BEFORE THE INSURANCE COMMISSIONER OF THE STATE OF IOWA

In the matter of application of AMTRUST FINANCIAL SERVICES, INC., MICHAEL KARFUNKEL, GEORGE KARFUNKEL, BARRY ZYSKIND, and LEAH KARFUNKEL, TRUSTEE OF THE MICHAEL KARFUNKEL 2005 GRANTOR RETAINED ANNUITY TRUST for plan to acquire control of DEVELOPERS SURETY AND INDEMNITY COMPANY	)	**FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER** (Iowa Code chapter 521A)

I. INTRODUCTION

AmTrust Financial Services, Inc. ("AmTrust Financial"), Michael Karfunkel, George Karfunkel, Barry Zyskind, and Leah Karfunkel, Trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust (jointly referred to as "Applicants") wish to acquire control of Developers Surety and Indemnity Company ("Developers Surety"). AmTrust Financial is a publically traded Delaware corporation. Developers Surety is an Iowa domiciled insurance company.

Applicants' propose to acquire control of Developers Surety in connection with a stock purchase agreement between Applicants and the Crowell Family Limited Partnership ("Seller"). Applicants will acquire 100 percent of the issued and outstanding voting securities of Insco Insurance Services, Inc. ("Insco"), which is the 100 percent direct owner of Developers Surety. Following the acquisition, Applicants will be the ultimate controlling parties of Developers Surety.

Pursuant to Iowa Code section 521A.3(4)(b) (2013), a public hearing was held Friday, December 20, 2013 at the Iowa Insurance Division ("Division") for the purpose of determining whether Applicants' proposed acquisition of control of AmTrust Financial complies with the statutory requirements set forth in Iowa Code section 521A.3(4)(a) (2013).

II. JURISDICTION

The Commissioner has jurisdiction over this matter under Iowa Code section 521A.3 (2013).

III. EVIDENCE PRESENTED

In support of the application, Applicants submitted an original and an amended "Statement Regarding the Acquisition of Control of a Domestic Insurer" with attached exhibits ("Form A") containing detail relating to Applicants' operations. Applicants also submitted the testimony of Stephen Ungar, General Counsel to AmTrust Financial. Mr. Ungar testified to the purpose and in support of the proposed acquisition. At the close of the hearing, the administrative record was formally closed.

All evidence was admitted without objection and is part of the record considered by the Commissioner in issuing the following findings, conclusions, and order.

No one appeared at the hearing to oppose Applicants' request or otherwise offer evidence or contradict or question Applicants' submission of evidence.

IV. FINDINGS OF FACT

The statutory requirements Applicants' acquisition plan must meet are relatively straightforward. Iowa Code section 521A.3(4)(a) (2013) requires a showing by the Applicant that the facts and circumstances supporting its application for acquisition of control of Insurer meet five standards.

Briefly, these standards relate to (1) Applicants' post-acquisition ability to retain an Iowa license and continue writing existing lines of insurance, (2) effect of the acquisition on insurance competition in Iowa, (3) effect of Applicants' financial condition on Developers Surety and its policyholders, (4) effect of Applicants' anticipated changes to Developers Surety's operations on Developers Surety's policyholders and the public interest, and (5) the effect those persons that Applicant chooses to lead Developers Surety in the future will have on the interests of Developers Surety's policyholders and the public. Each requirement is discussed in greater detail below.

If Applicants establish that its application for acquisition of control meets these requirements, section 521A.3(4)(a) (2013) requires the Commissioner approve the application.

Applying these standards to the evidence presented by the record, when viewed as a whole, the Commissioner finds the following facts:

1. **<u>After a change of control, Developers Surety will be able to satisfy Iowa licensure requirements and thus continue writing the line or lines of insurance for which it is presently licensed.</u>**

Iowa Code section 521A.3(4)(a)(1) (2013) requires an applicant to demonstrate to the Commissioner that, after a change of control, the acquired domestic insurer will be able to satisfy the requirements for issuing a license to write the line or lines of insurance for which it is presently licensed.

AmTrust Financial currently has six subsidiary insurers that are licensed in Iowa. *Trans.* at 15. Mr. Ungar testified that following the change of control, Developers Surety will continue to meet the requirements for holding an Iowa certificate of authority. *Id.*

The Commissioner finds that Applicants' ability to satisfy Iowa licensure requirements and its ability to continue writing existing lines of insurance for which it is presently licensed will be unimpaired after a change of control.

2. **<u>Applicants' acquisition of control of Developers Surety will not substantially lessen insurance industry competition within Iowa.</u>**

Iowa Code section 521A.3(4)(a)(2) (2013) requires an applicant to demonstrate to the Commissioner that the effect of acquiring control will not substantially lessen insurance competition in Iowa.

Mr. Ungar affirmed, as part of his testimony that the proposed transaction will not cause any decrease of competition within Iowa. *Trans*. at 26. AmTrust Financial is one of the largest workers compensation writers in the United States. *Trans.* at 14. Developers Surety writes primarily surety business with no overlap in business with AmTrust Financial. *Id.* There are no plans to make material changes to Developers Surety's business. *Id.* at 13.

The Commissioner finds that Applicants' acquisition of control of Developers Surety will not substantially lessen insurance competition in Iowa.

3. **<u>Applicants' financial condition will not jeopardize the financial stability of Developers Surety, or prejudice the interests of its policyholders.</u>**

Iowa Code section 521A.3(4)(a)(3) (2013) requires an applicant demonstrate to the Commissioner that the Applicants' financial condition will not jeopardize the financial stability of the acquired domestic insurer, or prejudice the interest of its policyholders.

Post acquisition, Developers Surety will be backed by AmTrust Financial Group with the ability to obtain capital through intercompany reinsurance arrangements. *Id.* at 16. Applicants are purchasing Insco for $85 million, to be payable in cash upon closing, and subject to some small changes in the amount based on adjustments in the book value as of the closing date. *Trans.* at 11.

There are no plans to declare dividends or make any other distributions. *Trans.* at 13. In addition, there are no plans to liquidate, sell any assets, consolidate or merge with any other party, or make any material change to the business or corporate structure of Developers Surety that would be unfair or unreasonable to policyholders. *Trans.* at 16-17.

There being no evidence of adverse financial impact on Developers Surety, the Commissioner finds that the interests of Developers Surety's policyholders will not be prejudiced by Applicants' financial condition.

4. **<u>Applicants' proposed post-acquisition changes in Developers Surety's business, corporate structure, and management are not unfair or unreasonable to Developers Surety's policyholders and are not contrary to the public interest.</u>**

Iowa Code section 521A.3(4)(a)(4) (2013) requires an applicant demonstrate to the Commissioner that the applicant's plans or proposals for material changes to the acquired domestic insurer's business, corporate structure or management are not unfair or unreasonable to its policyholders and are not contrary to the public interest.

Applicants plan on developing Developers Surety's surety business by utilizing AmTrust Financial's greater agency force and business resources, while allowing Developers Surety to continue to operate as it did prior to Applicants' purchase. *Trans.* at 12-13.

Following the acquisition, Developers Surety's management will essentially stay the same, but AmTrust Financial staff will be added to the management team. *Id.* at 13.

Developers Surety's board of directors will consist of a seven person board and include two current directors of Developers Surety. *Trans.* at 14.

The Commissioner finds that Applicants' proposed post-acquisition changes in Developers Surety's business, corporate structure, and management are not contrary to the public interest.

5. **The competence, experience, and integrity of those individuals who will control Developers Surety after acquisition are sufficient to indicate that Developers Surety policyholder interests and the public interest will not be jeopardized by Applicants' acquisition of control of Developers Surety.**

Iowa Code section 521A.3(4)(a)(5) (2013) requires an applicant to demonstrate to the Commissioner that the competence, experience, and integrity of those the applicant selects to control the acquired domestic insurer are sufficient to indicate that policyholders' and the public's interest will not be jeopardized by the acquisition.

Management biographies, which are part of the record of this proceeding, confirm that the directors and executive officers of the Applicants who would control Developers Surety are seasoned and experienced individuals in the insurance industry with proven records of competence, service, and integrity.

The Commissioner finds that the competence, experience, and integrity of those individuals who will control Developers Surety after acquisition, are sufficient to indicate that the public interest will not be jeopardized by Applicants' acquisition of control of Developers Surety.

V. CONCLUSION OF LAW

The legislature has vested discretion in the Commissioner not only to hold hearings and make factual findings, but also to interpret and apply the law. Iowa Code section 521A.3(4)(a) (2013) requires the Commissioner approve an application for acquisition of control if, after a public hearing, the applicant demonstrates all five criteria listed within that section to the Commissioner.

After a careful review of all evidence submitted, the Commissioner concludes, upon substantial evidence, that Applicants have demonstrated to the Commissioner all five requirements set forth in, and required by, section 521A.3(4)(a) (2013). Applicants' proposed acquisition of control of Developers Surety should be approved.

ORDER

IT IS THEREFORE ORDERED that:

The application of AmTrust Financial Services, Inc., Michael Karfunkel, George Karfunkel, Barry Zyskind, and Leah Karfunkel, Trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust for approval of a plan to acquire control of Developers Surety and Indemnity Company is **APPROVED.**

This Order shall be considered final agency action for the purposes of Iowa Code chapter 17A (2013). Any action challenging the Order shall comply with the requirements of Iowa Code chapter 17A (2013).

Any application for rehearing shall comply with the requirements of Iowa Code chapter 17A (2013).

DATED this 31st day of December, 2013.

Nick Gerhart

NICK GERHART
Iowa Insurance Commissioner

Copies to:

Fred Haskins, Patterson Law Firm, LLP
Stephen Ungar, AmTrust Financial Services, Inc.

Via Overnight Delivery

December 12, 2013

The Honorable Nick Gerhart
Insurance Commissioner
Iowa Insurance Division
ATTN: Matt Hargrafen, Company Regulation Counsel
601 Locust St., 4th Floor
Des Moines, IA 50309-3738

Re: Amended Form A on behalf of AmTrust Financial Services, Inc. ("Offeror") and Four Individual Shareholders

Dear Commissioner Gerhart:

Please be advised that we have amended the Form A previously filed by the above-referenced Offeror. The Amended Statement now includes four (4) individuals who qualify as controlling parties ("Offeror Shareholders") on whose behalf the Amended Statement is being submitted as well. Financial information relative to the Offeror Shareholders has been provided to the Commissioner under separate cover.

Per your request, enclosed you will find:

- Two (2) "Regulator Only" hard copies of the Amended Form A
- One (1) "Public" hard copy of the Amended Form A.
- A compact disc with one copy of each of the "Regulator Only" and "Public" Amended Form A filings

Please note that the only difference between the "Regulator Only" and "Public" versions of the Amended Form A is that the "Public" version does not contain Exhibit 5, which contains the biographical affidavits of the principals of the Offeror. We are therefore requesting that Exhibit 5 of the Amended Form A remain confidential and excluded from the "Public" version. This is due to the extremely private and personal nature of certain of the information in such biographical affidavits.

AmTrust Financial Services, Inc.
59 Maiden Lane, 43rd Floor • New York, NY 10038 • 212.220.7120 • Fax: 212.220.7130
www.amtrustgroup.com

Please feel free to direct any questions or requests for further information to the undersigned, as well as to Stephen B. Ungar, General Counsel, by phone at 646-458-7913, or by email to sungar@amtrustgroup.com. Thank you for your consideration of this submission.

Very truly yours,

Barry W. Moses
Vice President, Regulatory & Compliance
Ph: 216-328-6216
Email: bmoses@amtrustgroup.com

Enclosure
cc: Stephen B. Ungar, General Counsel
Frederick M. Haskins, Esq.

PRIVILEGED AND CONFIDENTIAL

AMENDED FORM A

STATEMENT REGARDING THE ACQUISITION OF CONTROL OF OR MERGER WITH A DOMESTIC INSURER

Developers Surety and Indemnity Company
a Domestic Insurer
and a Subsidiary of

Crowell Family Limited Partnership
a California limited partnership

(referred to herein as "Insurer")

by

AmTrust Financial Services, Inc.
Michael Karfunkel
George Karfunkel
Barry Zyskind
Leah Karfunkel, Trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust

59 Maiden Lane
New York, NY 10038

Filed with the Iowa Insurance Division ("Division")

Dated as of December 12, 2013

Name, Title, Address and Telephone Number of Individual to Whom Notices and Correspondence Concerning this Statement Should be Addressed:

Stephen B. Ungar, General Counsel
AmTrust Financial Services, Inc.
59 Maiden Lane, 43rd Floor
New York, NY 10038
Telephone: (646) 458-7913
Email: sungar@amtrustgroup.com

FORM A

ITEM 1. INSURER AND METHOD OF ACQUISITION.

This Amended Statement relates to the acquisition ("Acquisition") by AmTrust Financial Services, Inc., a Delaware corporation ("Offeror") of Developers Surety and Indemnity Company, an insurance company formed under the laws of the State of Iowa (the "Insurer"). Control of the Insurer is to be acquired pursuant to a Stock Purchase Agreement ("Stock Purchase Agreement") between Offeror and the Crowell Family Limited Partnership ("Seller"), pursuant to which Offeror will acquire 100% of the issued and outstanding voting securities ("Company Stock") of Insco Insurance Services, Inc. (the "Company), which is the 100% direct owner of the Insurer. The Company Stock consists of 100,000 shares of common stock, no par value. A true and complete copy of the Stock Purchase Agreement dated September 18, 2013 between Offeror and Seller, including all exhibits thereto, is attached hereto as **Exhibit 1(a)**.

In addition to the Company and the Insurer, the Acquisition also includes the purchase by Offeror of the following entities (collectively referred to as "Additional Acquired Companies"):

(i) a second insurance company, Indemnity Company of California, an insurance company organized under the laws of the State of California, a 100% owned subsidiary of the Insurer, for which a Form A notification was filed with the California Department of Insurance pursuant to California Insurance Code Sections 1215.2 and Sections 2683, *et seq.*, Title 10, California Code of Regulations; such notification being APPROVED by the California Department of Insurance on October 10, 2013;

(ii) Builders Insurance Services, LLC, a Delaware limited liability company, a 100% owned subsidiary of the Company, providing underwriting management services to the Company and its insurance subsidiaries; and

(iii) Vista Surety Insurance Solutions, LLC, a California limited liability company, a 100% owned subsidiary of the Company, providing managing underwriting services to the Company and its insurance subsidiaries.

Under the Stock Purchase Agreement, Offeror will acquire all of the Company Stock (as well as all of the outstanding ownership interests of the Insurer and the Additional Acquired Companies) at the consummation of the Acquisition (the "Closing"), for an estimated aggregate purchase price of approximately $85 million in cash (the "Purchase Price"), subject to adjustments in accordance with terms of the Stock Purchase Agreement. The consummation of the Acquisition is subject to customary closing conditions, including receipt of Form A approval pursuant to Iowa Code § 521A.3 as well as pursuant to Section 1215.2 of the California Insurance Code.

ITEM II. IDENTITY AND BACKGROUND OF THE OFFEROR

(a) The full name of the party seeking to acquire control of the Insurers is AmTrust Financial Services, Inc. Offeror's business address is 59 Maiden Lane, 43rd Floor, New York, NY 10038. Following the Closing, Offeror's business address will be the same.

This Amended Statement is also submitted on behalf of four (4) individuals who qualify as ultimate controlling parties of the Offeror ("Offeror Shareholders"):

(i) Michael Karfunkel,
c/o AmTrust Financial Services, Inc.
59 Maiden Lane, 43rd Floor
New York, NY 10038

Michael Karfunkel holds of record or beneficially controls 7,580,483 common shares which are approximately 11.3% of the common stock of the Offeror.

(ii) George Karfunkel
c/o AmTrust Financial Services, Inc.
59 Maiden Lane, 43rd Floor
New York, NY 10038

George Karfunkel holds of record or beneficially controls 15,635,406 common shares which are approximately 23.2% of the common stock of the Offeror.

(iii) Barry Zyskind
c/o AmTrust Financial Services, Inc.
59 Maiden Lane, 43rd Floor
New York, NY 10038

Barry Zyskind holds of record or beneficially controls (through the Teferes Foundation, a charitable foundation formed by Mr. Zyskind) 6,994,843 common shares which are approximately 10.4% of the common stock of AFSI.

(iv) Leah Karfunkel, Trustee, the Michael Karfunkel 2005 Grantor Retained Annuity Trust
c/o AmTrust Financial Services, Inc.
59 Maiden Lane, 43rd Floor
New York, NY 10038

The Trust, the trustee of which is Leah Karfunkel, who is the wife of Michael Karfunkel, holds of record or beneficially controls 8,449,565 common shares which are approximately 12.6% of the common stock of the Offeror.

Attached hereto as **Exhibit 3** are original Affidavits for the above-referenced Offeror Shareholders. Under separate cover Offeror has submitted to the Iowa Division of Insurance financial information for the four Offeror Shareholders.

(b) Offeror, through its subsidiaries, underwrites and provides property and casualty insurance in the United States and internationally. Offeror currently has six (6) insurers admitted in Iowa – AmTrust Insurance Company of Kansas, Inc. (NAIC No. 15954); Milwaukee Casualty Insurance Company (NAIC No. 26662); Security National Insurance Company (NAIC No.

19879); Technology Insurance Company, Inc. (NAIC No. 42376); Wesco Insurance Company (NAIC No. 25011); Sequoia Insurance Company (NAIC No. 22958); and Sequoia Indemnity Company (NAIC No. 12338). Offeror also has two insurers conducting surplus lines business in Iowa – AmTrust International Underwriters Limited and Associated Industries Insurance Company, Inc. Offeror operates in three general segments: (i) Small Commercial Business; (ii) Specialty Risk and Extended Warranty; and (iii) Specialty Program. The Small Commercial Business segment provides workers compensation, commercial package, and other commercial insurance lines to small businesses through wholesale and retail agents, and brokers. The Specialty Risk and Extended Warranty segment provides coverage for consumer and commercial goods; custom designed coverages, such as accidental damage plans and payment protection plans; and coverage for niche property, casualty, and specialty liability risks comprising general liability, employers' liability, and professional and medical liability. The Specialty Program segment provides workers' compensation; package products; general liability; commercial auto liability; excess and surplus lines programs; and other specialty commercial property and casualty insurance. This segment serves small and middle market companies through general and wholesale agents.

Attached as **Exhibit 12(a)(i)** are audited financial statements for the years 2008, 2009, 2010, 2011 and 2012 for Offeror. Attached as **Exhibits 3(i) and 3(ii)** are Offeror's annual reports for the years 2011 and 2012, respectively. Attached as **Exhibit 12(a)(ii)**are Offeror's unaudited financial statements as of June 30, 2013.

(c) Organizational charts depicting Offeror and all persons known to control Offeror both prior to (the "Pre-Closing Organizational Chart") and upon the Closing (the "Closing Organizational Chart") of the Acquisition are attached hereto as **Exhibit 2(c)(i) and 2(c)(ii)**, respectively. No court proceedings involving a reorganization or liquidation are pending with respect to any person identified in **Exhibit 2(c)(i)**.

ITEM III. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE OFFEROR

(a), (b), (c) and (d) The names and titles of Offeror's executive officers and directors and the owners of 10% or more of Offeror's shares of voting securities are as follows:

Name	Title
Max G. Caviet	President, AmTrust International Insurance, Ltd.; Chief Executive Officer of AmTrust Europe, Ltd.
Donald T. DeCarlo	Director
Susan C. Fisch	Director
Abraham Gulkowitz	Director
George Karfunkel	Director and 10%+ Shareholder
Leah Karfunkel	10%+ Shareholder
Michael Karfunkel	Chairman and 10%+ Shareholder
Christopher M. Longo	Executive Vice President, Chief Information Officer
Jay J. Miller	Director
Ronald E. Pipoly, Jr.	Executive Vice President, Chief Financial Officer
David H. Saks	Executive Vice President, Chief Legal Officer

Michael J. Saxon	Executive Vice President, Chief Operating Officer
Harry Schlachter	Senior Vice President, Treasurer
Stephen B. Ungar	Senior Vice President, General Counsel and Secretary
Barry D. Zyskind	Chief Executive Officer, President, Director and 10%+ Shareholder

Attached hereto as **Exhibit 3** are original Affidavits for the above-referenced individuals. To the best knowledge, information and belief of Offeror, except as noted in one of the affidavits, none of such persons has been convicted in a criminal proceeding (excluding minor traffic violations) during the past ten (10) years. An organizational chart illustrating the ownership structure of Offeror is included in **Exhibit 2(c)(i)**, and please see the Annual Reports of Offeror for the years 2011 and 2012 included in **Exhibits 3(i) and 3(ii)**, respectively.

ITEM IV. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

(a) At Closing, Offeror will pay the Seller approximately $85 million in cash as the Purchase Price. Consummation of the Acquisition is not subject to any financing condition or other financing contingency. Offeror will have cash on hand sufficient to fund the entire purchase price. Notwithstanding, Offeror has access to a $200 million credit facility ("Credit Agreement"), which it may wish to access for some portion of the Purchase Price, depending on what Offeror considers to be the most efficient use of its capital. The Credit Agreement, a copy of which is attached as **Exhibit 4(a)**, was entered into on August 10, 2012 and provides for the extension of $200 million in loans to be available to Offeror and is between and among JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and SunTrust Bank, as Co-Syndication Agents, Associated Bank, National Association and Lloyds Securities Inc., as Co-Documentation Agents and various other lending institutions. The Credit Agreement is a revolving credit facility with a letter of credit sublimit of $100 million and an expansion feature not to exceed $100 million. Proceeds of borrowings under the Credit Agreement may be used for working capital, acquisitions and general corporate purposes. Borrowings under the Credit Agreement bear interest at either the Alternate Base Rate or the LIBO rate (both as defined in the Credit Agreement). ABR borrowings (which are borrowings bearing interest at a rate determined by reference to the Alternate Base Rate) under the Credit Agreement will bear interest at (x) the greatest of (a) the administrative agent's prime rate, (b) the federal funds effective rate plus 0.5 percent or (c) the adjusted LIBO rate for a one-month interest period on such day plus 1 percent, plus (y) a margin that is adjusted on the basis of the Offeror's consolidated leverage ratio.

(b) The Purchase Price will consist wholly of cash. The nature and amount of the consideration involved in the purchase of the Company were determined through arm's length negotiations between unrelated parties.

(c) Not applicable.

(d) No part of the Purchase Price consists in whole or in part of the insurance businesses or assets of the Insurer or any person controlled by the Insurer.

ITEM V. FUTURE PLANS OF INSURER

1. Except as otherwise provided in this Item V, Offeror has no plans or proposals to declare any extraordinary dividend, affect or cause the liquidation or merger of Insurer, sell the Insurer's assets, or make or cause any other major change in the Insurer's business operations or corporate structure or management.

a. ***Agreements with Affiliates***

(i) Tax Allocation Agreement. It is contemplated that immediately following the Closing, the Insurer and Offeror will become party to that certain Tax Sharing Agreement (the "Tax Allocation Agreement"). Concurrently herewith, notification under Iowa Code § 521A.1 *et seq.* is being provided to the Department with respect to the Tax Allocation Agreement.

(ii) Management Services Agreement. It is contemplated that immediately following the Closing, the Insurer will enter into a Management Services Agreement with Offeror. Under this agreement certain management services would be provided to the Insurer on an at-cost basis. Concurrently herewith, notification under Iowa Code § 521A.1 *et seq.* is being provided to the Division with respect to the Management Services Agreement.

(iii) General Agency Agreement. It is contemplated that immediately following the Closing, the Insurer will enter into a General Agency Agreement with Offeror's subsidiary, AmTrust North America, Inc. ("ANA"). Under this agreement certain agency, underwriting, policy administration and claims administration services would be provided to the Insurer. Concurrently herewith, notification under Iowa Code § 521A.1 *et seq.* is being provided to the Division with respect to the General Agency Agreement.

(iv) Intercompany Reinsurance Agreement. It is contemplated that immediately following the Closing, the Insurer will become party to that certain Intercompany Reinsurance Agreement (the "Intercompany Reinsurance Agreement"). Concurrently herewith, notification under Iowa Code § 521A.1 *et seq.* is being provided to the Division with respect to the Intercompany Reinsurance Agreement.

Approval (or non-disapproval) of the Tax Allocation Agreement, Management Services Agreement, General Agency Agreement and Intercompany Reinsurance Agreement by the Iowa Division of Insurance under Iowa Code § 521A.1 *et seq.* which are simultaneously being submitted on Form D is requested contemporaneous with the approval of the Acquisition that is the subject of this Amended Statement.

b. ***Changes in Business Operations***

Offeror does not anticipate any significant changes to the manner in which the Insurer conducts its business operations. Certain administrative functions currently being conducted by the Insurer will, in time, be integrated into the Offeror's operations.

Following the Closing, certain management personnel of Offeror will work with Insurer on plans to continue operating its property and casualty businesses. The Insurer currently conducts marketing, underwriting and profitability reviews which from time to time have led to operation and strategic changes. It is expected that this process will continue following the Closing, with input and oversight from certain management personnel of Offeror. Moreover, Offeror expects to make available to Insurer various resources from Offeror's current operations, including agency force information, marketing strategies, underwriting best practices, claims administration and information technology services. With improved technology and internal processes, it is expected that some operating structures will change and lower operating expenses will be realized. The Insurer's improved expense ratios are expected to boost the Insurer's profitability, and provide the opportunity for increased growth.

In addition, at Closing, the Insurer will terminate its current agreements with its affiliates, including the tax sharing agreement, managing underwriting agreements and other services agreements.

c. ***Projected Insurer's Financial Statements***

Attached hereto as **Exhibit 5(c)** for Insurer are preliminary statutory statements of admitted assets, liabilities and capital and surplus and preliminary statutory statements of operations and changes in capital and surplus of the Insurer as of December 31, 2012 on a historical basis; and as of December 31, 2013, 2014 and 2015 on a projected basis (the "Projected Financial Statements"). The Projected Financial Statements are based on assumptions and estimates that, while considered reasonable when taken as a whole, are inherently subject to significant uncertainties and contingencies many of which are beyond the control of the Insurer and Offeror. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions on which the projections are based will not materialize or will vary significantly from actual results. Consequently the inclusion of the Projected Financial Statements herein should not be regarded as a representation by the Insurer or Offeror or any other person or entity of the results that will actually be achieved.

d. ***Changes in Management.***

Offeror will reconstitute the Insurer's board of directors with the following persons at Closing:

Harry C. Crowell
Walter A. Crowell
Sam Zaza
Adam Karkowsky
Stephen Ungar
Harry Schlachter
Stuart Hollander

Individual Affidavits for the Insurer's new directors are attached hereto. *See* **Exhibit 3**, *supra.*

2. Pursuant to the Stock Purchase Agreement, the Seller has agreed to sell all of the issued and outstanding stock of the Company to Offeror at the Closing (which stock includes ownership of all of the outstanding stock of the Insurer). At the Closing, Offeror will pay the consideration for such shares as described in Item IV hereof.

3. Upon consummation of the Acquisition, the Insurer will be the indirect wholly-owned subsidiary of Offeror, with its comparative financial and legal positions remaining unchanged.

4. Not Applicable.

5. Not Applicable.

6. Upon consummation of the Acquisition, executive officers for the Insurer will be as follows:

Name	Title
Walter A. Crowell	President and Chief Executive Officer
Harry C. Crowell	Chairman of the Board
Sam Zaza	Sr. Vice President, Finance, Chief Financial Officer
Daniel Young	Sr. Vice President, Chief Underwriting Officer and Assistant Secretary
Blaine Williamson	Sr. Vice President, Field Operations
Steven A. Gaines	Vice President
Harry Schlachter	Treasurer
Stephen Ungar	Secretary
Barry Moses	Assistant Secretary
Janie Clark	Assistant Secretary
Rosanne Nolan	Assistant Secretary

ITEM VI. VOTING SECURITIES TO BE ACQUIRED

The Company has issued a total of one hundred thousand (100,000) shares of its common stock, no par value, outstanding, which constitute all the issued and outstanding voting securities of the Company (the “Company Shares”). The Company, in turn, owns all of the Insurer’s outstanding common shares. None of the other persons listed in Item III hereof will acquire either any of the Company Shares or the Insurer’s shares, pursuant to the Stock Purchase Agreement. The terms of the Acquisition are set forth in the Stock Purchase Agreement. The method by which Offeror arrived at the value assigned to the Company Shares sought to be acquired was by means of arm’s-length negotiations between the parties.

ITEM VII. OWNERSHIP OF VOTING SECURITIES

Except for the right of Offeror to acquire the Company Shares pursuant to the Stock Purchase Agreement, as of the date of this Amended Statement, none of Offeror, the Offeror Shareholders, its affiliates or any other person listed in Item III: (a) beneficially owns any voting security of the Company, or any security which may be converted into voting securities of the Company; or (b) has the right to acquire beneficial ownership of any voting security of the Company, or of any security which may be converted into voting securities of the Company.

ITEM VIII. CONTRACTS, AGREEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE COMPANY

Except for the right of Offeror to acquire the Company Shares pursuant to the Stock Purchase Agreement, as of the date of this Amended Statement, none of Offeror, the Offeror Shareholders, its affiliates or any other person listed in Item III is involved in any contract, arrangement or understanding with respect to any voting security of the Company, including but not limited to transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits or the giving or withholding of proxies.

ITEM IX. RECENT PURCHASES OF VOTING SECURITIES

There have been no purchases of any voting securities of the Company by any of Offeror, its affiliates, the Offeror Shareholders, or any other person listed in Item III during the twelve (12) calendar months preceding the date of this Amended Statement.

ITEM X. RECENT RECOMMENDATIONS TO PURCHASE

None of Offeror, its affiliates, the Offeror Shareholders, or any person listed in Item III has made any written or oral recommendations to purchase any voting security of the Company during the twelve (12) calendar months preceding the date of this Amended Statement.

ITEM XI. AGREEMENTS WITH BROKER-DEALERS

No agreement, contract or understanding has been made by Offeror, its affiliates, the Offeror Shareholders, or any person listed in Item III with any broker-dealer as to solicitation of voting securities of the Company for tender and no amount of fees, commissions, or other compensation have been paid by Offeror, its affiliates or any person listed in Item III above to broker-dealers with regard to solicitation of voting securities of the Company for tender.

ITEM XII. FINANCIAL STATEMENTS AND EXHIBITS

(a) and (b) A complete index to the Exhibits of this Amended Statement

Exhibit Number	Description
1(a)	Stock Purchase Agreement with Exhibits
2(c)(i)	Offeror Organizational Chart as of June 30, 2013
2(c)(ii)	Offeror Organizational as of the Closing
3	Individual Affidavits for Individuals Listed in Item III
3(i)	AmTrust annual report on Form 10-K for fiscal years ended December 31, 2011, as filed with the Securities and Exchange Commission.
3(ii)	AmTrust annual report on Form 10-K for fiscal years ended December 31, 2012, as filed with the Securities and Exchange Commission.
4(a)	Credit Agreement
5(c)	Financial Projections of Insurer

ITEM XIII. SIGNATURES AND CERTIFICATIONS

SIGNATURE

Pursuant to the requirements of Iowa Code § 521A.3 AmTrust Financial Services, Inc. has caused this Amended Statement to be duly signed on its behalf in New York, NY, on the 12th day of December, 2013.

AMTRUST FINANCIAL SERVICES, INC.

By: [signature]

Stephen B. Ungar
Senior Vice President, Secretary and General Counsel

Attest;

[signature]

Harry Schlachter, Senior Vice President, Treasurer

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached Amended Statement dated Dec. 13, 2013, for and on behalf of AmTrust Financial Services, Inc., that he is the Senior Vice President, Secretary and General Counsel of such company, and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

[signature]

Stephen B. Ungar

Subscribed and sworn to me this 12th day of December, 2013.

Erin Harker

Notary Public

My commission expires on: 9/24/16

ERIN M HARKER
Notary Public, State of New York
No. 01HA6269199
Qualified in Westchester County
Commission Expires September 24, 2016

EXECUTION VERSION

STOCK PURCHASE AGREEMENT

by and among

CROWELL FAMILY LIMITED PARTNERSHIP,

AMTRUST FINANCIAL SERVICES, INC.

and

THE OTHER PARTIES LISTED ON THE SIGNATURE PAGES HERETO

Dated as of September 18, 2013

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STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT, dated as of September 18, 2013 (this "Agreement"), is made by and among (a) AmTrust Financial Services, Inc., a Delaware corporation ("Buyer"), (b) the Crowell Family Limited Partnership, a limited partnership organized under the laws of the State of California ("Seller") and (c) solely for purposes of Section 9, hereof, Harry Crowell (the "Indemnifying Principal") and Walter Crowell (together with the Indemnifying Principal, the "Principals"). Capitalized terms used herein shall have the meanings assigned to such terms in the text of this Agreement or in Section 9.1.

R E C I T A L S:

WHEREAS, Seller owns all of the issued and outstanding shares of the common stock, no par value, of Insco Insurance Services, Inc. (the "Company"), a California corporation (the "Shares"); and

WHEREAS, Seller wishes to sell the Shares to Buyer, and Buyer wishes to purchase the Shares from Seller, on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, the parties agree as follows:

ARTICLE 1

Sale and Purchase of Shares

Section 1.1 Purchase and Sale. In consideration for the sale and transfer of the Shares, and upon the terms and subject to the conditions of this Agreement, Buyer shall pay to Seller an amount equal to (a) $85,000,000, plus (b) the TBV Excess, if any, minus (c) the TBV Shortfall, if any (the "Purchase Price"), in cash, payable in accordance Sections 1.2, 1.4 and 1.5, and Seller shall sell, transfer, assign, convey and deliver to Buyer, all of the Shares, free and clear of any Liens.

Section 1.2 Closing. The closing of the sale and purchase of the Shares (the "Closing") shall take place remotely via the exchange of documents and signatures at 10:00 a.m. on the day that is three (3) Business Days after all conditions to closing set forth in ARTICLE 5 have been fully satisfied or have been waived in writing (other than those conditions that by their terms are to be satisfied at the Closing but subject to the satisfaction or waiver of those conditions at such time), unless another time, date or place is agreed to in writing by the parties. The date on which the Closing actually occurs is referred to hereinafter as the "Closing Date". Buyer shall be deemed to be the owner of the Shares as of the Closing Date. At the Closing:

(a) Seller shall deliver to Buyer:

(i) one or more certificates representing all of the Shares, duly endorsed in blank or accompanied by stock powers or other instruments of transfer duly executed in blank, and bearing or accompanied by all requisite stock transfer stamps;

(ii) a reasonably current long-form good standing certificate (or equivalent document) for each of the Acquired Companies issued by the respective jurisdiction of incorporation or formation of each Acquired Company;

(iii) a copy of the Organizational Documents of each of the Acquired Companies, certified by an officer of the applicable Acquired Company;

(iv) the original corporate record books and stock record books of the Acquired Companies;

(v) the stock or unit certificates, as the case may be, evidencing all of the issued and outstanding shares of the capital stock or other equity interests of each Acquired Company, other than the Shares;

(vi) all of the consents listed on Sections 2.2(b)(i), 2.2(b)(ii) and Section 2.3 of the Seller Disclosure Letter;

(vii) written resignations of each director or manager, as the case may be, of the Acquired Companies listed on Section 1.2(a)(vii) of the Seller Disclosure Letter;

(viii) a certificate of Seller attesting to the matters set forth in Section 5.2(a); and

(ix) a release, in substantially the form attached hereto as Exhibit A, duly executed by Seller.

(b) On the Closing Date, Buyer shall pay to Seller, by wire transfer of immediately available funds, amounts equal to the Estimated Purchase Price to an account or accounts designated by Seller, at least two (2) Business Days prior to the Closing Date.

(c) On the Closing Date, Buyer shall deliver to Seller a certificate of Buyer attesting to the matters set forth in Section 5.3(a).

Section 1.3 Estimated Closing Balance Sheet; Final Closing Balance Sheet.

(a) At least five (5) Business Days prior to the Closing Date, Seller shall deliver to Buyer a pro forma balance sheet of the Acquired Companies as of the Pre-Closing Month End determined on a combined basis in accordance with GAAP that shall include a calculation of the Estimated Purchase Price, the Estimated TBV Shortfall or the Estimated TBV Excess, as applicable, and the Estimated Tangible Book Value (the "Estimated Closing Balance Sheet").

(b) Not later than ninety (90) days after the Closing Date, Buyer shall cause the combined balance sheet of the Acquired Companies to be prepared as of the close of business on the Closing Date in accordance with GAAP, and shall deliver such balance sheet to Seller (the "Preliminary Closing Balance Sheet"), which balance sheet shall include Buyer's calculation of the Purchase Price, the TBV Shortfall or the TBV Excess, as applicable, and the Tangible Book Value as of the Closing Date (the "Purchase Price Calculations").

(c) If, within sixty (60) days following its receipt of the Preliminary Closing Balance Sheet, Seller does not dispute the Preliminary Closing Balance Sheet or the Purchase Price Calculations, the Preliminary Closing Balance Sheet shall be deemed to be the combined balance sheet of the Acquired Companies as of the close of business on the Closing Date (the "Final Closing Balance Sheet") and the final Purchase Price, the final TBV Excess or the final TBV Shortfall, as applicable, and the final Tangible Book Value shall equal the amounts set forth in the Purchase Price Calculations.

(d) In the event Seller has any dispute with regard to the Preliminary Closing Balance Sheet or the Purchase Price Calculations, such dispute shall be resolved in the manner described in this Section 1.3(d). Seller shall notify Buyer in writing of such dispute within sixty (60) days after Seller's receipt of the Preliminary Closing Balance Sheet, which notice shall specify in reasonable detail the nature of the dispute.

(i) During the forty-five (45) day period following Buyer's receipt of such notice, Buyer and Seller shall attempt to resolve such dispute and to determine the final calculation of the Purchase Price.

(ii) If, at the end of the forty-five (45) day period specified in subsection (d)(i) above, Buyer and Seller shall have failed to reach a written agreement with respect to all or a portion of such dispute (those items that remain in dispute at the end of such period referred to as the "Unresolved Changes"), the matter shall be referred to an accounting firm (the "Outside Accountants") jointly selected by Seller and Buyer for review and resolution of any and all matters (but only such matters) which remain in dispute. Buyer and Seller shall instruct their respective accountants to select the Outside Accountants in good faith within ten (10) days. If Buyer's and Seller's accountants shall not have agreed upon the Outside Accountants within such ten (10) day period, within an additional five (5) days, they shall each designate an Outside Accountant who has not performed work in the last two (2) years for either Seller or Buyer and with experience in the insurance and surety business and the Outside Accountants shall be selected by lot from those two accounting firms. If only one of Seller's or Buyer's accountants shall so designate a name of an accounting firm for selection by lot, such accounting firm so designated shall be the Outside Accountants.

(iii) Each party hereto agrees to execute, if requested by the Outside Accountants, a reasonable engagement letter. All fees and expenses relating to the work, if any, to be performed by the Outside Accountants shall be borne *pro rata* by Seller and Buyer in inverse proportion to the allocation of the dollar amount of the Unresolved Changes, in the aggregate, between Buyer and Seller made by the Outside Accountants such that the party with whom the Outside Accountants agree more closely pays a lesser proportion of the fees and expenses. The Outside Accountants shall act as an arbitrator to determine, based solely on the provisions of this Agreement and the presentations by Seller and Buyer, or representatives thereof, and not by independent review, only the resolution of the Unresolved Changes. The

Outside Accountants' resolution of the Unresolved Changes, which for each of the Unresolved Changes shall be within the range of values of the amount claimed by either party as to any of the Unresolved Changes, shall be made within sixty (60) days of the submission of the Unresolved Changes to the Outside Accountants and shall be set forth in a written statement delivered to Seller and Buyer and shall be deemed to be mutually agreed upon by Buyer and Seller for all purposes of this Agreement. Any changes to the Preliminary Closing Balance Sheet resulting from such resolution of the Unresolved Changes shall be made, and such Preliminary Closing Balance Sheet, as so changed, shall be the Final Closing Balance Sheet and the final Purchase Price, the final TBV Excess or the final TBV Shortfall, as applicable, and Tangible Book Value as of the close of business on the Closing Date shall be the amounts recalculated to reflect the Final Closing Balance Sheet.

(e) At all times prior to the determination of the Final Closing Balance Sheet, the final Purchase Price, the final TBV Excess or the final TBV Shortfall, as applicable, and the Tangible Book Value, Buyer shall, and shall cause the Acquired Companies to, cooperate fully with Seller and Seller's authorized representatives, including providing, on a timely basis, all information necessary or useful in reviewing the Preliminary Closing Balance Sheet, and require Acquired Company Employees who remain employees of the Acquired Companies following the Closing Date to assist Seller and Seller's authorized representatives in the review of the Preliminary Closing Balance Sheet and the Purchase Price Calculations.

(f) Notwithstanding anything to the contrary contained herein:

(i) The accounting principles for determining (A) the Preliminary Closing Balance Sheet and the Final Closing Balance Sheet, or (B) the Purchase Price Calculations, shall be the same GAAP principles applied in such Insco Insurer's past practices; and

(ii) In the event the Closing Date shall not be the end of a fiscal quarter end, the reserves of each Insco Insurer as of the Closing Date reflected in the Final Closing Balance Sheet shall be calculated and determined using the Reserving Practices and Procedures applicable to the preparation of the balance sheet of such Insco Insurer as of such fiscal quarter end.

Section 1.4 Adjustment to Purchase Price. If, the Estimated Purchase Price shall exceed the final Purchase Price determined pursuant to Section 1.3, the Seller shall pay to Buyer, as an adjustment to the Purchase Price, in a manner and with interest as provided in Section 1.6, the amount of such excess. If, the Estimated Purchase Price is less than the final Purchase Price determined pursuant to Section 1.3, Buyer shall pay to Seller, as an adjustment to the Purchase Price, in a manner and with interest as provided in Section 1.6, the amount of such deficiency.

Section 1.5 No Basis for Other Claims. To the extent that any matter is taken into account in the determination of the final Purchase Price, such matter shall not also be the basis for any claim against any Party for any misrepresentation or the breach of any representation or warranty made by any Party contained in this Agreement or any transaction document or any certificate delivered by any Party in connection with the transactions contemplated hereby, except for claims relating to fraud or willful misconduct.

Section 1.6 Payment and Interest.

(a) Any payment pursuant to Section 1.4 shall be made by the party obligated to make such payment within five (5) Business Days after the Purchase Price has been finally determined, by wire transfer to the party entitled to receive such payment of immediately available funds to an account designated by such recipient.

(b) The amount of any payment pursuant to Section 1.4 shall bear interest from and including the Closing Date but excluding the date of payment at the Applicable Rate.

ARTICLE 2

Representations and Warranties of Seller and the Principals

Except as set forth in the Seller Disclosure Letter, each of Seller and, solely for purposes of Section 2.2, Section 2.3 and Section 2.14(c), the Principals, represent and warrant to Buyer as follows:

Section 2.1 Corporate Status. Seller is a limited partnership duly organized, validly existing and in good standing under the laws of the State of California and the Company is an corporation duly organized, validly existing and in good standing under the laws of the State of California. Each of Seller and the Company has all requisite limited partnership or corporate power and authority to carry on its business as now conducted. The Company is duly qualified to do business as a foreign corporation and is in good standing (where such concept is recognized) in all jurisdictions in which it is required to be so qualified or in good standing, except where the failure to be so qualified or in good standing would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

Section 2.2 Corporate and Governmental Authorization.

(a) Seller has all requisite limited partnership power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Seller, the performance of Seller's obligations hereunder and the consummation of the transactions contemplated hereby have been duly authorized by all requisite limited partnership action of Seller. Seller and each of the Principals has duly executed and delivered this Agreement. This Agreement constitutes the legal, valid and binding obligation of Seller and each of the Principals, enforceable against each of them respectively in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium, receivership or similar Laws relating to or affecting creditors' rights generally and by general principles of equity (whether considered at law or in equity).

(b) The execution and delivery of this Agreement by Seller and the Principals and the performance of their respective obligations hereunder require no action on their part by or in respect of, or filing with, any Governmental Authority to which Seller is subject, other than (i) to the Knowledge of Seller, the approvals, filings and notices required under the Insurance Laws set forth in Section 2.2(b)(i) of the Seller Disclosure Letter, (ii) to the Knowledge of Seller, such other consents, approvals, authorizations, declarations, filings or notices as are set forth in Section 2.2(b)(ii) of the Seller Disclosure Letter, and (iii) any other actions or filings under Laws the absence of which would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect or to materially adversely affect the ability of any of Seller or the Principals to perform its respective obligations hereunder.

Section 2.3 Non-Contravention. The execution and delivery of this Agreement by Seller and the Principals and the performance of their respective obligations hereunder do not (a) conflict with or breach any provision of the Organizational Documents of Seller, or any of the Acquired Companies, (b) assuming compliance with the matters referred to in Section 2.2(b), conflict with or breach any provision of any applicable Law which Seller or any of the Acquired Companies is subject to, (c) other than the consents, approvals, authorizations, declarations, filings or notices as are set forth in Section 2.2(b)(i) - (ii) and Section 2.3 of the Seller Disclosure Letter, require any consent, approval, authorization, declaration, filing or notice or other action of by any Person under, constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under, or cause or permit termination, cancellation, acceleration or other change of any right or obligation or the loss of any benefit under, any provision of a Material Contract, any material Permit affecting any of the Acquired Companies or any Insurance License of an Insco Insurer, or (d) result in the creation or imposition of any Lien other than Permitted Liens on any Asset or any Share.

Section 2.4 Capitalization; Title to Shares.

(a) The authorized capital stock of the Company consists of 100,000 shares of common stock, no par value, of which only the Shares are issued and outstanding. The Shares have been duly authorized and validly issued and are fully paid and nonassessable. Seller owns the Shares, beneficially and of record, free and clear of any Liens.

(b) There are no outstanding (i) shares of capital stock of or other voting or equity interests in the Company, (ii) securities, bonds, debentures or Indebtedness of the Company convertible into or exercisable or exchangeable for shares of capital stock of or other voting or equity interests in the Company, (iii) options, warrants or other rights or agreements or commitments of any kind to acquire from any Acquired Company, or other obligation of Seller or any of the Acquired Companies to issue, transfer or sell, any shares of capital stock of or other voting or equity interests in the Company or securities, bonds, debentures or Indebtedness convertible into or exercisable or exchangeable for shares of capital stock of or other voting or equity interests in the Company, (iv) voting trusts, proxies or other similar agreements or understandings to which Seller or any of the Acquired Companies is a party or by which Seller or any of the Acquired Companies is bound with respect to the voting of any shares of capital stock of or other voting or equity interests in any of the Acquired Companies or (v) except as set forth in Section 2.4(b)(v) of the Seller Disclosure Letter, contractual obligations or commitments of any character restricting the transfer of, or requiring the registration for sale of, any shares of capital stock of or other voting or equity interests in any of the Acquired Companies (the items in clauses (i), (ii) and (iii) being referred to collectively as the "Acquired

Company Securities"). There are no outstanding obligations of the Acquired Companies to repurchase, redeem or otherwise acquire any Acquired Company Securities.

(c) None of the Acquired Companies has outstanding bonds, debentures, notes or other securities, other than as referred to in this Section 2.4 and Section 2.5.

Section 2.5 Subsidiaries; Ownership Interests.

(a) Each Insco Subsidiary is duly organized, validly existing and in good standing (where such concept is recognized) under the laws of its jurisdiction of formation and has all corporate or limited liability company powers, as applicable, required to carry on its business as now conducted. Each Insco Subsidiary is duly qualified to do business as a foreign corporation or limited liability company, as applicable, and is in good standing (where such concept is recognized) in all jurisdictions in which it is required to be so qualified or in good standing, except where the failure to be so qualified or in good standing would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect. The authorized, issued and outstanding shares of capital stock of and other voting or equity interests in all Insco Subsidiaries, the respective jurisdictions of formation of such Insco Subsidiaries and the Company's direct or indirect ownership interest in such Insco Subsidiaries are identified in Section 2.5(a) of the Seller Disclosure Letter.

(b) All of the outstanding shares of capital stock of and other voting or equity interests in each Insco Subsidiary have been duly authorized and validly issued, fully paid and nonassessable and are owned beneficially and of record by the Company or one of its wholly owned Insco Subsidiaries as set forth in Section 2.5(a) of the Seller Disclosure Letter, free and clear of any Liens.

(c) Except as set forth in Section 2.5(a) of the Seller Disclosure Letter, there are no outstanding (i) shares of capital stock of or other voting or equity interests in any Insco Subsidiary, (ii) securities, bonds, debentures or Indebtedness of any of Insco Subsidiaries convertible into or exercisable or exchangeable for shares of capital stock of or other voting or equity interests in any Insco Subsidiary or (iii) options, warrants or other rights or agreements, commitments or understandings of any kind to acquire from the Acquired Companies, or other obligation of Seller, or any of the Insco Subsidiaries to issue, transfer or sell, any shares of capital stock of or other voting or equity interests in any Insco Subsidiary or securities, bonds, debentures or Indebtedness convertible into or exercisable or exchangeable for shares of capital stock of or other voting or equity interests in any Insco Subsidiary (the items in clauses (i), (ii) and (iii) being referred to collectively as the "Subsidiary Securities"). There are no outstanding obligations of any of the Acquired Companies to repurchase, redeem or otherwise acquire any Subsidiary Securities.

