and Chief Executive Officer. The ultimate beneficiaries of the Trust include Leah Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Barry Karfunkel, the son of Leah Karfunkel and brother-in-law of Barry Zyskind, is the chief executive officer of NGHC and Barry Zyskind is NGHC's non-executive chairman of the board. As discussed in Note 3. "Investments", the Company disposed of it's investment in NGHC during 2017

Asset Management Agreement

A subsidiary of the Company manages the assets of certain of NGHC's subsidiaries, including the assets of reciprocal insurers managed by subsidiaries of NGHC, for an annual rate to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1,000,000 or less, and an annual rate of 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is more than $1,000,000. In addition, NGHC's subsidiaries reimburse the Company for certain expenses directly related to managing the portfolio. The Company managed approximately $3,276,192 of assets as of December 31, 2017 related to this agreement. As a result of this agreement, the Company recorded approximately $10,673 and $3,613 of asset management fees for the years ended December 31, 2017 and 2016, respectively. The asset management fees were recorded as a component of service and fee income.

NPS Financing Receivable

On September 13, 2017, AmTrust North America, Inc. ("ANA"), a company related through common ownership, entered into an Asset Purchase and License Agreement (the "Agreement") with National General Holding Corp. ("NGHC"), pursuant to which ANA sold to NGHC the personal lines policy management system that ANA had developed for NGHC (the "System"), the related intellectual property, as well as a non-exclusive perpetual license to certain software programs NGHC may use in connection with the System. NGHC will pay ANA consideration of $200,000, which is payable in three equal installments, with the first payment made upon the execution of the Agreement, the second payment payable upon the six-month anniversary of the Agreement (which was paid in the first quarter of 2018), and the third payment payable upon the completion of the full separation and transfer of the System to NGHC's operating environment in accordance with the terms of the Agreement or eighteen months, whichever is later. The consideration from this transaction was contributed to the Company as paid-in capital. The Company recorded a financing receivable of $130,614 from NGHC for the remaining payments.

Significant Transactions with ACP Re, Ltd.

ACP Re, Ltd. ("ACP Re") is a privately-held Bermuda reinsurance holding company owned by the Trust.

AFSI, as Administrative Agent, AII and NG Re Ltd. (both "Lenders") entered into a credit agreement with ACP Re in September 2014 pursuant to which the Lenders made a $250,000 loan to ACP Re. On September 20, 2016, AFSI, the Lenders, ACP Re Holdings, LLC, a Delaware LLC owned 99.9% by the Trust (the "Borrower"), and the Trust entered into an Amended and Restated Credit Agreement, replacing the September 2014 agreement with ACP Re.

The Amended and Restated Credit Agreement has a maturity date of September 20, 2036, but commencing on September 20, 2026, and for each year thereafter, 2% of the then outstanding principal balance of the loan (inclusive of any amounts previously paid in kind) is due and payable. Interest on the outstanding principal balance of $250,000 is a fixed annual rate of 3.70% (payable in cash, semi-annually, in arrears, on the last day of January and July), provided that up to 1.20% thereof may be paid in kind. The Borrower has the right to prepay the amounts borrowed, in whole or in part. At the Lenders' discretion, the Borrower may repay the loan using cash or tradeable stock of an equivalent market value of any publicly traded company on the NYSE, Nasdaq or London stock exchange.

The Amended and Restated Credit Agreement contains a covenant requiring the Trust to cause the Borrower to maintain assets having a value greater than 115% of the value of the then outstanding loan balance, and if there is a shortfall, the Trust will make a contribution to the Borrower of assets having a market value of at least the shortfall (the "Maintenance Covenant"). The amounts borrowed are secured by equity interests, cash and cash equivalents, other investments held by the Borrower, and proceeds of the foregoing in an amount equal to the requirements of the Maintenance Covenant.