(d) Except as set forth in Section 2.5(d) of the Seller Disclosure Letter, none of the Acquired Companies owns any shares of capital stock of or other voting or equity interests in (including any securities exercisable or exchangeable for or convertible into shares of capital stock of or other voting or equity interests in) any other Person.

Section 2.6 Financial Statements; Accounting Controls.

(a) Seller has delivered to Buyer copies of the audited combined balance sheet and audited combined statement of income or operations, cash flows and retained earnings or shareholders' equity of the Acquired Companies, at and for the periods ended December 31, 2011 and 2012 (the "Financial Statements") and the unaudited combined balance sheet and unaudited combined statement of income or operations, cash flows and retained earnings or shareholders' equity of the Acquired Companies, at and for the five-month period ended on the Balance Sheet Date (the "Interim Financial Statements" and, together with the Financial Statements, the "GAAP Financial Statements"). The GAAP Financial Statements have been, and the Subsequent GAAP Financial Statements will be, prepared in accordance with United States generally accepted accounting principles applied on a consistent basis and, except as expressly noted in this Section 2.6, present fairly in all material respects the combined financial position, results of operations and cash flows of the Acquired Companies at and for the respective periods indicated ("GAAP"), subject, in the case of the Interim Financial Statements, to the absence of footnote disclosure and customary year-end adjustments. Seller has delivered to Buyer complete copies of the audited Statutory Statements of each Insco Insurer at and for the periods ended December 31, 2011 and 2012, together with the report of such Insco Insurer's independent auditors thereon (the "Audited SAP Financial Statements"). The Audited SAP Financial Statements have been, and the Subsequent Period Statutory Statements will be, prepared in accordance with SAP applied on a consistent basis (except as may be indicated in the notes thereto) and, except as expressly noted in this Section 2.6, present fairly in all material respects in accordance with SAP the financial position and results of operations of the respective Insco Insurer at and for the respective periods indicated. Notwithstanding any other terms and conditions as set forth in this Agreement, Seller does not make any representations and warranties as to the adequacy or sufficiency of any reserves for insurance liabilities of the Acquired Companies.

(b) Since December 31, 2008, each of the Insco Insurers has filed all required annual and quarterly statements, together with all exhibits, interrogatories, notes, actuarial opinions, affirmations, certifications, schedules or other material supporting documents in connection therewith, required to be filed with the applicable Insurance Department for the jurisdiction in which it is, or was for the period of time covered by the filing, domiciled or "commercially domiciled" on forms prescribed or permitted by such authority.

(c) No material deficiency has been asserted in writing with respect to any of the Statutory Statements of the Insco Insurers by any Insurance Department since January 1, 2009.

(d) Without limiting the generality of Section 2.6(a), all reserves and other liabilities for claims, losses (including, without limitation, incurred but not reported losses), loss adjustment expenses (whether allocated or unallocated) and unearned premium, as reflected in the Audited SAP Financial Statements and the Subsequent Period Statutory Statements (i) were (or will be) determined in accordance with generally accepted actuarial standards consistently applied throughout the specified periods and the immediately prior periods, using actuarial assumptions that were developed on a basis consistent with historical analysis applied with respect to the Business, (ii) are fairly stated in accordance with sound actuarial and statutory accounting principles, (iii) are in compliance in all material respects with the requirements of applicable Law, including, without limitation, insurance laws, and (iv) have been computed in all material respects on the basis of Reserving Practices and Policies consistent with those used in computing the corresponding reserves since January 1, 2009, except as otherwise noted in the Statutory Statements of the Insco Insurers and notes thereto. Seller has delivered to Buyer copies of all work papers reasonably requested by Buyer that were or are used as the basis for establishing reserves for the Business of the Insco Insurers. To the Knowledge of Seller, no facts or circumstances exist as of the date of this Agreement which, in the aggregate, would necessitate any increase of more than $5 million in the statutorily required reserves of the Insco Insurers above those reflected in the most recent balance sheets included in the Statutory Statements of the Insco Insurers. Each of the Insco Insurers owns assets that qualify as admitted assets under applicable Laws in an amount at least equal to any such required reserves plus its minimum statutory capital and surplus as required under applicable Law. No reserves of any of the Insco Insurers have been discounted on either a tabular or non-tabular basis.

(e) Seller has made available to Buyer copies of all material actuarial reports prepared by actuaries, independent or otherwise, with respect to the Business and provided to the Insco Insurers since December 31, 2009 and all material attachments, opinions, certifications, addenda, supplements and modifications referenced therein (the "Actuarial Analyses"). The information and data furnished by Seller and its Affiliates in connection with the preparation of the Actuarial Analyses was complete and accurate in all material respects as of the respective dates such Actuarial Analyses were prepared.

(f) Seller has made available to Buyer copies of all material analyses and reports submitted by any Insco Insurer to any applicable Insurance Department since January 1, 2009 relating to risk-based capital calculations. Such analyses and reports are true and accurate in all material respects as of the respective dates in which such analyses and reports were prepared.

(g) Seller has made available for inspection by Buyer (i) any reports of examination (including, without limitation, financial, market conduct and similar examinations) of any Insco Insurer since December 31, 2007 and (ii) all other holding company filings or submissions made by or with respect to any Insco Insurer with any applicable Insurance Department since December 31, 2008. Except as set forth in Section 2.6(g)(i) of the Seller Disclosure Letter, all material deficiencies or violations noted in the examination reports described in clause (i) above have been resolved to the material satisfaction of the applicable Insurance Department that noted such deficiencies or violations. Each of the Acquired Companies has filed all material reports, statements, documents, registrations, filings or submissions required to be filed with any Insurance Department since December 31, 2009. All such registrations, reports, statements, documents, filings and submissions were in material compliance with applicable Law when filed and no material deficiencies have been asserted by any Insurance Department with respect to such registrations, filings or submissions that have not been resolved. Except as set forth in Section 2.6(g)(ii) of the Seller Disclosure Letter, no Insco Insurer is "commercially domiciled" under the applicable Law of any jurisdiction or is otherwise treated as domiciled in a jurisdiction other than its respective jurisdiction of organization.

(h) Since December 31, 2009, each of the Insco Insurers has been in material compliance with, and has adhered in all material respects, to its underwriting guidelines.

(i) Each of the Acquired Companies maintains books and records reflecting its assets and liabilities and maintains proper and adequate internal accounting controls over financial reporting to assist in reasonably assuring that (i) transactions are executed with management's authorization; (ii) transactions are recorded as necessary to permit preparation of the financial statements of the Acquired Companies and to maintain accountability for its assets; (iii) access to assets is permitted only in accordance with management's authorization; and (iv) accounts, notes and other receivables and inventory are recorded accurately, and proper and adequate procedures are implemented to effect the collection thereof on a current and timely basis. Neither the auditors nor the board of directors nor any similar governing body of any of the Acquired Companies, Seller or any of their respective corporate parents have been advised of: (x) any significant deficiencies or material weaknesses in the design or operation of the internal controls over financial reporting (as such term is defined in Section 13(1)(2)(B) and Rules 13d-15(d) and 15d-15(d) of the Exchange Act) of any of the Acquired Companies that could adversely affect its ability to record, process, summarize and report financial data, or (y) any fraud, whether or not material, that involves management or other employees who have a role in the internal controls over financial reporting of any of the Acquired Companies.

(j) Other than investment gains or losses incurred in connection with the Acquired Companies' respective investment portfolios, no capital gains or losses, whether realized or unrealized, have been recorded on the books of any of the Acquired Companies for the period from December 31, 2012 through the Balance Sheet Date except as set forth in Section 2.6(j) of the Seller Disclosure Letter.

(k) Section 2.6(k) of the Seller Disclosure Letter constitutes a full and complete list of all the bank accounts, including escrow and investment custodial accounts, for each of the Acquired Companies, together with the names of Persons authorized to draw thereon. Except as set forth in Section 2.5(c) of the Seller Disclosure Letter and for securities on deposit with Government Entities, all cash and securities in such accounts are not subject to any restriction or limitation as to withdrawal.

Section 2.7 No Undisclosed Liabilities. Except (a) for liabilities and obligations disclosed or reserved against in the Interim Financial Statements as at and for the five-month period ended on the Balance Sheet Date, (b) for liabilities and obligations incurred in the ordinary course of business since the Balance Sheet Date and (c) liabilities and obligations set forth in Section 2.7 of the Seller Disclosure Letter, the Acquired Companies (other than the Insco Insurers) have not incurred any liabilities or obligations. For the avoidance of doubt, nothing in this Section 2.7 shall be deemed to be a representation or warranty as to the adequacy or sufficiency of any reserves for insurance liabilities of the Acquired Companies.

Section 2.8 Absence of Certain Changes. Since the Balance Sheet Date, except as otherwise contemplated by this Agreement, (a) the business of the Acquired Companies has been conducted in all material respects in the ordinary course of business, (b) there has been no Material Adverse Effect and (c) no Acquired Company has taken any action or failed to take any action that would be in violation of Section 4.1.

Section 2.9 Material Contracts.

(a) Except as disclosed in Section 2.9 of the Seller Disclosure Letter, none of the Acquired Companies is a party to or bound by:

(i) any mortgage, indenture, loan or credit agreement, security agreement, or other agreement relating to Indebtedness (whether incurred, assumed, guaranteed or secured by any asset), the borrowing of money or extensions of credit or Liens upon any of the assets or properties of any Acquired Company;

(ii) any joint venture, partnership, limited liability company or other similar agreements or arrangements (including any agreement providing for joint research, development or marketing);

(iii) except in the case of the issuance of surety bonds in the ordinary course of business, any warranty, guaranty, and or other similar undertaking with respect to the obligations of any Person;

(iv) contract for the employment of any officer, individual employee or other Person on a full-time, part-time, consulting or other basis or relating to loans to officers, directors or Affiliates;

(v) any agreement or series of related agreements, including any option agreement, relating to the acquisition or disposition of any business, capital stock or assets of any other Person or any material real property (whether by merger, sale of stock, sale of assets or otherwise);

(vi) any agreement that (A) materially limits the freedom of any of the Acquired Companies to compete in any line of business or with any Person or in any area or that would so limit the freedom of Buyer or its Affiliates or the Acquired Companies after the Closing or (B) contains material exclusivity obligations or restrictions binding on the Acquired Companies or that would be binding on Buyer or any of its Affiliates after the Closing;

(vii) any agreement or series of related agreements for the purchase of materials, supplies, goods, services, equipment or other assets that provides for aggregate payments by the Acquired Companies over the remaining term of such agreement or related agreements of $50,000 or more or under which the Acquired Companies made payments of $20,000 or more during the five-month period ending on the Balance Sheet Date;

(viii) any lease, sublease, license or rental or use contract personal property (other than Intellectual Property) providing for annual rental payments in any case in excess of $25,000 (whether any Acquired Company is lessor, lessee, licensor or licensee);

(ix) any sales, distribution, brokerage, agency, producer or other similar agreement providing for the sale of services by the Acquired Companies;

(x) any agreement relating to any interest rate, derivatives or hedging transaction;

(xi) any agreement (including any "take-or-pay" or keepwell agreement) under which (A) any Person has directly or indirectly guaranteed any liabilities or obligations of the Acquired Companies or (B) any of the Acquired Companies has directly or indirectly guaranteed any liabilities or obligations of any other Person (in each case other than endorsements for the purpose of collection in the ordinary course of business); or

(xii) any other agreement which is material to the operations and business prospects of the Acquired Companies and involves a consideration in excess of $100,000 annually.

(b) Each agreement, commitment, arrangement or plan disclosed in the Seller Disclosure Letter pursuant to this Section 2.9 or Section 2.10(d), 2.11(g), 2.13(g), 2.18(a), 2.22(a) or 2.23 (each, a "Material Contract") is a valid and binding agreement of the Acquired Companies (subject to the effects of applicable bankruptcy, clarification, insolvency, fraudulent conveyance, moratorium, sponsorship or other Laws relating to or affecting creditors' rights generally and to general principles of equity, whether considered at law or in equity) and is in full force and effect, and none of the Acquired Companies or, to the Knowledge of Seller, any other party thereto is in default or breach in any material respect under (or is alleged to be in default or breach in any material respect under) the terms of, or has provided or received any notice of any intention to terminate, any such Material Contract, and, to the Knowledge of Seller, no event or circumstance has occurred that, with notice or lapse of time or both, would constitute an event of default thereunder or result in a termination thereof or would cause or permit the acceleration of or other changes of or to any right or obligation or the loss of any benefit thereunder. Seller has provided Buyer with a true and correct copy of each Material Contract and an accurate description of each of the oral Material Contracts, together with all amendments, waivers or other changes thereto.

Section 2.10 Properties.

(a) Title to Assets. Except as expressly noted in this Agreement, the Acquired Companies have good and valid title to, or otherwise have the right to use pursuant to a valid and enforceable lease all buildings, improvements, equipment and other material assets (real and personal, tangible and intangible) shown on the Interim Financial Statements or acquired after the date thereof, or otherwise used in connection with the operation of the Business in the manner presently operated by the Acquired Companies (collectively, the "Assets"), in each case free and clear of any Lien other than Permitted Liens. Notwithstanding any representations and warranties in this Section 2.10, Seller's representations and warranties regarding ownership rights in or right to use Intellectual Property shall be expressly limited to the representations and warranties set forth in Section 2.11 below.

(b) Sufficiency of Assets. Except as set forth on Section 2.10(b) of the Seller Disclosure Letter, the Assets constitute such properties, rights and assets necessary and sufficient for the conduct of the Business by the Acquired Companies immediately following the Closing in the same manner as currently being conducted.

(c) Owned Real Property. Except as set forth on Section 2.10(c) of the Seller Disclosure Letter, no Acquired Company has ever owned any real property.

(d) Leased Real Property. Section 2.10(d) of the Seller Disclosure Letter lists all leases (including subleases) of real property (the "Leased Real Property") to which any Acquired Company is a party (the "Leases"). Each Acquired Company holds a valid leasehold estate, free and clear of all Liens, except Permitted Liens, to each Lease to which it is a party. The Leases are in full force and effect in all material respects and, as of the date hereof, Seller has not received a written notice of default or termination with respect to any of the Leases. Except as set forth in Section 2.10(d) of the Seller Disclosure Letter, there has not occurred any event nor has Seller received any written notice of any default or event that with notice or lapse of time, or both, would constitute a material breach by any Acquired Company of, or material default by any Acquired Company in, the performance of any covenant, agreement or condition contained in any Lease, and to the Knowledge of Seller, no lessor under a Lease is in material breach or default in the performance of any covenant, agreement or condition contained in such Lease. The Acquired Companies have paid all rents and other charges to the extent due under the Leases.

(e) Section 2.10(e) of the Seller Disclosure Letter contains a list of all of the tangible personal property currently used by any Acquired Company or otherwise currently used in the Business, excluding those Assets having a book value per item as of the date of this Agreement of less than $10,000.

Section 2.11 Intellectual Property.

(a) Section 2.11(a) of the Seller Disclosure Letter sets forth a list of the Acquired Companies' patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, Internet domain names (including any registrations, licenses or rights relating to any of the foregoing) and computer software ("Intellectual Property"). Except as set forth in Section 2.11(a) of the Seller Disclosure Letter, since January 1, 2009, to the Knowledge of Seller, the conduct of the Business has not infringed or otherwise conflicted with any rights of any Person in respect of any Intellectual Property. To the Knowledge of Seller, there is no infringement by any Person of any Intellectual Property of any Acquired Company.

(b) All Intellectual Property that has been licensed by or on behalf of any Acquired Company or relating to the Business is being used substantially in accordance with the applicable license pursuant to which an Acquired Company has the right to use such Intellectual Property.

(c) To the Knowledge of Seller, (i) the conduct of the Business does not infringe or otherwise conflict with any rights of any Person in respect of any Intellectual Property Rights necessary to carry on the Business as presently conducted, and (ii) none of such Intellectual Property Rights is being infringed or otherwise used or available for use by any Person without a license or permission from the Seller, in each case.

(d) Section 2.11(d) of the Seller Disclosure Letter sets forth all written or oral agreements and arrangements (other than computer software with a license fee of $2,500 or less per copy) pursuant to which any Acquired Company has licensed any Intellectual Property Right to, or the use of any Intellectual Property Right is otherwise permitted (through non-assertion, settlement or similar agreements or otherwise) with respect to, any other Person

(e) To the Knowledge of Seller, except as set forth in Section 2.11(e) of the Seller Disclosure Letter, since January 1, 2009, no Acquired Company has suffered a material security breach with respect to its data or systems requiring notification to employees in connection with such employees' confidential information or to customers in connection with customers' confidential information.

(f) Section 2.11(f) of the Sellers' Disclosure (i) sets forth a list of amounts payable by the Business with respect to Intellectual Property Rights to Persons in excess of $100,000 annually or on or before December 31, 2013, and (ii) indicates whether such amounts are fixed or variable with respect to any applicable period.

(g) Except as set forth in Section 2.11(g) of the Seller Disclosure Letter, none of the former and current employees of any of the Acquired Companies have executed written contracts with one or more of the Acquired Companies that assign to one or more of the Acquired Companies all rights to any Intellectual Property relating to the Business.

Section 2.12 Litigation. Except as set forth on Section 2.12 of the Seller Disclosure Letter, as of the date hereof: (a) there is no Litigation pending or, to the Knowledge of Seller, threatened against or affecting any of the Acquired Companies before any court or arbitrator or any Governmental Authority, except for Litigation for claims and losses within policy limits in the ordinary course of business of the Insco Insurers; (b) the Acquired Companies have not been served with any formal notice of Litigation before any court or arbitrator or any Governmental Authority that is currently pending against the Acquired Companies, except for Litigation for claims and losses that are not reasonably likely to exceed policy limits in the ordinary course of business of the Insco Insurers; and (c) there are no outstanding orders, judgments, stipulations, decrees, injunctions, determinations or awards issued by any Governmental Authority against or affecting any of the Acquired Companies; and (d) there is no Litigation pending against, or, to the Knowledge of Seller, threatened against or affecting, Seller before any court or arbitrator or any Governmental Authority which in any manner challenges or seeks to prevent, enjoin, alter or materially delay the transactions contemplated by this Agreement.

Section 2.13 Compliance with Laws; Licenses and Permits.

(a) The Acquired Companies are in material compliance with applicable Laws, and, to the Knowledge of Seller, are not under investigation with respect to any violation of any applicable Laws.

(b) The Acquired Companies have all licenses, franchises, permits, certificates, approvals, registrations or other similar authorizations issued by applicable Governmental Authorities (including the Treasury Listing) and affecting, or relating to, the Assets or the operation of the Business (the "Permits"), except as would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect. The Permits are valid and in full force and effect, none of the Acquired Companies is in material default under the Permits and none of the Permits will be terminated as a result of the transactions contemplated hereby, provided that the regulatory approvals set forth on Section 2.2(b)(i) of the Seller Disclosure Letter are obtained.

(c) Except as set forth on Section 2.13(c) of the Seller Disclosure Letter and excluding Litigation relating to claims (other than claims for extra-contractual liabilities or obligations) under policies or bonds issued pursuant to the Business brought by policyholders or bondholders in the ordinary course of business, since January 1, 2009, none of the Acquired Companies has received any written notice from any Governmental Authority, citizens group or other third party of any violation or alleged violation, in any material respect, by any of the Acquired Companies of any Applicable Law or any material intellectual property right of any Person. Except as set forth on Section 2.13(c) of the Seller Disclosure Letter, to the Knowledge of Seller, there is no material investigation, audit, examination or inquiry relating to any of the Acquired Companies or their business in progress or contemplated by any Governmental Authority.

(d) None of the Acquired Companies (i) has engaged in, or colluded with or assisted any other Persons with, the unlawful paying of contingent commissions or similar incentive payments to steer business to them or colluded with Producers or other agents, brokers or intermediaries to "rig bids" or submit false quotes to customers in connection with the Business, (ii) except as set forth on Section 2.13(d) of the Seller Disclosure Letter, to the Knowledge of Seller, since January 1, 2009, is a party to any agreement that provides for any payment by or to any of the Acquired Companies of any unlawful variable or contingent commissions or payments based upon the profitability, claims handling, sales volume or loss ratio of the Business that is the subject of such agreement, or (iii) has engaged in any corrupt business practices or price fixing, or any other anticompetitive activity of any type.

(e) Since January 1, 2009, none of the Acquired Companies nor any of its managers or officers, nor to the Knowledge of Seller, any employees or Producers of any of the Acquired Companies, has (i) directly or indirectly given or agreed to give any illegal gift, contribution, payment or similar benefit to any supplier, customer, governmental official or employee or other Person who was, is or may be in a position to help or hinder any of the Acquired Companies (or assist in connection with any actual or proposed transaction) or made or agreed to make any illegal contribution, or reimbursed any illegal political gift or contribution made by any other Person, to any candidate for federal, state, local or foreign public office (x) which could reasonably be expected to subject any of the Acquired Companies or the Business to any damage or penalty in any civil, criminal or governmental litigation or proceeding or (y) the non-continuation of which has had or could reasonably be expected to have a Material Adverse Effect or (ii) established or maintained any unrecorded fund or asset or made any false entries on any books or records for any purpose.

(f) None of the Acquired Companies is in default under or violation of any written agreement, consent agreement, memorandum of understanding, commitment letter, order, stipulation, decree, award or judgment ("Insurance Regulatory Agreements and Judgments") entered into with or issued by any applicable Insurance Department; nor has any of the Acquired Companies received any written notice of any such default or violation which remains uncorrected. To Knowledge of Seller, none of the Acquired Companies is currently the subject of any supervision, conservation, rehabilitation, liquidation, receivership, insolvency or other similar action, nor is any of the Acquired Companies operating under any formal or informal agreement or understanding with the licensing authority of any state which restricts its authority to do business or requires it to take, or refrain from taking, any action, nor to the Knowledge of Seller is any such action or agreement threatened. None of the Acquired Companies is a party to or subject to any undertaking, stipulation, consent decree, net worth maintenance commitment or other order entered into with or issued by any applicable Insurance Department restricting the conduct of its business in any jurisdiction, or the payment by it of dividends. A list of all Insurance Regulatory Agreements and Judgments that remain in effect or have not been fully satisfied is set forth in Section 2.13(f) of the Seller Disclosure Letter. Except for regular periodic assessments in the ordinary course of business or assessments based on developments which are publicly known within the insurance industry, no claim or assessment is pending or, to the Knowledge of Seller, threatened against any of the Acquired Companies by any state insurance guaranty association in connection with such association's fund relating to insolvent insurers.

(g) Section 2.13(g) of the Seller Disclosure Letter lists all funds maintained under applicable Law by each Insco Insurer in each jurisdiction in which an Insco Insurer holds a Certificate of Authority (each a "Deposit"). Section 2.13(g) of the Seller Disclosure Letter accurately sets forth the dollar amount of each such Deposit, the jurisdiction pursuant to which such Deposit is maintained and the name of the bank and the number of the bank account in which such Deposit is maintained.

Section 2.14 Insurance Matters.

(a) Each Insco Insurer possesses a certificate of authority, license, registrations and permit or other authorization to transact insurance (an "Insurance License") in each state in which it is required to possess an Insurance License. All such Insurance Licenses are in full force and effect and no Insco Insurer has received notice of any investigation or proceeding that would reasonably be expected to result in the suspension or revocation of any such Insurance License. Section 2.14(a) of the Seller Disclosure Letter sets forth all Insurance Licenses necessary for the Insco Insurers to write insurance policies or bonds in connection with the Business and all other material licenses, registrations or permits held by each Insco Insurer and its employees.

(b) Since January 1, 2009, all amounts due and payable by or on behalf of any of any Insco Insurer with respect to the Business have in all material respects been paid in accordance with the terms of the policies or bonds under which they arose, except for such benefits for which a Insco Insurer believes there is a reasonable basis to contest payment or which are in the process of payment in the ordinary course of business.

(c) Since January 1, 2009, any rates of any of the Insco Insurers that are required to be filed with or approved by any Governmental Authority have been so filed or approved and the rates used by the Insco Insurers conform thereto in all material respects. Since January 1, 2009, no Insco Insurer (i) writes or has written any insurance policy or bond other than insurance policies or bonds or (ii) except as set forth in Section 2.14(c)(i) of the Seller Disclosure Letter, has any open claim other than under insurance policies or bonds, in each case comprising the lines of business set forth in Section 2.14(c) of the Seller Disclosure Letter (the "Lines of Business"). Except as set forth in Section 2.14(c) of the Seller Disclosure Letter, no Subsidiary of Seller or any Principal engages in the Competing Business in the United States other than the Acquired Companies. Except as set forth in Section 2.14(c) of the Seller Disclosure Letter, (x) Seller has never operated or been required to operate under any corporate name, fictitious business name or d/b/a, and (y) the Business has never been conducted by any entity other than by the Acquired Companies.

(d) Except as set forth in Section 2.14(d) of the Seller Disclosure Letter, all of the forms of insurance policies or bonds issued by a Insco Insurer and riders thereto and all amendments and applications related thereto are, and since January 1, 2009 have been, to the extent required under applicable Law, issued on forms approved by the applicable Insurance Department or which have been filed and not objected to by such Insurance Department within the period provided for objection. No material deficiencies have been asserted by any Governmental Authority with respect to any such filings which have not been cured or otherwise resolved.

Section 2.15 Reserved.

Section 2.16 Environmental Matters.

(a) The Acquired Companies are in material compliance with all applicable Environmental Laws and are in possession of, and in compliance with, all Permits required under applicable Environmental Laws.

(b) None of the Acquired Companies has received from any Governmental Authority any written notice of violation or alleged violation of any Environmental Law, other than any such violation or alleged violation that has been resolved or for which there are no additional obligations.

(c) As of the date hereof, no Litigation is pending or, to the Knowledge of Seller, threatened against any of the Acquired Companies arising under any Environmental Law.

(d) None of the Acquired Companies has released Hazardous Substances into the soil or groundwater at, under or from the Leased Real Property, which, as of the date hereof, requires investigation or remediation by the Acquired Companies under applicable Environmental Laws.

(e) The representations and warranties in Sections 2.15(a) – (d) above shall not apply in any way to any environmental liability arising out of any property acquired by any Acquired Company as a result of a foreclosure of any property posted as collateral by an insured in respect of any policy underwritten, serviced, administered or issued by any of the Acquired Companies.

Section 2.17 Employees, Labor Matters, etc. None of the Acquired Companies is a party to or is otherwise bound by any collective bargaining agreement, and there are no labor unions or other organizations or groups representing, purporting to represent or attempting to represent any employees employed by the Acquired Companies. There is no pending or, to the

Knowledge of Seller, threatened strike, slowdown, picketing or work stoppage by, or lockout of, or other similar labor activity or organizing campaign with respect to, any employees of the Acquired Companies as of the date hereof. Except as would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect, the Acquired Companies are in compliance with all applicable Laws respecting labor, employment, fair employment practices, terms and conditions of employment, employee classification and wages and hours. Except as set forth in Section 2.17 of the Seller Disclosure Letter, Seller has not received any written notice from any management-level employee that such employee intends to terminate his or her employment with the Business.

Section 2.18 Employee Benefit Plans and Related Matters; ERISA.

(a) Section 2.18(a) of the Seller Disclosure Letter lists all Benefit Plans of the Acquired Companies. Seller has made available to Buyer complete and correct copies of each such Benefit Plan.

(b) Each Acquired Company Benefit Plan intended to be qualified under section 401(a) of the Code, and the trust (if any) forming a part thereof is operated pursuant to a master/prototype document that has received a favorable determination letter from the IRS and, to the Knowledge of Seller, there are no existing circumstances or events that could reasonably be expected to result in any revocation of, or a change to, the reliance upon such determination letter. Each Acquired Company Benefit Plan has been operated in accordance with applicable Law in all material respects.

(c) (i) other than routine claims for benefits, to the Knowledge of Seller, there are no pending or threatened claims by or on behalf of any participant in any of the Acquired Company Benefit Plans, or otherwise involving any Acquired Company Benefit Plan or the assets of any Acquired Company Benefit Plan; and (ii) none of the Acquired Company Benefit Plans is presently under audit or examination (nor has written notice been received of a potential audit or examination) by the IRS, the Department of Labor, or any other Governmental Authority, domestic or foreign.

(d) Neither the Company nor any of the Company's ERISA Affiliates contributes to or is obligated to contribute to a Multiemployer Plan or a "multiple employer plan" within the meaning of section 4063 or 4064 of ERISA.

(e) The execution, delivery and performance of this Agreement by Seller and the consummation by Seller of the transactions contemplated by this Agreement will not (alone or in combination with any other event) result in an increase in the amount of compensation or benefits or the acceleration of the vesting or timing of payment of any compensation or benefits payable to or in respect of any current or former employee, officer, director or independent contractor of the Acquired Companies or any increased or accelerated funding obligation with respect to any Acquired Company Benefit Plan.

(f) Except as set forth on Section 2.18(f) of the Seller Disclosure Letter, neither the Company nor any of the Company's ERISA Affiliates nor any predecessor thereof sponsors, maintains or contributes to, or has in the past six years sponsored, maintained or contributed to, any pension plan subject to Title IV of ERISA.

Section 2.19 Tax Matters.

(a) All Tax Returns required to be filed by or on behalf of the Acquired Companies have been timely filed and all Taxes owed (whether or not shown or required to be shown on such Tax Returns) have been paid. All such Tax Returns are true, complete and correct in all respects. None of the Acquired Companies is currently the beneficiary of any extension of time within which to file any Tax Return, and none of the Acquired Companies has waived any statute of limitation with respect to any Tax or agreed to any extension of time with respect to a Tax assessment, or deficiency. No claim has ever been made by a governmental authority in a jurisdiction where any of the Acquired Companies do not file Tax Returns that any Acquired Company is or may be subject to taxation by that jurisdiction. There are no Liens for Taxes upon the assets of any of the Acquired Companies other than for Taxes not yet due. None of the Acquired Companies has, and has not had, a permanent establishment or other taxable presence in any foreign country, as determined pursuant to applicable foreign Laws or any applicable Tax treaty or convention between the United States and such foreign country. No portion of the Purchase Price is subject to any Tax withholding provision of federal, state, local or non-U.S. law.

(b) The Acquired Companies have withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, stockholder, independent contractor, creditor, or other third party. None of the Acquired Companies has an obligation to make a payment that will not be deductible under Section 280G of the Code. The assets of the Acquired Companies do not include any stock or other ownership interests in any foreign or domestic corporations, partnerships, joint ventures, limited liability companies, business trusts, or other entities.

(c) Except as set forth in Section 2.19(c) of the Seller Disclosure Letter, each of the Acquired Companies has been treated as a corporation for Tax purposes since the respective dates of their formation and none has filed an election for Tax purposes to be treated other than a corporation.

(d) The Acquired Companies have timely paid all Taxes, and all interest and penalties due thereon and payable by it, the non-payment of which would result in a Lien on any assets of the Acquired Companies, or would result in Buyer becoming liable or responsible therefor.

(e) The Acquired Companies have established, in accordance with GAAP, adequate reserves for the payment of, and will timely pay, all Taxes which arise from or with respect to the operation of the Acquired Companies, the non-payment of which would result in a Lien on any assets of the Acquired Companies, would otherwise adversely affect the Acquired Companies or would result in Buyer becoming liable therefor.

(f) Section 2.19(f) of the Seller Disclosure Letter lists all Tax Returns filed by the Acquired Companies for taxable periods ending on or after December 31, 2007, indicates those Tax Returns that have been audited or subject to similar examination, and indicates those Tax

Returns that currently are the subject of audit or examination or with respect to which any such audit or examination has been threatened. The Seller has made available to Buyer correct and complete copies of all Tax Returns filed by the Acquired Companies for taxable periods ending on or after December 31, 2010, and all private letter rulings, notices of proposed deficiencies, deficiency notices, closing agreements, settlement agreements, and pending ruling requests relating to Taxes submitted, received, or agreed to by or on behalf of any Acquired Company on or after such date.

(g) No Acquired Company has been a member of any affiliated group filing or required to file a consolidated, combined, unitary or other similar Tax Return (other than any such group of which the Company is or was the common parent). No Acquired Company has any Liability for the Taxes of any other Person under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign Laws), as a transferee or successor, by contract, or otherwise. Immediately after the Closing Date, no Acquired Company will have any deferred intercompany items within the meaning of Treasury Regulations Section 1.1502-13, and at such time there will not exist any excess loss account within the meaning of Treasury Regulations Section 1.1502-19 with respect to the stock of any Acquired Company. No power of attorney with respect to Taxes has been executed or filed with any Governmental Authority by or with respect to any Acquired Company. No Acquired Company is a party to or bound by, nor does it have or has it had any obligation under, any Tax allocation, sharing or indemnity agreement, arrangement or similar contract.

(h) No Acquired Company is subject to any current limitation (excluding for this purpose any such limitation arising as a result of the consummation of the purchase of the Shares pursuant to this Agreement) under Sections 382, 383, or 384 of the Code (or any corresponding or similar provision of state, local, or foreign Law) on its ability to utilize its net operating losses, built-in losses, credits, or other similar items. No Acquired Company has been a party to any transaction purported or intended to qualify, in whole or in part, under Section 355 of the Code. No Acquired Company has participated in any "reportable transaction" as defined in Section 6707A of the Code or Treasury Regulation Section 1.6011-4 (or any predecessor provision).

(i) No deficiency for any Taxes has been proposed in writing against any Acquired Company, which deficiency has not been paid in full, and the Company does not know of any basis upon which any such Tax deficiency could reasonably be expected to be asserted. No issue relating to any Acquired Company or involving any Tax for which any Acquired Company might be liable has been resolved in favor of any Taxing Authority in any audit or examination that, by application of the same principles, could reasonably be expected to result in a deficiency for Taxes of such Acquired Company for any other period.

(j) No Acquired Company will be required to include any item of income in, or exclude any item of deduction from, taxable income for any period, or portion thereof, ending after the Closing Date as a result of (i) any adjustment under Section 481 of the Code (or any similar provision of applicable state, local, or foreign Law) by reason of any change in accounting method or otherwise, (ii) any "closing agreement" as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign Law) or any ruling received from any Governmental Authority executed on or prior to the Closing Date, (iii) any intercompany transaction or any excess loss account described in Treasury Regulations under Section 1502 of the Code (or any corresponding or similar provision of state, local or foreign Law), (iv) the installment or open transaction method of accounting, the completed contract method of accounting or the cash method of accounting with respect to a transaction that occurred prior to the Closing Date, (v) any prepaid amount received on or prior to the Closing Date or (vi) any election under Section 108(i) of the Code.

(k) Tax basis, loss and loss adjustment expense reserves, and unearned premium reserves for the Acquired Companies have been computed and maintained in the manner required under Sections 807, 832, and 846 of the Code and any other applicable Tax provision in all material respects. No Acquired Company has a positive policyholder surplus account within the meaning of Section 815 of the Code, or maintains a "special loss discount account" or makes "special estimated tax payments" within the meaning of Section 847 of the Code. No Acquired Company has ever been a life insurance company as defined in Section 816 of the Code, or has ever assumed, exchanged, administered, reinsured, or offered any policies or contracts that would constitute life insurance contracts as defined under Section 7702 of the Code or an annuity subject to Section 72 of the Code. No Acquired Company has ever issued, assumed, reinsured, modified, exchanged, or sold any policies, contracts, or other products to customers that are intended to or have ever been intended to qualify as a "pension plan contract" within the meaning of Section 818(a) of the Code or were otherwise intended to qualify under Sections 401, 403, 408, 412 or 457 of the Code.

(l) No Acquired Company owns stock in any other corporation which is a passive foreign investment company within the meaning of Section 1297 of the Code or a controlled foreign corporation within the meaning of Section 957 of the Code. No Acquired Company organized in a jurisdiction outside the United States has made an election to be treated as a domestic corporation pursuant to Section 897(i) of the Code or conducts any trade or business within the United States or holds an investment in any United States property (within the meaning of Section 956 of the Code) or any United States real property interest (within the meaning of Section 897 of the Code).

Section 2.20 Insurance. Section 2.20 of the Seller Disclosure Letter sets forth all current property and liability insurance policies covering the Acquired Companies or the Assets (the "Insurance Policies"). Except as stated in Section 2.20 of the Seller Disclosure Letter, the Insurance Policies are in full force and effect (and all premiums due and payable thereon have been paid in full on a timely basis), and no written notice of cancellation, termination or revocation or other written notice that any of the Insurance Policies is no longer in full force or effect or that the issuer of any of the Insurance Policies is not willing or able to perform its obligations thereunder has been received by Seller or the Acquired Companies.

Section 2.21 Finders' Fees. There is no investment banker, broker, finder or other intermediary retained by or authorized to act on behalf of Seller or any of the Acquired Companies who might be entitled to any fee or commission from Buyer or any of its Affiliates (including, after the Closing, the Acquired Companies) upon consummation of the transactions contemplated hereby.

Section 2.22 Transactions with Affiliates.

(a) Section 2.22(a) of the Seller Disclosure Letter lists all agreements, arrangements and other commitments or transactions to or by which any of the Acquired Companies, on the one hand, and Seller, the Principals or any of their respective Affiliates (other than the Acquired Companies), on the other hand, are parties or are otherwise bound or affected.

(b) Section 2.22(b) of the Seller Disclosure Letter describes all material services provided to any Acquired Company by an Affiliate of Seller or the Principals (other than the Acquired Companies) or vendors or subcontractors of any such Affiliate or provided pursuant to a contract, agreement or undertaking to which any such Affiliate is a party.

Section 2.23 Reinsurance.

(a) Section 2.23(a) of the Seller Disclosure Letter sets forth a true and complete list as of the date hereof of all reinsurance and retrocessional treaties and agreements to which any Insco Insurer is a party and has any existing rights or obligations, each of which treaties and agreements is in full force and effect. True and complete copies of all such treaties and agreements have been made available to Buyer. Except as set forth in Section 2.23(a) of the Seller Disclosure Letter or except as, individually or in the aggregate, would not, or would not reasonably be expected to, have a Material Adverse Effect, (i) no Insco Insurer is in default under any such reinsurance treaty or agreement where such default gives rise to any right of termination, acceleration or cancellation to the other party or parties thereto and (ii) all reinsurance premiums due under such reinsurance treaties or agreements have been paid in full or were adequately accrued or reserved for by each of the Insco Insurers. To the Knowledge of Seller, all amounts recoverable under reinsurance, coinsurance or other similar contracts to which any of the Insco Insurers is a party (including amounts based on paid and unpaid losses) are fully collectible. Except as set forth in Section 2.23(a) of the Seller Disclosure Letter, there are no pending or, to Seller's Knowledge, threatened, Litigation with respect to any reinsurance or retrocessional treaties or agreements to which any of the Acquired Companies is a party.

(b) With respect to reinsurance each Insco Insurer has all necessary letters of credit or other security devices and all such letters of credit and security devices comply in all material respects with all Applicable Law, in each case where needed under applicable Law to enable it to take a credit against its liabilities in, or increase its assets by, the amount of the letter of credit or security device. Section 2.23(b) of the Seller Disclosure Letter identifies all letters of credit and other security devices held or maintained for the benefit of any Insco Insurer to support receivable balances from unauthorized reinsurers.

Section 2.24 Ratings. (a) The insurance or insurer financial strength of each of the Insco Insurers is rated "A-" by A.M. Best & Co. (the "Rating Agency"), and (b) except as set forth in Section 2.24 of the Seller Disclosure Letter, (i) the Rating Agency has not publicly announced, provided written notice or, to the Knowledge of Seller, provided written notice to Seller or any of the Acquired Companies that it has under surveillance or review for a possible downgrading of its rating of the insurance and insurer financial strength or any claims paying ability of any of the Insco Insurers and (ii) neither Seller nor any of the Acquired Companies has received any written notice from the Rating Agency to the effect that any rating specified in clause (a) above is likely to be modified, qualified or lowered.

Section 2.25 Agents, Brokers and Producers.

(a) Except as set forth in Section 2.25(a) of the Seller Disclosure Letter, to the Knowledge of Seller, as of the date hereof, each insurance agent, third party administrator, marketer, underwriter, wholesaler, broker, reinsurance intermediary, distributor and producer that marketed, wrote, sold, produced, administered or managed business since January 1, 2008 for any Insco Insurer in connection with the Business (each, a "Producer"), at the time such Person marketed, wrote, sold, produced, administered or managed such business, was duly licensed as of the time of the initial engagement with the applicable Acquired Company as required by applicable Law (for the type of business marketed, written, sold, produced, administered or managed on behalf of the Insco Insurers), and to the Knowledge of Seller, no Producer to whom the Company has granted a power of attorney has written any policy or bond on behalf of an Insco Insurer that exceeds the scope of the authority granted to such Producer by the applicable power of attorney. Since January 1, 2009, each such Producer was appointed in compliance in all material respects with applicable Law. To the Knowledge of Seller, in connection with the Acquired Companies, since January 1, 2009, (i) there have been no material violations by Producers of any applicable Law in connection with the marketing or sale of products issued by any of the Acquired Companies or any Business product and (ii) except as set forth on Section 2.25(a)(ii) of the Seller Disclosure Letter, there have been no instances of Producers having materially breached the terms of agency or broker contracts. Except as set forth on Section 2.25(a) of the Seller Disclosure Letter, to the Knowledge of Seller, since January 1, 2009, (x) with respect to the Business, no Producer has been enjoined, indicted, convicted or made the subject of a consent decree or administrative orders on account of a material violation of applicable Law in connection with such Person's actions in any of the foregoing capacities or any enforcement or disciplinary proceeding alleging any such violation since January 1, 2009 and (y) all such Producers have carried out their respective duties in all material respects as dictated by their respective employment or contract with the Acquired Companies compliant in all material respects with the applicable Laws or been terminated. The parties agree that for purposes of determining "Knowledge" under this Section 2.25(a), the Company's procedures and programs in place as of the date hereof designed solely to determine that its Producers are licensed at the time of the initial engagement shall constitute "due investigation"; provided, that for the avoidance of doubt, "Knowledge" under this Section 2.25(a) shall include actual knowledge.

(b) Section 2.25(b) of the Seller Disclosure Letter lists each Producer through which the Insco Insurers market, place or sell insurance who has generated premium on the Business since January 1, 2011 in excess of $500,000 per calendar year, including therein (i) the amount per year generated by each such person of Gross Written Premium on the Business for 2011 and 2012 and for 2013 through July and (ii) any loans or advances by any of the Acquired Companies to any such persons or any Affiliate thereof outstanding as of the date of this Agreement. On or before the date hereof, none of the Insco Insurers nor any Seller has been advised in writing that any Producer listed on Section 2.25(a) of the Seller Disclosure Letter intends to cancel its relationship with any of the Insco Insurers or any relationship between it and any insured of the Business or reduce its writings with or through any Insco Insurer.

(c) Section 2.25(c) of the Seller Disclosure Letter lists all agency, subagency, producer, broker, selling, marketing, claims or similar agreements, including managing general agency contracts, third party administration contracts or other similar arrangements or commitments under which a third party has authority or is granted a power of attorney to make underwriting decisions and issue insurance policies or bonds with respect to the Business on behalf of any Insco Insurers or otherwise bind any Insco Insurers without prior approval by the applicable Insco Insurer or pursuant to which any claims settlement authority is delegated to such third party.

(d) Section 2.25(d) of the Seller Disclosure Letter sets forth a true and complete list of all powers of attorney granted by the Company or any Acquired Company and those Persons to whom such powers of attorney were granted.

Section 2.26 Consumer Privacy Laws. Each of the Acquired Companies is in compliance in all material respects with all Applicable Laws and its own adopted policies applicable to the Business, in each case applicable to its collection, use, disclosure, maintenance and transmission of personal, private, health or financial information about individual policyholders or bondholders, customers or benefits recipients ("Consumer Privacy Information"). Except as set forth in Section 2.26 of the Seller Disclosure Letter or prohibited under or limited by Applicable Law, none of the Acquired Companies is prohibited, presently or after consummation of the transactions contemplated by this Agreement, from using all Consumer Privacy Information presently used in the Business. Except as set forth in Section 2.26 of the Seller Disclosure Letter, there are no agreements between any of the Acquired Companies, on the one hand, and any Seller or any third party on the other hand, relating to Consumer Privacy Information or the use or access of any database system housing such Consumer Privacy Information.

Section 2.27 AML, Sanctions, Etc.

(a) Anti-Money Laundering. To the Knowledge of Seller, none of the Acquired Companies has, directly or indirectly, entered into any transaction that violates any applicable anti-money laundering law or policy, and there has been no Action by any Person, or any internal investigation, relating thereto. Each of the Acquired Companies has complied, in all material respects, with all applicable "know-your-customer" rules.

(b) OFAC. To the Knowledge of Seller, no customer, Producer, vendor, employee or other Person that is a party to a contract or agreement with any Acquired Company of the Business (including any beneficiary of any account) is a Sanctioned Person. None of the Acquired Companies has investments in any Sanctioned Country.

Section 2.28 No Other Representations and Warranties; Schedules. None of Seller, any of its Affiliates or any of their respective officers, employees, agents or representatives, makes any express or implied representation or warranty on behalf of Seller other than those expressly set forth in this ARTICLE 2.

ARTICLE 3

Representations and Warranties of Buyer

Except as set forth in Buyer Disclosure Letter, Buyer represents and warrants to Seller as follows:

Section 3.1 Corporate Status. Buyer is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware.

Section 3.2 Corporate and Governmental Authorization.

(a) Buyer has all requisite corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Buyer the performance of Buyer's obligations hereunder and the consummation of the transactions contemplated hereby have been duly authorized by all requisite corporate action of Buyer. Buyer has duly executed and delivered this Agreement. This Agreement constitutes the legal, valid and binding obligation of Buyer, enforceable against Buyer, in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium, receivership or similar Laws relating to or affecting creditors' rights generally and by general principles of equity (whether considered at law or in equity).

(b) The execution, delivery and performance of this Agreement by Buyer and the consummation of the transactions contemplated hereby, require no action by or in respect of, or filing with, any Governmental Authority other than (i) the approvals, filings and notices required under the Insurance Laws set forth in Section 3.2(b)(i) of Buyer Disclosure Letter, (ii) such other consents, approvals, authorizations, declarations, filings or notices as are set forth in Section 3.2(b)(ii) of Buyer Disclosure Letter, (iii) as may result from any facts or circumstances solely relating to Seller or its Affiliates and (iv) any actions or filings under Laws the absence of which would not be, individually or in the aggregate, materially adverse to Buyer or materially impair the ability of Buyer to consummate the transactions contemplated hereby.

Section 3.3 Non-Contravention. The execution and delivery of this Agreement by Buyer, and the performance of its obligations hereunder do not (a) conflict with or result in any violation or breach of any provision of any of the Organizational Documents of Buyer, (b) assuming compliance with the matters referred to in Section 3.2(b), conflict with or result in any violation or breach of any provision of any applicable Law or (c) require any consent or other action by any Person under any provision of any material agreement or other instrument to which Buyer is a party.

Section 3.4 Financing. Buyer has and at the Closing will have sufficient funds to pay the Purchase Price and to effect all other transactions contemplated by this Agreement.

Section 3.5 Purchase for Investment. Buyer is purchasing the Shares for investment for its own account and not with a view to, or for sale in connection with, any distribution thereof. Buyer (either alone or together with its advisors) has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the Shares and is capable of bearing the economic risks of such investment. Buyer acknowledges that the Shares have not been registered under the Securities Act or any state securities Laws, and agrees that the Shares may not be sold, transferred, offered for sale, pledged, hypothecated or otherwise disposed of without registration under the Securities Act, except pursuant to an exemption from such registration available under the Securities Act, and without compliance with foreign securities Laws, in each case, to the extent applicable.

Section 3.6 Litigation. There is no Litigation pending against, or, to the Knowledge of Buyer, threatened against or affecting, Buyer before any court or arbitrator or any Governmental Authority which in any manner challenges or seeks to prevent, enjoin, alter or materially delay the transactions contemplated by this Agreement.

Section 3.7 Finders' Fees. Except as set forth on Section 3.7 of the Buyer Disclosure Letter, there is no investment banker, broker, finder or other intermediary retained by or authorized to act on behalf of Buyer who might be entitled to any fee or commission from Seller or any of its Affiliates upon consummation of the transactions contemplated by this Agreement.

Section 3.8 No Additional Representations. None of Buyer, any of its Affiliates or any of their respective officers, employees, agents or representatives, makes or has made any express or implied representation or warranty on behalf of Buyer other than those expressly set forth in this ARTICLE 3.

ARTICLE 4

Certain Covenants

Section 4.1 Conduct of the Business. From the date of this Agreement until the Closing, except as otherwise expressly permitted or required by this Agreement or as set forth in Section 4.1 of the Seller Disclosure Letter or otherwise requested or consented to in writing by Buyer, which consent shall not be unreasonably conditioned, withheld or delayed, Seller shall cause the Acquired Companies to conduct the Business in the ordinary course of business and Seller shall not permit any of the Acquired Companies to:

(a) declare, set aside or pay any dividends on, or make any other distributions (whether in cash, stock or property) in respect of, the Company's outstanding capital stock or equity interests;

(b) amend its Organizational Documents or take or authorize any action to wind up its affairs or dissolve;

(c) except as contemplated hereby, amend any Acquired Company Benefit Plan in any material respect or establish any new arrangement that would (if it were in effect on the date hereof) constitute an Acquired Company Benefit Plan or take any action to increase the rate of compensation of its employees or officers, other than, in each case, in the ordinary course of business in a manner consistent with past practice or to the extent required under any Benefit Plan in existence as of the date of this Agreement, collective bargaining agreement, labor agreement, works council agreement or other contractual arrangement or by applicable Law;

(d) issue, sell or grant options, warrants or rights to purchase or subscribe to, enter into any arrangement or contract with respect to the issuance or sale of, or redeem, repurchase or otherwise acquire (or agree to redeem, purchase or otherwise acquire) any capital stock or any of other securities or any rights, warrants or options to acquire any such capital stock or securities of any Acquired Company or make any changes (by combination, reorganization reverse stock split, reclassification of any shares of capital stock or other securities of any of the Acquired Companies or otherwise) in the capital structure of the Acquired Companies (other than pursuant to the terms of awards under any Benefit Plan);

(e) sell, assign, transfer, pledge or encumber, or grant any Lien (other than a Permitted Lien or as noted in Section 4.1(i) below) on, any of its Assets;

(f) make any material change to its accounting policies or practices, except as required by GAAP, SAP or applicable Law;

(g) other than as required by applicable Laws, change any Reserving Practices and Policies;

(h) merge or consolidate with any other Person, enter into a business combination with or acquire the business of any other Person or, other than the acquisition or licensing of any intellectual property right or other property or assets in the ordinary course of business, acquire, lease or license any material right or other material property or assets of any other Person, or adopt a plan of complete or partial liquidation, dissolution, rehabilitation, restructuring, recapitalization, redomestication or other reorganization;

(i) other than in connection with the management of the Acquired Companies' investment portfolio in the ordinary course of business, sell, pledge, lease, license or dispose of a material portion of any of its assets;

(j) enter into, assume, amend or terminate any Material Contract or any agreement that would have been a Material Contract had it been entered into on or prior to the date hereof, other than Material Contracts entered into in the ordinary course of business;

(k) incur any Indebtedness, other than trade accounts payable incurred in the ordinary course of business;

(l) make any capital expenditures or commitments for capital expenditures, other than capital expenditures or commitments for capital expenditures in the ordinary course of business consistent with past practice and not in excess of $100,000 in any single instance or in excess of $250,000 in the aggregate;

(m) forgive, cancel or compromise any debt or claim in excess of $100,000 in the aggregate, or waive or release any right with a value in excess of $250,000 in the aggregate other than in the ordinary course of business (for purposes of this Section 4.1(m), settlement of insurance company claims against indemnitors on bonds by Acquired Companies' claims and recovery departments and settlement of claims on bonds or policies issued by any of the Acquired Companies shall be deemed to be made in the ordinary course of business);

(n) fail to pay or satisfy when due any liability of the Acquired Companies (other than any such liability that is being contested in good faith and is not in excess of $50,000);

(o) make or change any material Tax election, enter into, amend, terminate or otherwise restructure any agreement with any of its Affiliates relating to Taxes, change an annual accounting period, adopt or change any material accounting method, enter into any closing agreement, settle any Tax Litigation, consent to any extension or waiver of the limitation period applicable to any material Tax Litigation or assessment relating to any Acquired Company;

(p) settle or compromise any Litigation, other than settlements or compromises of claims-related Litigation in the ordinary course of business;

(q) enter into any employment agreement or employment contract involving annual consideration in excess of $50,000;

(r) other than increases in salaries or wages in the ordinary course of business, increase the salary or wages of any employee;

(s) engage in any material transaction, arrangement or contract with any officer, director, stockholder or other insider or Affiliate, except in the ordinary course of business;

(t) make any loans or investments (other than advances to employees in the ordinary course of business) or guaranty any Indebtedness;

(u) sell, assign, transfer, license, sublicense or otherwise encumber any of the Owned Intellectual Property, disclose any confidential information to any Person (other than to Buyer and its Affiliates and other than in the ordinary course of business), or abandon or permit to lapse any of the Owned Intellectual Property;

(v) enter into or agree to any regulatory restrictions or arrangements adversely affecting any Insurance License of any Insco Insurer listed in Section 2.14 of the Seller Disclosure Letter;

(w) forfeit, abandon, amend, modify, waive or terminate any Insurance License, necessary to conduct the Business; or

(x) agree or commit to do any of the foregoing.

Section 4.2 Access to Information; Confidentiality; Books and Records.

(a) From the date hereof until the Closing, Seller shall (i) give Buyer, its counsel, financial advisors, auditors and other authorized representatives reasonable access to the offices, properties, books and records of the Acquired Companies, (ii) furnish to Buyer, its counsel, financial advisors, auditors and other authorized representatives such financial and operating data and other information relating to the Acquired Companies as such Persons may reasonably request and (iii) instruct the employees, counsel and financial advisors of Seller, the Acquired Companies and their respective Affiliates to cooperate with Buyer, in each case solely in connection with Buyer's preparation to integrate the Acquired Companies into Buyer's organization following the Closing; provided, however, that Buyer’s access to employees shall be limited to employees of the Acquired Companies that are expressly approved by Seller in Seller’s reasonable discretion.

(b) From and after the Closing, Seller, on the one hand, and Buyer, on the other hand, shall promptly afford the other party and its respective agents reasonable access to their respective books and records, information, employees and auditors to the extent necessary or useful for the party requesting such access in connection with any audit, investigation, dispute or Litigation, provided, that the party requesting such access agrees to reimburse the other party promptly for all reasonable and documented out-of-pocket costs and expenses incurred in connection with any such request.

(c) Anything to the contrary in Section 4.2(a) or (b) notwithstanding, (i) access rights pursuant to Section 4.2(a) or (b) shall be exercised in such manner as not to interfere unreasonably with the conduct of the Business or any other business of the party granting such access; (ii) Buyer access shall be limited to employees of the Acquired Companies that are expressly approved by Seller in Seller’s reasonable discretion; and (ii) the party granting access may withhold any document (or portions thereof) or information (A) that is subject to the terms of a non-disclosure agreement with a third party, (B) that may constitute privileged attorney-client communications or attorney work product and the transfer of which, or the provision of access to which, as reasonably determined by such party's counsel, constitutes a waiver of any such privilege or (C) if the provision of access to such document (or portion thereof) or information, as determined by such party's counsel, would reasonably be expected to conflict with applicable Laws. The Parties shall use commercially reasonable efforts to obtain any consent of any Person party to a non-disclosure agreement described in subsection (A) to the disclosure of information subject thereto.

(d) All information provided to Buyer pursuant to this Section 4.2 prior to the Closing shall be held by Buyer as Information (as defined in the Confidentiality and Nondisclosure Agreement, dated as of January 23, 2013, between Seller and Buyer (the "Confidentiality Agreement")) and shall be subject to the Confidentiality Agreement, the terms of which are incorporated herein by reference. The Confidentiality Agreement shall continue in full force and effect until the Closing, at which time it shall automatically terminate. From and after the Closing: (i) Seller, on the one hand, and Buyer, on the other hand, shall, and shall cause their respective Affiliates and representatives to, maintain in confidence this Agreement and any written, oral or other information related to the negotiation hereof, (ii) Seller shall, and shall cause its respective Affiliates and representatives to, maintain in confidence any written, oral or other information relating to the Acquired Companies and (iii) Buyer shall, and shall cause its Affiliates and representatives to, maintain in confidence any written, oral or other information of or relating to Seller or any of the Acquired Companies obtained in the course of the evaluation and negotiation of the transactions contemplated hereby or by virtue of Buyer's ownership of the Acquired Companies from and after the Closing, except, in each case, (x) Buyer, Seller or their respective Affiliates may disclose such information to the extent that the applicable party is required to disclose such information by valid judicial or administrative process or pursuant to applicable Law or such information can be shown to have been in the public domain through no fault of the applicable party or received by the applicable party from a third party that was not subject to an obligation of confidentiality with respect to such information and (y) Seller or Buyer or their respective Affiliates, as the case may be, may disclose to any Person having any direct or indirect beneficial interest in such party, any lender of such party or any rating agency of such party or its Affiliates, information that is of a type customarily provided to such Person in connection with actions proposed to be taken by such party pursuant to this Agreement or in connection with the transactions contemplated hereby.

(e) Subject to Section 4.2(d), Seller and its Affiliates shall have the right to retain copies of all books, data, files, information and records in any media (including, for the avoidance of doubt, Tax Returns and other information and documents relating to tax matters) of any of the Acquired Companies relating to periods ending on or prior to the Closing Date (i) relating to information (including employment and medical records) regarding the Acquired Company Employees or (ii) as may be required by any Governmental Authority, including pursuant to any applicable Law or regulatory request, subject to compliance with all applicable privacy Laws. Any information or materials retained by Seller pursuant to this Section 4.2(e) shall be subject to the confidentiality provisions set forth in this Section 4.2.

Section 4.3 Filings.

(a) Each party hereto shall (i) make the filings required of it or any of its Affiliates under all applicable Laws in connection with this Agreement and the transactions contemplated hereby as promptly as practicable following the date hereof (and not later than twenty (20) Business Days after the date hereof), (ii) comply at the earliest practicable date and, if practicable, after consultation with the other parties hereto with any request for additional information or documentary material received by it or any of its Affiliates from any Insurance Department or any other Governmental Authority, (iii) cooperate with the other parties hereto in connection with any filing under any applicable Law and in connection with resolving any investigation or other inquiry concerning the transactions contemplated by this Agreement initiated by any Insurance Department or any other Governmental Authority and (iv) use commercially reasonable efforts to take any other action reasonably necessary to obtain the consents, approvals and authorizations required for the consummation of the transactions contemplated by this Agreement at the earliest possible date.

(b) Each party shall promptly inform the other parties of any material communication made to, or received by such party or any of its representatives from any Insurance Department or any other Governmental Authority regarding any of the transactions contemplated by this Agreement.

(c) Each party shall promptly inform the other parties of any meetings or hearings held with or before any Insurance Department or any other Governmental Authority regarding any of the transactions contemplated by this Agreement.

(d) Any fee or payment to an Insurance Department or any other Governmental Authority in connection with the transactions contemplated by this Agreement shall be borne by Buyer; provided, that notwithstanding the foregoing, the each party shall bear 50% of any fees associated with the filing of notice pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

(e) Without limiting the foregoing, each of Seller and Buyer hereby agrees to use its commercially reasonable efforts to prepare all documentation, to effect all filings and to obtain all permits, consents, clearances, waivers, approvals and authorizations of all Insurance Departments and other Governmental Authorities and other Persons necessary to consummate the transactions contemplated by this Agreement as promptly as practicable. In connection with effecting any such filing or obtaining any such permit, consent, clearance, waiver, approval or authorization necessary to consummate the transactions contemplated by this Agreement, Seller and Buyer shall, subject to applicable Law, (i) permit counsel for the other party to review in advance, and consider in good faith the views of the other party in connection with, any proposed written communication to any Governmental Authority, and (ii) provide counsel for the other party with copies of all filings made by such party, and all correspondence between such party (and its advisors) with any Governmental Authority and any other information supplied by such party to, or received from, a Governmental Authority relating to the transactions contemplated hereby; provided, that materials may be redacted or withheld (A) to the extent that they concern the valuation of Seller or any of the Acquired Companies or any of their respective businesses or either party or alternatives to the transactions contemplated by this Agreement, (B) to the extent they concern future plans, strategies or investments by Buyer or its Affiliates, disclosure of which would benefit competitors of Buyer or any of its Affiliates and (C) as necessary to comply with contractual arrangements. Notwithstanding anything herein to the contrary, Buyer shall not be obligated to agree to any arrangement that would (w) require or involve the sale, disposition, or separate holding, through the establishment of a trust, or otherwise, of any of the Acquired Companies or its assets, properties of business or of any of the assets, properties or businesses of Buyer or any of its Affiliates, or the making of any debt, equity investment or capital contribution in any of the Acquired Companies or in the Buyer or any of its Affiliates, (x) require or involve any material modification of the existing capital structure of any of the Acquired Companies or of Buyer or any of its Affiliates, (y) involve any material requirement or restriction on the Business of any of the Acquired Companies or any business of the Buyer or any of its Affiliates, or (z) otherwise be reasonably likely to materially adversely impact the economic, tax or business benefits to any of the Acquired Companies, the Buyer or its Affiliates of the transactions contemplated hereby, taken as a whole. No party shall be required to waive any condition precedent to comply with this Section 4.3.

Section 4.4 Further Assurances. From time to time after the Closing Date, at the request of another party, without further consideration and at the expense of the party so requesting, each of the parties shall execute and deliver to such requesting party, or shall cause to be executed and delivered to such requesting party, such additional instruments or documents, and shall take or cause to be taken such other action, as such requesting party may reasonably request in order to consummate more effectively the transactions contemplated hereby.

Section 4.5 Employees and Employee Benefits.

(a) Except as disclosed in Section 4.5(a) of the Seller Disclosure Letter, as of the Closing, the Acquired Companies shall terminate their participation in the Acquired Company 401(k) Plan and each other Benefit Plan, and in no event shall any Acquired Company Employee be entitled to accrue any benefits under such Benefit Plans with respect to services rendered or compensation paid on or after the Closing. Seller shall be responsible for notifying in writing each employee of any Acquired Company who was employed by any Acquired

Company on or prior to the Closing Date (the "Acquired Company Employees") of the termination of any Benefit Plan, including without limitation written notice in the Acquired Company 401(k) Plan of their roll-over rights.

(b) As of the Closing Date, Buyer shall cause each of the Acquired Companies to continue to employ the employees of the Acquired Companies who are employees of the Acquired Companies as of the Closing (the "Acquired Company Employees"), on terms and conditions that include, in the aggregate, (i) compensation (including but not limited to rates of annual base salary or wage level that is at least equal to that provided to each such Acquired Company Employee by any of the Acquired Companies on the Closing Date) and (ii) participation in Benefit Plans of Buyer made available to employees of Buyers insurance company affiliates; provided, that nothing herein shall be deemed to limit the right of Buyer, the Company or any of their respective Affiliates to (A) terminate the employment of any Acquired Company Employee at any time, (B) change or modify the terms or conditions of employment for any Acquired Company Employee or (C) change or modify any Benefit Plan of the Buyer in accordance with their terms.

(c) For all purposes under the Benefit Plans established or maintained by Buyer in which the Acquired Companies' Employees enroll after the Closing (the "New Benefit Plans"), each Acquired Company Employee shall be credited with the same amount of service as was credited by each of the Acquired Companies as of the Closing under similar or comparable Benefit Plans (including for purposes of eligibility to participate, vesting, benefit accrual and eligibility to receive benefits but not for purposes of retirement plan benefit accrual); provided that such crediting of service shall not operate to duplicate any benefit or the funding of any benefit. In addition, and without limiting the generality of the foregoing, (i) with respect to any New Benefit Plans in which the Acquired Company Employees may be eligible to participate following the Closing, each Acquired Company Employee will immediately be eligible to participate in such New Benefit Plans, without any waiting time, to the extent coverage under such New Benefit Plans replaces coverage under a similar or comparable Benefit Plan in which such Acquired Company Employee was eligible to participate immediately before such commencement of participation and (ii) for purposes of each New Benefit Plan providing medical, dental, pharmaceutical and/or vision benefits to any Acquired Company Employee, Buyer shall cause all pre-existing condition exclusions and actively-at-work requirements of such New Benefit Plan to be waived for such Acquired Company Employee and his or her covered dependents, to the extent any such exclusions or requirements were waived or were inapplicable under any similar or comparable Acquired Company Benefit Plan. In addition, each Acquired Company Employee shall be entitled to a credit in such New Benefit Plan for any deductible or maximum out of pocket expenditures made by the Acquired Company Employee and his or her dependents during the 2013 Plan Year for the Benefit Plans maintained by Buyer in which the Acquired Company Employee was enrolled. In addition, each Acquired Company Employee will be eligible for a one-time payment from the Company equal to the amount contributed in 2013 by the Company to the HDHP maintained by the Company. Such payment shall be treated as income for tax purposes.

Section 4.6 Supplemental Disclosure. Seller and Buyer shall have the right, from time to time prior to the Closing, to supplement or amend the Seller Disclosure Letter and Buyer Disclosure Letter, as the case may be (a "Development Notice"), with respect to events or circumstances first arising between the date hereof and the Closing Date (other than as a result of a breach of this Agreement by the party seeking to supplement or amend the Seller Disclosure Letter or Buyer Disclosure Letter, as the case may be) that, if existing or known at the date of this Agreement, would have been required to be set forth or described in such Seller Disclosure Letter or Buyer Disclosure Letter, as the case may be. Seller acknowledges that no such Development Notice, however, shall be deemed to affect any right of Buyer to terminate this Agreement pursuant to ARTICLE 6 hereof; provided, that, if Buyer does not elect to terminate this Agreement as a result of a Development Notice, following the Closing, such Development Notice will be deemed to have amended the Disclosure Schedule and to have qualified the representations and warranties contained in Section 2 above.

Section 4.7 Public Announcements. Except as permitted pursuant to the Confidentiality Agreement or Section 4.2(d), neither Buyer nor Seller shall make, or permit any of their Affiliates or representatives to make, any public announcement in respect of this Agreement or the transactions contemplated hereby without the prior written consent of the other party (such consent not to be unreasonably withheld, delayed or conditioned).

Section 4.8 Noncompetition.

(a) Seller and the Principals covenant and agree with Buyer that through the fifth anniversary of the Closing Date (the "Restrictive Period"), none of them nor any of their Affiliates, now or hereafter existing, shall, directly or indirectly: (i) engage in the Competing Business within the United States; (ii) as a partner, member or stockholder (except as a holder, for investment purposes only, of not more than five percent (5%) of the outstanding stock of any company listed on a national securities exchange, or actively traded in a national over-the-counter market), equity holder, or joint venturer of any other Person, or, directly or beneficially, own, manage, operate, control, or participate in the ownership, management, operation or control of, a Person that is engaged in the Competing Business in any of the states set forth on Section 4.8(a) of the Seller Disclosure Letter if such Person derives an amount greater than five percent (5%) of its annual gross premiums from the Competing Business in the United States; (iii) permit the use of its name by a Person to facilitate such Person marketing or engaging in the Competing Business in the United States, or (iv) solicit any policyholder or bondholder of the Insco Insurers, as of the Closing Date, directly or through a Producer, broker, intermediary or other producer with respect to any insurance coverage or cession of insurance risks or liabilities, except to the extent required by applicable Law.

(b) Seller and the Principals agree on their behalf and on behalf of their Affiliates that none of them will, directly or indirectly, alone or with others, during the Restrictive Period:

(i) hire, solicit or assist anyone else in the solicitation of, any employee of any of the Acquired Companies as of the Closing Date to terminate his or her employment with such Acquired Company, provided that such restriction shall not apply to any such employee who responds to a general advertisement of employment with Seller or an Affiliate of Seller;

(ii) quote, solicit, sell, place, produce, market, issue or write insurance from, for or to any Person who was a customer of any Insco Insurer as of the

Closing Date or at any time during the twelve-month period prior to the Closing Date or who was quoted, solicited or marketed insurance by any Insco Insurer any time during the twelve-month period prior to the Closing Date; or

(iii) solicit, engage, retain or appoint any Person who was a broker, agent or Producer of the Business as of the Closing Date or at any time during the twelve-month period prior to the Closing Date.

(c) If any provision contained in this Section 4.8 shall for any reason be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Section 4.8, but this Section 4.8 shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein. It is the intention of the parties that if any of the restrictions or covenants contained herein is held to cover a geographic area or to be for a length of time which is not permitted by applicable Laws, or in any way construed to be null, void and of no effect, but to the extent such provision would be valid or enforceable under applicable Laws, a court of competent jurisdiction shall construe and interpret or reform this Section 4.8 to provide for a covenant having the maximum enforceable geographic area, time period and other provisions (not greater than those contained herein) as shall be valid and enforceable under such applicable law. Seller and the Principals acknowledge that Buyer and the Acquired Companies would be irreparably harmed by any breach of this Section 4.8 and that there would be no adequate remedy at law or in damages to compensate Buyer and the Acquired Companies for any such breach and that, in addition to any relief at law which may be available to such other party for such violation or breach or regardless of any other provision in this Agreement, Buyer and the Acquired Companies shall be entitled to injunctive and other equitable relief as the court may grant after considering the intent of this Section 4.8.

(d) Notwithstanding anything to the contrary in this Agreement, Buyer's rights under this Section 4.8 may be assigned by Buyer, without the consent of Seller or the Principals, in connection with a sale of any Acquired Company or the Business.

Section 4.9 Intercompany Agreements and Accounts. Section 4.9 of the Seller Disclosure Letter lists all agreements between any Acquired Company and any of their Affiliates. Seller shall cause those agreements listed in Section 4.9 of the Seller Disclosure Letter between any Acquired Company and any of their Affiliates that shall not be an Acquired Company ("Intercompany Agreements") to be terminated without any further obligation or liability of the Acquired Companies and all intercompany accounts receivable or payable (whether or not currently due or payable) between (x) any Acquired Company, on the one hand, and (y) Seller or any of its Affiliates (other than an Acquired Company), or any of the officers or directors of Seller and any of its Affiliates, on the other hand, to be settled in full in cash (without any premium or penalty) at or prior to the Closing.

Section 4.10 Subsequent Financial Statements.

(a) After the date hereof until the Closing Date, Seller shall within five (5) Business Days after the filing of such items with the applicable Insurance Departments, deliver to Buyer the SAP financial statements of the Insco Insurers as of the end of such quarter and for the period then ended (which, other than the Statutory Statement at and for the year ended December 31, 2013, shall be unaudited) (such financial statements, the "Subsequent Period Statutory Statements"). The Subsequent Period Statutory Statements shall be prepared in all material respects in accordance with SAP and in a manner consistent with the applicable Insco Insurer's historical accounting practices and shall present fairly in all material respects the financial position of such Insco Insurer, as of the date thereof, and the results of its operations for the applicable period then ended (subject, for any Subsequent Period Statutory Statement other than the Statutory Statement at and for the year ended December 31, 2013, to normal recurring year-end adjustments).

(b) After the date hereof until the Closing Date, within twenty (20) Business Days after the end of each calendar month, Seller shall deliver to Buyer an unaudited combined balance sheet of the Acquired Companies as of the end of such month (collectively, the "Interim Balance Sheets" each an "Interim Balance Sheet"). The Interim Balance Sheets shall be prepared in all material respects in accordance with GAAP and in a manner consistent with the preparation of the balance sheets included in the GAAP Financial Statements and shall present fairly in all material respects the combined financial position of the Acquired Companies, as of the date thereof (subject, for any Interim Balance Sheet as of any date other than December 31, 2013, to normal recurring year-end adjustments).

(c) After the date hereof until the Closing Date, within twenty (20) Business Days after the end of each calendar month, Seller shall deliver to Buyer a combined income statement of the Acquired Companies for the portion of the calendar year ended as of the end of such month (collectively, the "Interim Income Statements" and each an "Interim Income Statement"). The Interim Income Statements shall be prepared in all material respects in accordance with GAAP and in a manner consistent with the preparation of the income sheets included in the GAAP Financial Statements and shall present fairly in all material respects the combined results of operations of the Acquired Companies, for the period of the year then ended (subject, for any Interim Income Statements other than for the year ended December 31, 2013, to normal recurring year-end adjustments).

(d) After the date hereof until the Closing Date, Seller shall use commercially reasonable efforts (including use of reasonably available internal resources) to cooperate with Buyer in Buyer's efforts to compile and prepare data that, when audited will constitute the audited financial data of the Acquired Companies required to be filed with Securities and Exchange Commission (the "SEC") by Buyer under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and SEC Regulation S-X. Seller shall provide Buyer and its independent auditor with reasonable access to all necessary documents, records and appropriate personnel (to be approved by Seller) in Seller's custody and control upon reasonable notice during normal working hours. Seller similarly shall use commercially reasonable efforts to cooperate with Buyer in the preparation of any unaudited financial statements for the most recent fiscal quarter completed on or ending after the date hereof and prior to Closing and that Buyer is required to file with the SEC under the Exchange Act.

ARTICLE 5

Conditions Precedent

Section 5.1 Conditions to Obligations of Buyer and Seller. The obligations of Buyer and Seller to consummate the transactions contemplated hereby shall be subject to the fulfillment at or prior to the Closing of the following conditions:

(a) No Injunction, etc. Consummation of the transactions contemplated hereby shall not have been restrained, enjoined or otherwise prohibited or made illegal by any applicable Law.

(b) Governmental Approvals. Seller shall have received all consents, authorizations or approvals from the Governmental Authorities referred to in Section 2.2(b)(i) – (ii) of the Seller Disclosure Letter and Buyer shall have received all consents, authorizations or approvals from the Governmental Authorities referred to in Section 3.2(b)(i) – (ii) of Buyer Disclosure Letter, in each case in form and substance reasonably satisfactory to Buyer and Seller, and no such consent, authorization or approval shall have been revoked. Seller and Buyer shall prepare and file any applications for Governmental Approvals required in connection with the execution of this Agreement.

Section 5.2 Conditions to Obligations of Buyer. The obligation of Buyer to consummate the transactions contemplated hereby shall be subject to the fulfillment at or prior to the Closing of the following additional conditions:

(a) Representations; Performance. The representations and warranties of Seller and each Principal contained in ARTICLE 2 of this Agreement and in any certificate delivered pursuant hereto (without giving effect to any limitations as to "materiality" or "Material Adverse Effect" set forth therein) shall be true and correct at and as of the Closing Date in all material respects with the same effect as though made at and as of such time (except for representations that are as of a specific date which representations shall be true and correct in all material respects as of such date) in each case without giving effect to any supplement to the Seller Disclosure Letter pursuant to Section 4.6). Seller shall have in all material respects duly performed and complied with all agreements, covenants and conditions required by this Agreement to be performed or complied with by Seller at or prior to the Closing and shall have delivered to Buyer the items set forth in Section 1.2(a). Seller shall have delivered to Buyer a certificate, dated as of the Closing Date, signed by a duly authorized officer of Seller to the effect set forth above in this Section 5.2(a).

(b) FIRPTA Certificate. Seller shall have delivered to Buyer a statement, meeting the requirements of Section 1.1445-2(b)(2) of the Treasury Regulations, to the effect that such Person is not a "foreign person" within the meaning of section 1445 of the Code and the Treasury Regulations thereunder.

(c) Material Adverse Effect. Since the date of this Agreement, there shall not have occurred any Material Adverse Effect and no event shall have occurred or circumstance shall exist that, in combination with any other events or circumstances, could reasonably be expected to have a Material Adverse Effect.

(d) Termination of 401(k). On or prior to the Closing Date, the Acquired Company 401(k) Plan shall have been terminated and no Acquired Company shall have any further obligation with respect thereto.

(e) Key Employees. None of the employees of the Acquired Companies listed on Section 5.2(e) of the Seller Disclosure Letter shall have terminated or shall have delivered notice of termination to Seller.

(f) Assignment of Intellectual Property Rights. The Seller and the Principals shall have executed an assignment to the Company of all Intellectual Property Rights in any Acquired Company in form and substance reasonably satisfactory to the Buyer.

(g) Amendment to Lease. The Seller shall have caused the Company and 71-81 Cowan Building ("Landlord") to execute an amendment to that certain Office Lease, dated as of October 14, 2011, by and between Landlord and the Company, on terms and conditions commercially appropriate for the location, size and condition of the premises leased thereby and mutually acceptable to the Seller and the Buyer.

Section 5.3 Condition to Obligations of Seller. The obligation of Seller to consummate the transactions contemplated hereby shall be subject to the fulfillment at or prior to the Closing of the following additional condition:

(a) Representations; Performance. The representations and warranties of Buyer contained in this Agreement and in any certificate or other writing delivered pursuant hereto shall be true and correct in all material respects provided that any representations and warranties that are subject to a Materiality or Material Adverse Effect qualification shall be true and correct in all respects at and as of the Closing Date in all material respects with the same effect as though made at and as of such time as of such date (except for representations that are as of a specific date which representations shall be true and correct in all material respects as of such date) without giving effect to any supplement to the Buyer Disclosure Letter pursuant to Section 4.6). Buyer shall have duly performed and complied with all agreements, covenants and conditions required by this Agreement to be performed or complied with by Buyer at or prior to the Closing. Buyer shall have delivered to Seller a certificate, dated as of the Closing Date, signed by a duly authorized officer of Buyer to the effect set forth above in this Section 5.3(a).

ARTICLE 6
Termination

Section 6.1 Termination. This Agreement may be terminated at any time prior to the Closing Date:

(a) by the written agreement of Buyer and Seller;

(b) by either Buyer or Seller by ten days prior written notice to the other party, if:

(i) the Closing shall not have been consummated on or before six months from signing (the "End Date"), provided, that the right to terminate this Agreement pursuant to this Section 6.1(b)(i) shall not be available to any party whose breach of any provision of this Agreement results in the failure of the Closing to be consummated by such time; provided, further, that if on the End Date the only conditions to Closing that remain unfulfilled are the conditions set forth in Section 5.1(b) with respect to approval, filings, notices or consents of, with or to Government Authorities and those that are to be satisfied at the Closing, no party shall have the right to terminate this Agreement pursuant to this Section 6.1(b)(i) until nine months from signing; or

(ii) (A) there shall be any Law that makes consummation of the Closing illegal or otherwise prohibited or (B) any judgment, injunction, order or decree of any Governmental Authority having competent jurisdiction enjoining Buyer or Seller from consummating the Closing is entered and such judgment, injunction, order or decree shall have become final and nonappealable;

(c) by Buyer by not less than ten days written notice to Seller, if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Seller set forth in this Agreement shall have occurred that would cause the condition set forth in Section 5.2(a) not to be satisfied, and such failure to perform any covenant or agreement is incapable of being cured by the End Date; provided, that Buyer shall not have the right to terminate this Agreement pursuant to this Section 6.1(c) if Buyer is then in material breach or violation of its representations, warranties or covenants contained in this Agreement. In the event a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Seller set forth in this Agreement that would cause the condition set forth in Section 5.2(a) not to be satisfied, Buyer rights shall be limited to: (i) Closing and waiving any rights arising out of said breach or failure to perform; or (ii) terminating the Agreement; or

(d) by Seller by not less than ten days written notice to Buyer, if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Buyer set forth in this Agreement shall have occurred that would cause the condition set forth in Section 5.3(a) not to be satisfied, and such failure to perform any covenant or agreement is incapable of being cured by the End Date; provided, that Seller shall not have the right to terminate this Agreement pursuant to this Section 6.1(d) if Seller is then in material breach or violation of its representations, warranties or covenants contained in this Agreement.

Section 6.2 Effect of Termination. If this Agreement is terminated pursuant to Section 6.1, this Agreement shall become void and of no effect without liability of any party (or any of its directors, officers, employees, stockholders, Affiliates, agents, successors or assigns) to the other party except as provided in this Section 6.2, provided that no such termination (nor any provision of this Agreement) shall relieve any party from liability for any damages (including claims for damages based on the consideration that would have otherwise been payable to Seller) for fraud or for breach of any covenant hereunder. The provisions of Section 4.2(d), this Section

6.2, Section 7.2, Section 9.1, Section 9.2 and ARTICLE 10 shall survive any termination hereof pursuant to Section 6.1.

ARTICLE 7

Survival; Indemnification

Section 7.1 Survival of Representations and Warranties. The representations and warranties in this Agreement shall survive the Closing as follows:

(a) the representations and warranties in Section 2.16 (Environmental Laws), Section 2.18 (Employee Benefit Plans and Related Matters; ERISA) and Section 2.19 (Tax Matters) shall terminate thirty (30) days following the expiration of the applicable statutes of limitations in respect of such matters (after giving effect to any extensions or waivers thereof);

(b) the representations and warranties in Section 2.1 (Corporate Status), Section 2.2 (Corporate and Governmental Authorization), Section 2.3 (Non-Contravention), Section 2.4 (Capitalization; Title to Shares), Section 2.5 (Subsidiaries; Ownership Interests) Section 2.21 (Finders' Fees), Section 3.1 (Corporate Status), Section 3.2 (Corporate and Governmental Authorization), Section 3.3 (Non-Contravention) and Section 3.7 (Finders' Fees) (collectively, the "Fundamental Representations") shall survive indefinitely; and

(c) all other representations and warranties in this Agreement shall terminate 18 months following the Closing;

provided, that any representation or warranty in respect of which indemnity may be sought under Section 7.2 below, and the indemnity with respect thereto, shall survive the time at which it would otherwise terminate pursuant to this Section 7.1 if notice of the inaccuracy or breach or potential inaccuracy or breach thereof giving rise to such right or potential right of indemnity shall have been given to the party against whom such indemnity may be sought prior to such time (regardless of when the Losses in respect thereof may actually be incurred). The representations and warranties in this Agreement shall survive for the periods set forth in this Section 7.1 and shall in no event be affected by any investigation, inquiry or examination made for or on behalf of any party, or the knowledge of any party's officers, directors, stockholders, employees or agents or the acceptance by any party of any certificate hereunder. The parties acknowledge that indemnification hereunder with respect to the breach of any covenant or agreement contained herein, including any breach of any covenant or agreement contained in this ARTICLE 7 or ARTICLE 8, shall not be subject to any time or other limitations (other than those imposed under any applicable statute of limitations).

Section 7.2 Indemnification.

(a) Indemnification by Seller and the Principals. Seller and the Indemnifying Principal, on a joint and several basis, shall indemnify Buyer and its Affiliates (including the Acquired Companies after the Closing), and their respective stockholders, officers, directors, employees, agents, partners, representatives, successors and assigns (collectively, the "Buyer Parties") and save and hold each of them harmless against and pay on behalf of or reimburse such Buyer Parties as and when incurred for any loss, Liability, demand, judgment, claim, action, cause of action, cost, damage, deficiency, Tax, penalty, fine or expense, whether or not arising out of third-party claims (including interest, penalties, reasonable legal, consulting and other professional fees and expenses and all amounts paid in investigation, defense or settlement of any of the foregoing and excluding any amounts due to lost profits, lost opportunity, diminution of value, or special, incidental, consequential or punitive damages, in each case to the extent not reasonably foreseeable (other than any such damages actually paid to a third party)) (collectively, "Losses"), that any such Buyer Party may suffer, sustain or become subject to, as a result of, in connection with, relating or incidental to or by virtue of:

(i) any breach by Seller of any representation or warranty made by Seller or either Principal in this Agreement, provided that said breach has not been cured by Seller's amendment of the Seller Disclosure Letter in accordance with Section 4.6

(ii) any non-fulfillment or breach of any covenant, agreement or other provision by Seller or the Principals under this Agreement; and

(iii) any of the matters set forth on Section 7.2(a)(iii) of the Seller Disclosure Letter attached hereto;

(iv) provided, that Seller and the Indemnifying Principal shall not have any Liability under clause (i) (as the same relates to representations and warranties) above (other than with respect to the Fundamental Representations) unless the aggregate of all such Losses relating thereto for which Seller or the Indemnifying Principal would, but for this proviso, be liable exceeds, on a cumulative basis, an amount equal to $500,000, at which time Seller and the Indemnifying Principal, on a joint and several basis, shall be liable only for the amount of all such Losses in excess of $250,000 (the "Deductible"); provided, further, that Seller's and the Principals' aggregate Liability under clause (i) (as the same relates to representations and warranties) above (other than with respect to the Fundamental Representations), shall in no event exceed $21,000,000 (with it being understood, however, that nothing in this Agreement (including this Section 7.2(a)) shall limit or restrict any of the Buyer Parties' right to maintain or recover any amounts in connection with fraud or willful or criminal misconduct); provided, further, that (aa) Seller shall have no obligation to indemnify Buyer with respect to individual Losses under Section 7.2(a) of less than $10,000 each and such Losses shall not be counted toward the Deductible; and (bb) any payments of Losses hereunder shall be net of any amounts actually recovered (after deducting related increase in premium payments, retro-premium adjustments, cost of enforcement, deductibles or reasonable costs and expenses) by the indemnified party for the Losses for which such payment is made under any insurance policy or other source of reimbursement from any Person other than a party hereto; provided, that, for the avoidance of doubt, no Buyer Party shall have any obligation hereunder to pursue any claim under any insurance policy or other source of reimbursement in respect of any Losses.

With respect to any particular matter, no party shall be entitled to any indemnification under this ARTICLE 7 to the extent that such matter has been otherwise specifically addressed pursuant to an adjustment to the Purchase Price pursuant to Section 1.3. Seller agrees and acknowledges that nothing in this Agreement (including this Section 7.2(a)) shall limit or restrict any of the Buyer Parties' rights to maintain or recover any amounts in connection with any action or claim based upon fraud or willful or criminal misconduct. Nothing in this Section 7.2(a) shall be deemed to alter the survival periods set forth in Section 7.1 in any manner.

(b) Indemnification by Buyer. Buyer agrees to and shall indemnify Seller and its stockholders, officers, directors, employees, agents, partners, representatives, successors and assigns (collectively, the "Seller Parties") and hold them harmless against any Losses which Seller Parties may suffer, sustain or become subject to, as the result of, in connection with, relating or incidental to or by virtue of the breach by Buyer of any representation, warranty, covenant or agreement made by Buyer in this Agreement.

(c) Manner of Payment. Except as otherwise provided herein, any indemnification of the Buyer Parties or Seller Parties pursuant to this Section 7.2 or ARTICLE 8 shall be effected by wire transfer of immediately available funds from the Seller or Buyer, as the case may be, to an account(s) designated by the applicable Buyer Party or Seller, as the case may be, within ten (10) days after Final Determination thereof. Any such indemnification payments shall include interest at the Applicable Rate calculated on the basis of the actual number of days elapsed over 360, from the date any such Loss is suffered or sustained to the date of payment. Notwithstanding the foregoing, the Buyer Parties shall be entitled to (but shall not be required to) set-off any amounts due or payable to any of the Buyer Parties by Seller as a result of a Final Determination pursuant to this Section 7.2 against any amounts otherwise due and payable by any of the Buyer Parties or any of their Affiliates to Seller. Buyer shall be entitled to set off any amounts due or payable to Buyer by Seller pursuant to this ARTICLE 7 or ARTICLE 8 against any amounts otherwise due and payable to Seller as a result of a Final Determination. The parties hereto agree to treat any indemnity payment made pursuant to this ARTICLE 7 as an adjustment to the Purchase Price for all Tax purposes, unless otherwise required by applicable Laws. For purposes of this Article 7, "Final Determination" shall mean the earliest to occur of the following: (i) the written agreement of the parties as to the amount and validity of a claim; (ii) a judgment of any court determining the validity of a disputed claim, if no appeal is pending from such judgment or if the time to appeal therefrom has elapsed (it being understood that the indemnified party shall have no obligation to appeal); (iii) an award of any arbitrator or arbitration panel determining the validity of a disputed claim, if there is not pending any motion to set aside or appeal such award or if the time within which to move to set such award aside or appeal has elapsed; or (iv) a written acknowledgement of the indemnifying party that it no longer disputes the validity of such claim; or (v) where an indemnifying party is required to respond to a claim notice under this Agreement by a specific date, the date on which such indemnifying party fails to provide such response.

(d) Defense of Third-Party Claims. Except as set forth in Section 7.1, any Person making a claim for indemnification under this Section 7.2 or ARTICLE 8 (an "Indemnitee") shall notify the indemnifying party (an "Indemnitor") of the claim in writing promptly after receiving written notice of any action, lawsuit, proceeding, investigation or other claim against it (if by a third party), describing the claim, the amount thereof (if known and quantifiable) and the basis thereof; provided, that the failure to so notify an Indemnitor shall not relieve the Indemnitor of its obligations hereunder except to the extent that (and only to the extent that) such failure shall have actually prejudiced the Indemnitor or shall have otherwise caused the damages for which the Indemnitor is obligated to be greater than such damages would have been had the Indemnitee given the Indemnitor prompt notice hereunder. The Indemnitor shall have the right, upon written notice to the Indemnitee within thirty (30) calendar days after receipt from the Indemnitee of notice of such claim, which notice by the Indemnitor shall specify the counsel it will appoint to defend such claim (such counsel shall be reputable and reasonably acceptable to Indemnitee), to elect to conduct, at its expense, the defense against such claim in its own name, or if necessary in the name of the Indemnitee; provided, further, that:

(i) the Indemnitee shall be entitled to participate in the defense of such claim and to employ counsel of its choice for such purpose; provided, that the fees and expenses of such separate counsel shall be borne by the Indemnitee (other than any fees and expenses of such separate counsel that are incurred prior to the date the Indemnitor effectively assumes control of such defense which, notwithstanding the foregoing, shall be borne by the Indemnitee);

(ii) the Indemnitor shall not be entitled to assume control of such defense (unless otherwise agreed to in writing by the Indemnitee) and shall pay the fees and expenses of counsel retained by the Indemnitee if (A) the claim for indemnification relates to or arises in connection with any criminal or quasi-criminal proceeding, action, indictment, allegation or investigation; (B) the claim seeks an injunction or equitable relief against the Indemnitee; (C) there is a material conflict of interest between the Indemnitor and the Indemnitee that has not been waived; or (D) upon petition by the Indemnitee, the appropriate court rules that the Indemnitor failed or is failing to vigorously prosecute or defend such claim; and

(iii) if the Indemnitor shall control the defense of any such claim, the Indemnitor shall obtain the prior written consent of the Indemnitee before entering into any settlement of a claim or ceasing to defend such claim if, pursuant to or as a result of such settlement or cessation, injunctive or other equitable relief will be imposed against the Indemnitee or if such settlement does not expressly and unconditionally release the Indemnitee from all Liabilities with respect to such claim, with prejudice.

(e) Exclusive Remedy. Other than in the case of fraud or intentional or willful misrepresentation, each of the Parties acknowledges and agrees that the indemnification provisions set forth in this ARTICLE 7 and ARTICLE 8 shall be the exclusive remedy of the Parties with respect to any breaches of the representations, warranties, covenants, or agreements set forth in this Agreement, Schedule, Exhibit or certificate delivered at the Closing in connection with the transactions contemplated hereby.

ARTICLE 8

Tax Matters

Section 8.1 Tax Indemnity by Seller and the Indemnifying Principal. Seller and the Indemnifying Principal, on a joint and several basis, shall be liable for, and shall indemnify and hold the Buyer Parties harmless from and against any Losses related to any of the following:

(a) Any and all Taxes of Seller or any Affiliate (other than the Acquired Companies);

(b) Any and all Taxes of the Acquired Companies (i) relating to any Pre-Closing Tax Period that have not been paid as of the Closing Date (other than Taxes reflected as a Liability in the calculation of Tangible Book Value as of the Closing Date, resulting in a reduction of such Tangible Book Value, and reflected on the Final Closing Balance Sheet), or (ii) resulting from or attributable to the consummation of the transactions contemplated hereby (including any Transfer Taxes);

(c) Any Taxes of any other Person for which any Acquired Company is liable pursuant to Section 1.1502-6 of the Treasury Regulations or any similar provision of state, local or foreign Tax Laws as a transferor or successor, by contract or otherwise, which Taxes relate to an event or occurrence occurring on or before the Closing Date;

(d) the failure of any of the representations or warranties contained in Section 2.19 to be true and correct in all respects (determined without regard to any qualification as to materiality contained therein) or the failure to perform any covenant or agreement contained in this Agreement with respect to Taxes; and;

(e) any liability of Seller for the Taxes of any Person under Treasury Regulation Section 1.1502-6 (or any corresponding provision of state, local or non-U.S. Tax Laws), as a transferee or successor, by contract, or otherwise.

Section 8.2 Transfer Taxes. Seller and the Indemnifying Principal, on a joint and several basis, shall be responsible for the timely payment of all transfer, documentary, sales, use, stamp, registration and other similar Taxes and other governmental charges (the "Transfer Taxes") imposed due to the consummation of the transactions contemplated by this Agreement. Seller and Buyer shall reasonably cooperate to file all necessary Tax Returns and other documentation with respect to all such Transfer Taxes, and, if required by applicable law, Buyer will join in the execution of any such Tax Returns and other documentation.

Section 8.3 Tax Returns.

(a) Buyer shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for the Acquired Companies for all periods ending on or before the Closing Date which are required to be filed after the Closing Date. All such Tax Returns shall be prepared in a manner consistent with the prior practice of the Acquired Companies unless otherwise required by Laws. Not later than 20 days prior to the due date for the filing of any such Tax Return (or, if such due date is within 45 days following the Closing Date, as promptly as practicable following the Closing Date), Buyer shall provide Seller with a copy of such Tax Return and Buyer shall consider in good faith the reasonable comments made thereto by Seller. Seller and the Indemnifying Principal, on a joint and several basis, shall indemnify and hold the Buyer Parties harmless from and against and pay to the Buyer Parties the amount of any Taxes of the Acquired Companies with respect to any such Tax Period reflected on any such Tax Return, except to the extent such Taxes are reflected as a liability in the calculation of Tangible Book Value as of the Closing Date and have resulted in a reduction to such Tangible Book Value pursuant to Section 1.4. Nothing in the foregoing provisions of this Section 8.3(a) shall excuse the Seller and the Principals from their responsibility for their share, as determined in accordance with this Section 8.1, of any Taxes if the amount of Taxes as ultimately determined (on audit or otherwise) for periods covered by the relevant Tax Returns exceeds the amount determined under the foregoing provisions of this Section 8.3(a).

(b) Where it is necessary for purposes of this Agreement to apportion the Taxes of the Acquired Companies for a taxable year or period (or portion thereof) that includes but does not end on the Closing Date, such Liability shall be apportioned between the period deemed to end on and include the Closing Date, and the period deemed to begin at the beginning of the day following the Closing Date on the basis of an interim closing of the books, except that Taxes (such as real or personal property Taxes) imposed on a periodic basis and not imposed on income, receipts, sales, use, employment or value added or by withholding shall be allocated on a daily basis (with the portion attributable to the period ending on and including the Closing Date based upon a fraction the numerator of which is the number of days in the taxable period ending on and including the Closing Date and the denominator of which is the number of days in the entire taxable period). To the extent that any Tax for such a taxable year or period is based on the greater of a Tax on net income, on the one hand, and a Tax measured by net worth or some other basis not otherwise measured by income, on the other hand, the apportionment of such shall be determined based on the foregoing and based on the manner in which the actual Tax Liability for the entire taxable year or period is determined.

Section 8.4 Other Matters.

(a) Amended Returns. Unless otherwise required by Law, Buyer and, after the Closing, the Acquired Companies, shall not file or cause to be filed any amended Tax Return for any Acquired Company that relates to any Tax period (or portion thereof, determined in accordance with Section 8.3(b)) that ends on or before the Closing Date without the prior written consent of Seller, which consent may not be unreasonably conditioned, withheld or delayed.

(b) Assistance and Cooperation. In connection with the preparation of Tax Returns and any audits by or disputes with any Governmental Authority, including any Taxing Authority, regarding any Tax Return of any Acquired Company, and any administrative or judicial proceedings relating to the Tax liabilities imposed on any Acquired Company, Buyer and its affiliates, including the Acquired Companies, on the one hand, and the Seller, on the other hand, shall reasonably cooperate with each other, including, without limitation, the furnishing or making available during normal business hours of records, personnel (as reasonably required), books of account, powers of attorney or other materials necessary or helpful for the preparation of such Tax Returns or the conduct of any audits by or disputes with any Governmental Authority, including any Taxing Authority, regarding any Tax Return of any Acquired Company.

(c) Tax Sharing. The Seller shall cause each Acquired Company's participation in any and all Tax allocation or Tax sharing agreements and arrangements to be terminated as of the Closing Date; and no Acquired Company shall be bound thereby or have any further obligations or liabilities thereunder at any time thereafter. All powers of attorney granted by or with respect to any Acquired Company related to Taxes shall be terminated as of the Closing Date.

(d) Application of Article 7. Except for Sections 7.1, 7.2(c), and 7.2(d), the provisions of ARTICLE 7 shall not apply to the matters described in this ARTICLE 8, and the rights and obligations of the parties with respect to indemnification for any and all Tax matters described in this ARTICLE 8 shall be governed exclusively by this ARTICLE 8.

(e) Tax Treatment of Indemnity Payments. The parties hereto agree to treat any indemnity payment made pursuant to this ARTICLE 8 as an adjustment to the Purchase Price for all Tax purposes, unless otherwise required by Law.

ARTICLE 9

Definitions

Section 9.1 Certain Terms. The following terms have the respective meanings given to them below:

"Acquired Company(ies)" means the Company, Builders Insurance Services, LLC, Vista Surety Insurance Solutions, LLC, a California limited liability company, Developers Surety and Indemnity Company, an insurance company formed under the laws of the State of Iowa, and Indemnity Company of California, an insurance company organized under the laws of the State of California and any other Insco Subsidiary.