The Amended and Restated Credit Agreement provides for customary events of default, with grace periods where appropriate, including failure to pay principal when due, failure to pay interest or fees within three business days after becoming due, breach of the Maintenance Covenant, breaches of representations and warranties, default under certain other indebtedness, certain insolvency, receivership or insurance regulatory events affecting the Borrower, the occurrence of certain material judgments, certain amounts of reportable ERISA or foreign pension plan noncompliance events, a change of control of greater than 50% of the Trust, or any security interest created ceases to be in full force and effect. Upon the occurrence and during the continuation of an event of default, AFSI, as Administrative Agent, upon the request of any Lender, could declare the Borrower's obligations immediately due and payable and/or exercise any and all remedies and other rights under the Amended and Restated Credit Agreement.

As of December 31, 2017 and 2016, the Company recorded $128,508 and $126,298, respectively, of loan and related interest receivable as a component of other assets on its consolidated balance sheet. The Company recorded interest income of $4,654 and $7,593 for the years ended December 31, 2017 and 2016, respectively.

Merger Agreement

See Note 23. "Subsequent Events" for information on a related party transactions entered into by the Company and a Karfunkel-Zyskind Family affiliated entity on March 1, 2018.

16. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses for the years ended December 31, 2017 and 2016.

	Year Ended December 31,	
	2017	**2016**
Policy acquisition expenses	$ 767,265	$ 516,846
Other insurance general and administrative expense	258,675	191,852
Total acquisition costs and other underwriting expenses	$ 1,025,940	$ 708,698

17. Income Taxes

The provision for income taxes consists of the following for the years ended December 31, 2017 and 2016:

	Year Ended December 31,	
	2017	2016
Current (benefit) expense:		
Federal	$ (97,514)	$ (50,518)
Foreign	36,540	44,912
Total current tax benefit	(60,974)	(5,606)
Deferred (benefit) expense:		
Federal	(76,197)	(12,044)
Foreign	5,669	(14,703)
Total deferred tax (benefit) expense	(70,528)	(26,747)
Total income tax (benefit) expense	$ (131,502)	$ (32,353)

The following table is a reconciliation of the Company's statutory income tax benefit to its effective tax rate for the years ended December 31, 2017 and 2016:

	Year Ended December 31,	
	2017	2016
(Loss) income before equity in earnings of unconsolidated subsidiaries	$ (465,606)	$ 195,141
Tax at federal statutory rate of 35%	(162,962)	68,299
Tax effects resulting from:		
Tax reform	65,304	—
Permanent adjustments	6,591	(3,862)
Foreign rate differential	(83,458)	(74,918)
Adjustments to prior year taxes	7,555	(8,980)
Valuation allowance	31,700	(12,892)
Other, net	3,768	—
Total income tax (benefit) expense	$ (131,502)	$ (32,353)
Effective tax rate	28.2%	(16.6)%

The Tax Cuts and Jobs Act ("TCJA") was enacted on December 22, 2017. The TCJA reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, creates new taxes on certain foreign sourced earnings, and revises the tax treatment of certain items for property and casualty insurers. As of December 31, 2017, the Company had not completed its accounting for the tax effects of enactment of the TCJA; however, as provided in SEC Staff Accounting Bulletin No. 118, in certain cases, as described below, the Company has made a reasonable estimate of the effects on its existing deferred tax balances and the one-time transition tax. For the items for which the Company was able to determine a reasonable estimate, it recognized a provisional amount of $65,304. This amount is related to the restatement of deferred taxes from 35% to the newly enacted 2018 rate of 21%, and are included as a component of income tax benefit from continuing operations. In all cases, the Company will continue to make and refine its calculations as it completes additional analysis. In addition, the Company's estimates may also be affected as it gains a more thorough understanding of the tax law. As noted above, under the TCJA, undistributed post-1986 earnings and profits (E&P) previously deferred from U.S. income taxes are subject to a one-time transition tax. Based on an initial review, it is reasonably expected that the Company will not incur the one-time transitional tax liability. This expectation may change when the Company finalizes the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalizes the amounts held in cash or other specified assets.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of December 31, 2017 and 2016 are shown below:

	December 31,	
	2017	2016
Deferred tax assets:		
Net operating loss carryforward	$ 250,356	$ 195,955
Unearned premiums	27,641	57,138
Loss and LAE reserves	29,683	60,018
Other	38,355	42,476
Bad debt	7,209	4,078
Total gross deferred tax assets	353,244	359,665
Valuation allowance	(191,214)	(139,774)
Total deferred tax assets	162,030	219,891
Deferred tax liabilities:		
Deferred acquisition costs	(15,663)	(97,805)
Equity results which cannot be liquidated tax free	(19)	(21,866)
Intangible assets	(27,056)	(31,869)
Depreciation	(2,748)	—
Other	6,797	(1,036)
Equalization reserves	(13,307)	(15,890)
Accrual market discount	(547)	(4,054)
Unrealized gain on investments	(6,232)	(19,472)
Total deferred tax liabilities	(58,775)	(191,992)
Deferred tax asset, net	$ 103,255	$ 27,899

The Company's net deferred tax asset at December 31, 2017 and 2016 is included in Other assets in the Consolidated Balance Sheet. The likelihood of realizing deferred tax assets is reviewed periodically. Any adjustments required to the valuation allowance are made in the period during which developments requiring an adjustment become known.

The Company has U.S. Net Operating Losses (“NOLs”) of $27,787 that expire beginning in 2037. The Company also has foreign NOLs of $979,631, the majority of which have no expiration.

The Company's management believes that as of December 31, 2017, except for a portion of foreign and domestic NOLs, it will realize the benefits of its deferred tax assets, which are included as a component of Other assets on the Consolidated Balance Sheet. The Company placed a valuation allowance on a significant portion of the foreign NOLs as of December 31, 2017. The Company has a valuation allowance of $191,214 and $139,774, as of December 31, 2017 and December 31, 2016. The valuation allowance increased for the year ended December 31, 2017, as a result of placing a valuation allowance on the Company's UK Lloyd's syndicate that was acquired in November 2016. The valuation allowance was the result of an updated income forcast due to new facts that not exist during the measurement period that resulted in a decreased amount of future income in the UK in order to fully utilize the NOLs incurred to date. Even though the NOLs do not have an expiration date, the Company determined that a valuation allowance should be placed on the portion that is unlikely to be utilized within the next three years.

The earnings of certain of the Company's foreign subsidiaries have been indefinitely reinvested in foreign operations. Therefore, no provision has been made for any U.S. taxes or foreign withholding taxes that may be applicable upon any repatriation or disposition. The determination of any unrecognized deferred tax liability for temporary differences related to investments in certain of the Company’s foreign subsidiaries is not practicable. At December 31, 2017 and 2016, the financial reporting basis in excess of the tax basis for which no deferred taxes have been recognized was approximately $375,105 and $307,755, respectively

The Company's major taxing jurisdictions include the U.S. (federal and state), the United Kingdom and Ireland. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the Company's statute of limitations is open for tax years ended December 31, 2012 and forward. The Company is currently under audit in the U.S. for tax years 2013, 2014, and 2015. The audit is ongoing as of December 31, 2017 and is expected to close during 2018.

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

	Open Tax Years
United States	2013-2017
United Kingdom	2016-2017
Ireland	2012-2017

As permitted by ASC 740-10 Income Taxes, the Company recognizes interest and penalties, if any, related to unrecognized tax benefits in its income tax provision. The Company does not have any unrecognized tax benefits and, therefore, has not recorded any unrecognized tax benefits, or any related interest and penalties, as of December 31, 2017 and 2016. No interest or penalties have been recorded by the Company for the years ended December 31, 2017 and 2016. The Company does not anticipate any significant changes to its total unrecognized tax benefits in the next 12 months.

18. Employee Benefit Plans

The Company's parent, AFSI, sponsors multiple defined contribution pension plans, which are available to a majority of the Company's employees. Contributions to these plans were based on a percentage of employee contributions or earnings. The cost of the plans was approximately $4,986 and $4,212 for the years ended December 31, 2017 and 2016, respectively.

19. Stockholder's Equity

Common Stock and Additional Paid-In Capital

Common Stock is comprised of 250 shares as of December 31, 2017 and 2016. These shares have a par value of $1 per share and are fully paid by the company's sole stockholder, AFSI.

During September 2017, AFSI contributed $200,000 of paid-in capital, which was comprised of $66,667 in cash and a $133,333 receivable from a related party. This receivable is recorded in Other assets on the Consolidated Balance Sheet.

On May 25, 2017, AFSI executed an agreement for the issuance and sale in a private placement of 24,096,384 shares of its common stock at a price of $12.45 per share. The proceeds to AFSI of $300,000 plus an additional $100,000 were contributed to the Company as paid-in capital.

During 2016, AFSI contributed $375,000 of additional paid-in capital to the Company. The contribution did not result in additional shares of common stock being issued. The proceeds from the contribution were subsequently loaned by the Company to a company under common ownership with AFSI. At December 31, 2017 and 2016, this loan and the related accrued interest are reflected in Due from affiliate as discussed in Note 15. "Related Party Transactions". Following this transaction, additional paid-in capital at December 31, 2016 was $669,029.

Preferred Stock

During January 2012, the Company, through a wholly-owned subsidiary, issued $49,750 of 5% Class A preferred shares, with a par value of $1 per share to a group of companies related under common ownership by AFSI. As of December 31, 2017 and 2016, $29,750 in shares remain outstanding. The Company may redeem the shares, in whole or in part at par value plus unpaid dividends, at any time upon giving thirty days notice to the holders, save that the right to redeem the preferred shares may not be exercised within 5 years from the date of issue. Dividends on the Class A preferred shares are cumulative, accrue whether or not declared by the Board, and are payable on April 16th and October 16th of each year.

Non-Controlling Interest

On October 1, 2017, through a series of transactions, the shares in one of the Company's subsidiaries owned by an affiliated company were contributed to the Company. As a result, there is no non-controlling in this subsidiary as of December 31, 2017. The impact of this contribution on the Company's equity balances is represented in the Consolidated Statements of Changes in Stockholder's Equity. Additional detail of the impact of these transactions on Accumulated other comprehensive income is included in the chart below.

Accumulated Other Comprehensive Income

The following table summarizes accumulated other comprehensive income for the years ended December 31, 2017 and 2016 net of non-controlling interests:

	Foreign Currency Items	Unrealized Gains on Investments	Interest Rate Swap Hedge	Net Benefit Plan Assets and Obligations Recognized in Stockholders' Equity	Accumulated Other Comprehensive Income
Balance, December 31, 2015	(47,589)	30,484	—	229	(16,876)
Other comprehensive income (loss) before reclassification	(42,724)	154,846	(50)	(3,169)	108,903
Amounts reclassed from accumulated other comprehensive income	—	(12,849)	—	—	(12,849)
Income tax benefit (expense)	—	(49,154)	(10)	570	(48,594)
Net current-period other comprehensive income (loss)	(42,724)	92,843	(60)	(2,599)	47,460
Balance, December 31, 2016	(90,313)	123,327	(60)	(2,370)	30,584
Other comprehensive income (loss) before reclassification	106,756	(109,316)	69	(129)	(2,620)
Amounts reclassed from accumulated other comprehensive income	—	(85,666)	—	—	(85,666)
Income tax benefit (expense)	—	63,071	(23)	—	63,048
Increase in percentage ownership of subsidiary	(37,070)	17,266	(18)	(2,499)	(22,321)
Net current-period other comprehensive income (loss)	69,686	(114,645)	28	(2,628)	(47,559)
Balance, December 31, 2017	$ (20,627)	$ 8,682	$ (32)	$ (4,998)	$ (16,975)

During the years ended December 31, 2017 and 2016, amounts reclassed from accumulated other comprehensive income into net income were included in net realized gain on investment.

Legal Entity Transfers

There were no material legal entity transfers during 2017. The following transfers occurred during 2016:

AII Reinsurance Broker, Ltd.

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

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

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

AmTrust Holdings Luxembourg S.a.r.l.

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

20. Commitments and Contingencies

Litigation

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

The Company's parent is subject to litigation as noted below.