"Acquired Company 401(k) Plan" means the Insco Insurance Services, Inc. Employee Profit Sharing and Savings Plan

"Acquired Company Benefit Plans" means each Benefit Plan sponsored by the Acquired Companies.

"Acquired Company Employees" has the meaning set forth in Section 4.5(a).

"Acquired Company Securities" has the meaning set forth in Section 2.4(b).

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person.

"Agreement" has the meaning set forth in the Preamble.

"Applicable Rate" means the prime rate of interest reported from time to time in The Wall Street Journal.

"Assets" has the meaning set forth in Section 2.10(a).

"Audited SAP Financial Statements" has the meaning set forth in Section 2.6(a).

"Balance Sheet Date" means August 31, 2013.

"Benefit Plans" means any employee benefit plan as defined in Section 3(3) of ERISA, including without limitation any employee benefit plan providing for health savings accounts, and each bonus, incentive or deferred compensation, severance, termination, retention, change of control, tuition reimbursement, adoption reimbursement, stock option, stock appreciation, stock purchase, phantom stock or other equity-based, performance or other employee or retiree benefit or compensation plan, program, arrangement, agreement, policy or understanding, whether written or unwritten, or required to be established for employees under Applicable Law, that provides or may provide benefits or compensation in respect of any Acquired Company Employee or under which any Acquired Company Employee is or may become eligible to participate or derive a benefit and that is or has been maintained or established by any of the Acquired Companies or any of their Affiliates, to which any Acquired Company contributes or is or has been obligated or required to contribute or has, or may reasonably be expected to have, any obligation or liability, contingent or otherwise.

"Business" means the business and operations of the Acquired Companies as conducted as of the date hereof and at any time between the date hereof and the Closing, including without limitation the soliciting, marketing, sale, underwriting, servicing, administration and issuance of insurance policies or bonds with respect to the Lines of Business.

"Business Day" means any day that is not (i) a Saturday, (ii) a Sunday or (iii) any other day on which commercial banks are authorized or required by law to be closed in the State of California.

"Buyer" has the meaning set forth in the Preamble.

"Buyer Disclosure Letter" means the letter, dated as of the date hereof, delivered by Buyer to Seller prior to the execution of this Agreement and identified as Buyer Disclosure Letter.

"Closing" has the meaning set forth in Section 1.2.

"Closing Date" has the meaning set forth in Section 1.2.

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" has the meaning set forth in the Recitals.

"Competing Business" means the soliciting, marketing, sale, underwriting, servicing, administration and issuance of insurance policies or bonds with respect to the Lines of Business

"Confidentiality Agreement" has the meaning set forth in Section 4.2(d).

"Deductible" has the meaning set forth in Section 7.2(a)(iv).

"Development Notice" has the meaning set forth in Section 4.6.

"End Date" has the meaning set forth in Section 6.1(b)(i).

"Environmental Law" means any and all local, state and federal Laws and binding judicial or administrative interpretations thereof pertaining to: (a) the protection of the environment (including air quality, surface water, groundwater, soils, subsurface strata, drinking water, natural resources and biota) or human health and safety; or (b) the presence, use, processing, generation, management, storage, treatment, recycling, disposal, discharge, release, threatened release, investigation or remediation of hazardous materials, including, without limitation, the Federal Resource Conservation and Recovery Act, the Federal Comprehensive Environmental Response, Compensation and Liability Act, the Federal Clean Water Act, the Federal Clean Air Act, and the Federal Occupational Safety and Health Act and their implementing regulations as well as state analogues, each as may be amended from time to time.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any rules and regulations thereunder.

"ERISA Affiliate" means, with respect to any Person, any trade or business, whether or not incorporated, which, together with such Person, is treated as a single employer under section 414 of the Code.

"Estimated Closing Balance Sheet" has the meaning set forth in Section 1.3(a).

"Estimated Purchase Price" means an amount equal to $85,000,000, plus the Estimated TBV Excess, minus the Estimated TBV Shortfall, as applicable.

"Estimated Tangible Book Value" means the Tangible Book Value as of the Pre-Closing Month End determined based upon the Estimated Closing Balance Sheet.

"Estimated TBV Excess" means the amount by which the Estimated Tangible Book Value exceeds $78,000,000.

"Estimated TBV Shortfall" means the amount by which the Estimated Tangible Book Value is less than $78,000,000.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, as the same may be amended from time to time.

"Final Closing Balance Sheet" has the meaning set forth in Section 1.3(c).

"Financial Statements" has the meaning set forth in Section 2.6(a).

"GAAP" has the meaning set forth in Section 2.6(a).

"GAAP Financial Statements" has the meaning set forth in Section 2.6(a).

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, any court, tribunal or arbitrator and any self-regulatory organization.

"Indebtedness" means with respect to a Person, without duplication, (i) any indebtedness for borrowed money, (ii) any indebtedness evidenced by any note, bond, debenture or other debt security, (iii) all obligations in respect of letters of credit and bankers' acceptances issued for the account of such Person, (iv) all obligations arising from deferred compensation arrangements, (v) all deferred rent, (vi) all liabilities for the deferred purchase price of property or services with respect to which a Person is liable, contingently or otherwise, as obligor or otherwise (other than trade payables incurred in the ordinary course of business which are not past due), and (vii) all obligations under conditional sale or other title retention agreements relating to property or assets purchased by such Person, in each case of such Person whether incurred, assigned, granted or unsecured, and guarantees and indemnity, surety and other agreements of such Person of any of the foregoing of any other Person. For avoidance of doubt, Indebtedness shall not include capital leases.

"Insco Insurer" means the Company or an Insco Subsidiary that issues insurance policies or bonds.

"Insco Subsidiary" means a Subsidiary of the Company.

"Insurance Department" means, in any jurisdiction, the Governmental Authority primarily charged with the regulation of the business of insurance in such jurisdiction.

"Insurance Laws" means all applicable statutes, laws, regulations, rules, directives, orders, decrees, injunctions, agency requirements, licenses or permits of any Insurance Department regulating the business or products of insurance.

"Insurance License" has the meaning set forth in Section 2.14(a).

"Intellectual Property" has the meaning set forth in Section 2.11(a).

"Intercompany Agreements" has the meaning set forth in Section 4.9.

"Interim Balance Sheets" has the meaning set forth in Section 4.10(b).

"Interim Financial Statements" has the meaning set forth in Section 2.6(a).

"Interim Income Statements" has the meaning set forth in Section 4.10(c).

"IRS" means the Internal Revenue Service.

"Knowledge of Seller" means the actual knowledge of Harry Crowell, Walter Crowell, Sam Zaza and David Kerrigan, in each case after due investigation in each case as of the date of determination.

"Laws" means any domestic federal, state or local statute, law, ordinance, rule, regulation, order, writ, injunction, judgment, decree, policy, administrative or judicial doctrine, guideline or other requirement or principle of common law applicable to Buyer, Seller, the Business or any Acquired Company or any of their respective businesses, properties or assets, as the case may be in effect prior to the Closing Date.

"Leased Real Property" has the meaning set forth in Section 2.10(d).

"Leases" has the meaning set forth in Section 2.10(d).

"Liability" means any liability or obligation (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due, and regardless of when asserted).

"Lien" means, with respect to any property or asset, any mortgage, lien, pledge, charge, security interest, lease, encumbrance or other adverse claim of any kind in respect of such property or asset.

"Lines of Business" has the meaning set forth in Section 2.14(c).

"Litigation" means any action, cease and desist letter, demand, suit, arbitration proceeding, administrative or regulatory proceeding, citation, summons or subpoena of any nature, civil, criminal, regulatory or otherwise, in law or in equity, or investigation, examination or audit by any Governmental Entity alleging potential liability, noncompliance with Laws, wrongdoing or misdeed.

"Material Adverse Effect" means any event or occurrence that, individually or in the aggregate, has, or would reasonably be expected to have, a material adverse change in, or effect on, the assets, financial condition or results of operations of the Acquired Companies, taken as a whole; provided that any such change or effect resulting from any of the following, individually or in the aggregate, shall not be considered when determining whether a Material Adverse Effect has occurred: (i) any change in economic conditions generally or capital and financial markets generally, including changes in interest or exchange rates, (ii) any change in Laws, SAP or GAAP, or the enforcement or interpretation thereof, applicable to the Business, (iii) conditions in jurisdictions in which the Business operates, including hostilities, acts of war, sabotage, terrorism or military actions, or any escalation or worsening of any of the foregoing, (iv) any change resulting from the negotiation, execution, announcement or consummation of the transactions contemplated by, or the performance of obligations under, this Agreement, including any such change relating to the identity of, or facts and circumstances relating to, Buyer and including any actions by customers, suppliers or personnel or (v) any actions required to be taken or omitted pursuant to this Agreement or taken with Buyer's consent, in each case unless the effect on the Business was disproportionate to the effect on the other participants in the industry in which the Business operates. For the avoidance of doubt, a Material Adverse Effect shall be deemed to have occurred if the Rating Agency shall have reduced the rating of any Insco Insurer.

"Material Contract" has the meaning set forth in Section 2.9(b).

"Multiemployer Plan" means any Acquired Company Benefit Plan that is a "multiemployer plan" within the meaning of section 4001(a)(3) of ERISA.

"New Benefit Plans" has the meaning set forth in Section 4.5(c).

"OFAC" means the U.S. Department of the Treasury's Office of Foreign Assets Control.

"Organizational Documents" means the articles of incorporation, certificate of incorporation, charter, by-laws, articles of formation, certificate of formation, regulations, operating agreement, certificate of limited partnership, partnership agreement and all other similar documents, instruments or certificates executed, adopted or filed in connection with the creation, formation or organization of a Person, including any amendments thereto.

"Outside Accountants" has the meaning set forth in Section 1.3(d)(ii).

"Permits" has the meaning set forth in Section 2.13(b).

"Permitted Liens" means (i) statutory liens for current Taxes or other governmental charges with respect to the Leased Real Property not yet due and payable or due and payable but not delinquent or the amount or validity of which is being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established and are or will be reflected on the Final Closing Balance Sheet, (ii) mechanics', carriers', workers', repairers' and similar statutory liens arising or incurred in the ordinary course of business or in connection with construction contracts for amounts that are not delinquent or are being contested in good faith and that would not individually or in the aggregate be materially adverse to the Business, (iii) zoning, entitlement, building codes and other land use regulations, ordinances or legal requirements imposed by any Governmental Authorities having jurisdiction over the Leased Real Property that do not, and would not reasonably be expected to, materially detract from the value of any of the property, rights or assets of the business of the Acquired Companies or materially interfere with the use thereof as currently used by the Acquired Companies, (iv) all rights relating to the construction and maintenance in connection with any public utility of wires, poles, pipes, conduits and appurtenances thereto, on, under or above the Leased Real Property, (v) title exceptions disclosed by any title insurance commitment or title insurance policy for any such Leased Real Property issued by a title company and delivered to Buyer prior to the date hereof and (vi) statutory Liens in favor of lessors arising in connection with any property leased to the Acquired Companies.

"Person" means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"Pre-Closing Month End" means the last day of the last full month ending prior to the Closing Date.

"Pre-Closing Tax Period" means any Tax period (or portion thereof) ending on or before the Closing Date determined in accordance with Section 8.3(b).

"Preliminary Closing Balance Sheet" has the meaning set forth in Section 1.3(b).

"Producer" has the meaning set forth in Section 2.25.

"Purchase Price" has the meaning set forth in Section 1.1.

"Purchase Price Calculations" has the meaning set forth in Section 1.3(b).

"Reserving Practices and Policies" means the practices and procedures utilized by the Insco Insurers, utilizing accepted industry practices, in the ordinary course of business in establishing the amount of and methodologies for determining reserves of the Insco Insurers.

"Restrictive Period" has the meaning set forth in Section 4.8(a).

"Sanctioned Country" shall mean a country subject to a sanctions program identified on the list maintained by OFAC and available at http://www.treas.gov/offices/enforcement/ofac/sanctions/, or as otherwise published from time to time;

"Sanctioned Person" shall mean (i) a person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at http://www.treas.gov/offices/enforcement/ofac/sdn/, or as otherwise published from time to time, or (ii) (A) an agency of the government of a Sanctioned Country, (B) an organization controlled by a Sanctioned Country, or (C) a person resident in a Sanctioned Country, to the extent subject to a sanctions program administered by OFAC.

"SAP" means, with respect to the statutory accounting practices which are prescribed or permitted by the Departments of Insurance in the state of domicile of the applicable Insco Insurer, as applied by such Insco Insurer on a consistent basis.

"SEC" has the meaning set forth in Section 4.10(d).

"Seller" has the meaning set forth in the Preamble.

"Seller Disclosure Letter" means the letter, dated as of the date hereof, delivered by Seller to Buyer prior to the execution of this Agreement and identified as the Seller Disclosure Letter.

"Seller Group" means Seller and all of its Subsidiaries.

"Shares" has the meaning set forth in the Recitals.

"Statutory Statements" means, collectively, the annual statements of each Insco Insurer, as filed with each Insco Insurer's Insurance Department, together with the actuarial opinions accompanying such financial statements and the quarterly statements of the condition and affairs of each Insco Insurer, as filed with its Insurance Department.

"Subsequent Financial Statements" means the Interim Balance Sheets and the Interim Income Statements.

"Subsequent GAAP Financial Statements" means any GAAP Financial Statements filed between the date hereof and the Closing Date.

"Subsequent Period Statutory Statements" means any Statutory Statements filed between the date hereof and the Closing Date.

"Subsidiary" means, with respect to any Person, any entity of which securities or other ownership interests (i) having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions or (ii) representing more than fifty percent of such securities or ownership interests are at the time directly or indirectly owned by such Person.

"Subsidiary Securities" has the meaning set forth in Section 2.5(c).

"Tangible Book Value" means, as of any date, an amount equal to (a) the stockholders' equity less (b) goodwill and intangibles assets of the Acquired Companies, each as of such date determined on a combined basis in accordance with GAAP in a manner consistent with the accounting policies of the Acquired Companies.

"Tax" means any federal, state, local or foreign income, alternative, minimum, accumulated earnings, personal holding company, franchise, capital stock, profits, windfall profits, gross receipts, sales, use, value added, transfer, registration, stamp, premium, excise, customs duties, severance, environmental (including taxes under section 59A of the Code), real property, personal property, ad valorem, occupancy, license, occupation, employment, payroll, social security, disability, unemployment, workers' compensation, withholding, estimated or other similar tax, duty, fee, assessment or other governmental charge or deficiencies thereof (including all interest and penalties thereon and additions thereto) including any Liability therefore for a predecessor entity, or any Liability incurred as a transferee or successor or by contract, or as a result of Treasury Regulation Section 1.1502-6 or any similar provision of Laws or as a result of any tax sharing or similar agreement.

"Taxing Authority" means any federal, state, local or foreign governmental authority, quasi-governmental authority, instrumentality or political or other subdivision, department or branch of any of the foregoing, with the legal authority to impose, assess or collect Taxes.

"Tax Return" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any amendment thereof, schedule or attachment thereto, required to be filed with any Taxing Authority.

"TBV Excess" means the amount by which the Tangible Book Value exceeds than $78,000,000.

"TBV Shortfall" means the amount by which the Tangible Book Value is less than $78,000,000.

"Treasury Listing" means the Department of the Treasury's Listing of Approved Sureties (Department Circular 570).

"Treasury Regulations" means the regulations prescribed under the Code.

"Unresolved Changes" has the meaning set forth in Section 1.3(d)(ii).

Section 9.2 Construction. The words "hereof", "herein" and "hereunder" and words of like import used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The words "party" or "parties" shall refer to parties to this Agreement. The captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof. References to Articles, Sections and Exhibits are to Articles, Section and Exhibits of this Agreement unless otherwise specified. All Exhibits and Disclosure Letters annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized term used in any Exhibit or Disclosure Letter but not otherwise defined therein shall have the meaning given to such term in this Agreement. Any singular term in this Agreement shall be deemed to include the plural, and any plural term the singular. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation", whether or not they are in fact followed by those words or words of like import. "Writing", "written" and comparable terms refer to printing, typing and other means of reproducing words (including electronic media) in a visible form. References to any agreement or contract are to that agreement or contract as amended, modified or supplemented from time to time in accordance with the terms hereof and thereof. References to any Person include the successors and permitted assigns of that Person. References from or through any date mean, unless otherwise specified, from and including or through and including, respectively. Any reference to "days" means calendar days unless Business Days are expressly specified. If any action under this Agreement is required to be done or taken on a day that is not a Business Day, then such action shall be required to be done or taken not on such day but on the first succeeding Business Day thereafter.

ARTICLE 10

Miscellaneous

Section 10.1 Notices. All notices, requests and other communications to any party hereunder shall be in writing (including facsimile transmission) and shall be given:

if to Buyer,

AmTrust Financial Services, Inc.
59 Maiden Lane, 6th Floor
New York, NY 10038
Fax: (212) 220-7130
Telephone: (212) 220-7120
Attention: Stephen Ungar
Email: sungar@amtrustgroup.com

with a copy (which shall not constitute notice) to:

Edwards Wildman Palmer LLP
750 Lexington Avenue
New York, New York 10022
Fax: (212) 308-4844
Telephone: (212) 912-2740
Attention: Geoffrey Etherington

if to Seller,

Crowell Family Limited Partnership
17771 Cowan, Suite 100
Irvine, CA 92614
Telephone: (949) 263-3340
Attention: Harry Crowell

with a copy (which shall not constitute notice) to:

Roger L. Neu, Inc.
2040 Main St., Suite 710
Irvine, California 92614
Fax: (949) 863-1701
Telephone: (949) 863-1700
Attention: Roger Neu

AND

David L. Kerrigan
99 Jasmine Creek Dr.
Corona del Mar, CA 92625
Telephone: (949) 706-7985

or such other address or facsimile number as such party may hereafter specify for the purpose by notice to the other parties hereto. Any such notice delivered personally shall be deemed to have been received upon delivery. Any such notice given by mail or other carrier regularly providing proof of delivery shall be deemed to have been given as of the date of delivery (whether accepted or refused), established by U.S. Post Office Return Receipt or the qualifying overnight carrier's proof of delivery if received prior to 5:00 p.m. on a Business Day in the place of receipt, as the case may be or such other address or facsimile number as such party may hereafter specify for the purpose by notice to the other parties hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. on a Business Day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed to have been received on the next succeeding Business Day in the place of receipt.

Section 10.2 Amendment; Waivers, etc. No amendment, modification or discharge of this Agreement, and no waiver hereunder, shall be valid or binding unless set forth in writing and duly executed by the party against whom enforcement of the amendment, modification, discharge or waiver is sought. Any such waiver shall constitute a waiver only with respect to the specific matter described in such writing and shall in no way impair the rights of the party granting such waiver in any other respect or at any other time. Neither the waiver by any of the parties hereto of a breach of or a default under any of the provisions of this Agreement, nor the failure by any of the parties, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder, shall be construed as a waiver of any other breach or default of a similar nature, or as a waiver of any of such provisions, rights or privileges hereunder. The rights and remedies herein provided are cumulative and none is exclusive of any other, or of any rights or remedies that any party may otherwise have at law or in equity.

Section 10.3 Expenses; Transfer Taxes.

(a) Except as otherwise provided herein, all costs, fees and expenses incurred in connection with this Agreement and the transactions contemplated hereby, whether or not consummated, shall be paid by the party incurring such cost or expense.

(b) Subject to Section 4.3(d), all transfer, documentary, sales, use, stamp, registration, value added and other such Taxes and fees (including any penalties and interest) incurred in connection with the transactions contemplated by this Agreement (including any real property transfer tax and any similar Tax) shall be borne 50% by Buyer and 50% by Seller, and Buyer will, at its own expense, file all necessary Tax Returns and other documentation with respect to all such Taxes and fees, and, if required by applicable law, Seller will, and will cause its Affiliates to, join in the execution of any such Tax Returns and other documentation.

Section 10.4 Governing Law, etc.

(a) THIS AGREEMENT SHALL BE GOVERNED IN ALL RESPECTS, INCLUDING AS TO VALIDITY, INTERPRETATION AND EFFECT, BY THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO ITS PRINCIPLES OR RULES OF CONFLICT OF LAWS THAT, WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION. Each party hereto hereby irrevocably submit to the jurisdiction of the courts of the State of California and the federal courts of the United States of America located in the State, City and County of Orange County solely in respect of the interpretation and enforcement of the provisions of this Agreement and in respect of the transactions contemplated hereby. Each party hereto irrevocably agrees that all claims in respect of the interpretation and enforcement of the provisions of this Agreement and in respect of the transactions contemplated hereby, or with respect to any such action or proceeding, shall be heard and determined in such a California State or federal court, and that such jurisdiction of such courts with respect thereto shall be exclusive, except solely to the extent that all such courts shall lawfully decline to exercise such jurisdiction. Each party hereto hereby waives, and agrees not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof or in respect of any such transaction, that it is not subject to such jurisdiction. Each party hereto hereby waives, and agrees not to assert, to the maximum extent permitted by law, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof or in respect of any such transaction, that such action, suit or proceeding may not be brought or is not maintainable in such courts or that the venue thereof may not be appropriate or that this Agreement may not be enforced in or by such courts. The parties hereto hereby consent to and grant any such court jurisdiction over the person of such parties and over the subject matter of any such dispute.

Section 10.5 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective heirs, successors and permitted assigns; provided that this Agreement shall not be assignable or otherwise transferable by any party without the prior written consent of the other party other than by Buyer to a wholly-owned Subsidiary so long as Buyer remains obligated hereunder.

Section 10.6 Entire Agreement. This Agreement and the Confidentiality Agreement constitute the entire agreement and supersede all prior agreements, understandings and representations, both written and oral, between the parties with respect to the subject matter hereof.

Section 10.7 Severability. If any provision, including any phrase, sentence, clause, section or subsection, of this Agreement is determined by a court of competent jurisdiction to be invalid, inoperative or unenforceable for any reason, such circumstances shall not have the effect of rendering such provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision herein contained invalid, inoperative or unenforceable to any extent whatsoever. Upon any such determination, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

Section 10.8 Counterparts; Effectiveness; Third Party Beneficiaries. This Agreement may be executed in several counterparts, each of which shall be deemed an original and all of which shall together constitute one and the same instrument. This Agreement shall become effective when each party shall have received a counterpart hereof signed by all of the other parties. Until and unless each party has received a counterpart hereof signed by the other party, this Agreement shall have no effect and no party shall have any right or obligation hereunder (whether by virtue of any other oral or written agreement or other communication). Except as expressly set forth in this Agreement, no provision of this Agreement is intended to confer any rights, benefits, remedies, obligations or liabilities hereunder upon any Person other than the parties and their respective successors and assigns.

Section 10.9 Specific Performance. Subject to the limitations set forth in ARTICLE 6 of this Agreement, the parties agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with the terms hereof and that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement or to enforce specifically the performance of the terms and provisions hereof in any court specified in Section 10.4, in addition to any other remedy to which they are entitled at law or in equity. The parties hereby waive, in any action for specific performance, the defense of adequacy of a remedy at law and the posting of any bond or other security in connection therewith.

* * * * *

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

CROWELL FAMILY LIMITED PARTNERSHIP

By: ______________________________
Name: Harry C. Crowell
Title: General Partner

By: ______________________________
Name: Rosalynn Crowell
Title: General Partner

AMTRUST FINANCIAL SERVICES, INC.

By: ______________________________
Name: Stephen Ungar
Title: SVP, General Counsel and Secretary

____
Harry C. Crowell

____
Walter Crowell

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

CROWELL FAMILY LIMITED PARTNERSHIP

By: ______________________________
Name: Harry Crowell
Title: General Partner

AMTRUST FINANCIAL SERVICES, INC.

By: ______________________________
Name: Stephen Ungar
Title: SVP, General Counsel and Secretary

____
Harry Crowell

____
Walter Crowell

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

CROWELL FAMILY LIMITED PARTNERSHIP

By: ______________________________

Name: Harry Crowell

Title: General Partner

AMTRUST FINANCIAL SERVICES, INC.

By: ______________________________

Name: Stephen Ungar

Title: SVP, General Counsel and Secretary

____

Harry Crowell

____

Walter Crowell

EXHIBIT A

Form of Seller Release

See attached.

Final

SELLER DISCLOSURE LETTER
TO
STOCK PURCHASE AGREEMENT
BY AND AMONG
CROWELL FAMILY LIMITED PARTNERSHIP,
AMTRUST FINANCIAL SERVICES, INC.
AND
THE OTHER PARTIES LISTED ON THE SIGNATURE PAGES THERETO
DATED AS OF
SEPTEMBER 18, 2013

This Seller Disclosure Letter and the attachments hereto (each of which is incorporated herein by reference) constitute the "Seller Disclosure Letter" contemplated by the Stock Purchase Agreement dated as of September 18, 2013 (the "Purchase Agreement") by and among Crowell Family Limited Partnership ("Seller"), AmTrust Financial Services, Inc. ("Buyer"), and the other parties listed on the signature pages thereto. Capitalized terms used herein but not defined shall have the meanings given to them in the Purchase Agreement.

No reference to or disclosure of any item or other matter in this Seller Disclosure Letter shall be construed as an admission or indication that such item or other matter is material or that such item or other matter is required to be referred to or disclosed in this Seller Disclosure Letter. No disclosure in this Seller Disclosure Letter relating to any possible breach or violation of, or the possible triggering of any rights or obligations under, any agreement, law or regulation shall be construed as an admission or indication that any such breach or violation or triggering of rights or obligations exists or has actually occurred. This Seller Disclosure Letter is, and the information and disclosures contained herein are, intended only to qualify the representations, warranties, agreements and covenants contained in the Agreement and shall not be deemed to expand in any way the scope or effect of any of such representations, warranties or covenants.

This Seller Disclosure Letter is arranged in sections corresponding to the sections contained in the Agreement merely for convenience, and the disclosure of an item in one section of this Seller Disclosure Letter as an exception to a particular covenant, agreement, representation or warranty will be deemed adequately disclosed as an exception with respect to all other covenants, agreements, representations and warranties to the extent that the relevance of such item to such other covenants, agreements, representations or warranties is readily apparent on the face of the applicable disclosure, notwithstanding the absence of an appropriate cross-reference thereto. The headings contained in this Seller Disclosure Letter are included for convenience only, and are not intended to limit the effect of the disclosures contained herein or to expand the scope of the information required to be disclosed herein.

SECTION 1.2(a)(vii)
of the Seller Disclosure Letter

Directors and Managers

Board of Directors of the Company:
Harry C. Crowell
Walter A. Crowell
Rosalynn Crowell
David L. Kerrigan
Stephen T. Pate
Sam Zaza
Steven A. Gaines

Manager of Vista Surety Insurance Solutions, LLC, a California limited liability company (“VSIS”):
Company (sole Manager)

Board of Directors of Developers Surety and Indemnity Company, an insurance company formed under the laws of the State of Iowa (“DSIC”):
Harry C. Crowell
Walter A. Crowell
David L. Kerrigan
Stephen T. Pate
Sam Zaza

Board of Directors of Indemnity Company of California, an insurance company organized under the laws of the State of California (“ICC”):
Harry C. Crowell
Walter A. Crowell
David L. Kerrigan
Stephen T. Pate
Sam Zaza

Manager of Builders Insurance Services, LLC, a Delaware limited liability company (“BIS”):
Company (sole Manager)

SECTION 2.2(b)(i)
of the Seller Disclosure Letter

Governmental Authorizations -
Approvals, filings and notices required under the Insurance Laws

1. The required notices to the applicable insurance department in each of California (Form A) and Iowa

2. The Michigan Certificate of Authority to Transact the Business of Insurance issued to DSIC requires prior approval for a change of control and/or or requalification.

3. The parties shall obtain the approvals, filings and notices set forth in this Section 2.2(b)(i) of the Seller Disclosure Letter in accordance with and subject to the provisions of Section 4.3 of the Purchase Agreement.

SECTION 2.2(b)(ii)
of the Seller Disclosure Letter

Corporate Governmental Authorizations -
Other Required Consents, Approvals, Authorizations, Declarations, Filings or Notices

1. The City of Irvine Business License requires prior contact to the Business License Division prior to an change of ownership

SECTION 2.3
of the Seller Disclosure Letter

Non-Contravention - Consents, Approvals, Authorizations, Declarations, Filings or Notices

1. See items 1-9, 11, and 13-20 listed on Section 2.10(d) of this Seller Disclosure Letter.

2. Camtasia Studio Software License Agreement, Techsmith.

3. SnagIt Electronic Software License Agreement, Techsmith.

4. Indenture, between DSIC and Wilmington Trust Company, dated as of May 22, 2003

5. Subdivision Bond Quota Share Reinsurance Agreement, among ICC, Developers Insurance Company, DSIC and American Re-Insurance Company, dated September 29, 2005, as amended by Addendum No. 1 and Endorsement No. 1

6. Surety Quota Share Reinsurance Agreement, among DSIC, Indemnity Company of California, Transatlantic Reinsurance Company and Endurance Reinsurance Corporation of America, effective January 1, 2006, as amended by Addendum No. 1, Addendum No. 2 and Addendum No. 3

7. Surety Quota Share Reinsurance Agreement, among DSIC, ICC and Endurance Reinsurance Corporation of America, effective January 1, 2012

8. Underlying Excess of Loss Reinsurance Agreement, between DSIC and Maiden Reinsurance Company, dated February 24, 2012

9. Producer Agreement, between BIS and United Contractors Insurance Services Group, dated May 3, 2013, as amended by Amendment to Agreement and Producer Agreement

10. Insurance Custody Agreement (General Assets), between US Bank, NA and DSIC, dated as of February 2, 2012

11. Insurance Company Custody Agreement, between US Bank, NA and DSIC, dated as of February 2, 2012

12. Custody Agreement, between US Bank, NA and ICC, dated as of February 2, 2012

13. Claims Administration Agreement between Claims Resource Management, Inc. and DSIC, made as of June 12, 2012

14. Application for Merchant Card Processing, between Wells Fargo Bank and BIS, dated as of April 6, 2012, as amended by Automated Clearing House Addendum

SECTION 2.4(b)(v)
of the Seller Disclosure Letter

Restriction on Transfer of Stock

None

SECTION 2.5
of the Seller Disclosure Letter

Ownership Interests of Subsidiaries; Exceptions

(a)

Company
Jurisdiction of Formation: California
Authorized Shares: 100,000 common shares, no par value
Issued and Outstanding Shares: 11,250
100% owned by Crowell Family Limited Partnership

VSIS
Jurisdiction of Formation: California
100% owned by the Company

DSIC
Jurisdiction of Formation: Iowa
Authorized Shares: 5,000 shares, $1,000.00 par value per share
Issued/Outstanding Shares: 3,000
100% owned by the Company

ICC
Jurisdiction of Formation: California
Authorized Shares: 1,000, $1,200.00 par value per share
Issued/Outstanding Shares: 1,000
100% owned by the Company

BIS
Jurisdiction of Formation: Delaware
100% owned by the Company

Insco Insurance Services of Nevada (“Insco of Nevada”)
Jurisdiction of Formation: Nevada
100% owned by the Company
Insco of Nevada is inactive. Insco of Nevada cannot locate their minute books.

(d) None

SECTION 2.6(g)(i)
of the Seller Disclosure Letter

Unresolved Material Deficiencies or Violations

None

SECTION 2.6(g)(ii)
of the Seller Disclosure Letter

Domiciles

None

SECTION 2.6(j)
of the Seller Disclosure Letter

Capital Gains / Losses

None

SECTION 2.6(k)
of the Seller Disclosure Letter

Bank Accounts

See attached list of bank accounts at Section 2.6(k) of this Seller Disclosure Letter

SECTION 2.7
of the Seller Disclosure Letter

Undisclosed Liabilities and Obligations

None

SECTION 2.9
of the Seller Disclosure Letter

Material Contracts

(i)

1. Indenture / Fixed Rate Surplus Notes Due 2033, DSIC as Issuer and Wilmington Trust Company as Trustee, dated as of May 22, 2003

(ii)

1. Company/INSCO Agreement, between BIS and the Company, dated November 20, 2006

(iii)

None

(iv)

1. Independent Consulting Agreement, between the Company and Noyveg, Inc., dated September 13, 2012
2. AS411 Consulting Agreement for The Insco Dico Group, between The Insco Dico Group and Accounting Software 411, LLC, dated June 30, 2013
3. Consulting Services Agreement, between VSIS and Alliance Solutions Group, dated January 25, 2012
4. Claims Administration Agreement, between Claims Resource Management, Inc. and DSIC, dated June 12, 2012
5. Service Agreement, by and among Paychex Benefit Technologies, Inc., Shuster Financial, Shuster Financial & Insurance Services, Inc. and the Company, dated September 15, 2011
6. Employment Agreement between Ann Lyon and BIS, dated August 19, 2007
7. Employment Agreement between Steven Gaines and BIS, dated November 20, 2006

(v)

None

(vi)

None

(vii)

1. Debt Collection Contract, among Kazlow & Fields, LLC, DSIC, ICC and the Company, 2011

2. Agreement for Collection Services, between the Company and Evergreen Professional Recoveries, Inc., dated March 31, 2010

3. Independent Consulting Agreement, between the Company and Noyveg, Inc., dated September 13, 2012

4. AS411 Consulting Agreement for The Insco Dico Group, between The Insco Dico Group and Accounting Software 411, LLC, dated June 30, 2013

5. Underwriting Management Agreement, between DSIC and the Company, dated August 1, 2010

6. Underwriting Management Agreement, between ICC and the Company, dated December 10, 2010

7. Underwriting Management Agreement, between DSIC and BIS, dated June 1, 2012

8. Surety Excess of Loss Reinsurance Agreement (No. 2021-0027), among ICC, DSIC and Munich Reinsurance America, Inc., undated, as amended by Endorsement No. 1, Endorsement No. 2, Endorsement No. 3, Endorsement No. 5, Endorsement No. 6, Endorsement No. 7, Endorsement No. 8

9. Surety Quota Share Reinsurance Agreement, among DSIC, ICC, Transatlantic Reinsurance Company and Endurance Reinsurance Corporation of America, effective January 1, 2006, as amended by Addendum No. 1, Addendum No. 2 and Addendum No. 3

10. Surety Quota Share Reinsurance Agreement, among DSIC, ICC, Transatlantic Reinsurance Company and Endurance Reinsurance Corporation of America, effective January 1, 2012, as amended by Addendum No. 1, Addendum No. 2 and Addendum No. 3

11. Surety Quota Share Reinsurance Agreement, among DSIC, ICC, Transatlantic Reinsurance Company and Endurance Reinsurance Corporation of America, effective January 1, 2007, as amended by Addendum No. 1, Addendum No. 2, Addendum No. 3 and Addendum No. 4

12. Multiple Line Excess of Loss Reinsurance Agreement, between DSIC and Motors Insurance Corporation, effective September 1, 2007

13. Multiple Quota Excess of Loss Reinsurance Agreement, between DSIC and Motors Insurance Corporation, effective September 1, 2007

15. Underlying Excess of Loss Reinsurance Agreement, between DSIC and Maiden Reinsurance Company, dated February 24, 2012

16. Investment Management Services Agreement, among Madison Scottsdale, L.C., ICC, Developers Insurance Company and DSIC, dated May 3, 2000, as amended by Amendment No. 1 and Contract Addendum No. 2

17. Investment Management Agreement, between DSIC and City National Bank, dated as of January 6, 2006, as amended by Addendum to Investment Management Agreement

18. Investment Management Agreement, between ICC and City National Bank, dated as of May 13, 2011

19. Investment Management Agreement, between DSIC and City National Bank, dated as October 26, 2010, as amended by Addendum to Investment Management Agreement

20. Investment Management Agreement, between ICC and City National Bank, dated as of May 13, 2011

21. Insurance Custody Agreement (General Assets), between US Bank, NA and DSIC, dated as of February 2, 2012

22. Insurance Company Custody Agreement, between US Bank, NA and DSIC, dated as of February 2, 2012

23. Custody Agreement, between US Bank, NA and ICC, dated as of February 2, 2012

24. Property and Custody Agreement, between US Bank, DSIC, dated as of May 22, 2012

(viii)

1. See Section 2.10(d) of this Seller Disclosure Letter

(ix)

1. Agreement, between BIS and United Contractors Insurance Services Group ("UCISG"), effective May 6, 2013

2. Producer Agreement, between BIS and UCISG, dated as of May 3, 2013

3. Amendment to Agreement and Producer Agreement, between BIS and USISG, dated August 14, 2013

4. Builders Insurance Services, LLC Producer Profit Sharing Agreement (P&C Only), between BIS and UCISG, dated May 3, 2013 (effective May 6, 2013)

5. Amendment to Agreement and Producer Agreement, between BIS and UCISG, dated August 14, 2013

6. Builders Insurance Services, LLC Producer Profit Sharing Agreement (P&C Only), between BIS and Alcott Insurance Agency, dated March 31, 2011

7. Builders Insurance Services, LLC Producer Profit Sharing Agreement (P&C Only), between BIS and Bell Anderson Agency, Inc., dated March 31, 2011

8. Builders Insurance Services, LLC Producer Profit Sharing Agreement (P&C Only), between BIS and Compass Insurance Services, LLC, dated January 8, 2013

9. Builders Insurance Services, LLC Producer Profit Sharing Agreement (P&C Only), between BIS and Gladius Insurance Services, LLC, dated March 3, 2010

10. Builders Insurance Services, LLC Producer Profit Sharing Agreement (P&C Only), between BIS and Humble & Davenport Insurance Brokers, Inc., dated April 4, 2011

11. Builders Insurance Services, LLC Producer Profit Sharing Agreement (P&C Only), between BIS and James F. McGovern, Inc., dated March 31, 2011

12. Builders Insurance Services, LLC Producer Profit Sharing Agreement (P&C Only), between BIS and Southern California Insurance Brokerage, Inc., dated April 4, 2011

13. Builders Insurance Services, LLC Producer Profit Sharing Agreement (P&C Only), between BIS and Target Financial and Insurance Services, dated March 31, 2011

14. Builders Insurance Services, LLC Producer Profit Sharing Agreement (P&C Only), between BIS and Trigon Insurance Solutions Inc., dated March 12, 2010

15. Builders Insurance Services, LLC Producer Profit Sharing Agreement (P&C Only), between BIS and Welch Wiita Inc. dba W Insurance Group, dated October 1, 2011

16. Claims Administration Agreement, between Claims Resource Management, Inc. (administrator) and DSIC, dated as of June 12, 2012 (effective as of December 1, 2008)

(x)

1. Indenture / Fixed Rate Surplus Notes Due 2033, DSIC as Issuer and Wilmington Trust Company as Trustee, dated as of May 22, 2003

(xi)

1. Personal Guarantee, by Doug Holmes and Robert J. Anderson Jr., shareholders of UCISG, dated May 3, 2013

2. Surety Excess of Loss Reinsurance Agreement, among ICC, DSIC and Munich Reinsurance America, Inc., undated, as amended by Endorsement No. 1, Endorsement No. 2, Endorsement No. 3, Endorsement No. 5, Endorsement No. 6, Endorsement No. 7, Endorsement No. 8.

3. Surety Quota Share Reinsurance Agreement, among DSIC, ICC, Transatlantic Reinsurance Company and Endurance Reinsurance Corporation of America, effective January 1, 2006, as amended by Addendum No. 1, Addendum No. 2 and Addendum No. 3

4. Surety Quota Share Reinsurance Agreement, among DSIC, ICC, Transatlantic Reinsurance Company and Endurance Reinsurance Corporation of America, effective January 1, 2012, as amended by Addendum No. 1, Addendum No. 2 and Addendum No. 3

5. Surety Quota Share Reinsurance Agreement, among DSIC, ICC, Transatlantic Reinsurance Company and Endurance Reinsurance Corporation of America, effective January 1, 2007, as amended by Addendum No. 1, Addendum No. 2, Addendum No. 3 and Addendum No. 4

6. Multiple Line Excess of Loss Reinsurance Agreement, between DSIC and Motors Insurance Corporation, effective September 1, 2007

7. Multiple Quota Excess of Loss Reinsurance Agreement, between DSIC and Motors Insurance Corporation, effective September 1, 2007

8. Multiple Line Excess of Loss Reinsurance Agreement, between Maiden Reinsurance Company and DSIC

9. Multiple Line Quota Share Reinsurance Agreement, between Maiden Reinsurance Company and DSIC

10. Claims Administration Agreement, between Claims Resource Management, Inc. and DSIC, dated June 12, 2012

11. Quota Share Reinsurance Agreement, among Maiden Reinsurance Company, United Specialty Insurance Company and BIS, dated May 1, 2013

12. Quota Share Retrocession Agreement, among Maiden Reinsurance Company and DSIC, effective May 1, 2013

(xii)

1. Qwest Total Advantage Agreement, between Qwest Communications Company, LLC and the Company, as amended by Amendment No. 1, Amendment No. 2, and Amendment No. 3

2. Agreement, between Insurance Technology Solutions, LLC and Builders Insurance Services, LLC, dated June 23, 2010

3. Master Services Agreement, between Insurance Technology Consultants, LLC and the Company, dated June 9, 2010

4. Letter of Agreement, between Insurance Technology Solutions, LLC and BIS, dated August 28, 2012

SECTION 2.10(b)
of the Seller Disclosure Letter

Sufficiency of Assets

None

SECTION 2.10(c)
of the Seller Disclosure Letter

Owned Real Property

To the best Knowledge of Seller, the Acquired Companies have owned in the past only three (3) parcels of real property. As of this time, the Acquired Companies own no real property. The real property previously owned consisted of the following:

1. The home office building located at 17780 Fitch, Irvine, CA 92614, which is located a few blocks from currently leased home office building. The Fitch Building was owned partially by both DSIC and ICC between approximately 1990 when purchased and 2007 when it was sold and leased back until 2012 when the Company moved to the Cowan Building.

2. A subdivided but vacant parcel in Sparks, Nevada which was acquired by Developers Insurance Company (DICO) upon collateral pledged by a Principal or Indemnitor in connection with an account that had previously gone into claim. The property in question was Lot 4 Block A, Saddleback subdivision Unit No. 1, 3414 Martini Road, Sparks, NV. DICO sold the Sparks parcel to Thomas and Bonnie Holliday on December 4, 2000 for sixty thousand dollars ($60,000.00), less expenses of sale.

3. A one-half (1/2) interest in a single family house located in Truckee, CA described as 13144 Skyview Loop, Truckee, CA 96161-6728, which was acquired by ICC. ICC acquired this one-half (1/2) interest from an Indemnitor in connection with recovering on a loss incurred on behalf of Scott Jarvis, on or about March 5, 1997. ICC sold its interest to Mr. Mullins on October 29, 1997 in coordination with the sale of the other one-half (1/2) interest owned by another Jarvis family member.

SECTION 2.10(d)
of the Seller Disclosure Letter

Leased Real Property

1. TEMPE, AZ
Lease Agreement, between PKY Fund II Phoenix I, LLC (landlord) and the Company (tenant), dated as of July 18, 2012
2. IRVINE, CA
Office Lease, between 71-81 Cowan Building (landlord) and the Company (tenant), dated as of October 14, 2011
3. SACRAMENTO, CA
Office Lease, between Abbey III-Landmark LLC (landlord) and the Company (tenant), dated January 12, 2009
4. SAN DIEGO, CA
Office Lease, between Transcontinental Realty Investors, Inc. ("TRI") (landlord) and the Company (tenant), dated October 19, 2001, as amended by a First Amendment to Office Lease, between Stephens Properties, LP (landlord), as successor in interest to TRI, and the Company, dated as of August 8, 2006, as further amended by a Second Amendment to Office Lease, dated September 6, 2011
5. WALNUT CREEK, CA
Office Lease, between Walnut Creek Properties, Inc. ("WCP") (landlord) and the Company (tenant), dated February 25, 2005, as amended by a First Amendment to Lease, between SVF Oak Road Walnut Creek Corporation (landlord), as successor in interest to WCP, and the Company, effective as of May 19, 2010
6. GREENWOOD VILLAGE, CO
Office Lease, between Legacy Partners I Greenwood Village Milestone, LLC (landlord) and the Company (tenant), dated June 12, 2006, as amended by a First Amendment to Lease, effective as of July 12, 2006, as further amended by a Second Amendment to Lease, dated as of February 1, 2011
7. ST. PETERSBURG, FL
Office Lease Agreement, between IPC Florida II, LLC (landlord) and the Company, dated November 17, 2010, as amended by a First Amendment to Lease, dated as of May 21, 2012
8. DULUTH, GA
Lease Agreement, between Crescent Brookdale Associates, LLC ("CBA") (landlord) and the Company (tenant), dated December 9, 2004, as amended by a First Amendment to Lease Agreement, between Satellite 400 Owner Corp. (Landlord), as successor in interest to CBA, including a Sublease Agreement, among the Company (sublandlord), Jennings & Assoc., LLC (Subtenant), and Cresa Partners of Georgia, LLC (broker), dated June 18, 2012, and including a Consent to Sublease, among Landlord, the Company and Subtenant, dated as of July 11, 2012
9. MERIDIAN, ID
Office Lease, between Sundance Investments Limited Partnership (Landlord) and Insurance Company of the West ("ICW") (tenant), dated (November 1, 2007), as amended by an Assignment and Assumption of Lease, among ICW (assignor), the

Company (assignee) and Landlord, dated October 1, 2009, as further amended by a 1st Amendment of Lease, Sundance Investments L.L.L.P. (Landlord) and the Company, dated September 18, 2012

10. NAPERVILLE, IL
    Lease, between English Rows Towne Center, LLC (landlord) and the Company (tenant), dated April 22, 2009, including a Sublease, between the Company (sublessor) and Avec, Inc. (subtenant), dated as of January 14, 2013
11. WEST DES MOINES, IA
    Lease Agreement for West Bank Plaza Building, between Richard B. Margulies (landlord) and the Company (tenant), dated April 25, 1995, as amended by an Amendment to Lease Agreement, dated March 23, 2005, as further amended by a Second Amendment to Lease Agreement, dated March 4, 2010
12. TIMONIUM, MD
    Office Lease, between Hill Management Services, Inc., agent for the owner (landlord) and the Company (tenant), dated September 12, 2012
13. LAKE OSWEGO, OR
    Standard Office Lease, between the Company (tenant) and Kruse Way Centerpointe, LLC (landlord), dated April 1, 2011
14. LAKE OSWEGO, OR
    Standard Office Lease, between BIS (tenant) and Kruse Way Centerpoint, LLC (landlord), dated March 28, 2011
15. MOON TOWNSHIP, PA
    Office Lease, between HUB Properties Trust (landlord) and the Company (tenant), dated as of March 21, 2011
16. MT. PLEASANT, SC
    Lease Agreement, between First Point Properties, LLC (landlord) and the Company (tenant), dated September 29, 2008
17. HOUSTON, TX
    Office Lease Agreement, between YPI North Belt Portfolio LLC (landlord) and the Company (tenant), dated as of September 16, 2009, as amended by a Parking Agreement, dated November 5, 2009, as further amended by a Parking Agreement, effective as of July 16, 2010
18. IRVING, TX
    Lease, between Realty Associates Iowa Corporation (landlord) and the Company (tenant), dated as of October 16, 2007
19. SEATTLE, WA
    Office Lease Agreement, between Northgate Associates Limited Partnership (landlord) and the Company (tenant), dated October 10, 2003, as amended by a Lease Amendment 1, dated December 4, 2008
20. BREA, CA
    Office Lease, between Brea Properties, LLC (landlord) and the Company (tenant), dated May 8, 2012

SECTION 2.10(e)
of the Seller Disclosure Letter

Tangible Personal Property

See attached Schedule 2.10(e) (red highlighted items only).

SECTION 2.11(a)
of the Seller Disclosure Letter

Intellectual Property

Registered trademark:
Mark: THE INSCO DICO GROUP (stylized and/or with design)
Serial No.: 76554435
Registration No.: 2984552
Owner: Company

Trade names:
Insco Insurance Companies, Inc.
Vista Surety Insurance Solutions, LLC
Developers Surety and Indemnity Company
Indemnity Company of California
Builders Insurance Services, LLC

Domain names:
bondsolutions.com
buildtrac.net
insco.com
inscodico.com
insurancebis.com
laidg.com
theinscodicogroup.com
vistasurety.com
vistasuretysolutions.com

Computer software under license agreements:
Adtran UC Server
Authentix
Clearwater Madison (Investments)
Crystal Reports 11
E-Campaign
El Dynamics
ELM Enterprise Manager
Great Plains
ITC
iWorks
Laserfiche
Metalogix Archive Manager
Microsoft Exchange
Microsoft SQL Server
Microsoft Threat management Gateway
Microsoft Windows Server 2003, 2008, 2008 R2

Microsoft Windows Server Datacenter
PDFNet
Premium Pro
PrintBoss
Sage 100
Sage 300
Symantec Anti-Virus
Symantec End Point
VMWare Site Recovery Manager
VMWare VSphere 5
Watch Dog (OFAC)
Wings EagleTM

SECTION 2.11(d)
of the Seller Disclosure Letter

Intellectual Property Licenses to Third Parties

None

SECTION 2.11(e)
of the Seller Disclosure Letter

Material Security Breaches re Data/Systems

None

SECTION 2.11(f)
of the Seller Disclosure Letter

Amounts Payable with Respect to Intellectual Property

1. For the 2012 calendar year, the Company paid Insurance Technology Solutions, LLC $265,477. The total payment for the 2013 calendar year will vary based on usage.