On April 7, 2015, one of AFSI' stockholders, Cambridge Retirement System, filed a derivative action in the Court of Chancery of the State of Delaware against AFSI, as nominal defendant, and against the AFSI' board of directors, Leah Karfunkel, and ACP Re, as defendants. Cambridge amended its complaint on November 3, 2015 to add NGHC as a defendant. The stockholder purports to bring the derivative action on AFSI' behalf, alleging breaches of the duties of loyalty and care on the part of AFSI' directors and majority shareholders related to AFSI' transactions involving Tower Group International, Ltd. Cambridge's claim against NGHC and ACP Re is for unjust enrichment. The amended complaint seeks damages, disgorgement and reform of AFSI' governance practices.

On April 27, 2017, one of AFSI' stockholders, David Shaev Profit Sharing Plan, filed a derivative action in the Supreme Court of the State of New York for the County of New York (*Shaev v. DeCarlo et al.*).

Three derivative suits have also been filed in the U.S District Court for the District of Delaware. On April 19, 2017 one of AFSI' stockholders, Lily Ding, filed a derivative action in the District of Delaware against AFSI, as nominal defendant, and against AFSI' board of directors as defendants, but this stockholder subsequently voluntarily dismissed her suit (Ding v. Zyskind et al.). On May 11, 2017, one of AFSI' stockholders, West Palm Beach Police Pension Fund, filed suit (West Palm Beach Police Pension Fund v. Zyskind et al.), and on June 28, 2017, two of AFSI' stockholders, City of Lauderhill Police Officers Retirement Plan and Pompano Beach Police & Firefighters Retirement System, filed suit (City *of Lauderhill Police Officers Retirement Plan and Pompano Beach Police & Firefighters Retirement System et al. v. Zyskind et al.*). These two Delaware derivative actions (West Palm Beach Police Pension Fund and Lauderhill-Pompano Beach) have been consolidated under the case name *In re AmTrust Financial Services, Inc. Derivative Litigation*. The stockholders purport to bring the derivative actions on AFSI' behalf, and raise claims that primarily involve AFSI' recent restatement of its financial statements and the identification of material weaknesses in its internal control over financial reporting. The *In re AmTrust Derivative Litigation* complaint alleges violations of Sections 10(b), 14(a), 20A, and 29(b) of the Exchange Act, breaches of fiduciary duties, unjust enrichment, and waste of corporate assets. The *In re AmTrust Derivative Litigation* complaint also seeks reform of AFSI' governance practices, contribution and indemnification, and both sets of stockholders seek damages. AFSI believes the allegations in these pending derivative actions to be unfounded and is vigorously pursuing its defenses.

AFSI and certain of its officers and directors are also defendants in three putative securities class action lawsuits filed in March and April of 2017 in the U.S. District Court for the Southern District of New York. Another putative class action, filed in February 2017 in the United States District Court for the Central District of California, was voluntarily dismissed (*Miller v. AmTrust, Zyskind, and Pipoly*). The three cases in the Southern District of New York have been consolidated under the case name *In re AmTrust Financial Services, Inc. Securities Litigation*. Plaintiffs in this proceeding filed a consolidated amended complaint on August 21, 2017. Plaintiffs assert in the consolidated amended complaint claims under Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder and Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as amended. The consolidated amended complaint adds BDO USA LLP, Citigroup Global Markets Inc., Keefe, Bruyette & Woods, Inc., Morgan Stanley & Co. LLC, RBC Capital Markets, LLC, and UBS Securities LLC as defendants. Plaintiffs seek an unspecified amount in damages, attorneys' fees, and other relief. AFSI believes the allegations to be unfounded and is vigorously pursuing its defenses; however, AFSI cannot reasonably estimate a potential range of loss, if any, due to the early stage of the proceedings.

Additionally, in April, May, June, July, December, 2017, and March 2018, AFSI received demands for the inspection of books and records pursuant to Section 220 of the Delaware General Corporation Law, from purported stockholders Rikhard Dauber, Pompano Beach Police & Firefighters Retirement System, Nestor Shust, the City of Lauderhill Police Officers' Retirement Plan, West Palm Beach Police Pension Fund, the Cambridge Retirement System, the Lislois Family Trust and Arca Capital Group.

Other than as discussed above, the Company is not involved presently in any material litigation nor, to the Company's knowledge, is any material litigation threatened against the Company or its properties.