2. For the 2012 calendar year, the Company paid Qwest Communications Company, LLC $454,670.14. The total payment for the 2013 calendar year will vary based on usage.

SECTION 2.11(g)
of the Seller Disclosure Letter

Agreements by Employees to Assign Intellectual Property

None

SECTION 2.12
of the Seller Disclosure Letter

Litigation

1. Case No. 11 L 0511
   Developers Surety and Indemnity Company, plaintiff v
   John Davis, individually, and J. Davis Consulting, LLC, an Illinois limited liability company, and Crystal Davis, individually, defendants
   Circuit Court of the Twelfth Judicial Circuit, Will County, IL

2. Case No. 2012-L-003758
   Developers Surety and Indemnity Company, by and through its underwriting manager and authorized agent, INSCO Insurance Services, Inc., plaintiffs v
   Mark S. Lipinski, individually, and Donnelly, Lipinski & Harris, LLC,
   an Illinois limited liability company, and Riordan, Donnelly, Lipinski & McKee, Ltd., an Illinois corporation, defendants
   Circuit Court of Cook County, IL, County Department, Law Division

3. Case No. 8:09-cv-03076-RWT
   Developers Surety and Indemnity Company, plaintiff v
   Old Dominion Demolition Corp., Daniel L. Crispino, Kimberly A. Crispino and Columbia Properties, LLC, defendants
   United States District Court of the District of Maryland, Greenbelt Division

4. Case No. CV2008-020113
   Ace Asphalt of Arizona, Inc., et al, v
   Chandler Piazza Development,
   Superior Court of Arizona, Maricopa County

5. Case No. 16-12-11098
   Stonecrest Properties, LLC, plaintiff v
   City of Eugene, Eugene Water & Electric Board, Developers Surety and Indemnity Company, and the Real Estate Development Group, LLC, defendants
   Circuit Court of the State of Oregon for Lane County

6. Case No. CV12040037
   State Ex Rel Stonecrest Properties, LLC, plaintiff v
   City of Eugene and Developers Surety and Indemnity Company, defendants
   Circuit Court of the State of Oregon for the County of Clackamas

7. Civil No. 100501108
   Developers Surety and Indemnity Company, plaintiff v
   Tri-West Construction & Development, Inc., Kent Cottam, Laura Cottam, Christopher H. Barrett, Sondra L. Bartett, Derk S. Kesler, Marie H. Kesler, Marty B. Cottom, Chablis

Cottam, Cory A. Cottam, Daren K. Cottam, Lisa CXottam, Lance L. Bunnell, Denae A. Bunnell, Does I through X, inclusive, and ROE Corporations I through X, inclusive
Fifth District Court, St. George Department, Washington County, State of Utah x

8. Case No. 30-2013-00625826-CU-BC-CJC
   Developers Surety and Indemnity Company, plaintiff v
   Sundance Homes, LLC, Rigoberto Diaz III aka Rigo Diaz, Kimberly Marie Diaz, Rigoberto Diaz III and Kimberly M. Diaz Revocable Trust, Frederick W. Hauf aka Fritz Hauf, Bethany Lee Hauf, and DOES I through 100, inclusive, defendants
   Superior Court of the State of California, County of Orange - Central

9. DSI re Bond No. re: 3344 Sovereign, LLC and the Hardin Project

10. Letters dated June 18, 2013 from Geralyn Noonan on behalf of Tammy Barna, former employee.

SECTION 2.13(c)
of the Seller Disclosure Letter

Notices of Violation of Applicable Law

1. See Section 2.12 of this Seller Disclosure Letter for a list of certain litigation pending with respect to the Acquired Companies.

SECTION 2.13(d)
of the Seller Disclosure Letter

Corrupt Business Practices

None

SECTION 2.13(f)
of the Seller Disclosure Letter

Insurance Regulatory Agreements and Judgments

None

SECTION 2.13(g)
of the Seller Disclosure Letter

Deposits

See Pledged Security Accounts listed on attachment to Section 2.13(g) of this Seller Disclosure Letter

SECTION 2.14(a)
of the Seller Disclosure Letter

Insurance and Material Licenses

COMPANY

1. California Department of Insurance License No. 0403172, effective February 11, 2000
2. California, City of Irvine Police Department Business License Certificate Business License No. BUS10-01849, issued July 30, 2012
3. Florida, City of St. Petersburg, Florida Local Business Tax Receipt Account No. 66984. dated October 9, 2012
4. Colorado Secretary of State Certificate of Good Standing Entity Identification No. 20061279544, dated June 18, 2012
5. Georgia Secretary of State Corporations Division Certificate of Authority Entity Control No. 09073222, dated July 12, 2010 (an application to withdraw sent to the Georgia Secretary of State on March 20, 2013)
6. Iowa Secretary of State Certificate of Authority, Certificate No. W00683889, effective July 12, 2010; Iowa Secretary of State Biennial Report filed March 28, 2012 Corp No. 401350
7. Idaho Secretary of State Certificate of Authority File No. C 184653, dated October 1, 2009
8. Indiana Secretary of State Certificate of Authority, effective December 15, 2008
9. Nevada Secretary of State Business License Identification # NV19851009824, dated May 7, 2010
10. South Carolina Secretary of State Certificate of Authorization, issued June 23, 2008
11. Texas Secretary of State Certificate of Filing File No. 801178490, effective October 2, 2009
12. Washington Secretary of State Corporations Division Business Licensing Services Legal Entity Registration Unified Business ID #601264290[1]
13. Washington Office of the Insurance Commissioner Insurance Producer License WAOIC# 269699, effective July 1, 2009
14. Washington Insurance Commissioner Affiliation Certificate for Jake W. Murphree, WAOIC# 86844, effective July 1, 2009

DSIC

15. United States of America, Department of Treasury Certificate of Authority, dated July 3, 1995
16. United State of America, Department of Treasury renewal of certificate of authority as an acceptable surety and/or reinsurer on Federal Bonds, effective July 1, 2012
17. Alaska Department of Commerce & Economic Development Division of Insurance Certificate of Authority No. F-10012, effective May 13, 1999
18. Alabama Department of Insurance Certificate of Authority Company ID 12718, dated December 11, 2002
19. Arkansas State Insurance Department Certificate of Authority No. 12718, granted October 26, 2001

20. Arizona Department of Insurance Certificate of Authority No. 12718, effective April 23, 2007
21. California Insurance Amended Certificate of Authority No. 08505, effective February 8, 2008
22. Colorado Division of Insurance Department of Regulatory Agencies Certificate of Authority No. 3884, dated June 23, 1995
23. Connecticut Insurance Department Certificate of Authority and Compliance licensed, dated May 1, 2012
24. District of Columbia Department of Insurance, Securities and Banking Certificate of Authority No. 0012718 licensed, issued April 24, 2012
25. Delaware Department of Insurance Certificate of Authority No. 4177, dated October 4, 2002
26. Florida Department of Insurance Certificate of Authority No. 01-42-0429710, issued December 29, 2000
27. Georgia Office of Insurance and Safety Fire Commissioner Certificate of Authority License No. 20025031, dated June 21, 2012
28. Hawaii Insurance Division Certificate of Authority No. 119234, authorized on February 2, 1999
29. Idaho Department of Insurance Certificate of Authority No. 1808, dated August 12, 1988
30. Illinois Department of Insurance Certificate of Authority No. [839900-51], authorized, dated July 1, 2012
31. Indiana Department of Insurance Certificate of Authority, dated September 6, 1996
32. Iowa Insurance Division Certificate of Authority No. 0436, dated June 1, 2012
33. Iowa Secretary of State Biennial Report filed March 28, 2012 Corp No. 69675
34. Kansas Insurance Department Amended Certificate of Authority, authorized March 3, 2010
35. Kentucky Office of the Commissioner of Insurance Certificate of Authority Certificate No. 42-0429710, dated October 5, 2000
36. Louisiana Acting Commissioner of Insurance Certificate of Authority, dated March 29, 2001
37. Massachusetts Office of Consumer Affairs and Business Regulation Division of Insurance Company License Serial No. 000755647000, effective July 2, 2012
38. Maryland Insurance Administration Certificate of Authority No. 005514, effective July 1, 2012
39. Maine Department of Professional and Financial Regulation Bureau of Insurance Certificate of Authority License No. PCF149532, issued January 23, 2008
40. Michigan Department of Energy, Labor and Economic Growth Office of Financial and Insurance Regulation Certificate of Authority No. [O-Base 31701], effective January 21, 2010
41. Minnesota Department of Commerce Certificate of Authority/Compliance NAIC No. 12718, licensed July 9, 1963, dated October 4, 2006
42. Missouri Department of Insurance Amended Certificate of Authority, dated July 10, 1995
43. Missouri Secretary of State Biennial Report filed on March 27, 2012
44. Mississippi Privilege Tax License Certificate of Authority No. 0300025**,** issued June 1, 2012

45. Montana Department of Insurance Certificate of Authority No. 5462, effective December 2, 2009, dated February 10, 2010
46. Nebraska Department of Insurance Certificate of Authority Identification No. 71500, issued May 1, 2012
47. New Hampshire Insurance Department License No. 100081, effective June 15, 2012
48. New Jersey Department of Banking and Insurance Certificate of Authority NAIC Company Code 12718, dated April 25, 2012
49. New Mexico State Corporation Commission Department of Insurance Amended Certificate of Authority No. 004358, dated June 30, 1995
50. Nevada Insurance Division Certificate of Authority ID No. I 2819, dated July 26, 1999
51. New York Department of Financial Services License, dated July 1, 2012
52. New York Insurance Department Certificate of Solvency, dated November 15, 2011
53. North Carolina Department of Insurance License No. 3354, effective December 29, 2000
54. North Dakota Insurance Certificate of Authority, dated June 20, 1995
55. Ohio Department of Insurance Certificate of Authority NAIC No. 12718, dated effectively August 15, 2000
56. Ohio Department of Insurance Certificate of Compliance, issued April 11, 2013, effective April 2, 2013
57. Oklahoma Insurance License No. 7746, dated March 1, 2003
58. Oregon Department of Consumer and Business Services Insurance Division Insurer's Certificate of Authority No. 3088, issued October 23, 1998
59. Pennsylvania Insurance Department Certificate of Authority NAIC No. 12718, effective April 1, 2013
60. Rhode Island Department of Business Regulation Insurance Division License, dated April 4, 2008
61. South Carolina Department of Insurance Certificate of Authority Co. Code 16980202-IA, license date February 13, 1998
62. South Dakota Division of Insurance Certificate of Authority No. 02644, dated June 21, 1995
63. Tennessee Department of Commerce and Insurance Division of Insurance License [Co No. 92074], dated December 29, 2000
64. Texas Department of Insurance Certificate of Authority Certificate No. 1490 Company No. 08-095568, dated February 9, 2010
65. Utah Insurance Department Certificate of Continuation of Certificate of Authority ID No. 2046 for the license year March 1, 2013 through February 28, 2014; Certificate of Authority, effective February 10, 2010
66. Virginia State Corporation Commission License ID 12718, dated July 1, 2012
67. Vermont Department of Banking, Insurance, Securities and Health Care Administration Foreign Insurance Company License No. 2570 P, dated September 26, 2002
68. Washington Insurance Commissioner Certificate of Authority, Certificate Number 2093 dated May 27, 1999
69. Wisconsin Office of the Commissioner of Insurance Certificate of Authority No. 143-12718, issued April 10, 1995
70. West Virginia Offices of the Insurance Commissioner Certificate of Authority File #1407, dated June 1, 2011

71. Wyoming Department of Insurance Certificate of Authority Amended No. 1119, dated September 13, 1974

ICC

72. United States of America Department of Treasury, Certificate of Authority, dated July 1, 1979
73. United States of America Department of Treasury, renewal of certificate of authority as an acceptable surety and/or reinsurer on Federal Bonds, effective July 1, 2012
74. Alaska Department of Commerce & Economic Development Certificate of Authority No. F-8347, effective January 12, 1995, dated January 27, 1995
75. Arizona Department of Insurance Certificate of Authority NAIC No. 25550, effective August 20, 1986
76. California Department of Insurance Amended Certificate of Authority No. 1926-5, effective April 10, 2013
77. Colorado Division of Insurance Department of Regulatory Agencies Certificate of Authority, dated February 2, 2012
78. Georgia Office of Insurance and Safety Fire Commissioner Certificate of Authority License No. 2011133, dated December 19, 2011
79. Hawaii Insurance Division Certificate No. 115403, dated December 7, 1995
80. Idaho Department of Insurance Certificate of Authority No. 2767, dated July 14, 1995 Indiana Department of Insurance Certificate of Authority No. 25550, dated August 8, 2000
81. Maryland Insurance Administration Certificate of Authority No. 010306, effective July 1, 2012
82. Montana Commissioner of Securities & Insurance Office of the Montana State Auditor Certificate of Authority No. 5684, effective February 1, 2012, dated February 3, 2012
83. New Mexico Public Regulation Commission Insurance Division Certificate of Authority No. 51650, dated April 4, 2012
84. Nevada Department of Commerce Insurance Division Certificate of Authority No. I2380 handwritten note new ID #1316 effective January 1, 2002, dated June 25, 1986
85. Oregon Insurer’s Certificate of Authority No. 2644, issued January 28, 1987
86. South Carolina Department of Insurance Certificate of Authority Co. Code 05980203-CA, dated February 13, 1998
87. Utah Insurance Department Certificate of Authority No. 84404, effective November 4, 1994; Certificate of Continuation ID No. 1878 for the license year March 1, 2013 through February 28, 2014
88. Virginia State Corporation Commission License ID 25550, dated July 1, 2012
89. Washington Insurance Commissioner Certificate of Authority, Certificate number 1769, effective October 7, 1988
90. Wyoming Department of Insurance Certificate of Authority NAIC No. 25550, dated May 9, 2012

BIS

91. California Department of Insurance License No. 0G00807, effective March 5, 2008
92. Business Licenses, License Number BUS08-01602, dated March 18, 2013

93. Oregon Department of Consumer and Business Services Insurance Division Insurer's Certificate of Authority No. 100169228, effective August 12, 2008
94. Washington Office of the Insurance Commissioner Insurance Producer License WAOIC# 722777, effective July 1, 2009
95. Washington Insurance Commissioner Affiliation Certificate for Harry C. Crowell WAOIC# 722779, effective July 1, 2009
96. Washington Insurance Commissioner Affiliation Certificate for Steven A. Gaines WAOIC# 743919, effective July 1, 2009
97. Washington Secretary of State Corporations Division Business Licensing Services Legal Entity Registration Unified Business ID# 602696129[1]

<u>VSIS</u>

98. California Department of Insurance License No. 0I10868, effective October 26, 2012

99. California City of Irvine Police Department Business License Certificate Business License BUS12-02883, issued October 22, 2012

100. Form B Insurance Holding Company System Annual Registration Statement filed with the Insurance Division of the State of Iowa for DSIC, dated March 26, 2013

101. Form C Summary of Registration Statement filed with the Insurance Division of the State of Iowa for DSIC, dated March 26, 2013

102. Form B Insurance Holding Company System Annual Registration Statement filed with the Insurance Division of the State of California for ICC, dated April 16, 2013

103. Form C Summary of Registration Statement filed with the Insurance Division of the State of California for ICC, dated April 16, 2013

104. Authorized California Insurers Special Investigative Unit Compliance Report/Annual Report for 2012 for DSIC, dated September 7, 2012

SECTION 2.14(c)(i)
of the Seller Disclosure Letter

Open Claims

None

SECTION 2.14(c)
of the Seller Disclosure Letter

Other Names

1. The Insco Dico Group

2. ICC was previously named Transnational Casualty Insurance Company until August 11, 1975 when ICC changed its name.

3. DSIC was previously named State Surety Company until it changed its name to DSIC as of May 19, 1995.

SECTION 2.14(d)
of the Seller Disclosure Letter

Forms of Policies

While insurance policies may require that the form and rates be first filed with the insurance regulator or pre-approved, surety bonds forms are generally not so filed.

Unlike insurance policies, which are prepared by the insurer, surety bond forms are generally prescribed by the Obligee who benefits from the bond. They are prescribed by state statutes or county and city ordinances or the US government agencies. Sometimes industry trade group forms are used (AIA or AGE in construction) or a private form used by a general contractor.

Occasionally the surety is able to manuscript a bond form that is not one dictated by the other party.

With this qualification, the exceptions are “none.”

SECTION 2.17
of the Seller Disclosure Letter

Notice of Termination of Management Employees

1. Gary Perkins, Assistant Manager, Claims, has given notice of retirement.

2. Gregg Okura, Vice President Home Office Underwriting, has given notice of retirement.

SECTION 2.18(a)
of the Seller Disclosure Letter

Employee Benefit Plans

1. Profit Sharing and 401(k) Plan (Fidelity Investments)
2. Health Insurance (United Healthcare / Kaiser)
3. Dental Insurance (Principal)
4. Vision Insurance (VSP)
5. Life and Accidental Death and Disability Insurance (Cigna)
6. Short Term Disability (Cigna)
7. Long Term Disability (Cigna)
8. Health Savings Accounts (HSA)
9. Flexible Spending Account
10. Paid Vacation
11. Paid Holidays
12. Sick Day Benefits
13. Employee Assistance Program (Cigna)
14. Health Advocate
15. Education and Tuition Assistance
16. Incentive Compensation Plan
17. Branch Bonus Program
18. Builder Bonus Program
19. Deferred Performance Bonus Opportunity

SECTION 2.18(f)
of the Seller Disclosure Letter

ERISA

1. Profit Sharing and 401(k) Plan (Fidelity Investments)

SECTION 2.19(c)
of the Seller Disclosure Letter

Tax Matters

1. VSIS was formed in 2012 and has been treated as a disregarded entity for tax purposes.

2. BIS has filed federal and state income taxes as a partnership since formation.

SECTION 2.19(f)
of the Seller Disclosure Letter

Tax Returns

1. Form 1120 Combined Federal Tax Return for the year ended December 31, 2012

2. Form 1120 Combined Federal Tax Return for the year ended December 31, 2011

3. Form 1120 Combined Federal Tax Return for the year ended December 31, 2010

4. Form 1120 Combined Federal Tax Return for the year ended December 31, 2009

5. Form 1120 Combined Federal Tax Return for the year ended December 31, 2008

6. Form 1065 for BIS for the year ended December 31, 2012

7. Form 1065 for BIS for the year ended December 31, 2011

8. Form 1065 for BIS for the year ended December 31, 2010

9. Form 1065 for BIS for the year ended December 31, 2009

10. Form 1065 for BIS for the year ended December 31, 2008

11. State Tax Returns:

2011

- 2011 Arizona Form 120 for the Company
- 2011 California Form 100 for the Company
- 2011 Colorado Form 112 for the Company
- 2011 Florida Form F-1120 for the Company
- 2011 Georgia Form 600 for the Company
- 2011 Iowa Form IA-1120 for the Company
- 2011 Idaho Form 41 for the Company
- 2011 Illinois Form IL-1120 for the Company
- 2011 Maryland Form 500 for the Company
- 2011 Oregon Form 20 for the Company
- 2011 Pennsylvania Form RCT-101 for the Company
- 2011 South Carolina Form SC1120 for the Company
- 2011 Texas Form 05-158 for the Company
- 2011 Texas Form 05-102 for the Company
- 2011 Florida Form F-1120 for DSIC
- 2011 Illinois Form IL-1120 for DSIC
- 2011 Louisiana Form CIFT- 620 for DSIC

- 2011 Nebraska Form 1120N for DSIC
- 2011 New Hampshire Form BET/NH-1120 for DSIC

2010

- 2010 Arizona Form 120 for the Company
- 2010 California Form 100 for the Company
- 2010 Colorado Form 112 for the Company
- 2010 Florida Form F-1120 for the Company
- 2010 Georgia Form 600 for the Company
- 2010 Iowa Form IA-1120 for the Company
- 2010 Idaho Form 41 for the Company
- 2010 Illinois Form IL-1120 for the Company
- 2010 Indiana Form IT-20 for the Company
- 2010 Maryland Form 500 for the Company
- 2010 Oregon Form 20 for the Company
- 2010 Pennsylvania Form RCT-101 for the Company
- 2010 South Carolina Form SC1120 for the Company
- 2010 Texas Form 05-158 for the Company
- 2010 Texas Form 05-102 for the Company
- 2010 Florida Form F-1120 for DSIC
- 2010 Illinois Form IL-1120 for DSIC
- 2010 Louisiana Form CIFT- 620 for DSIC
- 2010 Nebraska Form 1120N for DSIC
- 2010 New Hampshire Form BET/NH-1120 for DSIC

2009

- 2009 Arizona Form 120 for the Company
- 2009 California Form 100 for the Company
- 2009 Colorado Form 112 for the Company
- 2009 Florida Form F-1120 for the Company
- 2009 Georgia Form 600 for the Company
- 2009 Iowa Form IA-1120 for the Company
- 2009 Idaho Form 41 for the Company
- 2009 Illinois Form IL-1120 for the Company
- 2009 Indiana Form IT-20 for the Company
- 2009 Maryland Form 500 for the Company
- 2009 Oregon Form 20 for the Company
- 2009 Pennsylvania Form RCT-101 for the Company
- 2009 South Carolina Form SC1120 for the Company
- 2009 Texas Form 05-158 for the Company
- 2009 Texas Form 05-102 for the Company
- 2009 Florida Form F-1120 for DSIC
- 2009 Illinois Form IL-1120 for DSIC
- 2009 Louisiana Form CIFT- 620 for DSIC
- 2009 Nebraska Form 1120N for DSIC
- 2009 New Hampshire Form BET/NH-1120 for DSIC

2008

- 2009 Arizona Form 120 for the Company
- 2008 Colorado Form 112 for the Company
- 2008 Florida Form F-1120 for the Company
- 2008 Georgia Form 600 for the Company
- 2008 Iowa Form IA-1120 for the Company
- 2008 Indiana Form IT-20 for the Company
- 2008 Maryland Form 500 for the Company
- 2008 Oregon Form 20 for the Company
- 2008 Pennsylvania Form RCT-101 for the Company
- 2008 South Carolina Form SC1120 for the Company
- 2008 Texas Form 05-158 for the Company
- 2008 Texas Form 05-102 for the Company
- 2008 Florida Form F-1120 for DSIC
- 2008 Illinois Form IL-1120 for DSIC
- 2008 Louisiana Form CIFT- 620 for DSIC
- 2008 Nebraska Form 1120N for DSIC
- 2008 New Hampshire Form BET/NH-1120 for DSIC

12. Property Tax Returns:

2013

- 2013 Orange County (CA) Business Property Statement for the Company
- 2013 Sacramento County (CA) Business Property Statement for the Company
- 2013 San Diego County (CA) Business Property Statement for the Company
- 2013 Contra Costa County (CA) Business Property Statement for the Company
- 2013 Gwinnett County (GA) Business Personal Property Tax Return for the Company
- 2013 Clackamas County (OR) Confidential Personal Property Return for the Company
- 2013 Clackamas County (OR) Confidential Personal Property Return for BIS
- 2013 King County (WA) Electronic Filing by the Company
- 2013 Maryland Personal Property Return for DSIC
- 2013 Maryland Personal Property Return for the Company
- 2013 Dallas (TX) Personal Property Return for the Company
- 2013 Arapahoe County (CO) Personal Property Return for the Company
- 2013 Harris County (TX) Property Tax Return for the Company

2012

- 2012 County of Los Angeles (CA) Business Property Statement for the Company
- 2012 Orange County (CA) Business Property Statement for the Company
- 2012 Sacramento County (CA) Business Property Statement for the Company
- 2012 San Diego County (CA) Business Property Statement for the Company
- 2012 Contra Costa County (CA) Business Property Statement for the Company

- 2012 Gwinnett County (GA) Business Personal Property Tax Return for the Company
- 2012 Clackamas County (OR) Confidential Personal Property Return for the Company
- 2012 Clackamas County (OR) Confidential Personal Property Return for BIS
- 2012 Maryland Personal Property Return for DSIC
- 2012 Maryland Personal Property Return for the Company
- 2012 Arapahoe County (CO) Personal Property Return for the Company
- 2012 Dallas Personal (TX) Property Return for the Company
- 2012 Harris County (TX) Property Tax Return for the Company
- 2012 Charleston County (SC) Property Tax Return for the Company

2011

- 2011 County of Los Angeles (CA) Business Property Statement for the Company
- 2011 Orange County (CA) Business Property Statement for the Company
- 2011 Orange County (CA) Business Property Statement for BIS
- 2011 Sacramento County (CA) Business Property Statement for the Company
- 2011 San Diego County (CA) Business Property Statement for the Company
- 2011 Contra Costa County (CA) Business Property Statement for the Company
- 2011 Gwinnett County (GA) Business Personal Property Tax Return for the Company
- 2011 Clackamas County (OR) Confidential Personal Property Return for the Company
- 2011 Clackamas County (OR) Confidential Personal Property Return for BIS
- 2011 Maryland Personal Property Return for DSIC
- 2011 Maryland Personal Property Return for the Company
- 2011 Arapahoe County (CO) Personal Property Return for the Company
- 2011 Broward County (FL)Personal Property Return for the Company
- 2011 Dallas Personal (TX) Property Return for the Company
- 2011 Charleston County (SC) Property Tax Return for the Company
- 2011 Harris County (TX) Property Tax Return for the Company

2010

- 2010 County of Los Angeles (CA) Business Property Statement for the Company
- 2010 Orange County (CA) Business Property Statement for the Company
- 2010 Orange County (CA) Business Property Statement for BIS
- 2010 Sacramento County (CA) Business Property Statement for the Company
- 2010 San Diego County (CA) Business Property Statement for the Company
- 2010 Contra Costa County (CA) Business Property Statement for the Company
- 2010 Gwinnett County (GA) Business Personal Property Tax Return for the Company
- 2010 Clackamas County (OR) Confidential Personal Property Return for the Company
- 2010 Clackamas County (OR) Confidential Personal Property Return for BIS

- 2010 Maryland Personal Property Return for DSIC
- 2010 Maryland Personal Property Return for the Company
- 2010 Arapahoe County (CO) Personal Property Return for the Company
- 2010 Broward County (FL)Personal Property Return for the Company
- 2010 Pinellas County (FL) Personal Property Return for the Company
- 2010 Dallas Personal (TX) Property Return for the Company
- 2010 Charleston County (SC) Property Tax Return for the Company

2009

- 2009 County of Los Angeles (CA) Business Property Statement for the Company
- 2009 Orange County (CA) Business Property Statement for the Company
- 2009 Sacramento County (CA) Business Property Statement for the Company
- 2009 San Diego County (CA) Business Property Statement for the Company
- 2009 Contra Costa County (CA) Business Property Statement for the Company
- 2009 Gwinnett County (GA) Business Personal Property Tax Return for the Company
- 2009 Clackamas County (OR) Confidential Personal Property Return for the Company
- 2009 Clackamas County (OR) Confidential Personal Property Return for BIS
- 2009 Maryland Personal Property Return for DSIC
- 2009 Maryland Personal Property Return for the Company
- 2009 Arapahoe County (CO) Personal Property Return for the Company
- 2009 Broward County (FL)Personal Property Return for the Company
- 2009 Pinellas County (FL) Personal Property Return for the Company
- 2009 Dallas Personal (TX) Property Return for the Company
- 2009 Charleston County (SC) Property Tax Return for the Company

2008

- 2008 County of Los Angeles (CA) Business Property Statement for the Company
- 2008 Orange County (CA) Business Property Statement for the Company
- 2008 Sacramento County (CA) Business Property Statement for the Company
- 2008 San Diego County (CA) Business Property Statement for the Company
- 2008 Contra Costa County (CA) Business Property Statement for the Company
- 2008 Gwinnett County (GA) Business Personal Property Tax Return for the Company
- 2008 Clackamas County (OR) Confidential Personal Property Return for the Company
- 2008 Maryland Personal Property Return for DSIC
- 2008 Maryland Personal Property Return for the Company
- 2008 Arapahoe County (CO) Personal Property Return for the Company
- 2008 Broward County (FL) Personal Property Return for the Company
- 2008 Pinellas County (FL) Personal Property Return for the Company
- 2008 Dallas (TX) Personal Property Return for the Company

SECTION 2.20
of the Seller Disclosure Letter

Insurance Policies

The following policies have been extended through August 28, 2013, plus an additional 30 days:

POLICY TYPE/NUMBER AND EFFECTIVE DATES	HOLDER OF POLICY	CARRIER
Commercial Policy #: Y-630-154D8055-TIL-12 Effective: 6/30/2012-6/1/2013	Company	Travelers
Umbrella Liability Policy #: YSM-CUP-154D8055-TIL-12 Effective: 6/30/2012-6/1/2013	Company	Travelers
EPLI (Employment Practices) Policy #: 41111392 Effective: 6/30/2012-6/1/2013	Company	Admiral Insurance Company
Fidelity Bond Bond #: ZBN-14S06641-12-N2 Effective: 6/30/2012-6/1/2013	Company	Travelers
D&O Policy #: ZPL-14S07084-12-N2 Effective: 6/30/2012-6/1/2013	Company	Travelers
Workers Compensation Policy #: YJUB-154D805-5-12 Effective: 6/30/2012-6/1/2013	Company	Travelers
Automobile Policy #: Y-810-154D8055-TIL-12 Effective: 6/30/2012-6/1/2013	Company	Travelers
Kidnap & Ransom Policy #: 8221-7782 Effective: 6/30/2012-6/1/2013	Company	Chubb
Cyber Liability Policy #: 105806871 Effective: 6/30/2012-6/1/2013	Company	Travelers
Employed Lawyers Policy #: 8209-7754 Effective: 6/30/2012-6/1/2013	Company	Executive Risk Indemnity, Inc.

SECTION 2.22(a)
of the Seller Disclosure Letter

Transactions with Affiliates

1. Office Lease between 71-81 Cowan Building (landlord) and the Company (tenant), dated as of October 14, 2011

SECTION 2.22(b)
of the Seller Disclosure Letter

Material Services by Affiliates

None

SECTION 2.23(a)
of the Seller Disclosure Letter

Reinsurance Agreements

1. Interests and Liabilities Contract to the Surety Excess of Loss Reinsurance Agreement (No. 2021-0027), among ICC, DSIC and Munich Reinsurance America, Inc., dated September 19, 2007 (attached January 1, 2007), as amended by Addendum No. 1 (No. 2021-0027-E001), dated September 19, 2007 (effective as of September 1, 2007), as further amended by Addendum No. 1 (No. 2021-0027-E002), dated July 9, 2008 (effective as of January 1, 2008), as further amended by Addendum No. 3, dated September 23, 2009 (effective January 1, 2009), as further amended by Addendum No. 3 (No. 2021-0027-E003), dated June 14, 2010 (effective as of January 1, 2010), as further amended by Addendum No. 5 (No. 2021-0027-E-005), dated May 6, 2011 (effective as of January 1, 2010), as further amended by Addendum No. 6 ((No. 2021-0027-E006), dated April 19, 2011 (effective as of January 1, 2011), as further amended by Addendum No. 7 (No. 2021-0027-E007), dated March 2, 2012 (effective as of January 1, 2012), as further amended by Addendum No. 8 (No. 2021-0027-E008), dated June 10, 2013 (effective January 1, 2013)

2. Subdivision Bond Quota Share Reinsurance Agreement, between ICC, Developers Insurance Company, DSIC and American Re-Insurance Company (No. 2021-0024), dated September 29, 2005 (effective January 1, 2006)

3. Surety Quota Share Reinsurance Agreement (effective January 1, 2006) issued to DSIC and Indemnity Company of California, dated March 7, 2006, as amended by Addendum No. 1, dated March 30, 2009 (effective January 1, 2009), as further amended by Addendum No. 2, dated September 23, 2009 (effective January 1, 2009), as further amended by Addendum No. 2, dated April 29, 2010 (effective January 1, 2010), as further amended by Addendum No. 3, dated July 13, 2011 (effective January 1, 2011)

4. Surety Quota Share Reinsurance Agreement (effective January 1, 2012) issued to DSIC and Indemnity Company of California, dated March 7, 2012

5. Surety Excess of Loss Reinsurance Agreement (effective January 1, 2007) issued to DSIC and Indemnity Company of California, dated September 27, 2007, as amended by Addendum No. 1, dated November 1, 2007 (effective September 1, 2007), as further amended by Addendum No. 2, dated April 10, 2008 (effective January 1, 2008), as further amended by Addendum No. 3, dated March 30, 2009 (effective January 1, 2009), as further amended by Addendum No. 4, dated April 9, 2010 (effective January 1, 2010)

6. Multiple Line Excess of Loss, between DSIC and Motors Insurance Corporation, dated February 25, 2008 (effective September 1, 2007), as amended by Addendum No. 1, dated July 22, 2008 (effective as of September 1, 2007)

7. Multiple Line Quota Share Reinsurance Agreement, between DSIC and Motors Insurance Corporation, dated October 31, 2007 (effective September 1, 2007), as amended by Addendum No. 1, dated July 22, 2008 (effective September 1, 2007)

8. GMAC RE Trust Agreement, among Motors Insurance Corporation, DSIC and State Street Bank and Trust, effective as of December 6, 2007, as amended by updated Exhibit A dated April 2, 2013

9. Reinsurance Endorsement Agreement, between Motors Insurance Corporation and DSIC, dated as of December 6, 2007

10. Underlying Excess of Loss Reinsurance Agreement, between DSI and Maiden Reinsurance Company, dated February 24, 2012, as further amended by Addendum No. 1, dated February 14, 2013 (effective January 1, 2013)

11. Multiple Line Excess of Loss Reinsurance Agreement, between DSIC and Maiden Reinsurance Company, as amended by Addendum No. 1, as further amended by Addendum No. 2, dated January 15, 2010 (effective January 1, 2010), as further amended by Addendum No. 3, dated January 11, 2011 (effective January 1, 2011), as further amended by Addendum No. 4, dated February 24, 2012 (effective January 1, 2012), as further amended by Addendum No. 5, dated February 14, 2013 (effective January 1, 2013)

12. Multiple Line Quota Share Reinsurance Agreement, between DSIC and Maiden Reinsurance Company, as amended by Addendum No. 1, as further amended by Addendum No. 2, dated January 15, 2010 (effective January 1, 2010), as further amended by Addendum No. 3, dated January 11, 2011 (effective January 1, 2011), as further amended by Addendum No. 4, dated February 24, 2012 (effective January 1, 2011)

13. Quota Share Reinsurance Agreement, among Maiden Reinsurance Company, United Specialty Insurance Company and BIS, dated as of May 1, 2013

14. Quota Share Retrocession Agreement, between Maiden Reinsurance Company and DSIC, dated June 13, 2013

SECTION 2.23(b)
of the Seller Disclosure Letter

Letters of Credit

None

SECTION 2.24
of the Seller Disclosure Letter

Rating Agency

None

SECTION 2.25(a)
of the Seller Disclosure Letter

Producers

See Section 2.25(a)(ii)

SECTION 2.25(a)(ii)
of the Seller Disclosure Letter

Material Breaches by Producers

The following unauthorized bonds were issued by producers with Power of Attorney:

1. Producer – SWIS dba Duncan Fraser & Bridges (Texas)
   Principal - Mohammad Sajid Rohgat
   $20,000 Bond For Temporary Restraining Order – 12/10/2004 – No bond number
   $70,000 Additional Bond for Temporary Restraining Order – 12/16/2004 – No bond number
   Bonds issued by agency employee without power of attorney – employee forged signatures
   Producer's E & O carrier settled claim and reimbursed $10,000 of our attorney fees
   File was closed in October 2006

2. Producer – Universal Business Insurance Inc. (Utah)
   Principal – NWB Technologies
   Producer with Power of Attorney issued a total of 9 unauthorized bonds
   Producer & its E&O carrier settled claims
   We incurred $303,000 in loss and expense. We have repayment plan with producer to pay $275,000 at $7500 per month
   Claim file closed July 2012 – monthly payments for reimbursement are continuing

3. Producer – Steven L. Thomas Agency (Texas)
   Principal – Sicorp Inc.
   Bond number 561624P $604,610 was authorized, however producers employees issued communications to obligee that indicated that the bond penalty was increased to $1,351,210. DSI challenged the enforceability of those communications. Total loss & expense was $830,000. We recovered $475,000 from producers E&O carrier.
   File closed May 2011

4. Producer – KTTL - Thomas H Lam (California)
   Principal – FM & Sons
   Bond 380520P $1,480,000 Performance and Payment
   Bond 382101P $659,572.55 Performance and Payment
   Claims were managed through a combination of funds control and claim payments. All claim payments were ultimately reimbursed from funds control account.
   File was closed June 2013. Jobs complete. Agent fled to TX.

5. Producer – Hamby & Aliosio (Florida)
   Principal – Holly Springs
   Bonds 321595S $133,500; 325925S $41,000; 590378S $42,000
   Producer clams that bonds were authorized – he just never got around to reporting them to DSI

Claim loss $126,000 – file is now in recovery.

6. Boyd/Armstrong Citrus Springs, LLC – Bond No: 581699S, effective 4/27/07
This is the 7.4M subdivision bond that was approved with conditions. The agent released the bond without complying with all of the conditions. Initial term premium paid, principal working on release.

7. Arbor Tree & Land, Inc. – Bond Nos: 479241P &479242P
The agent released two bid bonds on 4/19/12. On June 4, 2012 he admitted the violation. I believe that the E&O Carrier was put on notice. I do not have a copy of that letter. We took the account direct and authorized the two final bonds. The account paid the premium and within the past few days we received favorable job status reports indicating the work is done and acceptable.

8. Brea; Thomas Moore (ex branch manager); Platinum, AWI and Elevation General; Phil Vega of C&D Bonding (agent) – Bonds were authorized by Thomas Moore were in excess of his authority. Not reported until about 9 months after issuance. Approximately $15mm+- of bonds were issued, over $10mm for Platinum.

9. Brea; Greg Smith, former employee of Venbrook Insurance Services; Atlas Development Issued unauthorized bond #734694 this was $6.2mm web-based application service contract with a $3.1mm performance bond. Project Term is complete on 8/30/13. Obligee advised we are no longer responsible for actions of Principal beyond this date. Obligee has requested Principal to obtain additional bonding for additional service work beyond 8/30/13. We have declined to participate beyond 8/30/13.

10. Denver; Scott Shields of Universal Business Insurance; AMT Construction, LLC – Issued unauthorized 10% bid bond for $1mm project in HI. UBI is no longer appointed as there were other incidents of poor judgment.

11. Brea; Pinnacle Insurance 101509; RDM Electric (and others), Unauthorized issuance of bid bond. Agency terminated relationship with IDG. Agency re-appointed in 2007 – 201062. Shawn Blume is producer at this agency now, was not involved (and not on Pinnacle POA).

12. Phoenix; Stong Insurance; Shawn Blume; issued bonds for Current Systems Technology with false backlog information. Also issued unauthorized bid bonds in 2007. Lastly, he charged a customer more than what we were charging and was fired from Stong Surety.

13. San Diego; Bart Stewart; issued unauthorized bid (Fordyce) in May 2010. Contractor's bid was withdrawn, no loss. Agent's POA was revoked in September 2010.

14. Naperville; John Davis; During the course of his employment, a former Regional Manager, John Davis, misappropriated approximately $435,876.00 in premium payments for twelve (12) unauthorized bonds issued for DSIC on behalf of seven (7) principals with penal limits totaling approximately $57,619,462.75.

Recently, the Company has received and is processing claims on bond 818210P with a penal sum of $10,100,000. To date, the outstanding claims remaining total $454,898 and the remaining job funds total approximately $469,931. The outstanding expense payments are expected to be approximately $231,716.

There is also a criminal action pending by the US Attorney's office against Davis, his wife, and his entity, which is set for trial in October. Developers Surety and Indemnity Company v John Davis, J. Davis Consulting, LLC and Crystal Davis. Twelfth Judicial Circuit Court. Will County, Illinois – Chancery Division. Case No. 11-L-0511

The following unauthorized bonds were forged by principals:

1. Principal – Samen-Botson (Kansas)
   $399,650 Performance & Payment Bond 352046P
   Unauthorized bond forged by bond principal's employees
   Resolved with no loss
   File closed November 2009

2. Principal – Domestic Construction (Louisiana)
   $1,209,075 Performance and Payment bond to Wal-Mart
   Unauthorized bond forged by bond principal's employees
   There may have been additional bonds given to Wal-Mart for other projects but Wal-Mart would not provide any information once they discovered this bond was a forgery.
   Resolved with no loss
   File closed in September 2009

3. Principal – Great Southern Riverwalk Inc. (Florida)
   $4,878,819.99 Subdivision bond
   Unauthorized bond – Obligee unable to produce a signed copy of a bond or a power of attorney
   Resolved with no loss
   Closed July 2009

SECTION 2.25(b)
of the Seller Disclosure Letter

List of Producers

1. See list of Producers on attachment to Section 2.25(b) of this Seller Disclosure Letter

2. BIS had only one producer, Brown & Brown of Sacramento, Inc., that wrote over $500,000 in Gross Written Premium during a calendar year during the period of 2011 and 2012. Brown & Brown wrote over $500,000 in one year only, 2012. During 2012, the amount was $660,753. During 2011, the amount was $207,459. Through July, 2013, the amount was $590,413. BIS writes business with a number of other Brown & Brown offices, but none of those has exceeded $500,000. Those offices in 2013 are: Brown & Brown Insurance of Arizona, Inc., Brown & Brown Insurance of California, Inc., Brown & Brown Northwest (under 5 separate codes), and Brown & Brown of Washington, Inc. All of those offices together supplied premium as follows: 2011, $100,605; 2012, $118,879; 2013 through July, $88,382.

SECTION 2.25(c)
of the Seller Disclosure Letter

Third Party Powers of Attorney

1. General Agency Agreement, among United Specialty Insurance Company, Maiden Reinsurance Company and BIS, dated as of May 1, 2013

2. See attached Section 2.25(d) for a list of Powers of Attorney granted by the Company or any Acquired Company. The Company does not issue Powers of Attorney or other discretion to third parties to determine the terms of settlements on claims, with one narrow exception for Property & Casualty Claims when Steve Gaines or Rosanne Nolan are both unavailable.

On Underwriting, the Company follows usual surety industry practice on the use of Powers of Attorney (POAs) with selected Producers only. The Company (DSI and/or ICC) gives a POA to selected Producers recommended by the Branch Managers and approved by Home Office Underwriting.

While the Producer with a valid POA can bind the Company as to third parties by its actions using the POA, the written agreement between the Producer with a POA and the Company is that the Producer has no authority to issue any bond without obtaining prior approval by an Insco Underwriter. Each Producer given a POA signs a separate agreement acknowledging these restrictions on its authority. Each Producer with a POA has three (3) written agreements with the Company: (1) the standard Producer Agreement; (2) the Power of Attorney; and (3) a letter of acknowledgment, in which the Producer acknowledges that he or she does not have actual authority to commit the Company without approval from the Company. Specimens of each of these three (3) types of representative agreements have been provided to Buyer.

While the provisions of these documents have been revised over the years, they are basically the same in most instances.

SECTION 2.25(d)
of the Seller Disclosure Letter

Powers of Attorney

See list of powers of attorney on attachment to Section 2.25(d) of this Seller Disclosure Letter

SECTION 2.26
of the Seller Disclosure Letter

Consumer Privacy Laws

None

SECTION 4.1
of the Seller Disclosure Letter

Conduct of the Business

(c) The Builder Bonus Program was approved prior to execution of the Purchase Agreement and is in the process of being finalized.

(h) The Company intends to acquire all of the interests of the other members of BIS.

SECTION 4.5(a)
of the Seller Disclosure Letter

401(k)

None

SECTION 4.8(a)
of the Seller Disclosure Letter

Noncompetition

All states within the United States and the District of Columbia.

SECTION 4.9
of the Seller Disclosure Letter

Intercompany Agreements

1. Amended and Restated Consolidated Federal Income Tax Liability Allocation Agreement, between the Company and DSIC, dated August 23, 2007

2. Company/INSCO Agreement, between BIS and the Company, dated November 20, 2006

3. Underwriting Management Agreement, between DSI and the Company, dated August 1, 2010

4. Underwriting Management Agreement, between ICC and the Company, dated December 10, 2010

5. Underwriting Management Agreement, between DSIC and BIS, dated June 1, 2012

6. Office Lease between 71-81 Cowan Building (landlord) and the Company (tenant), dated as of October 14, 2011

SECTION 5.2(e)
of the Seller Disclosure Letter

Key Employees

1. Rosanne Nolan
2. Sam Zaza
3. Steven A. Gaines
4. Daniel Young
5. Eric Englund

SECTION 7.2(a)(iii)
of the Seller Disclosure Letter

Indemnification

None.

RELEASE

This Release (this "Release") is being entered into as of this __ day of ________, 2013, by Crowell Family Limited Partnership, a limited partnership organized under the laws of the State of California (the "Seller"), in connection with the Stock Purchase Agreement (the "Purchase Agreement"), dated as of **[_________ __]**, 2013, by and among the Seller, AmTrust Financial Services, Inc., a Delaware corporation (the "Buyer"), and the other parties listed on the signature pages thereto. Capitalized terms used but not defined in herein have the meaning given to them in the Purchase Agreement.

As an inducement for the Buyer to enter into and perform its obligations under the Purchase Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Seller, intending to be legally bound, agrees as follows:

1. Release. Except for obligations of the Buyer arising under the Purchase Agreement or the transactions contemplated thereby, the Seller, on its own behalf, and on behalf of its Affiliates, and each of their respective heirs, executors, personal representatives, beneficiaries, successors, assigns and Affiliates (each, a "Representative" and collectively, "Representatives") does hereby irrevocably, unconditionally, voluntarily, knowingly, fully, finally, and completely forever release and discharge each of the Buyer, the Company, the Company Subsidiaries and their respective parents, subsidiaries, divisions, Affiliates, successors, assigns and predecessors and each of their respective present and former owners, stockholders, officers, directors, partners, members, managers, employees, agents, attorneys, representatives, successors, beneficiaries, heirs and assigns, individually and collectively (the "Released Parties"), from, against and with respect to any and all actions, accounts, agreements, causes of action, complaints, charges, claims, covenants, Contracts, costs, damages, demands, debts, defenses, duties, expenses, executions, fees, injuries, interest, judgments, Liabilities, Losses, obligations penalties, promises, reimbursements, remedies, suits, sums of money, and torts, of whatever kind or character, whether in law, equity or otherwise, direct or indirect, fixed or contingent, foreseeable or unforeseeable, liquidated or unliquidated, known or unknown, matured or unmatured, absolute or contingent, determined or determinable, that the Seller or its Representatives ever had or now has, or may hereafter have or acquire, against the Released Parties that arise out of or in any way relate, directly or indirectly, to any matter, cause or thing, act or failure to act whatsoever occurring at any time on or prior to the Closing Date, including, without limitation, the Seller's ownership of the Company or the Company Subsidiaries or the ownership, operation, business, affairs, management, or financial condition of the Company or the Company Subsidiaries (collectively, a "Claim"). The Seller, for itself and for its Representatives, expressly acknowledges that this Release includes, but is not limited to, arbitration claims, claims under any local, state or federal law, wage and hour law, wage collection law or labor relations law, and any claims of discrimination on the basis of age, race, sex, religion, disability, national origin, ancestry, citizenship, retaliation or any other claim of employment discrimination or retaliation under Title VII of the Civil Rights Acts of 1964 and 1991 as amended, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act, the Fair Labor Standards Act, the Employee Retirement Income Security Act and any other claim under any law prohibiting employment discrimination or relating to employment.

2. Covenant Not To Sue. The Seller, for itself and for its Representatives, irrevocably (i) covenants that neither the Seller nor any of the Seller's Representatives will, directly or indirectly, sue, commence any proceeding against, or make any demand upon any Released Party in respect of any of the matters released and discharged pursuant to Section 1 above and (ii) covenants that with respect to any of the matters released and discharged pursuant to Section 1 above, it shall not be entitled to indemnification, contribution from, subrogation to or recovery against any Released Party with respect to any Losses imposed on or incurred by the Seller in connection with the Purchase Agreement, any Ancillary Agreement or the transactions contemplated thereby.

3. Complete Release. The Seller hereby warrants and represents that there are no additional entities or Persons Affiliated with the Seller that are necessary to effectuate the release and extinguishment contemplated herein. The Seller hereby warrants, represents, and agrees that the Seller has not heretofore assigned, subrogated or transferred, or purported to assign, subrogate, or transfer to any Person whatsoever any claim hereinabove released. The Seller hereby warrants, represents, and agrees to indemnify, defend, and hold harmless each Released Party from any such assignment, subrogation, or transfer of claims.

4. Interpretation. This Release has been negotiated by the Seller and the Buyer, and their respective legal counsel, and legal or equitable principles that might require the construction of this Release or any provision hereof against the party drafting this Release will not apply in any construction or interpretation of this Release. The provisions of this Release will be interpreted in a reasonable manner to effect the intentions of the parties and beneficiaries hereto and of this Release.