Lease Commitments

The Company is obligated under approximately 50 leases for office space expiring at various dates through 2025. Future minimum lease payments as of December 31, 2017 under non-cancellable operating leases for each of the next five years are approximately as follows:

2018	$	5,709
2019		4,775
2020		4,291
2021		2,628
2022		1,727
2023 and Thereafter		783
Future minimum lease payments	$	19,913

Rent expense for the years ended December 31, 2017 and 2016 was $8,505 and $7,115, respectively.

Employment Agreements

The Company has employment agreements with approximately 23 of its key executives and employees. The agreements terminate on varying dates through 2019, contain annual minimum levels of compensation, and contain bonuses based on the Company achieving certain financial targets. Not all employment agreements contain end dates. The annual future minimum compensation payments in the aggregate through 2019 are as follows:

2018	$	6,869
2019		747
Future minimum compensation payments	$	7,616

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

The Company's insurance subsidiaries file financial statements in accordance with statutory accounting practices ("SAP") prescribed or permitted by domestic insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between jurisdictions. The principal differences relate to (1) acquisition costs incurred in connection with acquiring new business which are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) limitation on net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and loss expense, and unearned premium reserves are presented gross of reinsurance with a corresponding asset recorded; (4) fixed maturity portfolios that are carried at fair value instead of amortized cost and changes in fair value are reflected directly in unassigned surplus, net of related deferred taxes; and (5) certain assets designated as "non-admitted assets" are charged against surplus under SAP. The New York Department of Financial Services has adopted the prescribed accounting practices of discounting workers' compensation known case loss reserves on a non-tabular basis, which impacted RIC during 2016. The effect of using these permitted and prescribed practices was to increase RIC's statutory capital and surplus by $6,733 at December 31, 2016. RIC no longer carries reserves on a discounted basis at December 31, 2017.

Bermuda

For AmTrust International Insurance Ltd., the regulations require that the available statutory capital and surplus should be equal to or exceed the value of both its Minimum Margin of Solvency ("MMS") and the Enhanced Capital Requirement ("ECR"). The Capital and Solvency Return will be filed with the Bermuda Monetary Authority on April 30, 2018 and the ECR based on the Economic Balance Sheet will not be available until this filing is completed. The Capital and Surplus requirement is based on the

statutory capital MMS prior to the ECR and the 25% of ECR criteria being calculated. The required MMS on this basis is $423,211 as of December 31, 2017. The ECR will be materially higher than the MMS.

Europe

The Company's European entities prepare financial statements in accordance with local regulatory requirements. These statutory accounting practices differ from U.S. GAAP primarily by charging policy acquisition costs to expense as incurred and establishing future policy benefit liabilities using different actuarial assumptions, as well the valuation of investments and certain assets and accounting for deferred taxes on a different basis.

Effective January 1, 2016, the European Union's executive body, the European Commission, implemented a new capital adequacy and risk management regulation called "Solvency II" that applies to our businesses across the European Union (including the United Kingdom) and impacts AEL, AmTrust Mortgage Insurance Limited ("AMIL"), MIC, our Lloyd's syndicates, AIU and our Luxembourg entities. Solvency II imposes new requirements with respect to capital structure, technical provisions, solvency calculations, governance, disclosure and risk management.

All of the Company's international insurance subsidiaries have capital levels that exceed their respective regulatory minimum requirements, and none utilized prescribed or permitted practices that vary materially from the practices prescribed by the regulatory bodies for the years ended December 31, 2017 and 2016, respectively. The declaration of dividends for the Company's European entities is restricted to profits available for distribution as a matter of respective jurisdictional law and in certain entities requires consent of local regulators. The European dividends included in the total above represent the estimated maximum potential dividend available based on the most recent solvency returns submitted to local regulators. Any final dividends would still be subject to regulatory approval in the case of AEL and AMIL.

United States

Property and casualty insurance companies in the United States are subject to certain Risk-Based Capital ("RBC") requirements that establish the minimum amount of statutory capital and surplus that must be maintained by each Company, as specified by the National Association of Insurance Commissioners ("NAIC"). The minimal capital requirements are determined by used a formula that focuses on the material risks to which the company is exposed, and are designed to ensure that the Company can fulfill obligations to shareholders. As of December 31, 2017 and 2016, the statutory capital and surplus of the Company's insurance subsidiary domiciled in the United States exceeded the RBC requirements.

The statutory net (loss)/income for the Company's insurance subsidiary domiciled in the United States was ($871) and $13,947 for the years ended December 31, 2017 and 2016, respectively. The statutory capital and surplus of this subsidiary was $87,544 and $101,794 as of December 31, 2017 and 2016, respectively.

The Company and its insurance subsidiaries are also subject to statutory and regulatory restrictions applicable to insurance companies, which limit the amount of cash dividends or distributions that they may pay to approximately $722,352 and $552,577 as of December 31, 2017 and 2016, respectively.

22. Divestitures

On November 3, 2017, AFSI and Mayfield Holdings LLC ("Mayfield"), entered into a Contribution and Stock Purchase Agreement (the "Acquisition Agreement") with MH JV Holdings L.P. ("Investor"), a newly-formed investment vehicle owned by affiliates of Madison Dearborn Partners, related to the Investor's acquisition of a majority interest in the portion of AFSI' U.S.-based fee businesses that (a) act as managing general agents for the distribution, underwriting and procurement of property and casualty insurance on behalf of certain of their affiliates and other insurance carriers and (b) design, develop, market and act as third party administrators for programs for service contracts, limited warranties and replacement plans as further described in the Acquisition Agreement (the "U.S.-based fee business"). One of the Company's subsidiaries is included within this transaction. Accordingly, the assets and liabilities related to this deal have been classified as held for sale in the consolidated balance sheets. The operations of the U.S.-based fee business have not been reported as discontinued operations in the consolidated statements of operations as the Company determined the divestiture is not a strategic shift. The Company determined estimated fair value of the net assets held for sale was based on the estimated selling price less costs to sell and was classified as Level 2 within the fair value hierarchy as of December 31, 2017.

The classes of assets and liabilities to be sold and classified as held for sale consisted of the following:

	December 31, 2017
Cash and cash equivalents	$ 2,978
Restricted cash and cash equivalents	654
Other assets	2,331
Goodwill	32,357
Intangible assets	21,250
Total assets held for sale	$ 59,570
Accrued expenses and other liabilities	$ 19,277
Total liabilities held for sale	$ 19,277

23. Subsequent Events

We have evaluated events occurring after the balance sheet date and up to May 31, 2018, the date the financial statements were issued, noting the following.

U.S.-based Fee Businesses

On November 3, 2017, AFSI and Mayfield Holdings LLC ("Mayfield") entered into a Contribution and Stock Purchase Agreement (the "Acquisition Agreement") with MH JV Holdings L.P. ("Investor"), a newly-formed investment vehicle owned by affiliates of Madison Dearborn Partners, related to the Investor's acquisition of a majority interest in the portion of AFSI' U.S.-based fee businesses that (a) act as managing general agents for the distribution, underwriting and procurement of property and casualty insurance on behalf of certain AFSI affiliates and other insurance carriers and (b) design, develop, market and act as a third party administrator for programs for service contracts, limited warranties and replacement plans as further described in the Acquisition Agreement.

On February 28, 2018, AFSI completed the transfer of the U.S.-based fee businesses to Mayfield and the Investor's acquisition of a majority interest in Mayfield. Under the terms of the Acquisition Agreement, as amended, (1) Investor contributed to Mayfield approximately $225,800 in cash in exchange for approximately 51% of the common units of Mayfield, (2) AFSI contributed into Mayfield equity interests in certain of the entities comprising the U.S.-based fee businesses with an implied value of approximately $217,000 in exchange for approximately 49% of the common units of Mayfield, and (3) one or more subsidiaries of Mayfield acquired from AFSI the remaining portion of the entities comprising the U.S.-based fee businesses in exchange for a base cash purchase price of approximately $933,000, subject to adjustments based upon the amount of cash, indebtedness and transaction expenses of Mayfield and its subsidiaries at the closing of the transaction. One of the Company's subsidiary was included as a part of this transaction. Now that the transaction has closed, the Company will cease consolidating the results of this subsidiary within its consolidated financial statements.