5. Other Agreements. This Release supersedes all prior agreements, if any, whether oral or written, pertaining to all or any portion of the terms hereof. This Release may not be changed, modified, altered, interlineated, or supplemented, nor may any covenant, representation, warranty, or other provision hereof be waived, except by agreement in writing signed by the party or beneficiary against whom enforcement of the change, modification, alteration, interlineation, supplementation, or waiver is sought.

6. Newly Discovered Facts or Claims. Seller is aware that it may hereafter discover claims or facts in addition to or different from those it now knows or believes to be true with respect to the matters related herein. Nevertheless, it is Seller's intention to fully, finally, and forever settle and release all such matters, and all claims relative thereto, which now exist, heretofore have existed, or arise in the future between Seller or any of its Representatives, on the one hand, and any Released Party, on the other hand. In furtherance of such intention, the releases given herein will remain in effect as full and complete releases of all such matters notwithstanding the discovery or existence of any additional or different claims or facts related thereto.

7. Counterparts. This Release may be executed in one or more counterparts, each of which will be deemed an original, but all of which taken together will constitute one and the same instrument.

8. Severability. In case any provision of this Release is invalid, illegal, or unenforceable, it will, to the extent possible, be modified in such manner as to be valid, legal, and enforceable but so as to most nearly retain the intent of Seller, and if such modification is not possible, such provision will be severed from this Release, and in either case the validity, legality, and enforceability of the remaining provisions of this Release will not in any way be affected or impaired thereby.

9. Binding Effect. This Release is binding upon the Seller and all of its Representatives and will inure to the benefit of each of the Released Parties.

10. Governing Law; Venue. Section 10.4 of the Purchase Agreement shall apply to this Release *mutatis mutandis*.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has executed this Release as of the date first written above.

CROWELL FAMILY LIMITED PARTNERSHIP

By ____________________________________
Name: ______________________________
Title: ______________________________

Michael Karfunkel (11.2%) [1]

Leah Karfunkel, Trustee, Michael Karfunkel 2005 GRAT (12.5%) [1]

George Karfunkel (23.7%) [1]

Barry Zyskind (10.3%) [1]

AMTRUST FINANCIAL SERVICES, INC. [2] (DE)
NAIC Group Code 2538

NATIONAL GENERAL HOLDINGS CORP.[14] (Exhibit A)

MAIDEN HOLDINGS, LTD [15] (Exhibit B)

- AmTrust International Insurance, Ltd. (Bermuda)
  - Agent Alliance Reinsurance Company, Ltd. (Bermuda)
  - AII Insurance Management Limited (Bermuda)
    - AmTrust Equity Solutions, Ltd. (Bermuda) [12]
      - Rochdale Insurance Company (NY) NAIC Code 12491; FEIN 13-6109222
    - Tiger Capital, LLC (DE) [8]
  - AII Investment Holdings Ltd. (Bermuda)
  - AMT Capital Alpha, LLC (DE) [9]
  - AmTrust (Nevis) Holdings Ltd (Nevis)
  - AmTrust (Nevis) Limited (Nevis)
  - AmTrust Holdings Luxembourg S. A. R. L. (Luxembourg)
    - AmTrust Captive Solutions Limited (Luxembourg)
    - AmTrust Insurance Luxembourg S. A. (Luxembourg)
    - AmTrust Re 2007 (Luxembourg) (Luxembourg)
    - AmTrust Re Alpha (Luxembourg)
    - AmTrust Re Epsilon (Luxembourg)
    - AmTrust Re Theta (Luxembourg)
  - AmTrust International Underwriters Limited (Ireland)
    - AIU Management Services Limited (Ireland)
    - AmTrust Nordic, AB (Sweden)
  - I.G.I. Group Limited (England) [10]
    - AmTrust Corporate Capital Limited (England)
    - AmTrust Europe Ltd. (England)
      - AmTrust Europe Legal, Ltd. (England)
      - Pedigree Livestock Insurance Limited (England)
      - Right2Claim Limited (England)
    - AmTrust Management Services, Ltd (England)
    - Caravan Security Storage Limited (England)
    - Dore & Associates Holdings Limited (England)
      - Dore Underwriting Services Limited (England)
    - I.G.I. Administration Services Limited (England)
    - I.G.I. Intermediaries Ltd. (England)
    - AmTrust Claims Management SrL (Italy)
    - Oakwood Village Ltd. (England)
    - AmTrust Insurance Spain, S.L.U. (Spain)
    - Car Care Plan (Holdings) Limited (England)
      - Car Care Pension Trustees Limited (England)
      - Car Care Plan Limited (England)
        - Car Care Plan do Brasil Limitada (Brazil) [16]
        - Car Care Plan GmbH (Germany)
        - Commercial Care Plan Limited (England)
        - Shanghai First Response (China)
      - GMAC International Insurance Services Limited (England)
      - Motors Insurance Company Limited (England)
- AmTrust Insurance Company of Kansas, Inc. (KS) NAIC Code 15954; FEIN 75-1413993
- AmTrust Lloyd's Corporation (TX) [5]
  - AmTrust Lloyd's Insurance Company of Texas (TX) NAIC Code 26689; FEIN 75-1440302
- AmTrust North America of Florida, Inc. (FL)
  - Associated Industries Insurance Company, Inc. (FL) NAIC Code 23140; FEIN 59-0714428
  - Boca NW65, LLC (DE)
- Milwaukee Casualty Insurance Co. (WI) NAIC Code 26662; FEIN 39-1190263
- Security National Insurance Company (DE) NAIC Code 19879; FEIN 75-6020448
- Technology Insurance Company, Inc. (NH) NAIC Code 42376; FEIN 02-0449082
  - Crop Pro Insurance LLC (WY) [7]
- Wesco Insurance Company (DE) NAIC Code 25011; FEIN 85-0165753
- Sequoia Insurance Company (CA) NAIC Code 22985; FEIN 94-1067908
  - Sequoia Indemnity Company (NV) NAIC Code 12338; FEIN 20-2986329
  - Personal Express Insurance Company (CA) NAIC Code 12832; FEIN 20-4583275
    - Personal Express Insurance Services (CA)
- First Nonprofit Insurance Company (DE) NAIC Code 10859; FEIN 36-3877576
  - First Nonprofit Insurance Agency, Inc. (IL)
  - Human Services Company (MD)
  - HSC Claims Administration, Inc. (MD)
  - First Nonprofit Consulting, Inc. (IL)
- AmTrust E&S Insurance Services, Inc. (DE)
- AmTrust North America of Texas, Inc. (DE)
- AmTrust North America, Inc. (DE)
  - AII Reinsurance Broker, Ltd. (Bermuda)
  - CNH Capital Canada Insurance Agency Ltd. (Canada)
  - CNH Capital Insurance Agency Inc. (DE)
  - Construction Services Risk Purchasing Group, Inc. (IL)
  - East Ninth & Superior, LLC (DE) [13]
  - Signal Acquisition LLC (DE)
    - Signal Service Solutions, LLC (DE)
  - Northcoast Warranty Services, Inc. (DE)
  - AmCom Insurance Services, Inc. (CA)
- AmTrust International Bermuda Ltd. (Bermuda)
- AMT Capital Holdings S. A. (Luxembourg) [11]
- AmTrust Underwriters, Inc. (DE)
- First Nonprofit Companies (IL)
- I.G.I. Underwriting Agency, Inc. (NY)
- REAF Holdings LLC (DE)
- Strongwood Risk Management Solutions, LLC (CA)
- AMT Warranty Corp. (DE)
  - AMT Home Protection Company (CA)
  - Warrantech Corporation (NV)
    - AMT Road Services Corp. (DE)
    - Warrantech Automotive, Inc. (CT)
      - Vemeco, Inc. (CT)
        - ToCo Warranty Corp. (DE)
      - Warrantech Automotive of Canada, Inc. (Canada)
      - Warrantech Automotive of Florida, Inc. (FL)
      - Westport Reinsurance Limited (Turks & Caicos Islands)
    - Warrantech Caribbean, LTD (Grand Cayman Islands)
    - Warrantech Consumer Product Services, Inc. (CT)
      - Warrantech Home Service Company (CT)
        - Warrantech Home Assurance Company (FL)
          - WHSC Direct, Inc. (TX)
      - WCPS of Florida, Inc. (FL)
    - Warrantech Direct, Inc. (TX)
      - Direct Reinsurance, Ltd. (Turks & Caicos Islands)
      - W Direct Corp. (DE)
      - Warrantech Direct I, L.P. (TX)
    - Warrantech International, Inc. (DE)
      - Warrantech International de Chile (Chile)
      - Warrantech Peru SRL (Peru)
    - Warrantech Management Company (DE)
      - Warrantech Management Holding Company (DE)
      - Warrantech Management Limited Partnership (TX)
  - CPPNA Holdings, Inc. (DE)
    - CPP North America LLC (DE)
      - CPP Direct LLC (DE)
      - CPP Florida LLC (FL)
      - CPP Travel LLC (DE)
      - CPP Warranties LLC (DE)
      - The CPP Insurance Agency LLC (DE)
- AMTS Holding Corp. (DE)
  - AMT Warranty Corp. of Canada, ULC (Alberta)
- RS Acquisition Holdco, LLC (DE) [6]
  - PBOA, Inc. (FL)
  - Risk Services - Arizona, Inc. (AZ)
  - Risk Services (Bermuda) Ltd. (Bermuda)
  - Risk Services - (Hawaii), Ltd. (HI)
  - Risk Services - Nevada, Inc. (NV)
  - Risk Services - Vermont, Inc. (VT)
  - Risk Services Intermediaries (Bermuda) Ltd. (Bermuda)
  - Risk Services, LLC (VA)
- Builders & Tradesmen's Insurance Services, Inc. (CA)
  - LAE Insurance Services, Inc. (CA)
- 800 Superior, LLC (DE) [3]
- 800 Superior NMTC Investment Fund II LLC (OH) [4]
- Rock Run South, LLC (DE)
- Westside Parkway, GA, LLC (DE)

Yellow highlight indicates an insurance compoany

As of June 30, 2013

AMTRUST FINANCIAL SERVICES, INC.
ORGANIZATIONAL CHART
FOOTNOTES

1	Shares are controlled, but may be held indirectly, as follows: - Leah Karfunkel controls shares owned by the Michael Karfunkel 2005 Grantor Retained Annuity Trust or ACP Re Ltd., one of the trust's assets; - Michael Karfunkel owns shares directly and controls shares owned by the Hod Foundation; - George Karfunkel owns shares directly and controls shares owned by the Chesed Foundation of America; and - Barry Zyskind owns and controls shares directly and indirectly, and controls shares owned by the Teferes Foundation. Barry Zyskind, Michael Karfunkel, George Karfunkel, and Leah Karfunkel have publicly filed with the Securities and Exchange Commission a notice on Schedule 13D that they are acting as a group with respect to the common stock of AmTrust Financial Services, Inc. that each person controls.
2	AmTrust Financial Services, Inc. ("AmTrust") is a publicly-traded company listed on the NASDAQ global exchange under the ticker symbol "AFSI". Unless indicated otherwise, AmTrust owns 100% of the common stock of all direct subsidiary companies.
3	AmTrust owns 50% and Integon National Insurance Company owns 50%.
4	AmTrust and National General Holdings Corp. are each a 24.5% member.
5	AmTrust Lloyd's Corporation is Attorney-in-fact for AmTrust Lloyd's Insurance Company of Texas.
6	AmTrust owns 80% (Class A Voting Interest) and Michael Rogers owns 20% (Class B Non-Voting Interest).
7	Technology Insurance Company, Inc. owns 30%.
8	AII Insurance Management Limited and American Capital Acquisition Investments S.A. each own 50% Class A Interests.
9	AmTrust International Insurance, Ltd. and American Capital Acquisition Investments S.A. each own 50%.
10	AmTrust International Insurance, Ltd. owns 89.19% and AII Insurance Management Limited and AII Reinsurance Broker, Ltd. each own 5.405%.
11	AmTrust and American Capital Acquisition Investments S.A. each own 50%.
12	AII Insurance Management Limited and AII Reinsurance Broker Ltd. each own 50%.
13	AmTrust North America, Inc. and National General Holdings Corp. each own 50%.
14	AmTrust International Insurance, Ltd. owns 15.4% of the entity's outstanding common stock. Michael Karfunkel, individually, and The Michael Karfunkel 2005 Grantor Retained Annuity Trust, together, own 57.2% of the outstanding common stock.
15	AmTrust's principal shareholders, Michael Karfunkel, Leah Karfunkel (the wife of Michael Karfunkel and sole trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust), George Karfunkel and Barry Zyskind own or control approximately 6.2%, 7.6%, 9.4% and 5.1%, respectively, of the issued and outstanding capital stock of Maiden Holdings, Ltd.
16	99.9% is owned by Car Care Plan Limited and 0.1% is owned by I.G.I. Group Limited

Exhibit A
NATIONAL GENERAL HOLDINGS CORP. (DE) (14)
(formerly, American Capital Acquisition Corporation)

* East Ninth & Superior, LLC (DE) (13)
* 800 Superior NMTC Investment Fund II LLC (4)
* GM Motor Club, Inc. (NC)
* National General Insurance Online, Inc. (MO) [11044]
* GMACI Re Ltd (Bermuda)
  - ACAC Capital Limited (Nevis)
  - ACAC Holdings Luxembourg (Luxembourg)
    -- ACAC Lux RE I (Luxembourg)
    -- Euro Accident Health and Care Insurance Aktiebolag (Sweden)
    -- National General Insurance Luxembourg (Luxembourg)
  - ACAC (Nevis) Limited (Nevis)
  - Allied Producers Reinsurance Company, Ltd. (Bermuda)
  - American Capital Acquisition Investments S.A. (Luxembourg)
    -- Tiger Capital, LLC (DE) (8)
    -- AMT Capital Alpha, LLC (DE) (9)
    -- AMT Capital Holdings S.A. (Luxembourg) (11)
* GMACI Holdings BM, Ltd (Bermuda)
  - GMACI Reinsurance Broker Ltd (Bermuda)
  - GMACI Reinsurance Management Ltd (Bermuda)
* MIC General Insurance Corporation (MI) [38660]
* National General Assurance Company (MO) [42447]
* National General Insurance Company (MO) [23728]
* National General Management Corp. (DE)
  - ClearSide General Insurance Services, LLC (CA)
  - National General Insurance Marketing, Inc. (MO)
  - Integon Casualty Insurance Company (NC) [27930]
  - Integon General Insurance Corporation (NC) [22780]
  - Integon National Insurance Company (NC) [29742]
    -- 800 Superior, LLC (DE) (3)
    -- 1100 Compton, LLC (DE)
  - Integon Preferred Insurance Company (NC) [31488]
  - New South Insurance Company (NC) [12130]
  - Velapoint, LLC (WA)
    -- AgentCubed, LLC (ID)
    -- Reliant Financial Group, LLC (OR)
      --- America's Health Care/Rx Plan Agency, Inc. (DE)
        --- Care Financial of Texas, LLC (TX)
  - Integon Indemnity Corporation (NC) [22772]
    -- National Health Insurance Company (TX) [82538]
    -- The Association Benefits Solution, LLC (DE)
      --- Association of Independent Beverage Distributors, LLC (DE)
      --- Distributor Innovations and Benefit Savings Solutions, LLC (DE)
      --- Red Partners Operating Solutions, LLC (DE)
      --- Alliance of Professional Service Organizations, LLC (DE)
      --- Distributors Insurance Company PCC (DE)
        --- AIBD Insurance Company IC (DE)
        --- Professional Services Captive Corporation IC (DE)

Exhibit B
MAIDEN HOLDINGS, LTD (BERMUDA) (15)

* Maiden Holdings North Amercia, Ltd. (DE)
  - Maiden Capital Financing Trust (DE)
  - Maiden Global Servicing Company, LLC (DE)
  - Maiden Re Insurance Services, LLC (DE)
  - Maiden Reinsurance Company (MO)
    -- Maiden Specialty Insurance Company (NC)
* Maiden Insurance Company, Ltd. (Bermuda)
* Maiden Life Försäkrings AB (Sweden)
* Maiden Global Holdings, Ltd. (United Kingdom)
  - Maiden Germany GmbH (Germany)
    -- Opel Händler VersicherungsService GmbH (Germany)
      --- OVS Opel VersicherungsService GmbH (Germany)
  - Maiden Australia Holdings PTY Ltd (Australia)
  - Maiden Russia LLC (Russia)
  - Maiden Nederland B.V. (Netherlands)

As of June 30, 2013

POST-ACQUISITION (DRAFT)

Michael Karfunkel (11.2%) (1)

Leah Karfunkel, Trustee, Michael Karfunkel 2005 GRAT (12.5%) (1)

George Karfunkel (23.7%) (1)

Barry Zyskind (10.3%) (1)

NATIONAL GENERAL HOLDINGS CORP.(14)
(Exhibit A)

AMTRUST FINANCIAL SERVICES, INC. (2)
(DE)
NAIC Group Code 2538

MAIDEN HOLDINGS, LTD (15)
(Exhibit B)

- AmTrust International Insurance, Ltd. (Bermuda)
  - Agent Alliance Reinsurance Company, Ltd. (Bermuda)
  - AII Investment Holdings Ltd. (Bermuda)
  - AMT Capital Alpha, LLC (DE) (9)
  - AmTrust (Nevis) Holdings Ltd (Nevis)
  - AmTrust (Nevis) Limited (Nevis)
  - AmTrust Holdings Luxembourg S. A. R. L. (Luxembourg)
    - AmTrust Captive Solutions Limited (Luxembourg)
    - AmTrust Insurance Luxembourg S. A. (Luxembourg)
    - AmTrust Re 2007 (Luxembourg) (Luxembourg)
    - AmTrust Re Alpha (Luxembourg)
    - AmTrust Re Epsilon (Luxembourg)
    - AmTrust Re Theta (Luxembourg)
  - AII Insurance Management Limited (Bermuda)
    - Tiger Capital, LLC (DE) (8)
    - AmTrust Equity Solutions, Ltd. (Bermuda) (12)
      - Rochdale Insurance Company (NY) NAIC Code 12491; FEIN 13-6109222
      - AmTrust International Underwriters Limited (Ireland)
        - AIU Management Services Limited (Ireland)
        - AmTrust Nordic, AB (Sweden)
      - I.G.I. Group Limited (England)
        - AmTrust Corporate Capital Limited (England)
        - AmTrust Europe Ltd. (England)
          - AmTrust Europe Legal, Ltd. (England)
          - Pedigree Livestock Insurance Limited (England)
          - Right2Claim Limited (England)
        - AmTrust Management Services, Ltd (England)
        - Caravan Security Storage Limited (England)
        - Dore & Associates Holdings Limited (England)
          - Dore Underwriting Services Limited (England)
        - I.G.I. Administration Services Limited (England)
        - I.G.I. Intermediaries Ltd. (England)
        - AmTrust Claims Management SrL (Italy)
        - Oakwood Village Ltd. (England)
        - AmTrust Insurance Spain, S.L.U. (Spain)
        - Car Care Plan (Holdings) Limited (England)
          - Car Care Pension Trustees Limited (England)
          - Car Care Plan Limited (England)
            - Car Care Plan do Brasil Limitada (Brazil) (10)
            - Car Care Plan GmbH (Germany)
            - Commercial Care Plan Limited (England)
            - Shanghai First Response (China)
          - GMAC International Insurance Services Limited (England)
          - Motors Insurance Company Limited (England)
- AMT Capital Holdings S. A. (Luxembourg) (11)
- AmTrust International Bermuda Ltd. (Bermuda)
- AmTrust Insurance Company of Kansas, Inc. (KS) NAIC Code 15954; FEIN 75-1413993
- AmTrust Lloyd's Corporation (TX) (5)
  - AmTrust Lloyd's Insurance Company of Texas (TX) NAIC Code 26689; FEIN 75-1440302
- AmTrust North America of Florida, Inc. (FL)
  - Associated Industries Insurance Company, Inc. (FL) NAIC Code 23140; FEIN 59-0714428
    - Boca NW65, LLC (DE)
- Milwaukee Casualty Insurance Co. (WI) NAIC Code 26662; FEIN 39-1190263
- Security National Insurance Company (DE) NAIC Code 19879; FEIN 75-6020448
- Technology Insurance Company, Inc. (NH) NAIC Code 42376; FEIN 02-0449082
  - Crop Pro Insurance LLC (WY) (7)
- Wesco Insurance Company (DE)
- Sequoia Insurance Company (CA) NAIC Code 22985; FEIN 94-1067908
  - Sequoia Indemnity Company (NV) NAIC Code 12338; FEIN 20-2986329
  - Personal Express Insurance Company (CA) NAIC Code 12832; FEIN 20-4583275
    - Personal Express Insurance Services (CA)
- First Nonprofit Insurance Company (DE) NAIC Code 10859; FEIN 36-3877576
  - First Nonprofit Insurance Agency, Inc. (IL)
  - Human Services Company (MD)
  - HSC Claims Administration, Inc. (MD)
  - First Nonprofit Consulting, Inc. (IL)
- AmTrust E&S Insurance Services, Inc. (DE)
- AmTrust North America of Texas, Inc. (DE)
- AmTrust North America, Inc. (DE)
  - AII Reinsurance Broker, Ltd. (Bermuda)
  - AmCom Insurance Services, Inc. (CA)
  - CNH Capital Canada Insurance Agency Ltd.
  - CNH Capital Insurance Agency Inc. (DE)
  - Construction Services Risk Purchasing Group, Inc. (IL)
  - East Ninth & Superior, LLC (DE) (13)
  - Northcoast Warranty Services, Inc. (DE)
  - Signal Acquisition LLC (DE)
    - Signal Service Solutions, LLC (DE)
- AmTrust Underwriters, Inc. (DE)
- First Nonprofit Companies (IL)
- I.G.I. Underwriting Agency, Inc. (NY)
- REAF Holdings LLC (DE)
- Strongwood Risk Management Solutions, LLC (CA)
- Insco Insurance Services, Inc. (CA)
  - Developers Surety and Indemnity Company (IA) [12718]
  - Indemnity Company of California (CA) [25550]
  - Builders Insurance Services, LLC (DE)
  - Vista Surety Insurance Solutions, LLC (CA)
- AMT Warranty Corp. (DE)
  - AMT Home Protection Company (CA)
  - Warrantech Corporation (NV)
    - AMT Road Services Corp. (DE)
    - Warrantech Automotive, Inc. (CT)
      - Vemeco, Inc. (CT)
        - ToCo Warranty Corp. (DE)
      - Warrantech Automotive of Canada, Inc. (Canada)
      - Warrantech Automotive of Florida, Inc. (FL)
      - Westport Reinsurance Limited (Turks & Caicos Islands)
    - Warrantech Caribbean, LTD (Grand Cayman Islands)
    - Warrantech Consumer Product Services, Inc. (CT)
      - Warrantech Home Service Company (CT)
        - Warrantech Home Assurance Company (FL)
          - WHSC Direct, Inc. (TX)
      - WCPS of Florida, Inc. (FL)
    - Warrantech Direct, Inc. (TX)
      - Direct Reinsurance, Ltd. (Turks & Caicos Islands)
      - W Direct Corp. (DE)
      - Warrantech Direct I, L.P. (TX)
    - Warrantech International, Inc. (DE)
      - Warrantech International de Chile (Chile)
      - Warrantech Peru SRL (Peru)
    - Warrantech Management Company (DE)
      - Warrantech Management Holding Company (DE)
      - Warrantech Management Limited Partnership (TX)
  - AMTCS Holdings, Inc. (DE)
    - AMT Consumer Services, Inc. (DE)
      - CPP Direct LLC (DE)
      - CPP Florida LLC (FL)
      - CPP Travel LLC (DE)
      - CPP Warranties LLC (DE)
      - The CPP Insurance Agency LLC (DE)
- AMTS Holding Corp. (DE)
  - AMT Warranty Corp. of Canada, ULC (Alberta)
- RS Acquisition Holdco, LLC (DE) (6)
  - PBOA, Inc. (FL)
  - Risk Services - Arizona, Inc. (AZ)
  - Risk Services (Bermuda) Ltd. (Bermuda)
  - Risk Services - (Hawaii), Ltd. (HI)
  - Risk Services - Nevada, Inc. (NV)
  - Risk Services - Vermont, Inc. (VT)
  - Risk Services Intermediaries (Bermuda) Ltd. (Bermuda)
  - Risk Services, LLC (VA)
- Builders & Tradesmen's Insurance Services, Inc. (CA)
  - LAE Insurance Services, Inc. (CA)
- 800 Superior, LLC (DE) (3)
- 800 Superior NMTC Investment Fund II LLC (OH) (4)
- Rock Run South, LLC (DE)
- Westside Parkway, GA, LLC (DE)

Yellow highlight indicates an insurance compoany

DRAFT of September 19, 2013

AMTRUST FINANCIAL SERVICES, INC.
ORGANIZATIONAL CHART
FOOTNOTES

1	Shares are controlled, but may be held indirectly, as follows: - Leah Karfunkel controls shares owned by the Michael Karfunkel 2005 Grantor Retained Annuity Trust or ACP Re Ltd., one of the trust's assets; - Michael Karfunkel owns shares directly and controls shares owned by the Hod Foundation; - George Karfunkel owns shares directly and controls shares owned by the Chesed Foundation of America; and - Barry Zyskind owns and controls shares directly and indirectly, and controls shares owned by the Teferes Foundation. Barry Zyskind, Michael Karfunkel, George Karfunkel, and Leah Karfunkel have publicly filed with the Securities and Exchange Commission a notice on Schedule 13D that they are acting as a group with respect to the common stock of AmTrust Financial Services, Inc. that each person controls.
2	AmTrust Financial Services, Inc. ("AmTrust") is a publicly-traded company listed on the NASDAQ global exchange under the ticker symbol "AFSI". Unless indicated otherwise, AmTrust owns 100% of the common stock of all direct subsidiary companies.
3	AmTrust owns 50% and Integon National Insurance Company owns 50%.
4	AmTrust and National General Holdings Corp. are each a 24.5% member.
5	AmTrust Lloyd's Corporation is Attorney-in-fact for AmTrust Lloyd's Insurance Company of Texas.
6	AmTrust owns 80% (Class A Voting Interest) and Michael Rogers owns 20% (Class B Non-Voting Interest).
7	Technology Insurance Company, Inc. owns 30%.
8	AII Insurance Management Limited and American Capital Acquisition Investments S.A. each own 50% Class A Interests.
9	AmTrust International Insurance, Ltd. and American Capital Acquisition Investments S.A. each own 50%.
10	99.9% is owned by Car Care Plan Limited and 0.1% is owned by I.G.I. Group Limited
11	AmTrust and American Capital Acquisition Investments S.A. each own 50%.
12	AII Insurance Management Limited and AII Reinsurance Broker Ltd. each own 50%.
13	AmTrust North America, Inc. and National General Holdings Corp. each own 50%.
14	AmTrust International Insurance, Ltd. owns 15.4% of the entity's outstanding common stock. Michael Karfunkel, individually, and The Michael Karfunkel 2005 Grantor Retained Annuity Trust, together, own 57.2% of the outstanding common stock.
15	AmTrust's principal shareholders, Michael Karfunkel, Leah Karfunkel (the wife of Michael Karfunkel and sole trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust), George Karfunkel and Barry Zyskind own or control approximately 6.2%, 7.6%, 9.4% and 5.1%, respectively, of the issued and outstanding capital stock of Maiden Holdings, Ltd.

Exhibit A
NATIONAL GENERAL HOLDINGS CORP. (DE) (14)
(formerly, American Capital Acquisition Corporation)

* East Ninth & Superior, LLC (DE) (13)
* 800 Superior NMTC Investment Fund II LLC (4)
* GM Motor Club, Inc. (NC)
* National General Insurance Online, Inc. (MO) [11044]
* GMACI Re Ltd (Bermuda)
- ACAC Capital Limited (Nevis)
- ACAC Holdings Luxembourg (Luxembourg)
-- ACAC Lux RE I (Luxembourg)
-- Euro Accident Health and Care Insurance Aktiebolag (Sweden)
-- National General Insurance Luxembourg (Luxembourg)
- ACAC (Nevis) Limited (Nevis)
- Allied Producers Reinsurance Company, Ltd. (Bermuda)
- American Capital Acquisition Investments S.A. (Luxembourg)
-- Tiger Capital, LLC (DE) (8)
-- AMT Capital Alpha, LLC (DE) (9)
-- AMT Capital Holdings S.A. (Luxembourg) (11)
* GMACI Holdings BM, Ltd (Bermuda)
- GMACI Reinsurance Broker Ltd (Bermuda)
- GMACI Reinsurance Management Ltd (Bermuda)
* MIC General Insurance Corporation (MI) [38660]
* National General Assurance Company (MO) [42447]
* National General Insurance Company (MO) [23728]
* National General Management Corp. (DE)
- ClearSide General Insurance Services, LLC (CA)
- National General Insurance Marketing, Inc. (MO)
- Integon Casualty Insurance Company (NC) [27930]
- Integon General Insurance Corporation (NC) [22780]
- Integon National Insurance Company (NC) [29742]
-- 800 Superior, LLC (DE) (3)
-- 1100 Compton, LLC (DE)
- Integon Preferred Insurance Company (NC) [31488]
- New South Insurance Company (NC) [12130]
- Velapoint, LLC (WA)
-- AgentCubed, LLC (ID)
-- Reliant Financial Group, LLC (OR)
--- America's Health Care/Rx Plan Agency, Inc. (DE)
--- Care Financial of Texas, LLC (TX)
- Integon Indemnity Corporation (NC) [22772]
-- National Health Insurance Company (TX) [82538]
-- The Association Benefits Solution, LLC (DE)
--- Association of Independent Beverage Distributors, LLC (DE)
--- Distributor Innovations and Benefit Savings Solutions, LLC (DE)
--- Red Partners Operating Solutions, LLC (DE)
--- Alliance of Professional Service Organizations, LLC (DE)
--- Distributors Insurance Company PCC (DE)
--- AIBD Insurance Company IC (DE)
--- Professional Services Captive Corporation IC (DE)

Exhibit B
MAIDEN HOLDINGS, LTD (BERMUDA) (15)

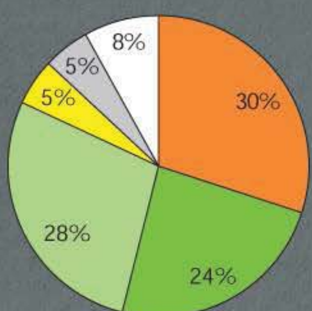
* Maiden Holdings North Amercia, Ltd. (DE)
- Maiden Capital Financing Trust (DE)
- Maiden Global Servicing Company, LLC (DE)
- Maiden Re Insurance Services, LLC (DE)
- Maiden Reinsurance Company (MO)
-- Maiden Specialty Insurance Company (NC)
* Maiden Insurance Company, Ltd. (Bermuda)
* Maiden Life Försäkrings AB (Sweden)
* Maiden Global Holdings, Ltd. (United Kingdom)
- Maiden Germany GmbH (Germany)
-- Opel Händler VersicherungsService GmbH (Germany)
--- OVS Opel VersicherungsService GmbH (Germany)
- Maiden Australia Holdings PTY Ltd (Australia)
- Maiden Russia LLC (Russia)
- Maiden Nederland B.V. (Netherlands)

AmTrust
FINANCIAL

niche excellence

AMTRUST FINANCIAL 2011 ANNUAL REPORT

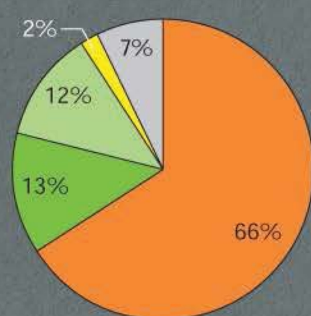
To our Shareholders:



Product Mix
$2.2 Billion GWP 2011

$ in Millions

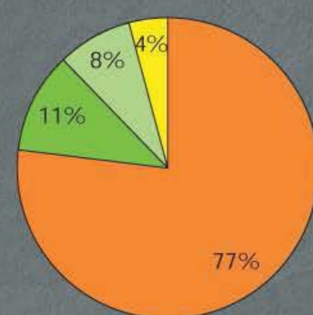
Workers' Compensation	646.1
Warranty	511.5
Other Liability	598.5
Commercial Auto	101.3
Auto	112.0
All Other	181.1



Geographic Mix
$2.2 Billion GWP 2011

$ in Millions

United States	1,417.7
United Kingdom	282.7
Italy	258.2
France	51.5
Other	140.4



Revenue
$1.4 Billion Total 2011

$ in Millions

Net Earned Premium	1,036.9
Ceding Commision	154.0
Service and Fee Income	108.7
Net Investment Income	58.3

We are a niche specialty property and casualty insurance company, with more than 1,900 employees operating in thirty of ces throughout the United States and Europe. We focus on underserved markets in the areas of specialty risk and extended warranty, small commercial business, and specialty programs.

[1] The Company's Annual Report contains non-GAAP nancial measures such as operating earnings, operating earnings per share, and operating return on equity. See page 8 for additional information and reconciliation of those non-GAAP nancial measures to GAAP.

Since 1998, we've built AmTrust, our "A" rated, multinational, niche-specialty, property and casualty insurance company within an effective framework. We've identified areas that are inadequately served. We've developed trusted solutions. We've exercised vigilance as new markets and technologies have extended the scope of the possible. We are proactive, opportunistic, disciplined, and responsive. We take the right risks. We understand that a client well-served is a company's greatest asset.

In building AmTrust we have achieved niche excellence—placing a deliberate focus on delivering quality programs and services to a select group of highly viable businesses. Over the course of our history, we've sought to establish ourselves as a franchise leader in the underserved areas of specialty risk and extended warranty, small commercial business, and specialty program. We believe that by developing expertise in low-hazard, low-volatility, and noncatastrophic businesses, and by implementing a highly ef cient operating platform, we can consistently realize our goals.

Our performance suggests that we remain on the right path:

2011 BUSINESS HIGHLIGHTS

- **$179.5 million of operating earnings[1], up 18%**
- **22.3% operating return on equity[1]**
- **$2.1 billion in cash, cash equivalent assets, and investments, up 33%**
- **$14.82 book value per share, up 23.2%**
- **$2.2 billion gross written premiums, up 37.8%**
- **89% combined ratio**
- **1,925 employees**
- **30 of ces throughout the United States and Europe**

In 2011, our stock delivered a 38% return to our shareholders—a re ec-tion of the strength of our business model and of its resistance to general economic volatility. Our ef cient capital structure continued to serve us well, as did our commitment to a lower cost structure and our proactive, steadfast management of our own claims, losses, and risks.

During the year we further advanced our record of intelligent growth—not just organically but through the acquisition of two California-based businesses: Majestic Insurance Company and Builders & Tradesmen's Insurance Services, Incorporated (BTIS). By acquiring the renewal rights to Majestic business in California, we grew in one of the nation's largest markets for workers' compensation. With our acquisition of BTIS, we have strengthened our west-of-the-Mississippi distribution capabilities for several products. Throughout it all, we have stayed true to our belief that selling insurance—particularly workers' compensation—is a local enterprise, one most effectively served by experienced, local talent. We have also stayed true to the employees of the companies themselves, bringing many of them into our fold.

In 2011, we further demonstrated our commitment to the people and cities we serve. In early December, we announced our intention to signi cantly expand our Northeast Ohio operations. Thanks to incentives offered by the governor and by local governments, we have embarked on the renovation of a twenty-three-story of ce building in downtown Cleveland and have put into place a plan to create hundreds of jobs in that region, a move Cleveland's mayor called "game-changing for the local economy."

Our European operations continued to perform well for us in 2011, representing 40% of our top-line growth for the year. Our success in identifying and supporting underserved markets throughout Europe has required us to expand our overseas operation. In 2011, we opened of ces in Spain and Italy, fortifying our presence in important markets in Europe.

Our technology infrastructure remains a core competency at AmTrust. We have made it our business to understand every facet of the insurance process and to re ect that understanding in the design of our software, the composition of our teams, and the nature of our processes and work ows.

Our fundamental success, combined with our effective acquisitions, provided an opportunity at year's end to take yet another step to fund future growth. We issued $200 million in convertible debt, which is due 2021. The conversion price of the offering was $31.83 per share; the interest rate on the debt is xed at 5.5%.

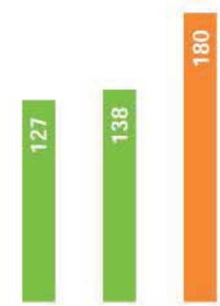
In 2012, we expect pricing opportunities to continue to emerge in key markets such as California, Florida, and New York; we expect, as well, that we will develop opportunities in additional states and other lines of business. We will seek out warranty opportunities associated with emerging countries, remain open to new acquisitions, and effectively apply our capabilities in niche marketing. Throughout it all, we will continue to believe in the AmTrust business model, which time and again has proven to be pro t-able regardless of macroeconomic or insurance-speci c cycles.

As we close this report, we wish to thank our customers and agents, express our gratitude to our board, and acknowledge our employees, who bring intelligence to the job, as well as discrete opportunism. We have thirty locations around the world, and we are growing, but we continue to operate as a fully integrated team. We believe that the way we work together—with mutual respect, energy, and the commitment to niche excellence—will carry us forward throughout the years to come.

Barry D. Zyskind
Chief Executive Of cer and President

Michael Karfunkel
Chairman of the Board

Gross Written Premium
$ in Millions



Operating Earnings[1]
$ in Millions

We will seek out warranty opportunities associated with emerging countries, remain open to new acquisitions, and effectively apply our capabilities in niche marketing. Throughout it all, we will continue to believe in the AmTrust business model, which time and again has proven to be profitable regardless of macroeconomic or insurance-specific cycles.

THE MAJESTIC AND BTIS ACQUISITIONS: SELECTIVE, ACCRETIVE, EFFECTIVE

At the end of 2011, AmTrust acquired Builders & Tradesmen's Insurance Services, Incorporated (BTIS), a ten-year-old Rocklin, California, company that provides specialty insurance products to small artisan contractors in twelve western states. It was the kind of deal for which AmTrust is known: accretive, immediately productive, and consistent with our focus on underserved niche markets.

A similar philosophy underpinned our decision to acquire Majestic, a West Coast operation serving the small business customer. AmTrust aquired the renewal rights and took on Majestic's loss reserves and in-force insurance business through a loss portfolio transfer and 100% quota share reinsurance agreement.

Like BTIS, Majestic had established, through the years, trusted relationships with customers and a positive track record of internal claims management. Together, both companies expand AmTrust's footprint—and product lines—in the western states while enabling AmTrust to capitalize on important shifts in the market.

With Majestic's workers' compensation insurance policies now being underwritten by AmTrust, and with BTIS agents now equipped to sell a broader range of products, AmTrust, in the space of a single year, has achieved a strong underwriting base in California as well as a loyal team of some 3,500 new agents throughout the west. That's both our formula for success and our platform for future growth.

We continued to differentiate ourselves from our competitors throughout 2011 by mining our data, analyzing claims trends, and enhancing our existing insurance packages with right-priced, special coverages, a strategy that a growing number of clients fully appreciate.

GOING GLOBAL:
ACHIEVING RECORD RESULTS IN 2011

Now entering their tenth year, our European operations achieved record results throughout 2011. We placed our focus on a number of core business sectors, including specialty risk/extended warranty, accident and health, surety, rental insurance, caravans, professional medical liability, and legal-expense reimbursement. We tailored products to meet actual, local needs. We offered service to our customers through an integrated global team. We grew both organically through key hires and through selected acquisitions.

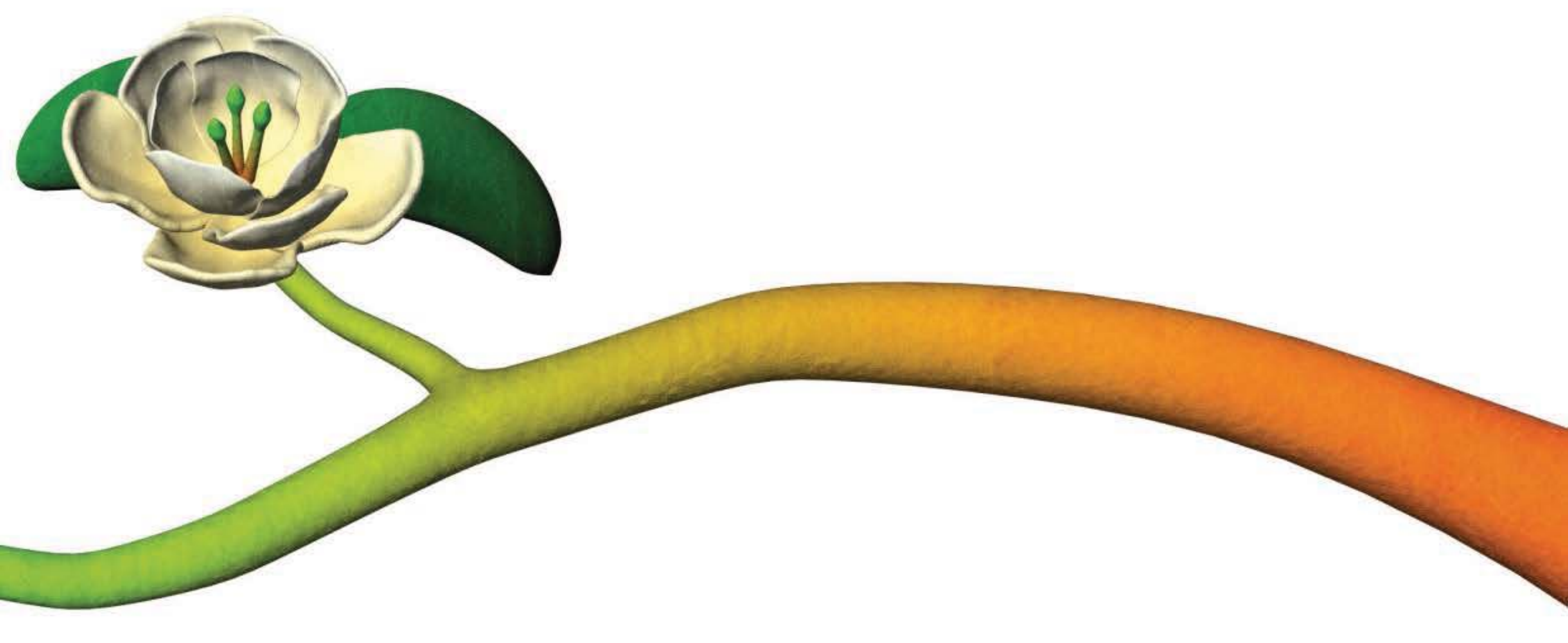
Having entered the professional medical liability business in Italy in late 2009, we capitalized on the opportunity throughout 2011, adding thirty- ve claims adjusters to of ces in Milan, Naples, and Genoa, and keeping a disciplined eye on the risks. Today we're not only underwriting this business at pro table terms, but we're also exploring new Italian business from this established base.

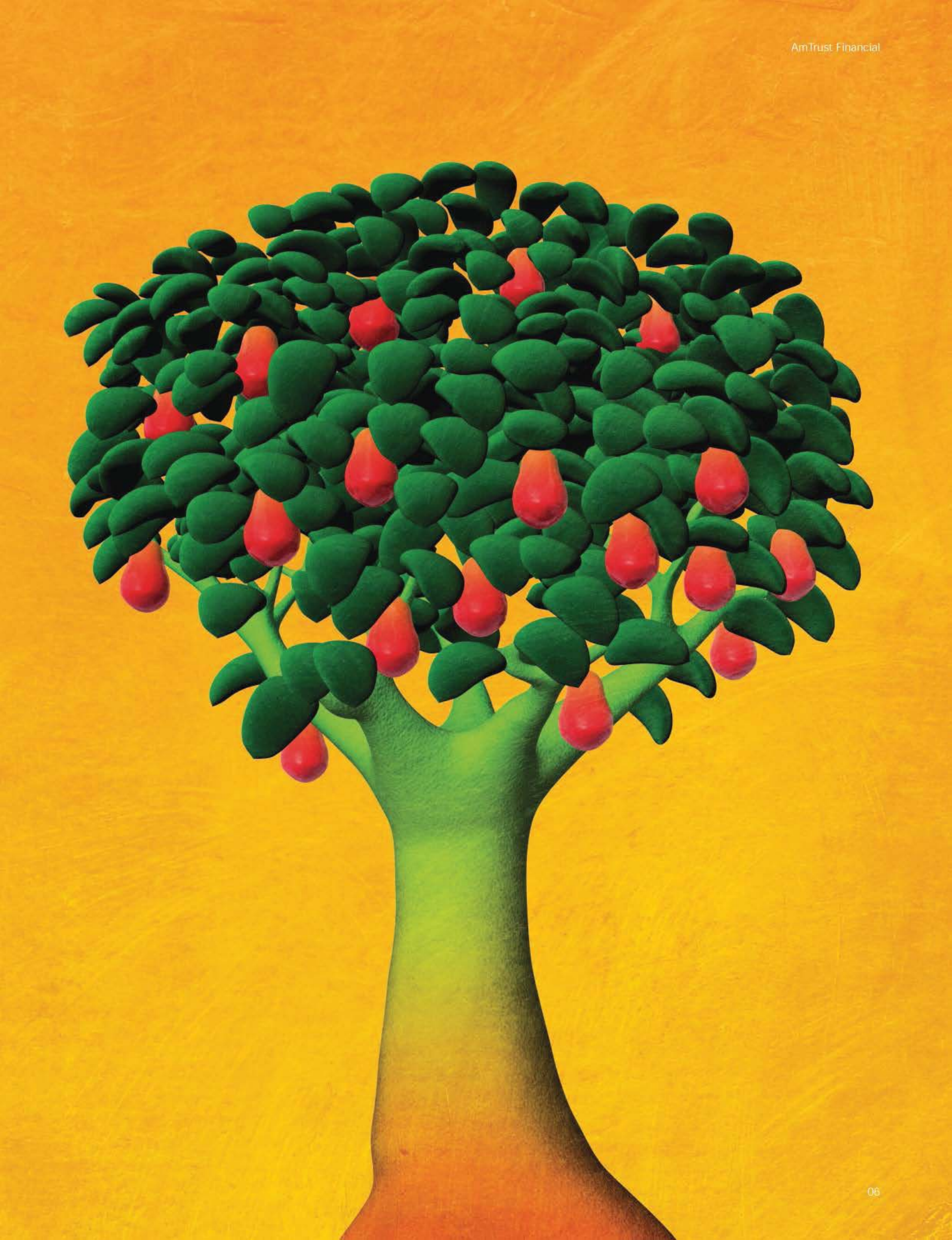
At the end of the year, we further bolstered our European standing by securing a relationship with a dozen Madrid-based lawyers and underwriters who specialize in surety bonds. Today this team, which has amassed an extraordinary track record throughout its twenty- ve years of existence, is helping to propel our global operations forward, not just in Spain but in Italy, Latin America, and elsewhere. It is giving us new insights into niche products and enhanced distribution lines.

We continued to differentiate ourselves from our competitors throughout 2011 by mining our data, analyzing claims trends, and enhancing our existing insurance packages with right-priced, special coverages, a strategy that a growing number of clients fully appreciate. In London, for example, we adapted our mobile phone program in response to concerns about rising cell phone thefts. For a number of luxury car dealers, we created a unique product we call SMART that bolsters traditional extended warranty/breakdown insurance. By packaging new perils with existing products, and by relying on our proprietary data to develop pro t-able, appropriate pricing, we gained new business and greater returns.

To support our European growth, we made some key changes to our infrastructure, elevating proven executives to new positions. We changed some systems and ampli ed others to be sure we could quickly and effectively meet the needs of those global corporations now seeking worldwide but locally adaptable coverage.

Finally, in 2011, we continued to look for more sources of growth in India, Vietnam, Latin America, and other emerging markets, where disposable income is on the rise and where there is great enthusiasm for our af nity and warranty products. We're poised to make new inroads in 2012 as we further develop our core strengths and maintain our emphasis on underserved niche markets.





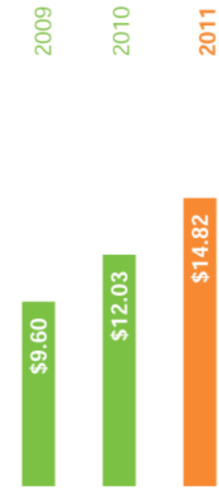
PRIMED FOR FUTURE GROWTH:
THE AMTRUST IT INFRASTRUCTURE

AmTrust has more than 55 million active warranty policies. In the second half of 2011, we averaged over 250,000 insurance quotes a month in various lines of business. Numbers like these could overwhelm the typical insurance company, but AmTrust is not typical. Proprietary software and process development have always been critical factors in the company's success. From the start, the IT team has focused not on scaling up but on scaling out—on building an infrastructure that not only facilitates an in-depth and accurate review of all policies in all books of business in all locations around the world, but also enables AmTrust to quickly assimilate new acquisitions. AmTrust's private cloud network has enough capacity to efficiently host the networks of most companies it acquires.