Merger Agreement

On March 1, 2018, AFSI entered into an agreement and plan of merger with Evergreen Parent, L.P. ("Evergreen Parent"), an entity formed by private equity funds managed by Stone Point Capital LLC ("Stone Point"), together with Barry D. Zyskind, AFSI' Chairman and CEO, George Karfunkel and Leah Karfunkel (such individuals, collectively, the "Karfunkel-Zyskind Family") pursuant to which Evergreen Parent will acquire all of AFSI' outstanding common shares, par value $0.01 per share (the "Common Stock") that are not currently owned or controlled by the Karfunkel-Zyskind Family and its affiliates and certain related parties (the "Merger Agreement"). The Karfunkel-Zyskind Family and its affiliates and certain related parties currently own or control approximately 55% of AFSI' outstanding shares of Common Stock.

Pursuant to the transactions contemplated by the Merger Agreement, each outstanding share of AFSI' Common Stock (other than certain excluded shares) will be converted into the right to receive $13.50 per share of Common Stock in cash, without interest and less any required withholding taxes (the "Merger Consideration"). Shares of AFSI' common stock owned by AFSI, any wholly-owned subsidiary of AFSI, a subsidiary formed to participate in the merger, Evergreen Parent (including the Rollover Shares (as defined below) or holders who have properly exercised dissenters' rights under Delaware law) will not be converted into the right to receive the Merger Consideration.

Consummation of the Merger is subject to certain customary conditions, including approval by AFSI' stockholders as described below and receipt of required regulatory approvals. The closing of the Merger is subject to a non-waivable condition that the Merger Agreement be adopted by the affirmative vote of (i) the holders of at least a majority of all outstanding shares of Common Stock and (ii) the holders of at least a majority of all outstanding shares of Common Stock held by the "Public Stockholders" (defined as stockholders *other than* Evergreen Parent and its affiliates, the Rollover Stockholders (as defined below) and their respective affiliates and certain related parties and AFSI' directors and officers as set forth on Schedule I to the Merger Agreement), in each case, entitled to vote on the Merger at a meeting of stockholders duly called and held for such purpose (the "Requisite Stockholder Vote"). The Merger Agreement does not contain a financing condition. The Merger Agreement contains customary termination rights for the Company and Evergreen Parent, which were described in AFSI' Current Report on Form 8-K filed on March 1, 2018. The Merger Agreement also contains customary representations, warranties and covenants of AFSI, including covenants to conduct its business in the ordinary course during the interim period between the execution of the Merger Agreement and consummation of the Merger and not to engage in certain types of transactions during this interim period without the prior written consent of Evergreen Parent.

Evergreen Parent has obtained equity financing commitments for the transactions contemplated by the Merger Agreement, the aggregate proceeds of which will be sufficient for Evergreen Parent to pay the aggregate Merger Consideration and all related fees and expenses. Private equity funds managed by Stone Point and an investment entity controlled by the Karfunkel-Zyskind Family have committed to capitalize Evergreen Parent, at or immediately prior to the effective time of the Merger, with an aggregate equity contribution in an amount up to $800,000 and $400,000, respectively, in exchange for equity interests in Evergreen Parent, subject to the terms and conditions set forth in certain equity financing commitment letters, dated as of March 1, 2018. In addition, the Karfunkel-Zyskind Family and its affiliates and certain related parties (the "Rollover Stockholders") have entered into a rollover agreement, dated as of March 1, 2018, pursuant to which such Rollover Stockholders have committed to contribute all of the shares of Common Stock that they own to Evergreen Parent immediately prior to the closing of the Merger (the "Rollover Shares"). The Rollover Agreement also provides that the Rollover Stockholders will, among other things, vote or cause to be voted their respective shares of Common Stock in favor of any proposal to approve the Merger and the Merger Agreement.

The terms of the Merger Agreement do not impact the Company's consolidated financial statements as of and for the year ended December 31, 2017.