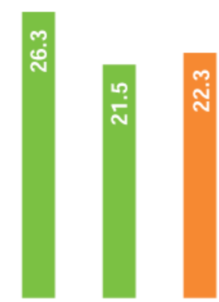
AmTrust's IT division has made a science out of supporting every existing and potential insurance process. It recognizes that it's not simply about the machines bought or the programs written, but about the kinds of people assigned to the challenges presented, about their ability to break complex things into small parts, and about their willingness, nally, to support the exponential growth of a company that, just ten years ago, was focused on a single line of business—workers' compensation—in a single part of the world.

In 2011, AmTrust created a new multilingual system to handle our professional medical liability business, giving us superior control over the transactional claims handled by our international adjusters. Our enterprise data warehouse was expanded to pave the way for more meaningful collaboration with actuarial teams. At the same time, the IT team continued its focus on keeping the corporate work environment as paperless—and green—as possible.

Finally, in 2011, the IT team nearly completed its overhaul of American Capital Acquisition Corporation's (ACAC) technology—building out all ACAC products and capabilities on a new infrastructure. We are now in the process of successfully migrating this $1 billion book of auto insurance business from legacy systems. By bringing our technology insights to this key customer, we gave ACAC a cost-sensitive and timely solution, changing the way ACAC does business and resulting, for us, in attractive fees that contribute to our high return on equity.



Book Value Per Share



Annualized Operating ROE [1]
Percent

From the start, the IT team has focused not on scaling up but on scaling out—on building an infrastructure that not only facilitates an in-depth and accurate review of all policies in all books of business in all locations around the world, but also enables AmTrust to quickly assimilate new acquisitions.

FINANCIAL HIGHLIGHTS
($ in millions)

SUMMARY INCOME STATEMENT	2011	2010	2009
Gross Written Premium	$ 2,150.5	$ 1,560.8	$ 1,198.9
Net Written Premium	1,276.6	827.2	643.4
Net Earned Premium	1,036.9	745.7	573.9
Ceding Commission	154.0	138.3	113.9
Service and Fee Income	108.7	62.1	30.7
Net Investment Income and Realized Losses	58.3	56.5	21.7
Loss and LAE Expense	678.3	471.5	327.8
Acquisition Cost and Other Underwriting Expense	398.4	302.8	244.3
Income before Other Income (Expense) and Equity Earnings	194.4	171.8	145.9
Net Income	194.2	148.4	103.2
Net Income attributable to AmTrust	170.4	142.5	103.2
Operating Earnings [1]	$ 179.5	$ 138.3	$ 126.6
Operating EPS [1]	$ 2.91	$ 2.29	$ 2.11
Annualized Operating ROE [1]	22.3%	21.5%	26.3%
Net Loss Ratio	65.4%	63.2%	57.1%
Net Expense Ratio	23.6%	22.1%	22.7%
Net Combined Ratio	89.0%	85.3%	79.8%

SUMMARY BALANCE SHEET	2011	2010	2009
Cash and Investments	$ 2,090.4	$ 1,567.1	$ 1,414.8
Reinsurance Recoverable	1,098.6	775.4	643.3
Premium Receivable, Net	933.0	727.6	495.9
Goodwill and Intangible Assets, Net	314.6	197.8	115.8
Prepaid Reinsurance Premium	584.9	485.0	410.6
Deferred Policy Acquisition Costs and Other Assets	669.2	437.7	320.0
Total Assets	5,682.6	4,182.5	3,400.4
Loss and LAE Reserve	1,879.2	1,263.5	1,091.9
Unearned Premiums	1,366.2	1,025.0	871.8
Debt	279.6	144.8	164.9
Reinsurance Payables, Accrued Expenses and Other Liabilities	1,193.5	1,010.3	702.4
Total Liabilities	4,718.5	3,441.5	2,831.0
AmTrust Financial Shareholders' Equity	890.6	716.5	569.4
Total Non-Controlling Interest	73.5	24.5	—
Total Shareholders' Equity	964.1	741.0	569.4
Total Liabilities and Shareholders' Equity	$ 5,682.6	$ 4,182.5	$ 3,400.4
Book Value Per Share	$ 14.82	$ 12.03	$ 9.60

Non-GAAP Reconciliation

The following measures as referenced by footnote 1 in the table above and on pages 2, 3, and 7 of this annual report are non-GAAP nancial measures that the Company believes provide a useful indicator of its underlying operating trends because these measures provide a more meaningful representation of the Company's earnings power.

[1] Operating earnings: Net income ($170.4 million, $142.5 million and $103.2 million for 2011, 2010, and 2009 respectively) less net after-tax realized investment gains or losses (a $1.8 million gain, $3.9 million gain and a $21.8 million loss in 2011, 2010 and 2009 respectively) less intangible amortization ($9.9 million, $7.2 million and $4.0 million in 2011, 2010, and 2009, respectively) less foreign currency gain and losses (a $2.4 million loss, $0.7 million gain and a $2.5 million gain in 2011, 2010, and 2009 respectively) less after-tax impact of acquisition of ACAC of a loss of $2.3 million in 2011 and a gain of $6.8 million in 2010. Annualized operating return on equity: Operating earnings divided by average shareholders' equity of $803.5 million, $643.0 million and $481.0 million, in 2011, 2010, and 2009 respectively.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2011

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ______________ to ______________.

Commission File Number: 001-33143

AMTRUST FINANCIAL SERVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**04-3106389** (IRS Employer Identification No.)
59 Maiden Lane, 6th Floor New York, New York (Address of Principal Executive Offices)	**10038** (Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, $0.01 par value per share	The NASDAQ Stock Market LLC

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

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

As of June 30, 2011, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the common stock held by non-affiliates was $557,035,285.

As of March 1, 2012, the number of common shares of the registrant outstanding was 60,177,912.

Documents incorporated by reference: Portions of the Proxy Statement for the 2012 Annual Meeting of Shareholders of the Registrant to be filed subsequently with the SEC are incorporated by reference into Part III of this report.

AMTRUST FINANCIAL SERVICES, INC.

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PART I

Note on Forward-Looking Statements

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

Item 1. Business

Legal Organization

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

Business Overview

AmTrust underwrites and provides property and casualty insurance in the United States and internationally to niche customer groups that we believe are generally underserved by larger insurance carriers within the broader insurance market.

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

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

Competition

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

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

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

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

Underwriting and Claims Management Philosophy

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

Business Segments

Historically, we managed our business through three primary segments, Small Commercial Business, Specialty Risk and Extended Warranty and Specialty Program Business, which are based on the products we provide and the markets we serve. In March 2010, we formed a fourth segment, Personal Lines Reinsurance, effective with our entry into an agreement to reinsure 10% of the GMAC Insurance consumer property and casualty business acquired by American Capital Acquisition Corporation, or ACAC, from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation.

The following table provides our gross written premium by segment for the years ended December 31, 2011, 2010 and 2009:

(Amounts in Thousands)	2011	2010	2009
Small Commercial Business	$ 609,822	$ 465,951	$ 469,627
Specialty Risk and Extended Warranty	1,056,511	748,525	461,338
Specialty Program Business	381,541	264,051	267,981
Personal Lines Reinsurance	102,598	82,295	—
Total	$2,150,472	$1,560,822	$1,198,946

Additional financial information regarding our segments is presented in Note 24 "Segments" of the notes to our 2011 audited consolidated financial statements appearing elsewhere in this Form 10-K.

Small Commercial Business

This segment provides workers' compensation to small businesses that operate in low and medium hazard classes, such as restaurants, retail stores and physicians and other professional offices and commercial package and other property and casualty insurance products to small businesses, with average annual premiums of approximately $6,045. We are authorized to write our Small Commercial Business products in all 50 states. We distribute our policies through a network of over 7,200 select retail and wholesale agents who are paid commissions based on the annual policy premiums written. Workers' compensation insurance pricing and coverage options are generally mandated and regulated on a state by state basis and provide coverage for the statutory obligations of employers to pay medical care expenses and lost wages for employees who are injured in the course of their employment. Commercial package products provide a broad array of insurance to small businesses, including commercial property, general liability, inland marine, automobile, workers' compensation and umbrella coverage. As of December 31, 2011, we employed approximately 115 underwriters in this segment.

We believe the small business component of the workers' compensation market is generally less competitive than the broader insurance market because the smaller policy size and low average premiums needed by these types of policyholders generally does not fit the underwriting and profitability criteria of many of our competitors. Our highly customized and proprietary technology platform enables us to individually underwrite, manage and control losses in a cost-effective manner for a large number of small policies while still providing quality customer service and responsive claims management to our clients and the agents that distribute our products. We believe these factors have been key to our ability to achieve high retention and renewal rates. Our policy renewal rate on voluntary business (excluding assigned risk plans), which represented approximately 92% of the segment's gross written premiums in 2011, was 82%, 82%, and 80% in 2011, 2010 and 2009, respectively.

Some of our commonly written small business risks include:

- restaurants;
- retail stores and strip malls;
- physician and other professional offices;
- building management-operations by owner or contractor;
- private schools;
- business traveler hotels/motels;
- light manufacturing;
- small grocery and specialty food stores;
- light contracting, distributors; and
- laundry/dry cleaners.

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

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

Our workers' compensation claims adjusters have an average of 19 years of experience and have teams located in 11 different states. Each adjuster handles an average monthly pending caseload of approximately 113 cases. Supervision of the adjusters is performed by internal supervisors and a claims manager in each region.

In 2011, approximately 76.0% of our Small Commercial Business workers' compensation claims were only for medical expenses with 24.0% of claims for medical expenses and lost wages compared with 75.9% and 24.1%, respectively, in 2010.

As of December 31, 2011, approximately 1.2% of the 9,462 Small Commercial Business workers' compensation claims reported for accident year 2006 were open, 1.4% of the 12,038 claims reported for accident year 2007 were open, 2.6% of the 11,894 claims reported for accident year 2008 were open, 6.1% of the 16,048 claims reported for accident year 2009 were open 10.8% of the 18,358 claims reported for accident year 2010 were open and 44.9% of the 19,818 claims reported for accident year 2011 were open.

We maintain Small Commercial Business property and casualty claims operations in several of our domestic offices and the commercial package claims operation is separated into four processing units: casualty, property, cost-containment/recovery and a fast-track physical damage unit. As of December 31, 2011, we employed 32 property and casualty claim adjusters. Overall, our property and casualty claims adjusters handle an average monthly pending caseload of approximately 124 claims.

As of December 31, 2011, our Small Commercial Business property and casualty claims were approximately 54% automobile and 22% property and inland marine with the remaining 24% involving general liability and umbrella losses compared to 47%, 21% and 32%, respectively, in 2010. At the end of 2011, 24% of the 2,841 claims features reported in accident year 2011 remained open, while 5% and 2% of the 3,061 claims and 5,065 claims from 2010 and 2009, respectively, remained open.

Our Small Commercial Business property and casualty claims adjusters have an average of 20 years of experience. Supervision of the adjusters is performed by our internal claims management, comprised of a staff that has an average of over 27 years of experience. Increases in reserves over the authority of the claims adjuster must be approved by supervisors. Senior claims managers provide direct oversight on all claims with an incurred value of $50,000 or more.

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

Specialty Risk and Extended Warranty

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

- legal expenses in the event of unsuccessful litigation;
- property damage for residential properties;
- home emergency repairs caused by incidents affecting systems, such as plumbing, wiring or central heating;
- latent defects that materialize on real estate property after building or completion;
- creditor default to insureds if they become unable to meet financial obligations under finance contracts;

- guaranteed asset protection (''GAP'') to cover the difference between an insurer's settlement and the asset value in the event of a total loss; and
- general liability, employers' liability, public liability, negligence of advisors and liability of health care providers and medical facilities.

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

- personal computers;
- consumer electronics, such as televisions and home theater components;
- consumer appliances, such as refrigerators and washing machines;
- automobiles (excluding liability coverage);
- furniture; and
- heavy equipment.

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

In connection with our extended warranty business, we issue policies to our clients that provide for payment or replacement of goods to meet our clients' contractual liabilities to the end purchasers of the warranty under contracts that have coverage terms with durations ranging from one month to 120 months depending on the type of product. The weighted average term of the portfolio is 23 months. In the event that the frequency or the severity of loss on the claims of a program exceeds original projections, we generally have the right to increase premium rates for the balance of the term of the contract and, in Europe, the right to cancel prior to the end of the term. We believe that the profitability of each coverage plan we underwrite is largely dependent upon our ability to accurately forecast the frequency and severity of claims and manage the claims process efficiently. We continuously collect and analyze claims data in order to forecast future claims trends. We also provide warranty administration services in the United States.

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

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

In 2011, approximately 68% of gross written premium for this segment originated internationally, while 32% originated in the United States.

Specialty Program

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

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

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

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

As of December 31, 2011, we underwrote 49 programs through 34 independent wholesale and managing general agents. Workers' compensation insurance comprised approximately 37%, 40% and 38% of this business in 2011, 2010 and 2009, respectively. The general liability and commercial auto lines combined comprised approximately 53%, 48% and 50% of this business in 2011, 2010 and 2009, respectively.

Personal Lines Reinsurance

We formed the Personal Lines Reinsurance Segment in connection with the Personal Lines Quota Share entered into in connection with the acquisition of GMACI's U.S. consumer property and casualty insurance business (the ''GMACI Business'') during March 2010, as described below under ''Acquisitions and Strategic Investments — Investment in ACAC.'' We reinsure 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement (''Personal Lines Quota Share'') among Integon National Insurance Company, GMACI's lead insurance company on behalf of all GMACI's statutory insurance companies (''the GMACI Insurers''), as cedents, and the Company, American Capital Partners Re, Ltd., a Bermuda reinsurer and Maiden Insurance Company, Ltd., as reinsurers. We have a 20% participation in the Personal Lines Quota Share, by which we receive 10% of the net premiums of the personal lines business. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, will receive 50% of the net premium of the GMACI Insurers and assume 50% of the related net losses. The Personal Lines Quota Share has an initial term of three years and will renew automatically for successive three-year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. The Personal Lines Quota Share provides that the reinsurers pay a provisional ceding commission equal to 32.5% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment. The ceding commission is subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.5% or less and a minimum of 30.5% if the loss ratio is 64.5% or higher. As result of this agreement, we assumed $102.6 million of business from the GMACI Insurers during the year end December 31, 2011.

Distribution

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

Geographic Diversity

Of our eleven Insurance Subsidiaries, those domiciled in the United States are collectively licensed to provide workers' compensation insurance and commercial property and casualty insurance in 50 states and the District of Columbia, and in the year ended December 31, 2011, we wrote commercial property and casualty in 49 states and the District of Columbia.

The table below identifies, for the year ended December 31, 2011, the top ten producing states by percentage of direct gross written premium for our Small Commercial Business segment and the equivalent percentage for the years ended December 31, 2010 and 2009.

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

	Year Ended December 31,		
State	**2011**	**2010**	**2009**
New York	15.1%	18.6%	20.8%
Florida	12.1	12.4	13.4
California	11.9	2.2	0.7
Illinois	8.5	9.2	9.4
New Jersey	6.1	6.6	6.9
Georgia	5.8	5.9	4.4
Texas	4.8	7.0	9.6
Pennsylvania	4.5	4.3	3.3
Massachusetts	3.6	2.2	2.1
Kansas	2.3	2.6	0.4
All Other States and the District of Columbia	25.3	29.0	29.0
	100.0	100.0	100.0

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

Through the Insurance Subsidiaries, we are licensed to provide specialty risk and extended warranty coverage in 50 states and the District of Columbia, and in Ireland and the United Kingdom, and pursuant to European Union law, certain other European Union member states.

Based on coverage plans written or renewed in 2011, 2010 and 2009, the European Union accounted for approximately 68%, 72% and 53%, respectively, of our Specialty Risk and Extended Warranty business and in 2011, the United Kingdom, Italy and France accounted for approximately 39%, 35% and 7%, respectively, of our European Specialty Risk and Extended Warranty business.

The table below shows the geographic distribution of our annualized gross premiums written in our Specialty Risk and Extended Warranty segment with respect to coverage plans in effect at December 31, 2011.

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

	Year Ended December 31,		
Country	**2011**	**2010**	**2009**
United States	32%	28%	47%
United Kingdom	26	27	27
Italy	24	25	8
France	5	7	7
Norway	4	4	5
Other	9	9	6
Total	100	100	100

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

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

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

	Year Ended December 31,		
State	**2011**	**2010**	**2009**
New York	37%	46%	45%
California	25	6	4
New Jersey	6	6	7
North Carolina	3	7	6
Georgia	3	4	2
Florida	3	2	3
Louisiana	3	2	1
Pennsylvania	2	4	5
Tennessee	2	4	3
Michigan	2	1	1
All other States and the District of Columbia	14	18	23
Total	100	100	100

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

Acquisitions and Strategic Investments

We have grown at an above-industry average rate through a combination of organic growth and strategic acquisitions. We have balanced our opportunistic acquisition strategy with a conservative approach to risk. Historically, in most of our acquisitions, we accomplish this balance of growth and risk management by acquiring the right to renew a target company's business as opposed to purchasing the entire business. We purchase access to the seller's distribution networks, the right to hire certain of the seller's employees, non-competition covenants and the right, but not the obligation, to offer insurance coverage to a defined group of the seller's current policyholders when the current in-force policies expire. Our ability to renew policies is subject to our ability to retain the relationships that the seller established with its distribution network. We are able to retain the business by providing comprehensive products issued by our highly-rated and well-financed organization. In addition, we provide appropriate pricing and dedicated customer service. We typically pay the seller a combination of an initial purchase price and a percentage of the premiums we receive on business that we successfully renew for a specified period. In a majority of our completed acquisitions, the cost of each transaction is ultimately based on the amount of business we renew. We believe these transactions are generally more cost effective than traditional types of acquisitions.

We will continue to evaluate the acquisition of distribution networks and renewal rights, stock purchases and other alternative types of transactions as they present themselves. We believe these types of transactions can be accretive to earnings and return on equity. The following is a summary of our major acquisition and strategic investment activity during 2010 and 2011.

AHL

During 2011 and 2010, AmTrust Holdings Luxembourg S.A.R.L (''AHL'') (formerly called AmTrust Captive Holdings Limited) completed a series of acquisitions described below. AHL is a holding company that purchases Luxembourg captive insurance entities that allows us to obtain the benefit of the captives' capital and utilization of their existing and future loss reserves through a series of reinsurance arrangements with one of our subsidiaries. AHL is included in our Specialty Risk and Extended Warranty segment.

In December 2011, AHL acquired all the issued and outstanding stock of Reaal Reassurantie S.A., a Luxembourg domiciled captive insurance company, from SNS REAAL N.V. and REAAL N.V. The purchase price of Reaal Reassurantie S.A. was approximately $72 million. We recorded approximately $79 million of cash, intangible assets of $15 million and a deferred tax liability of $22 million. Reaal Reassurantie S.A. subsequently changed its name to AmTrust Re Kappa.

In December 2011, AHL acquired all the issued and outstanding stock of Vandermoortele International Reinsurance Company SA, a Luxembourg domiciled captive insurance company, from NV Vandermoortele, Vandemoortele International Finance SA and NV Safinco. The purchase price of Vandermoortele International Reinsurance Company SA was approximately $66 million. We recorded approximately $71 million of cash, intangible assets of $11 million and a deferred tax liability of $16 million. Vandermoortele International Reinsurance Company S.A. subsequently changed its name to AmTrust Re Zeta.

In June 2011, AHL acquired all the issued and outstanding stock of International Crédit Mutuel Reinsurance SA (''ICM Re''), a Luxembourg domiciled captive insurance company, from Assurance du Credit Mutuel IARD SA. The purchase price of ICM Re was approximately $315 million. We recorded approximately $347 million of cash, intangible assets of $56 million and a deferred tax liability of $88 million. ICM Re subsequently changed its name to AmTrust Re Alpha.

In May 2010, AHL acquired all the issued and outstanding stock of Euro International Reinsurance S.A., a Luxembourg domiciled captive insurance company, from TALANX AG. The purchase price of Euro International Reinsurance S.A. was approximately $58 million. We recorded approximately $66 million of cash, intangible assets of $9 million and a deferred tax liability of $16 million. Euro International Reinsurance S.A. subsequently was merged into AmTrust Re 2007.

We have classified the intangible assets as contractual use rights and they will be amortized based on the actual use of the related equalization reserves.

Cardinal Comp

In September 2008, we entered into a managing general agency agreement with Cardinal Comp, LLC (''Cardinal Comp''), a workers' compensation managing general agent for which we paid the agency a commission for the placement of insurance policies. The agency operated in eight states and primarily in the state of New York. In September 2011, through one of our subsidiaries, we entered into a renewal rights and asset purchase agreement with Cardinal Comp and Cook Inlet Alternative Risk LLC. The purchase price was approximately $30.4 million. The existing managing general agency agreement entered into in 2008 was terminated as part of the new agreement and will enable us to reduce commissions on written premium generated from the renewal rights agreement. In accordance with FASB ASC 805-10 *Business Combinations*, we recorded a purchase price of $30.4 million, consisting primarily of goodwill and intangible assets which consisted of distribution networks, renewal rights and a trademark. The intangible assets have a life of between two and 16 years and are included as a component of our Small Commercial Business segment.

Majestic

One of our subsidiaries and the Insurance Commissioner of the State of California, acting solely in the capacity as the statutory conservator (the ''Conservator'') of Majestic Insurance Company (''Majestic''), entered into a Rehabilitation Agreement that set forth a plan for the rehabilitation of Majestic (the ''Rehabilitation Plan'') by which we acquired the business of Majestic through a Renewal Rights and Asset Purchase Agreement (the ''Purchase Agreement''), and a Loss Portfolio Transfer and Quota Share Reinsurance Agreement (the ''Reinsurance Agreement''). On July 1, 2011, through one of our subsidiaries, we entered into the Reinsurance Agreement, which was effective June 1, 2011, and assumed all of Majestic's liability for losses and loss adjustment expenses under workers' compensation insurance policies of approximately $331.7 million on a gross basis (approximately $183.5 million on a net basis), without any aggregate limit, and certain contracts related to Majestic's workers' compensation business, including leases for Majestic's California office space. In addition, we assumed 100% of the unearned premium reserve of approximately $26.0 million on all in-force Majestic policies. In connection with this transaction, we received approximately $224.5 million of cash and investments, which included $26.0 million for a reserve deficiency and also included the assignment of Majestic's reinsurance recoverables of approximately $51.7 million. The Reinsurance Agreement also contains a profit sharing provision whereby we pay Majestic up to 3% of net earned premium related to current Majestic policies that are renewed by us in the three year period commencing on the closing date should the loss ratio on such policies for the three year period be 65% or less. The insurance premiums, which are included in our Small Commercial Business segment, have been recorded since the acquisition date and were approximately $42.9 million for the year ended December 31, 2011.

We have completed our purchase price accounting related to the Reinsurance Agreement and, in accordance with ASC 944-805 *Business Combinations*, we are required to adjust to fair value Majestic's loss and loss adjustment expense (''LAE'') reserves by taking the acquired loss reserves recorded and discounting them based on expected reserve payout patterns using a current risk-free rate of interest. This risk free interest rate is then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and our best estimate of the fair value of such reserves at acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves. We determined the fair value of the loss reserves to be $328.9 million. Accordingly, the amortization will be recorded as an expense on our income statement until fully amortized.

In consideration for our assumption of (i) Majestic's losses and loss adjustment expenses under its workers' compensation insurance policies pursuant to the Reinsurance Agreement and (ii) Majestic's leases for its California offices, pursuant to the Purchase Agreement, we acquired the right to offer, quote and solicit the renewals of in-force workers' compensation policies written by Majestic, certain assets required to conduct such business, including intellectual property and information technology, certain fixed assets, and the right to offer employment to Majestic's California-based employees.

As a result of entering into the Purchase Agreement, in accordance with FASB ASC 805 *Business Combinations* we recorded $3.9 million of intangible assets related to distribution networks and trademarks. The distribution networks have a life of 13 years and the trademarks have a life of two years. Additionally, we recorded a liability for approximately $0.4 million related to an unfavorable lease assumed in the transaction and a liability for approximately $0.8 million related to the above mentioned profit sharing provision.

BTIS

In December 2011, we acquired the California-based Builders & Tradesmen's Insurance Services, Inc. (''BTIS''), an insurance wholesaler and general agent specializing in insurance policies and bonds for small artisan contractors. Our initial purchase price was $5.0 million, which does not include potential incentives to the sellers based on future profitability of the business. The transaction did not have a material impact on our results of operations or financial condition in 2011.

Warrantech

In August 2010, through our wholly-owned subsidiary AMT Warranty Corp., we acquired 100% of the issued and outstanding capital stock of Warrantech Corporation (''Warrantech'') from WT Acquisition Holdings, LLC for approximately $7.5 million in cash and an earnout payment to the sellers of a minimum of $2.0 million and a maximum and $3.0 million based on AMT Warranty Corp.'s EBITDA over the three-year period from January 1, 2011 through December 31, 2013. Prior to the acquisition, we had a 27% equity interest (in the form of preferred units) in WT Acquisition Holdings, LLC and a $20.0 million senior secured note due January 31, 2012 issued to us by Warrantech. Interest on the note was payable monthly at a rate of 15% per annum and consisted of a cash component at 11% per annum and 4% per annum for the issuance of additional notes in principal amount equal to the interest not paid in cash on such date.

Immediately prior to the consummation of this transaction, WT Acquisition Holdings, LLC redeemed our preferred units that had represented our 27% equity interest in that entity. In addition, immediately following the transaction, AMT Warranty Corp. was recapitalized and we contributed our note receivable from Warrantech in the approximate amount of $24.1 million to AMT Warranty Corp. in exchange for Series A preferred stock, par value $0.01 per share (the ''Series A Preferred Stock''), of AMT Warranty Corp. valued at $24.1 million. We also received additional shares of Series A Preferred Stock such that the total value of our 100% preferred share ownership in AMT Warranty Corp. is equivalent to $50.7 million. Lastly, AMT Warranty Corp. issued 20% of its issued and outstanding common stock to the Chairman of Warrantech, which had a fair value of $6.9 million as determined using both a market and an income approach. Given our preference position, absent our waiver, we will be paid distributions on our Series A Preferred Stock before any common shareholder would be entitled to a distribution on the common stock.

As a result, the ultimate acquisition price of Warrantech was $48.9 million and we recorded goodwill and intangible assets of approximately $69.7 million and $29.6 million, respectively. We incurred less than $0.1 million of costs related to the acquisition. The intangible assets consisted of trademarks, agency relationships and non-compete agreements, which had estimated lives of between 3 and 18 years. The results of operations from Warrantech, which are included in our Specialty Risk and Extended Warranty segment as a component of service and fee income, have been recorded since the acquisition date and were approximately $52.8 million and $17.4 million for the years ended December 31, 2011 and 2010, respectively.

Risk Services

During June 2010, we completed the acquisition of eight direct and indirect subsidiaries of RS Acquisition Holdings Corp., including Risk Services, LLC and PBOA, Inc. (collectively, ''Risk Services''). The entities acquired include various risk retention and captive management companies, brokering entities and workers' compensation servicing entities. The acquired companies are held in a newly created entity, RS Acquisition Holdco, LLC. The Risk Services entities have offices in Florida, Vermont and the District of Columbia and are broadly licensed.

We have a majority ownership interest (80%) in Risk Acquisition Holdco, LLC, for which our total consideration was $11.7 million. Acquisition costs associated with the acquisition were approximately $0.2 million. As part of the purchase agreement, the non-controlling interest has the option under certain circumstances to require us to purchase the remaining ownership interest (20%) of Risk Services. In accordance with FASB ASC Topic 480, *Distinguishing Liabilities from Equity*, and FASB ASC Topic 815, *Derivatives and Hedging*, we have classified the remaining 20% ownership interest of Risk Services as mezzanine equity on the Consolidated Balance Sheet.

In accordance with FASB ASC 805, *Business Combinations*, our total consideration paid for Risk Services was $11.7 million, which included cash of $11.1 million and a value of $0.6 million that was assigned for the redeemable non-controlling interest. We assigned a value of approximately $5.0 million to intangible assets and $5.0 million to goodwill. The intangible assets consisted of tradenames, customer relationships, renewal rights and non-compete agreements and have finite lives ranging from 4 years to 17 years. The results of operations from Risk Services, which are included in our Small Commercial Business segment as a component of service and fee income, have been included since the acquisition date and were approximately $7.3 million and $7.4 million for the years ended December 31, 2011 and 2010, respectively.

Investment in ACAC

During 2010, we completed our strategic investment in American Capital Acquisition Corporation (''ACAC''). We formed ACAC with The Michael Karfunkel 2005 Grantor Retained Annuity Trust (the ''Trust'') for the purpose of acquiring from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation (''MIC'', together with GMAC Insurance Holdings, Inc., ''GMACI''), GMACI's U.S. consumer property and casualty insurance business (the ''GMACI Business''), a writer of automobile coverages through independent agents in the United States. Its coverage includes standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the ''GMACI Insurers''). Michael Karfunkel, individually, and the Trust, which is controlled by Michael Karfunkel, own 100% of ACAC's common stock (subject to our conversion rights described below). Michael Karfunkel is the chairman of our board of directors and the father-in-law of Barry D. Zyskind, our chief executive officer. The ultimate beneficiaries of the Trust include Michael Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman of the Board of Directors of ACAC.

Pursuant to the Amended Stock Purchase Agreement, ACAC issued and sold to us for an initial purchase price of approximately $53.0 million, which was equal to 25% of the capital initially required by ACAC, 53,054 shares of Series A Preferred Stock, which provides an 8% cumulative dividend, is non-redeemable and is convertible, at our option, into 21.25% of the issued and outstanding common stock of ACAC (the ''Preferred Stock''). We have pre-emptive rights with respect to any future issuances of securities by ACAC and our conversion rights are subject to customary anti-dilution protections. We have the right to appoint two members of ACAC's board of directors, which consists of six members. Subject to certain limitations, the board of directors of ACAC may not take any action in the absence of our appointees and ACAC may not take certain corporate actions without the unanimous prior approval of its board of directors (including our appointees).

We, the Trust and Michael Karfunkel, individually, each will be required to make its or his proportionate share of deferred payments payable by ACAC to GMACI pursuant to the GMACI Securities Purchase Agreement, which are payable, annually on March 1 through March 1, 2013, to the extent that ACAC is unable to otherwise provide for such payments. Our proportionate share of such deferred payments will not exceed $15.0 million. In addition, in connection with our investment, ACAC will grant us a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMACI.

In accordance with ASC 323-10-15, *Investments-Equity Method and Joint Ventures*, we account for our investment in ACAC under the equity method. We recorded $7.9 million and $25.3 million of income during the years ended December 31, 2011 and 2010, respectively related to our equity investment in ACAC.

Personal Lines Quota Share

We, effective March 1, 2010, reinsure 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement (''Personal Lines Quota Share'') among Integon National Insurance Company, lead insurance company on behalf of the GMACI Insurers, as cedents, and the Company, ACP Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, receive 50% of the net premium of the GMACI Insurers and assume 50% of the related net losses. We have a 20% participation in the Personal Lines Quota Share, by which we receive 10% of the net premiums of the personal lines business and assume 10% of the related net losses. The Personal Lines Quota Share has an initial term of three years and will renew automatically for successive three-year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. In addition, either party is entitled to terminate on 60 days' written 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 the GMACI Insurers, run-off, or a reduction of 50% or more of the shareholders' equity. The GMACI Insurers also may terminate on nine months' written notice following the effective date of an initial public offering or private placement of stock by ACAC or a subsidiary. The Personal Lines Quota Share provides that the reinsurers pay a provisional ceding commission equal to 32.5% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.5% or less and a minimum of 30.5% if the loss ratio is 64.5% or higher. The Personal Lines Quota Share is subject to a premium cap that limits the premium that could be ceded by the GMACI Insurers to Technology Insurance Company, Inc. (''TIC''), one of our wholly-owned subsidiaries, to $121 million during calendar year 2011 to the extent TIC was to determine, in good faith, that it could not assume additional premium. The premium cap increases by 10% per annum thereafter. As a result of this agreement, we assumed $102.6 million and $82.3 million of business from the GMACI Insurers during the years ended December 31, 2011 and 2010, respectively.

Information Technology Services Agreement

We provide ACAC and its affiliates information technology development services in connection with the development of a policy management system at a price of cost plus 20% pursuant to a Master Services Agreement with GMAC Insurance Management Corporation, a wholly-owned subsidiary of ACAC. In addition, as consideration for a license for ACAC and its affiliates to use that system, we receive a license fee in the amount of 1.25% of gross premiums of ACAC and its affiliates plus our costs for support services. We recorded approximately $4.0 million and $2.0 million of fee income for the years ended December 31, 2011 and 2010, respectively, related to this agreement.

Asset Management Agreement

We manage the assets of ACAC and its subsidiaries for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1 billion or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1 billion. We currently manage approximately $700 million as of December 31, 2011. As a result of this agreement, we earned approximately $1.6 million and $1.5 million of investment management fees for the years ended December 31, 2011 and 2010, respectively.

As a result of the above service agreements with ACAC, we recorded fees totaling approximately $5.6 million and $3.5 million for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011, the outstanding balance payable by ACAC related to these service fees and reimbursable costs was approximately $1.1 million.

Life Settlement Contracts

A life settlement contract is a contract between the policy owner of a life insurance policy and a third-party investor who obtains the ownership and beneficiary rights of the underlying life insurance policy. During 2010, we formed Tiger Capital LLC (''Tiger'') with a subsidiary of ACAC for the purposes of acquiring life settlement contracts. In 2011, we formed AMT Capital Alpha, LLC (''AMT Alpha'') with a subsidiary of ACAC and AMT Capital Holdings, S.A. (''AMTCH'') with ACP Re, LTD., an entity controlled by Michael Karfunkel, for the purposes of acquiring additional life settlement contracts. We have a fifty percent ownership interest in each of Tiger, AMT Alpha and AMTCH (collectively, the ''LSC entities''). Tiger may also acquire premium finance loans made in connection with the borrowers' purchase of life insurance policies that are secured by the policies, which are in default at the time of purchase. The LSC entities acquire the underlying policies through the borrowers' voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator of the Tiger life settlement contract portfolio, for which it receives an annual fee. Under the terms of an agreement for Tiger, the third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. We provide for certain actuarial and finance functions related to the LSC entities. Additionally, in conjunction with our 21.25% ownership percentage of ACAC, we ultimately receive 60.6% of the profits and losses of Tiger and AMT Alpha. As such, in accordance with ASC 810-10, *Consolidation,* we have been deemed the primary beneficiary and, therefore, consolidate the LSC entities.

We account for investments in life settlements in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. We have elected to account for these policies using the fair value method. We determine fair value on a discounted cash flow basis of anticipated death benefits, incorporating current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available.

Total capital contributions of $43 million and $22 million were made to the LSC entities during the years ended December 31, 2011 and 2010, respectively, for which we contributed our fifty percent ownership share of approximately $21.5 million and $11 million in those same periods. The LSC entities used a majority of the contributed capital to acquire certain life insurance policies of approximately $26.4 million and $4.6 million for the years ended December 31, 2011 and 2010, respectively. Our investments in life settlements and cash value loans were approximately $136.8 million and $31.5 million as of December 31, 2011 and 2010, respectively and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. We recorded other income for the years ended December 31, 2011 and 2010 of approximately $46.9 million and $11.9 million, respectively, related to the life settlement contracts.

Reinsurance

Reinsurance is a transaction between insurance companies in which the original insurer, or ceding company, remits a portion of its policy premiums to a reinsurer, or assuming company, as payment for the reinsurer assuming a portion of the insured policies' risk. Reinsurance agreements may be proportional in nature, under which the assuming company shares proportionally in the premiums and losses of the ceding company. Under these ''quota share reinsurance'' arrangements, the ceding company transfers, or cedes, a percentage of the risk under each policy within the covered class or classes of business to the reinsurer and recovers the same percentage of the ceded loss and loss adjustment expenses. The ceding company pays the reinsurer the same percentage of the insurance premium on the ceded policies, less a ceding commission. Reinsurance agreements may also be structured so that the assuming company indemnifies the ceding company against all or a specified portion of losses on underlying insurance policies in excess of a specified amount, which is called an ''attachment level'' or ''retention,'' in return for a premium, usually determined as a percentage of the ceding company's insurance premiums for the covered class or classes of business. This arrangement is known as ''excess of loss reinsurance.'' Excess of loss reinsurance may be written in layers, in which a reinsurer or group of reinsurers accepts a band of coverage up to a specified amount. Any liability exceeding the coverage limits of the reinsurance program is retained by the ceding company. In accordance with general industry practices, we purchase excess of loss reinsurance to protect against the impact of large individual, irregularly-occurring losses, and aggregate catastrophic losses from natural perils and terrorism, which would otherwise cause sudden and unpredictable changes in net income and the capital of our Insurance Subsidiaries. Premium for excess reinsurance is negotiated based on risk characteristics and market competition. We do not typically receive commission for ceding business under excess of loss or catastrophe reinsurance agreements.

We believe reinsurance is a valuable tool that we use to appropriately manage the risk inherent in our insurance portfolio as well as to enable us to reduce earnings volatility and generate stronger returns. We also utilize reinsurance agreements to increase our capacity to write a greater amount of profitable business. Our Insurance Subsidiaries utilize reinsurance agreements to transfer portions of the underlying risk of the business we write to various affiliated and third-party reinsurance companies. Reinsurance does not discharge or diminish our obligation to pay claims covered by the insurance policies we issue; however, it does permit us to recover certain incurred losses from our reinsurers and our reinsurance recoveries reduce the maximum loss that we may incur as a result of a covered loss event. We believe it is important to ensure that our reinsurance partners are financially strong and they generally carry at least an A.M. Best rating of ''A-'' (Excellent) at the time we enter into our reinsurance agreements. We also enter reinsurance relationships with third-party captives formed by agents and other business partners as a mechanism for sharing risk and profit. All of our captive reinsurance arrangements are fully secured.

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

Loss Reserves

Workers' Compensation Business

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

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

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

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

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

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

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

- *Quarterly Incurred Development Method (Use of AmTrust Factors).* Quarterly incurred loss development factors are derived from our historical, cumulative incurred losses by accident month. These factors are then applied to the latest actual incurred losses and DCC by month to estimate ultimate losses and DCC, based on the assumption that each accident month will develop to estimated ultimate cost in a similar manner to prior years. There is a substantial amount of judgment involved in this method.
- *Yearly Incurred Development (Use of National Council on Compensation Insurance, Inc. ("NCCI") Industry Factors by State).* Yearly incurred loss development factors are derived from either NCCI's annual statistical bulletin or state bureaus. These factors are then applied to the latest actual incurred losses and DCC by year by state to estimate ultimate losses and DCC, based on the assumption that each year will develop to an estimated ultimate cost similar to the industry development by year by state.

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

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

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

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

As of December 31, 2011, our best estimate of our ultimate liability for workers' compensation loss and loss adjustment expenses, net of amounts recoverable from reinsurers, was $596.5 million, of which $25.5 million was reserves resulting from our participation in mandatory pooling arrangements, as reported by the pool administrators. This estimate was derived from the procedures and methods described above, which rely, substantially, on judgment.

Estimating ultimate losses and loss adjustment expenses is an inexact process — a broad range exists around any estimate. While management believes its estimates are reasonable, it is possible that our actual loss and loss adjustment expenses incurred may vary significantly from our estimates.

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

Of the two methods above, the use of industry loss development factors has consistently produced higher estimates of workers' compensation losses and DCC expenses. The table below shows this higher estimate, along with the lower estimate produced by our monthly factors as of December 31, 2011:

(Amounts in Millions)	Loss & DCC Expense Reserves	Mandatory Pooling Arrangements	Total
Gross Workers' Compensation Reserves:			
Lower estimate	$ 950.6	$25.5	$ 976.1
Gross reserve	1,116.7	25.5	1,142.2
Higher estimate	1,208.5	25.5	1,234.0
Net Workers' Compensation Reserves:			
Lower estimate	$ 486.1	$25.5	$ 511.6
Net reserve	571.0	25.5	596.5
Higher estimate	617.9	25.5	643.4

The higher estimate would increase net reserves by $46.9 million and reduce net income and stockholders' equity by $30.5 million. The lower net estimate would decrease net reserves by $84.9 million and increase net income and stockholders equity by $55.2 million. A change in our net loss and DCC expense reserve would not have an immediate impact on our liquidity, but would affect cash flows in future years as claim and expense payments made.

In 2009, our liabilities for unpaid losses and loss adjustment expenses (''LAE'') attributable to prior years decreased by $4.8 million as result of favorable development in the Small Commercial Business segment, partially offset by unfavorable development from our mandatory participation in assigned risk reinsurance pools. In 2010, our liabilities for unpaid losses and LAE attributable to prior years increased by $7.9 million as result of unfavorable loss development in our Specialty Program segment. In 2011, our liabilities for unpaid losses and LAE attributable to prior years increased by $12.5 million as result of unfavorable loss development, in its Specialty Program segment due to higher actuarial estimates based on actual losses. We do not anticipate that we will make any material reserve adjustments but will continue to monitor the accuracy of our loss development factors and adequacy of our reserves.

Specialty Risk and Extended Warranty

Specialty Risk and Extended Warranty claims are usually paid quickly, development on known claims is negligible, and generally, case reserves are not established. IBNR reserves for warranty claims are generally ''pure'' IBNR, which refers to amounts for claims that occurred prior to an accounting date but are reported after that date. The reporting lag for warranty IBNR claims is generally small, usually in the range of one to three months. Management determines warranty IBNR by examining the experience of individual coverage plans. Our consulting actuary, at the end of each calendar year, reviews our IBNR by looking at our overall coverage plan experience, with assumptions of claim reporting lag and average monthly claim payouts. Our net IBNR as of December 31, 2011 and 2010 for our Specialty Risk and Extended Warranty segment was $52.9 million and $15.6 million, respectively. Though we believe this is a reasonable best estimate of future claims development, this amount is subject to a substantial degree of uncertainty.

Our actual net reserves, including IBNR, on Specialty Risk and Extended Warranty as of December 31, 2011 and 2010 were $121.8 million and $52.9 million, respectively. An upward movement of 5% on overall reserves would result in a reduction of income in 2011 of $6.1 million before tax and $4.0 million after tax. A downward movement of 5% on overall reserves would result in an increase of income of $6.1 million before tax and $4.0 million after tax.

There is generally more uncertainty in the unearned premium reserve than in the IBNR reserve. In the Specialty Risk and Extended Warranty segment, the reserve for unearned premium is, in general, an estimate of our liability for projected future losses emanating from the unearned portion of written contracts. Our liability for return of unearned premium is not significant.

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

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

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

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

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

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

Different Specialty Risk and Extended Warranty products have different patterns of incidence during the period of risk. Some products tend to show increasing incidence of claims during the risk period; others may show relatively uniform incidence of claims, while still others tend to show decreasing claim incidence. We have assumed, on average, a uniform incidence of claims for all contracts combined, based on our review of contract provisions and claim history. Incorrect earnings of warranty policy premiums, inadequate pricing of warranty products, changes in conditions during long contract durations or incorrect estimates of future warranty losses on unexpired contracts may produce a deficiency or a redundancy in the unearned premium reserve. Our unearned premium reserve as of December 31, 2011 and 2010 for our Specialty Risk and Extended Warranty segment was $492.2 million and $324.3 million, respectively. Although we believe this is a reasonable best estimate of our unearned premium reserve, this amount is subject to a substantial degree of uncertainty.

Property and Casualty Insurance

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

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

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

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

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

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

We began writing general liability, commercial auto and commercial property (jointly known as CPP) business in 2006. As a result, there is a limited amount of loss data available for analysis. In order to establish IBNR reserves for CPP lines of business, we project ultimate losses by accident year through the use of industry experience by line. The limited amount of CPP historical data has not allowed us to develop our own development patterns. Instead, we rely on three methods that utilize industry development patterns by line of business:

- *Yearly Incurred Development (Use of Industry Factors by Line).* For each line, the development factors are taken directly from Insurance Services Office, Inc. ("ISO") loss development publications for a specific line of business. These factors are then applied to the latest actual incurred losses and DCC by accident year, by line of business to estimate ultimate losses and DCC;

- *Expected Loss Ratio.* For each line, an expected loss ratio is taken from our original account level pricing analysis. These loss ratios are then applied to the earned premiums by line by year to estimate ultimate losses and DCC; and
- *Bornhuetter-Ferguson Method.* For each line, IBNR factors are developed from the applicable industry loss development factors and expected losses are taken from the original account level pricing analysis. IBNR factors are then applied to the expected losses to estimate IBNR and DCC.

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

Because we determine our reserves based on industry incurred development patterns, our ultimate losses may differ substantially from our estimates produced by the above methods.

Because of our limited historical experience, we have not utilized any incurred development methods based on our experience, nor did we use any methods that rely on paid development factors. Paid loss development methods rely on actual claim payment patterns to develop ultimate loss and DCC estimates. As our historical experience grows, we will consider using incurred development methods based on our historical loss development patterns, as well as paid development methods.

In the second quarter of 2008, we acquired retail commercial package business in connection with our acquisition of a subsidiary of Unitrin, Inc. (''UBI''). We were able to access UBI's historical loss data for analysis of that business. Additionally, the claims adjusting have remained stable. As such, it has allowed us to start developing our own development patterns without the use of industry factors. Similar methods involved in determining reserves are consistent as described above for other property and casualty business.

Reconciliation of Loss and Loss Adjustment Expense Reserves

The table below shows the reconciliation of loss reserves on a gross and net basis for the years ended December 31, 2011, 2010 and 2009, reflecting changes in losses incurred and paid losses:

(Amounts in Thousands)	2011	2010	2009
Unpaid losses and LAE, gross of related reinsurance recoverables at beginning of year	$1,263,537	$1,091,944	$1,014,059
Less: Reinsurance recoverables at beginning of year	670,877	561,874	504,404
Net balance, beginning of year	592,660	530,070	509,655
Incurred related to:			
Current year	665,812	463,535	332,598
Prior year	12,521	7,946	(4,827)
Total incurred losses during the year	678,333	471,481	327,771
Paid losses and LAE related to:			
Current year	(390,267)	(222,593)	(203,210)
Prior year	(179,721)	(187,012)	(109,872)
Total payments for losses and LAE	(569,988)	(409,605)	(313,082)
Commuted loss reserves	—	1,350	4,612
Net balance, December 31	701,005	593,296	528,956
Acquired outstanding loss and loss adjustment reserve	209,651	—	—
Effect of foreign exchange rates	(3,873)	(636)	1,114
Plus reinsurance recoverables at end of year	972,392	670,877	561,874
Unpaid losses and LAE, gross of related reinsurance recoverables at end of year	$1,879,175	$1,263,537	$1,091,944
Gross loss reserves by segment:			
Small Commercial Business	$1,163,618	$ 766,998	$ 763,143
Specialty Risk and Extended Warranty	323,900	167,517	121,869
Specialty Program	368,358	318,187	206,932
Personal Lines Reinsurance	23,299	10,835	—
	$1,879,175	$1,263,537	$1,091,944

For the years ended December 31, 2011, 2010 and 2009, our gross reserves for loss and loss adjustment expenses were $1,879.2 million, $1,263.5 million, and $1,091.9 million, of which our IBNR reserves constituted 40.3%, 45.1% and 50.7%, respectively. For the years 2010 and 2009, we commuted certain loss reserves related to workers' compensation that were included in ceded reinsurance treaties. These commutations had no material effect on net earnings.

Loss Development

The table below shows the net loss development for business written each year from 2001 through 2011. The table reflects the changes in our loss and loss adjustment expense reserves in subsequent years from the prior loss estimates based on experience as of the end of each succeeding year on a general accepted accounting principles ("GAAP") basis.

The next section of the table sets forth the re-estimates in later years of incurred losses, including payments, for the years indicated. The next section of the table shows, by year, the cumulative amounts of loss and loss adjustment expense payments, net of amounts recoverable from reinsurers, as of the end of each succeeding year. For example, with respect to the net loss reserves of $13.4 million as of December 31, 2002, by December 31, 2004 (two years later), $2.3 million had actually been paid in settlement of the claims that relate to liabilities as of December 31, 2002.

The "cumulative redundancy (deficiency)" represents, as of December 31, 2011, the difference between the latest re-estimated liability and the amounts as originally estimated. A redundancy means that the original estimate was higher than the current estimate. A deficiency means that the current estimate is higher than the original estimate.

The period prior to 2001 relates primarily to business written prior to our acquisition of TIC and Rochdale Insurance Company ("RIC"). Therefore, the high redundancies in these periods were attributable primarily to the runoff of these closed books of business.

Analysis of Loss and Loss Adjustment Expense Reserve Development

	As of and for the Year Ended December 31,										
(Amounts in Thousands)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Reserve for loss and loss adjustment expenses, net of reinsurance recoverables	$10,906	$13,402	$33,396	$84,919	$150,340	$251,678	$517,365	$509,655	$530,070	$592,660	$906,783
Net reserve estimated as of											
One year later	9,815	13,771	36,812	83,957	150,854	253,767	516,821	504,828	538,016	605,181	
Two years later	10,034	13,804	37,954	83,293	150,516	215,465	519,346	490,379	540,927		
Three years later	10,797	10,175	35,056	82,906	122,601	221,362	518,877	491,706			
Four years later	10,797	11,179	34,844	70,146	120,975	220,505	515,166				
Five years later	9,336	10,524	27,992	71,012	121,716	216,553					
Six years later	9,179	9,089	28,069	70,078	120,535						
Seven years later	9,005	9,914	28,211	69,456							
Eight years later	9,444	9,909	27,911								
Nine years later	9,439	9,966									
Ten years later	9,582										
Net cumulative redundancy (deficiency)	1,324	3,436	5,485	15,463	29,805	35,125	2,199	17,949	(10,857)	(12,521)	

	Year Ended December 31,										
(Amounts in Thousands)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Cumulative amount of reserve paid, net of reinsurance recoverable through											
One year later	$ 971	$ 1,904	$ 5,079	$14,436	$ 24,050	$ 38,010	$113,567	$ 109,872	$ 188,739	$ 179,721	$
Two years later	1,187	2,328	10,198	25,113	35,894	70,406	159,874	193,182	279,540		
Three years later	1,439	2,877	13,043	33,049	48,804	91,914	199,876	239,340			
Four years later	1,439	3,493	14,768	38,443	54,444	105,598	216,255				
Five years later	1,526	3,670	16,942	41,830	58,407	110,382					
Six years later	1,529	4,666	17,916	43,417	59,336						
Seven years later	2,411	5,169	18,384	43,869							
Eight years later	2,855	5,238	18,516								
Nine years later	2,857	5,297									
Ten years later	2,919										
Net reserve – December 31,	10,906	13,402	33,396	84,919	150,340	251,678	517,365	509,655	530,070	592,660	906,783
Reinsurance Recoverable	1,742	4,078	3,529	14,445	17,667	44,127	258,027	504,404	561,874	670,877	972,392
Gross reserves – December 31,	12,648	17,480	36,925	99,364	168,007	295,805	775,392	1,014,059	1,091,944	1,263,537	1,879,175
Net re-estimated reserve	9,582	9,966	27,911	69,456	120,535	216,553	515,166	491,706	540,927	605,181	
Re-estimated reinsurance recoverable	—	3,032	2,949	11,815	14,165	37,968	256,930	486,639	573,383	685,050	
Gross re-estimated reserve	9,582	12,998	30,860	81,271	134,700	254,521	772,096	978,345	1,114,310	1,290,231	
Gross cumulative redundancy (deficiency)	3,066	4,482	6,065	18,093	33,307	41,284	3,296	35,714	(22,366)	(26,694)	

Investments

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

	December 31, 2011		December 31, 2010	
(Amounts in Thousands)	Carrying Value	Percentage of Portfolio	Carrying Value	Percentage of Portfolio
Cash, cash equivalents and restricted cash	$ 421,837	21.3%	$ 201,949	13.8%
Short-term investments	128,565	6.5	32,137	2.2
U.S. treasury securities	53,274	2.7	82,447	5.6
U.S. government agencies	6,790	0.3	7,162	0.5
Municipals	275,017	13.9	66,676	4.6
Commercial mortgage back securities	150	—	2,076	0.1
Residential mortgage backed securities – primarily agency backed	371,664	18.8	554,689	38.0
Asset backed securities	—	—	2,687	0.2
Corporate bonds	687,348	34.7	493,076	33.8
Preferred stocks	4,314	0.2	7,037	0.5
Common stocks	31,286	1.6	10,375	0.7
	$1,980,245	100.0%	$1,460,311	100.0%

The table below summarizes the credit quality of our fixed maturity securities as of December 31, 2011 and 2010 as rated by Standard and Poor's.

	2011	2010
U.S. Treasury	3.2%	2.5%
AAA	12.5	55.3
AA	39.7	4.6
A	23.0	20.8
BBB, BBB+, BBB-	20.1	13.2
BB, BB+, BB-	0.8	2.7
B, B+, B-,	0.4	0.1
Other (includes securities rated CC, CCC, CCC- and D)	0.3	0.8
Total	100.0%	100.0%

The decrease in the percentage of our fixed maturity securities we owned having a credit quality of AAA in 2010 to 2011 was due to the downgrading of the U.S. credit rating to AA+ in 2011 by Standard & Poor's.

Our equity investments, which constitute approximately 2% of our investment portfolio, typically consist of small capitalized companies with an average market capitalization of approximately $400 million, most without widespread distribution or trading of shares. We have invested in securities in which we believe true value is not properly reflected in the market price and where a catalyst, or event, will send the market price toward our estimate of true value. We typically have a holding period of 36 months for our equity securities. This catalyst, in many instances, takes up to 24 months to occur. Sometimes, a catalyst that does not occur soon after our initial investment requires the passage of another operating cycle, and the 24 month time frame allows for these types of situations. These equity securities tend to be relatively unknown stocks that have less trading volume than well-known or larger capitalized stocks and can, therefore, experience significant price fluctuations without fundamental reasons. These price fluctuations can be large on a percentage basis because many stocks in this category are also low-priced stocks that are often distressed or in a turnaround phase. We believe that in down markets, equity securities with lower turnover are more heavily penalized by the market, even when the underlying fundamentals of the security have held up. Therefore, we believe, and our experience bears out, that, for investments in small cap stocks, an unrealized loss of 35% or less is not necessarily indicative of a fundamental problem with the issuer. Prices of lower turnover stocks can also react significantly to a catalyst or an event that causes market participants to take an interest. When the market participants' interest increases in an equity security, causing trading volume and market bid to increase, we typically seek to exit these positions. For these reasons, we generally consider certain equity investments to be other than temporarily impaired when the investment is in an unrealized loss position in excess of 35% of cost basis for greater than 24 months.

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

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

Certain International Tax Considerations

We operate our business in several foreign countries and are subject to taxation in several foreign jurisdictions. A brief description of certain international tax considerations affecting us appears below. We will be subject to U.S. income taxation on any income of our foreign subsidiaries that is Subpart F income.

Bermuda

Bermuda currently does not impose any income, corporation or profits tax, withholding tax, capital gains tax or capital transfer tax on any of our Bermuda subsidiaries, or any estate duty or inheritance tax applicable to shares of any of our Bermuda subsidiaries (except in the case of shareholders resident in Bermuda). Except as set out in the following paragraph, no assurance can be given that our Bermuda subsidiaries will not be subject to any such tax in the future.

All of our Bermuda subsidiaries have received a written assurance from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, that, if any legislation is enacted in Bermuda imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of that tax would not be applicable to these Bermuda subsidiaries or to any of their operations, shares, debentures or obligations until March 31, 2035; provided that the assurance is subject to the condition that it will not be construed to prevent the application of such tax to people ordinarily resident in Bermuda, or to prevent the application of any taxes payable by our Bermuda subsidiaries in respect of real property or leasehold interests in Bermuda held by them. No assurance can be given that our Bermuda subsidiaries will not be subject to any such tax after March 31, 2035.

For U.S. federal income tax purposes, our Bermuda subsidiaries are controlled foreign corporations. A majority of the income of these subsidiaries, which consists primarily of foreign personal holding company income (such as investment income) and income from reinsuring risks, is categorized as Subpart F income. We must include in our taxable income for U.S. federal income tax purposes this Subpart F income.

Ireland

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

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

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

If AIU carries on a trade in the United Kingdom through a permanent establishment in the U.K., profits realized from such a trade in the U.K. will be subject to Irish corporation tax notwithstanding that such profits may also be subject to taxation in the U.K. A credit against the Irish corporation tax liability will be available for any U.K. tax paid on such profits, subject to the maximum credit being equal to the Irish corporation tax payable on such profits.

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

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

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

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

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

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

AIU transferred its 50% interest in Tiger Capital, LLC to AII on December 31, 2011. Irish tax regulators provide for a capital gains tax exemption for companies on the disposal of certain shareholdings. We believe that the capital gains tax exemption applies to AIU's transfer of its interest in Tiger Capital, LLC.

Luxembourg

AHL, a Luxembourg holding company, is owned by AII, our Bermuda insurance company. AHL owns all of the issued and outstanding stock of five Luxembourg-domiciled captive insurance companies that had accumulated equalization reserves, which are catastrophe reserves in excess of required reserves that are determined by a formula based on the volatility of the business reinsured. Because AII is an insurance company with the ability to cede losses, the captives are well-positioned to utilize their equalization reserves. Luxembourg does not impose any income, corporation or profits tax on AHL provided sufficient losses cause the equalization reserves to be exhausted. However, if the captives cease to write business or are unable to utilize their equalization reserves, they will ultimately recognize income that will be taxed by Luxembourg at a rate of approximately 30%.

For U.S. federal income tax purposes, AHL is a controlled foreign corporation and its taxable income, if any, will be included in our U.S. federal taxable income. A credit against U.S. federal income tax liability is available for any Luxembourg tax paid on such income.

United Kingdom

AmTrust Europe, Ltd., (''AEL'') a company incorporated in the United Kingdom, is managed and controlled in the U.K. and, therefore, is treated as a resident in the U.K. for British tax purposes and subject to British corporation tax on its worldwide profits (including revenue profits and capital gains). Income derived by AEL will be subject to British corporation tax at the rate of 26%. For U.S. federal income tax purposes, AEL is a controlled foreign corporation and its income generally will be included in our U.S. federal taxable income. A credit against U.S. federal income tax liability is available for any British tax paid on such income.

If AEL carries on a trade in Ireland through a permanent establishment in Ireland, profits realized from such a trade in Ireland will be subject to U.K. corporation tax notwithstanding that such profits may also be subject to taxation in Ireland. A credit against the British corporation tax liability is available for any Irish tax paid on such profits, subject to the maximum credit being equal to the British corporation tax payable on such profits.

AEL may pay dividends to AII, its direct parent company, free of U.K. withholding tax.

We expect that neither AmTrust nor any of our subsidiaries, other than AEL, will be resident in the U.K. for British tax purposes unless the central management and control of such companies is, as a matter of fact, located in the U.K. A company not resident in the U.K. for British tax purposes can be subject to British corporation tax if it carries on a trade through a branch or agency in the U.K. or disposes of certain specified assets (e.g., British land, minerals, or mineral rights, or unquoted shares deriving the greater part of their value from such assets). In such cases, the charge to British corporation tax is limited to trading income connected with the branch or agency, capital gains on the disposal of assets used in the branch or agency which are situated in the U.K. at or before the time of disposal, capital gains arising on the disposal of specified assets, with tax imposed at the rates discussed above, plus U.K. income tax (generally by way of withholding) on certain U.K. source income.

Insurance companies are subject to an insurance premium tax at 5%. The premium tax applies to premiums for most general insurance, such as for buildings and contents and motor insurance, where the insured risk is in the U.K. Life assurance and other long term insurance remain exempt, though there are anti-avoidance rules surrounding long term medical care policies. As an anti-avoidance measure, the rate increases to 17.5% for insurance sold by suppliers of specified goods or services, e.g. mechanical breakdown insurance, travel insurance (irrespective of supplier), insurance sold with televisions and car hire, and, from April 1, 2004 forward, any ''non-financial'' GAP insurance sold through suppliers of motor vehicles or persons connected with them.

In further anti-avoidance measures introduced March 22, 2007, the definition of ''premium'' was amended to make it clear that any payment received in respect of a right to require an insurer to provide, or offer to provide, cover under a taxable contract of insurance is regarded as a premium.

Ratings

Each of our Insurance Subsidiaries was assigned a letter rating of ''A'' (Excellent) by A.M. Best in 2010, which was reaffirmed in 2011. An ''A'' rating is the 3rd highest of the 16 categories used by A.M. Best, and is assigned to companies that have, in A.M. Best's opinion, an excellent ability to meet their ongoing obligations to policyholders. Many insurance buyers, agents and brokers use the ratings assigned by A.M. Best and other agencies to assist them in assessing the financial strength and overall quality of the companies from which they are considering purchasing insurance.

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

Regulation

General

The business of insurance and reinsurance is regulated in most countries, although the degree and type of regulation vary significantly from one jurisdiction to another. We are subject to extensive regulation in the United States and the European Union (especially, Ireland and England) and are also subject to regulation in Bermuda.

United States

We have eight operating insurance subsidiaries domiciled in the United States: RIC, TIC, Wesco Insurance Company (''WIC''), Associated Industries Insurance Company (''AIIC''), Milwaukee Casualty Insurance Co. (''MCIC''), Security National Insurance Company (''SNIC''), AmTrust Insurance Company of Kansas, Inc. (''AICK'') and AmTrust Lloyd's Insurance Company of Texas (''ALIC'') (the ''U.S. Insurance Subsidiaries'').

Holding Company Regulation

Nearly all states have enacted legislation that regulates insurance holding company systems. We qualify as a holding company system under such regulations. Each insurance company in a holding company system is required to register with the insurance supervisory agency of its state of domicile and periodically furnish information concerning its operations and transactions, particularly with other companies within the holding company system that may materially affect its operations, management or financial condition.

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

Change of Control

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

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

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

State Insurance Regulation

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

Our U.S. Insurance Subsidiaries are required to file detailed financial statements and other reports with the departments of insurance in all states in which they are licensed to transact business. These financial statements are subject to periodic examination by the department of insurance in each state in which they are filed.

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

Insurance agencies, producers, third party administrators, claims adjusters and service contract providers and administrators are subject to licensing requirements and regulation by insurance regulators in various states in which they conduct business. Certain of our subsidiaries, including AmTrust North America, Inc. ("ANA"), AmTrust North America of Florida, Inc. ("ANAFLA"), AMT Warranty Corp., AmTrust E&S Insurance Services, Inc., Builders & Tradesmen's Insurance Services, Inc., IGI Underwriting Agency, Inc., Risk Services, LLC and Warrantech Corporation are subject to licensing requirements and regulation by insurance regulators in various states.

Federal and State Legislative and Regulatory Changes

From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the National Association of Insurance Commissioners ("NAIC"). In December 2010, the NAIC adopted amendments to the Model Insurance

Holding Company System Regulation Act and Regulation (the ''Amended Model Act and Regulation'') to introduce the concept of ''enterprise risk'' within an insurance company holding system. ''Enterprise risk'' is defined as any activity, circumstance, event or series of events involving one or more affiliates of an insurer that, if not remedied promptly, is likely to have a material adverse effect upon the financial condition or the liquidity of the insurer or its insurance holding company system as a whole. If and when adopted by a particular state, the Amended Model Act and Regulation would impose more extensive informational requirements on us in order to protect the licensed insurance companies from enterprise risk, including requiring us to prepare an annual enterprise risk report that identifies the material risks within the insurance company holding system that could pose enterprise risk to the licensed insurer. The Amended Model Act and Regulation must be adopted by the individual states, and specifically states in which our U.S. Insurance Companies are domiciled, for the new requirements to apply to us. Certain states have adopted some or all of these changes (Texas, Rhode Island and West Virginia adopted in 2011, while Indiana adopted portions of the amendments and the New York Department of Financial Services issued guidance to insurers indicating that Department's expectations that insurers adopt enterprise risk management as an internal tool); however, it is not yet clear to what extent more states will do so. It is anticipated that the NAIC will seek to make the amendments part of its accreditation standards for state solvency regulation, which would most likely motivate more states to adopt the amendments promptly. Additional requirements are also expected. For example, the NAIC is considering an ''Own Risk and Solvency Assessment'' (ORSA) requirement that, if adopted by states, would require insurers to perform an ORSA and, upon request, file an ORSA report that describes for the regulators the enterprise risk management process used by an insurer or even the consolidated holding company group.

The recent turmoil in the financial markets has increased the likelihood of changes in the way the financial services industry is regulated. For example, the U.S. federal government has increased its scrutiny of the insurance regulatory framework in recent years and, since January 2009, the U.S. Treasury Department, as part of its broad proposal to reform regulation of the financial services industry, has proposed legislation that would impact the insurance industry. We are unable to predict whether any of these laws and regulations will be adopted, the form in which any such laws and regulations would be adopted or the effect, if any, these developments would have on our operations and financial condition.

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the ''Dodd-Frank Act'') that established a Federal Insurance Office within the U.S. Department of the Treasury. The Federal Insurance Office initially is charged with monitoring all aspects of the insurance industry, gathering data, and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. A report on this study was required to be delivered to Congress within 18 months after enactment of the Dodd-Frank Act, but as of the date of this disclosure, had not yet been issued. This report could be influential in reshaping the current state-based insurance regulatory system and/or introducing a direct federal role in such regulation. In addition, the Dodd-Frank Act gives the Federal Reserve supervisory authority over a number of financial services companies, including insurance companies, if they are designated by a two-thirds vote of a Financial Stability Oversight Council as ''systemically important.'' If an insurance company is designated as systemically important, the Federal Reserve's supervisory authority could include the ability to impose heightened financial regulation upon that insurance company and could impact requirements regarding its capital, liquidity and leverage as well as its business and investment conduct.

The Dodd-Frank Act also incorporates the Non-Admitted and Reinsurance Reform Act (''NRRA''), which became effective on July 21, 2011. Among other things, the NRRA establishes national uniform standards on how states may regulate and tax surplus lines insurance and sets national standards concerning the regulation of reinsurance. In particular, the NRRA gives regulators in the state where an insurer is domiciled exclusive authority to regulate and tax surplus lines insurance transactions, and regulators in a ceding insurer's state of domicile the sole responsibility for regulating the balance sheet credit that the ceding insurer may take for reinsurance recoverables. At the present time, it is unclear what effect the NRRA changes specific to non-admitted insurance and reinsurance will have on our operations and how these provisions of the Dodd-Frank Act will be implemented in practice.

The Terrorism Risk Insurance Act (''TRIA''), as extended by the Terrorism Risk Insurance Program Reauthorization Act of 2007 (''TRIPRA''), requires that commercial property and casualty insurance companies offer coverage (with certain exceptions, such as with respect to commercial auto liability) for certain acts of terrorism and has established a federal assistance program through the end of 2014 to help such insurers cover claims for terrorism-related losses. TRIA covers certified acts of terrorism, and the U.S. Secretary of the Treasury must declare the act to be a ''certified act of terrorism'' for it to be covered under this federal program. In addition, pursuant to TRIPRA, no certified act of terrorism will be covered by the TRIA program unless the aggregate insurance industry losses from the act exceed $100 million. Under TRIPRA, the federal government covers 85% for acts of the losses from covered certified acts of terrorism on commercial risks in the United States only, in excess of a deductible amount. This deductible is calculated as a percentage of an affiliated insurance group's prior year premiums on commercial lines policies (with certain exceptions, such as commercial auto policies) covering risks in the United States. This deductible amount is 20% of such premiums.

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

State Insurance Department Examinations

As part of their regulatory oversight process, state insurance departments conduct periodic detailed financial examinations of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. Financial examinations of SNIC and ALIC were recently completed by the Texas Department of Insurance for the period ended December 31, 2008. Examinations of the financial conditions of AICK and RIC were also made as of December 31, 2008 by the Kansas Insurance Department and the New York Department of Insurance, respectively. Examination of the financial conditions of WIC was made as of December 31, 2006. Currently we have an ongoing financial examination of TIC by the New Hampshire Insurance Department for the period ending December 31, 2010. Moreover, we were recently advised that examinations of the financial condition of AIIC and MCIC will be made by the each insurance company's respective state-of-domicile insurance department (Florida and Wisconsin) during the 2012 calendar year (each of these companies was last subject to a financial examination prior to our acquisition of them).

A second type of regulatory oversight examination of insurance companies involves a review by an insurance department of an authorized company's market conduct, which entails a review and examination of a company's compliance with laws governing marketing, underwriting, rating, policy-issuance, claims-handling and other aspects of its insurance business during a specified period of time. Market conduct examinations of WIC by the California and Missouri Departments of Insurance were completed during the 2011 calendar year. WIC was also subject of a market conduct examination by the Connecticut Department of Insurance for business conducted there from January 1, 2007 to December 31, 2007. We were also notified in October of 2011 that the California Department of Insurance will be conducting a market conduct examination of SNIC at some point during the 2012 calendar year.

Guaranty Fund Assessments

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

Property and casualty insurance company insolvencies or failures may result in additional guaranty association assessments to our U.S. Insurance Subsidiaries at some future date. At this time, we are unable to determine the impact, if any, such assessments may have on their financial positions or results of their operations. As of December 31, 2011, each of our U.S. Insurance Subsidiaries has established or will establish accruals for guaranty fund assessments with respect to insurers that are currently subject to insolvency proceedings.

Residual Market Programs

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

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

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

As noted above, TIC acts as a servicing carrier for the Assigned Risk Plans. Servicing carrier contracts are generally awarded based on a competitive bidding process. As a servicing carrier, we receive fee income for our services but do not retain any underwriting risk, which is fully reinsured by the NCCI pools. We began writing policies as a servicing carrier for the Assigned Risk Plans effective January 1, 2008.

Second Injury Funds

A number of states operate trust funds that reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. These state-managed trust funds are funded through assessments against insurers and self-insurers providing workers' compensation coverage in a particular state. We received recoveries of approximately $2.2 million, $1.1 million and $0.6 million from such state-managed trust funds in 2011, 2010 and 2009, respectively. The aggregate amount of cash we paid for assessments to state-managed trust funds for the years ended December 31, 2011, 2010 and 2009 was approximately $6.4 million, $5.5 million and $6.2 million, respectively.

Risk-Based Capital Regulations

Our U.S. Insurance Subsidiaries are required to report their risk-based capital based on a formula developed and adopted by the NAIC that attempts to measure statutory capital and surplus needs based on the risks in the insurer's mix of products and investment portfolio. The formula is designed to allow insurance regulators to identify weakly-capitalized companies. Under the formula, a company determines its ''risk-based capital'' by taking into account certain risks related to the insurer's assets (including risks related to its investment portfolio and ceded reinsurance) and the insurer's liabilities (including underwriting risks related to the nature and experience of its insurance business). At December 31, 2011, our U.S. Insurance Subsidiaries' risk-based capital levels exceeded the minimum level that would trigger regulatory attention.

Insurance Regulatory Information System Ratios

The Insurance Regulatory Information System, or IRIS, was developed by the NAIC and is intended primarily to assist U.S. based state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies thirteen industry ratios and specifies ''usual values'' for each ratio. Departure from the usual values on four or more of the ratios can lead to inquiries from individual state insurance commissioners as to certain aspects of an insurer's business.

In 2011, two of our Insurance Companies (TIC and WIC) had four ratios departing from the usual values. For both TIC and WIC, the investment yield was below the usual result range. TIC currently owns another insurance company, RIC, which has a carrying value of approximately $46 million. Any income that RIC generates is excluded for statutory purposes. WIC's investment yield declined in 2011 as its investments included a surplus contribution received in December of 2011, which is included in average invested assets for 2011, but generated no significant investment return. The remaining three unusual values for both TIC and WIC were caused by our intercompany reinsurance structure. TIC and WIC retain 20% and 10% respectively of their written premium and as a result of this structure, unusual values are created for the IRIS test that centers around the measurement of assets to liabilities as well as surplus. SNIC had three ratios departing from the usual range, with one falling outside the usual range due to a decline in investment yield, one unusual range for change in net written premium and one for change in policy holder's surplus. These unusual results related to a large capital contribution received by SNIC from its parent. All of our remaining U.S. Insurance Subsidiaries had none or one ratio outside of the usual values.

Statutory Accounting Principles

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

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

Statutory accounting practices established by the NAIC and adopted in part by the New York, New Hampshire, Delaware, Florida, Wisconsin, Kansas and Texas insurance regulators, determine, among other things, the amount of statutory surplus and statutory net income of RIC, TIC, WIC, AIIC, MCIC, SNIC, AICK and ALIC and thus determine, in part, the amount of funds that are available to pay dividends to AmTrust.

Privacy Regulations

In 1999, Congress enacted the Gramm-Leach-Bliley Act, which, among other things, protects consumers from the unauthorized dissemination of certain personal information. Subsequently, a majority of states have implemented additional regulations to address privacy issues. Certain aspects of these laws and regulations apply to all financial institutions, including insurance and finance companies, and require us to maintain appropriate policies and procedures for managing and protecting certain personal information of our policyholders. We may also be subject to future privacy laws and regulations, which could impose additional costs and impact our results of operations or financial condition. In 2000, the NAIC adopted the Privacy of Consumer Financial and Health Information Model Regulation, which assisted states in promulgating regulations to comply with the Gramm-Leach-Bliley Act.

In 2002, to further facilitate the implementation of the Gramm-Leach-Bliley Act, the NAIC adopted the Standards for Safeguarding Customer Information Model Regulation. Several states have now adopted similar provisions regarding the safeguarding of policyholder information. To the best of our knowledge, we are in compliance with all applicable privacy laws and regulations.

Credit for Reinsurance

In addition to regulatory requirements imposed by the jurisdictions in which they are licensed, reinsurers' business operations are affected by regulatory requirements in various states governing ''credit for reinsurance'' that are imposed on their ceding companies. In general, a ceding company obtaining reinsurance from a reinsurer that is licensed, accredited or approved by the jurisdiction or state in which the ceding company files statutory financial statements is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the ceding company's liability for unearned premiums (which are that portion of premiums written which applies to the unexpired portion of the policy period), loss reserves and loss expense reserves ceded to the reinsurer. AII, which reinsures risks of our U.S. Insurance Subsidiaries, is not licensed, accredited or approved in any state in the United States. The great majority of states, however, permit a credit to statutory surplus resulting from reinsurance obtained from a non-licensed or non-accredited reinsurer to be recognized to the extent that the reinsurer provides a letter of credit, trust fund or other acceptable security arrangement. AII posts security to permit our U.S. Insurance Subsidiaries to receive credit.

Ireland

AIU is a non-life insurance company organized under the laws of Ireland. AIU is subject to the regulation and supervision of the Central Bank of Ireland (the ''Irish Central Bank'') pursuant to the Insurance Acts 1908 to 2000 (the ''Insurance Acts'') and the European Communities (Non Life Framework) Regulations 1994 (as amended) (the ''Regulations''). AIU has been authorized to underwrite various classes of non-life insurance business. AIU (as an Irish authorized insurance company) is permitted to carry on insurance business in any other member state of the European Economic Area (''EEA'') by way of freedom to provide services, on the basis that it has notified the Irish Central Bank of its intention to do so and subject to complying with such conditions as may be laid down by the regulator of the jurisdiction in which the insurance activities are carried out for reasons of the ''general good.''

Qualifying Shareholders

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

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

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

Financial Requirements and Regulatory Guidelines

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

The amount of the minimum guarantee fund that AIU is required to maintain is equal to the minimum solvency margin, which at December 31, 2011 was approximately €14.5 million. The amount of the minimum guarantee fund may never be less than €3.5 million. In addition to the Insurance Acts and Regulations, AIU is expected to comply with various guidelines issued by the Irish Central Bank.

Restrictions on Dividends

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

Bermuda

Classification

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

Principal Representative

An insurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda. For the purposes of the Insurance Act, the principal representative of AII is Michael Bott, and AII's principal office is at Suite 400, 7 Reid Street, Hamilton, Bermuda.

Independent Approved Auditor

Every registered insurer must appoint an independent auditor (the ''approved auditor'') who will annually audit and report on the statutory financial statements and the statutory financial return of the insurer, both of which, in the case of AII, are required to be filed annually with the Bermuda Monetary Authority (''BMA''). The approved auditor of AII must be approved by the BMA. AII's approved auditor is Arthur Morris Christensen & Co.

Loss Reserve Specialist

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

Approved Actuary

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

Annual Statutory Financial Return

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

Minimum Solvency Margin and Restrictions on Dividends and Distributions

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

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

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

Minimum Liquidity Ratio

The Insurance Act provides a minimum liquidity ratio for general business insurers. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable and reinsurance balances receivable. There are certain categories of assets which, unless specifically permitted by the BMA, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined) and letters of credit and guarantees.

Notification by Shareholder Controller of New or Increased Control

Any person who becomes a holder of at least 10%, 20%, 33% or 50% of AII's shares must notify the BMA in writing within 45 days of becoming such a holder, or 30 days from the date such person has knowledge of having such a holding, whichever is later. The BMA may, by written notice, object to such a person if it appears to the BMA that the person is not fit and proper to be such a holder. A person that does not comply with such a notice from the BMA will be guilty of an offense.

Objection to Existing Shareholder Controller

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

United Kingdom

AEL is a non-life insurance company organized under the laws of the United Kingdom (including the Companies Act 2006, Financial Services and Markets Act 2000 (FSMA), the Data Protection Act 1998 and the European Communities non-life framework regulations 1994 (as amended)).

AEL has been authorized by the Financial Services Authority (FSA) to underwrite various classes of non-life business within the U.K. and, for certain of these classes it is authorized to underwrite risks within some member states of the European Economic Area. This is either on a ''freedom of services'' or on a ''freedom of establishment'' basis and is subject to complying with such ''general good'' conditions as may be laid down by the local regulatory authorities.

Change in Control

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

A controller is a person or entity who (i) owns or controls 10% or more of the issued share capital of the authorized insurer, (ii) owns or controls 10% or more of the issued share capital of a controller of the authorized insurer, or (iii) who otherwise can exercise significant management control of the authorized insurer or one of its controllers. In the case of AEL, this includes, AmTrust Financial Services, Inc., AII, AII Insurance Management Limited, AII Reinsurance Broker Ltd., and Barry Zyskind, Michael Karfunkel and George Karfunkel.

Financial Requirements and Regulatory Guidelines

AEL is required to maintain regulatory capital resources equal to or in excess of the individual capital guidance (''ICG'' or ''Required Minimum Capital'') that the FSA issues in respect of the company. The ICG is the amount of capital resources that the FSA considers a company should carry to maintain financial adequacy taking into account the company's business profile, structure and risk management systems. As of December 31, 2011, AEL maintained capital resources in excess of the required ICG.

Restrictions on Dividends

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

Solvency II

The European Union's executive body, the European Commission, is implementing new capital adequacy and risk management regulations called ''Solvency II'' that would apply to our businesses across the European Union (including the United Kingdom). Although Solvency II was originally supposed to become effective by October 31, 2012, a European Commission official has stated publicly that there seems to be an agreement that member states must now implement all the rules to introduce Solvency II by December 31, 2012, but businesses will not be required to comply with it in full until January 1, 2014. However, during 2013, businesses must demonstrate that they will be ready to operate under Solvency II on January 1, 2014. Although the details of how Solvency II will apply to us are not yet fully known, it is clear that Solvency II will impose new requirements with respect to capital structure, technical provisions, solvency calculations, governance, disclosure and risk management. In addition, under Solvency II, it is possible that the U.S. parent of a European Union subsidiary could be subject to certain Solvency II requirements if the regulator determines that the subsidiary's capital position is dependent on the parent company and the U.S. parent is not already subject to regulations deemed ''equivalent'' to Solvency II. While it is not yet known how these actions will impact us, such regulation could result in a need for additional capital, increased costs of compliance, increased disclosure and less flexibility in our capital management.

Offices

Our principal executive offices are located at 59 Maiden Lane, 6th Floor, New York, New York 10038, and our telephone number at that location is (212) 220-7120. Our website is *www.amtrustgroup.com*. Our internet website and the information contained therein or connected thereto are not intended to be incorporated by reference into this Annual Report on Form 10-K.

Employees

As of December 31, 2011, we had approximately 1,900 employees worldwide.

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

Available Information

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

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

Item 1A. Risk Factors

You should carefully consider the following risks and all of the other information set forth in this report, including our consolidated financial statements and the notes thereto. The following discussion of risk factors includes forward-looking statements and our actual results may differ substantially from those discussed in such forward-looking statements. See ''Note on Forward-Looking Statements.''

Risks Related to Our Business

During or following a period of disruption in the financial markets or economic downturn, our business could be materially and adversely affected.

The financial markets have experienced significant volatility worldwide since the third quarter of 2008, and the United States, European and other foreign economies are experiencing a prolonged economic downturn, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. While economic conditions have moderately improved, financial markets continue to experience periodic disruptions and uncertainty remains regarding the duration and strength of any economic recovery. The trend toward recovery and growth may not continue. Even if growth continues, it may be at a slow rate for an extended period of time and other economic conditions, such as the residential and commercial real estate environment and employment rates, may continue to be weak. Although the United States, European and other foreign governments have taken various actions to try to stabilize the financial markets, it is unclear whether those actions will be effective and it is possible those actions could lead to an inflationary environment.

Economic uncertainty has recently been exacerbated by the increased potential for default by one or more European sovereign debt issuers, the potential partial or complete dissolution of the Eurozone and its common currency and the negative impact of such events on global financial institutions and capital markets generally. Actions or inactions of European governments may impact these actual or perceived risks. In addition, during 2011, one rating agency downgraded the U.S.'s long-term debt credit rating from AAA. Future actions or inactions of the United States government, including a shutdown of the federal government, could increase the actual or perceived risk that the U.S. may not ultimately pay its obligations when due, which would disrupt financial markets.

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

Many of these risks could materialize, and our financial results could be negatively impacted, even after the end of an economic downturn or financial disruption. During or following an economic downturn, lower levels of economic activity could reduce (and historically have reduced) exposure changes at renewal. In addition, because earned premiums lag written premiums, our results can be adversely affected even after general economic conditions have improved. An inflationary environment (which may follow government efforts to stabilize the economy) may also adversely impact our loss reserves and could adversely impact the valuation of our investment portfolio. Finally, as a result of the financial market disruptions over the past several years, we may face increased regulation, as discussed below. Any or all of these reactions could adversely affect our business.

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

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

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

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

Catastrophic losses or the frequency of smaller insured losses may exceed our expectations as well as the limits of our reinsurance, which could adversely affect our financial condition or results of operations.

Property and casualty insurers are subject to claims arising from catastrophes. Catastrophes can cause losses in multiple property and casualty lines, including property and workers' compensation. Workers' compensation constitutes approximately 30% of our business and we write commercial property insurance in our Specialty Program Business segment and our Small Commercial Business segment. The incidence and severity of catastrophes, such as hurricanes, windstorms and large-scale terrorist attacks, are inherently unpredictable, and our losses from catastrophes could be substantial. In addition, it is possible that we may experience an unusual frequency of smaller losses in a particular period. In either case, the consequences could be substantial volatility in our financial condition or results of operations for any fiscal quarter or year, which could have a material adverse effect on our financial condition or results of operations and our ability to write new business. Although we attempt to manage our exposure to these types of catastrophic and cumulative losses, including through the use of reinsurance, the severity or frequency of these types of losses may exceed our expectations as well as the limits of our reinsurance coverage.

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

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

- collect and properly analyze a substantial volume of data from our insureds;
- develop, test and apply appropriate rating formulas;
- closely monitor and timely recognize changes in trends; and

- project both frequency and severity of our insureds' losses with reasonable accuracy.

We also must implement our pricing accurately in accordance with our assumptions. Our ability to undertake these efforts successfully and, as a result, accurately price our policies, is subject to a number of risks and uncertainties, principally:

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

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

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

Rating agencies evaluate insurance companies based on their ability to pay claims. Each of our Insurance Subsidiaries was assigned a letter rating of ''A'' (Excellent) by A.M. Best in 2010, which was reaffirmed in 2011. An ''A'' rating is the 3rd highest of the 16 categories used by A.M. Best, and is assigned to companies that have, in A.M. Best's opinion, an excellent ability to meet their ongoing obligations to policyholders. The ratings of A.M. Best are subject to periodic review using, among other things, proprietary capital adequacy models, and are subject to revision or withdrawal at any time. Our competitive position relative to other companies is determined in part by the A.M. Best rating of our Insurance Subsidiaries. A.M. Best ratings are directed toward the concerns of policyholders and insurance agencies and are not intended for the protection of investors or as a recommendation to buy, hold or sell securities.

There can be no assurances that our Insurance Subsidiaries will be able to maintain their current ratings. Any downgrade in ratings would likely adversely affect our business through the loss of certain existing and potential policyholders and the loss of relationships with independent agencies that might move to other companies with higher ratings. Some of our policyholders are required to maintain workers' compensation coverage with an insurance company with an A.M. Best rating of ''A-'' (Excellent) or better. We are not able to quantify the percentage of our business, in terms of premiums or otherwise, that would be affected by a downgrade in our A.M. Best rating.

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

As part of our overall risk and capacity management strategy, we purchase quota share reinsurance and excess of loss and catastrophe reinsurance. Our quota share reinsurance agreement with Maiden Insurance, or the Maiden Quota Share, reinsures approximately 40% of our net retained premiums. In addition, we purchase reinsurance on an excess of loss and catastrophe basis for protection against catastrophic events and other large losses. Market conditions beyond our control, in terms of price and available capacity, may affect the level of our business and profitability. The Maiden Quota Share, which had an initial term of three years, was renewed through June 30, 2014 and, subject to the occurrence of certain early termination events that permit either party to terminate on 30 days' written notice, will renew automatically for successive three-year terms unless one of the parties notifies the other of its election not to renew not less than nine months prior to the expiration of any such three-year term. Our excess of loss and catastrophe reinsurance facilities are generally subject to annual renewal.

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

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

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

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

Reinsurance does not discharge our obligations under the insurance policies we write; it merely provides us with a contractual right to seek reimbursement on certain claims. We remain liable to our policyholders even if we are unable to make recoveries that we are entitled to receive under our reinsurance contracts. As a result, we are subject to credit risk with respect to our reinsurers. Losses are recovered from our reinsurers after underlying policy claims are paid. The creditworthiness of our reinsurers may change before we recover amounts to which we are entitled. Therefore, if a reinsurer is unable to meet its obligations to us, we would be responsible for claims and claim settlement expenses for which we would have otherwise received payment from the reinsurer. If we were unable to collect these amounts from our reinsurers, our costs would increase and our financial condition would be adversely affected. As of December 31, 2011, we had an aggregate amount of approximately $1.1 billion of recoverables from third-party reinsurers on paid and unpaid losses.

Our relationship with Maiden Holdings, Ltd. and its subsidiaries may present, and make us vulnerable to, difficult conflicts of interest, related party transactions, business opportunity issues and legal challenges.

Maiden Holdings, Ltd., or Maiden, is a publicly-held Bermuda insurance holding company (NASDAQ: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, our principal shareholders, and, respectively, our chairman of the board of directors, one of our directors, and our chief executive officer and director. As of December 31, 2011, Michael Karfunkel, George Karfunkel and Barry Zyskind own or control approximately 13.9%, 9.4% and 5.1%, 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 Insurance, a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer.

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

Mr. Zyskind's service as our president and chief executive officer and non-executive chairman of the board of Maiden could also raise a potential challenge under anti-trust laws. Section 8 of the Clayton Antitrust Act prohibits a person from serving as a director or officer in any two competing corporations under certain circumstances. If we and Maiden were in the future deemed to be competitors within the meaning of the Clayton Antitrust Act and certain thresholds relating to direct competition between us and Maiden are met, the Department of Justice and Federal Trade Commission could challenge the arrangement.

Our relationship with ACAC and its subsidiaries may present, and make us vulnerable to, difficult conflicts of interest, related party transactions, business opportunity issues and legal challenges.

ACAC is an insurance holding company owned by The Michael Karfunkel 2005 Grantor Retained Annuity Trust, or the Trust, Michael Karfunkel, individually, and us. On March 1, 2010, the GMAC Insurance consumer property and casualty business was acquired by ACAC from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation. Michael Karfunkel is one of our principal shareholders and our chairman of the board of directors. We own 53,054 shares of Series A Preferred Stock in ACAC, which provides for an 8% cumulative dividend, and is non-redeemable and convertible, at our option, into 21.25% of the issued and outstanding common stock of ACAC. Assuming the conversion of our Series A Preferred Stock in ACAC, the Trust and Michael Karfunkel would own, respectively, 56.98% and 21.77% of the issued and outstanding common stock of ACAC.

We are entitled to appoint two members to ACAC's board of directors, which consists of six members, and have appointed Donald T. DeCarlo, who is an independent member of our board of directors, and Harry Schlachter, our Treasurer, as our designated directors on ACAC's board of directors. In addition, Michael Karfunkel is the chairman of the board of directors of ACAC.

Conflicts of interest could arise with respect to business opportunities that could be advantageous to ACAC or its subsidiaries, on the one hand, and us or our subsidiaries, on the other hand.

We receive significant commission and fee income from Maiden.

We receive significant commission and fee income from Maiden through the Maiden Quota Share, the asset management agreement between Maiden and Maiden Insurance and our subsidiary, AII Insurance Management Ltd., by which we manage Maiden's and Maiden Insurance's invested assets, and the reinsurance brokerage agreement, by which our subsidiary, AII Reinsurance Broker Limited, provides Maiden Insurance certain reinsurance brokerage services.

Pursuant to the Maiden Quota Share, AII, retrocedes to Maiden Insurance an amount equal to 40% of the premium written by our U.S., Irish and U.K. insurance companies, or the AmTrust Ceding Insurers, net of the cost of unaffiliated inuring reinsurance (and in the case of our U.K. insurance subsidiary, AEL, net of commissions) and 40% of losses, excluding certain specialty risk programs that we commenced writing after the effective date and risks, other than workers' compensation risks and certain business written by our Irish subsidiary, AIU, for which the AmTrust Ceding Insurers' net retention exceeds $5,000,000 (the ''Covered Business'').

The Maiden Quota Share, which had an initial term of three years, was renewed through June 30, 2014 and will automatically renew for successive three-year terms unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on 30 days' notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Insurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers.

Effective April 1, 2011, the Maiden Quota Share, as amended, provides that AII receives a ceding commission of 30% of ceded written premiums with respect to all Covered Business, except retail commercial package business, for which the ceding commission is 34.375%. Commencing January 1, 2012, the ceding commission, excluding the retail commercial package business ceding commission (which will remain at 34.375%), adjusted to (a) 30% of ceded premium, if the Specialty Risk and Extended Warranty subject premium, excluding ceded premium related to our medical liability business discussed below, is greater than or equal to 42% of the total subject premium, (b) 30.5% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 42% but greater than or equal to 38%, or (c) 31% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 38% of the total subject premium. Prior to April 1, 2011, AII received a ceding commission of 31% of ceded premiums with respect to all Covered Business, except retail commercial package business, for which the ceding commission was 34.375%.

Effective April 1, 2011, we, through our subsidiaries AEL and AIU, entered into a reinsurance agreement with Maiden Insurance by which we cede to Maiden Insurance 40% of our European medical liability business, including business in force at April 1, 2011. The quota share has an initial term of one year and can be terminated at April 1, 2012 or any April 1 thereafter by either party on four months' notice. Maiden Insurance pays us a 5% ceding commission, and we will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%.

Pursuant to the asset management agreement, we receive a quarterly fee equal to 0.20% per annum, which is reduced to 0.15% per annum if the average invested assets for the quarter exceed $1 billion. The asset management agreement has a one year term and will renew automatically for successive one year terms unless notice of intent not to renew is provided. Pursuant to the reinsurance brokerage agreement, we receive a brokerage commission equal to 1.25% of the premium ceded to Maiden Insurance under the quota share reinsurance agreement.

There is no assurance that these arrangements will remain in place beyond their current terms and we may not be able to readily replace these arrangements if they terminate. If we were unable to continue or replace these arrangements on equally favorable terms, our underwriting capacity and commission and fee income could decline, we could experience a downgrade in our A.M. Best rating, and our results of operations and financial condition may be adversely affected.

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

From time to time we may pursue acquisition opportunities if we believe that such opportunities are consistent with our long-term objectives. The process of integrating an acquired business or company can be complex and costly, may create unforeseen operating difficulties and expenditures and will require substantial management attention. There is no assurance that we will be able to successfully identify and acquire additional existing business on acceptable terms or that we will be successful in integrating any business that we acquire.

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

- identify profitable new geographic markets for entry;
- attract and retain qualified personnel for expanded operations;
- identify, recruit and integrate new independent agencies and extended warranty/service contract administrators;
- identify potential acquisition targets and successfully acquire them;
- expand existing agency relationships; and
- augment our internal monitoring and control systems as we expand our business.

We cannot assure you that we will effectively manage our growth or that any new business will be profitable. If we are unable to manage our growth effectively, our results of operations and financial condition could be adversely affected.

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

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

If we experience difficulties with technology or data security, our ability to conduct our business could be adversely affected and we could be liable to third parties.

Our business is dependent upon the uninterrupted functioning of our information technology and telecommunication systems. We rely upon our systems, as well as the systems of our vendors, to underwrite and process our business, make claim payments, provide customer service, provide policy administration services, comply with insurance regulatory requirements and perform actuarial and other analytical functions necessary for pricing and product development. Our operations are dependent upon our ability to timely and efficiently process our business and protect our information and telecommunications systems from physical loss, telecommunications failure or other similar catastrophic events, as well as from security breaches. A shut-down of, or inability to access, one or more of our facilities; a power outage; or a failure of one or more of our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis. In the event of a disaster such as a natural catastrophe, terrorist attack or industrial accident, or due to a computer virus, our systems could be inaccessible for an extended period of time. While we have implemented business contingency plans and other reasonable and appropriate internal controls to protect our systems from interruption, loss or security breaches, a sustained business interruption or system failure could adversely impact our ability to process our business, provide customer service, pay claims in a timely manner or perform other necessary business functions.

Our operations depend on the reliable and secure processing, storage and transmission of confidential and other information in our computer systems and networks. Computer viruses, hackers, employee misconduct and other external hazards could expose our data systems to security breaches, cyber-attacks or other disruptions. In addition, we routinely transmit and receive personal, confidential and proprietary information by electronic means. While we attempt to develop secure transmission capabilities with third-party vendors and others with whom we do business, we may be unable to put in place secure capabilities with all of such vendors and third parties and, in addition, these third parties may not have appropriate controls in place to protect the confidentiality of the information. These increased risks, and expanding regulatory requirements regarding data security, could expose us to data loss, disruption of service, monetary and reputational damages and significant increases in compliance costs. As a result, our ability to conduct our business could be adversely affected and we could be liable to third parties whose privacy rights are violated.

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

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

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

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

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

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

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

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

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

As of December 31, 2011, our total consolidated indebtedness was approximately $280 million. This $280 million does not include approximately $168 million aggregate principal amount of a loan made by Maiden Insurance to AII in connection with a reinsurance agreement between the two parties that requires Maiden Insurance to provide sufficient collateral to secure its proportionate share of AII's obligations. This amount is accounted for as a note payable on our balance sheet. We may incur additional indebtedness to meet future financing needs. Our indebtedness could have significant negative consequences for our business, results of operations and financial condition, including:

- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring the dedication of a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the amount of our cash flow available for other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business;
- dilution experienced by our existing stockholders as a result of the conversion of our convertible senior notes into shares of common stock; and
- placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

As of December 31, 2011, our annual debt service obligation on our outstanding indebtedness was approximately $19 million. We cannot assure you that we will continue to maintain sufficient cash reserves or that our business will continue to generate cash flow from operations at levels sufficient to permit us to pay principal, premium, if any, and interest on our indebtedness, or that our cash needs will not increase. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we fail to comply with the various requirements of our credit facility, our convertible senior notes, or any indebtedness that we have incurred or may incur in the future, we would be in default, which would permit the holders of our convertible senior notes or other indebtedness to accelerate the maturity of such notes or other indebtedness and could cause defaults under our credit facility or our other notes and indebtedness. Any default under our notes, our credit facility or any indebtedness that we have incurred or may incur in the future could have a material adverse effect on our business, results of operations and financial condition.

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

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

The covenants in our credit facility limit our financial and operational flexibility, which could have an adverse effect on our financial condition.

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

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

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

We invest a small portion of our portfolio in below investment-grade securities. The risk of default by borrowers that issue below investment-grade securities is significantly greater than that of other borrowers because these borrowers are often highly leveraged and more sensitive to adverse economic conditions, including a recession. In addition, these securities are generally unsecured and often subordinated to other debt. The risk that we may not be able to recover our investment in below investment-grade securities is higher than with investment-grade securities.

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

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

Our investment portfolio consists substantially of fixed income securities. As of December 31, 2011, our investment in fixed income securities was approximately $1.39 billion, or 70.4% of our total investment portfolio.

The fair market value of these assets and the investment income from these assets fluctuate depending on general economic and market conditions. The fair market value of fixed income securities generally decreases as interest rates rise. Conversely, if interest rates decline, investment income earned from future investments in fixed income securities will decrease. In addition, some fixed income securities, such as mortgage-backed and other asset-backed securities, carry prepayment risk as a result of interest rate fluctuations. Based upon the composition and duration of our investment portfolio at December 31, 2011, a 100 basis point increase in interest rates would result in a decrease in the fair value of our investments of approximately $67.3 million.

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

We invest a portion of our investment portfolio in equity securities, which are subject to greater volatility than fixed income securities. At December 31, 2011, our investments in equity securities were approximately $35.6 million, or approximately two percent of our investment portfolio. We reported unrealized (losses) related to marketable equity securities in the amounts of $3.7 million and $2.5 million as of December 31, 2011 and 2010, respectively.

While we attempt to manage these risks through investment guidelines and other oversight mechanisms, our efforts may not be successful. To a large degree, the credit risk we face is a function of the economy; accordingly, we face a greater risk in an economic downturn or recession. As a result of the risks set forth above, the value of our investment portfolio could decrease, our net investment income could decrease, or we could experience realized and/or unrealized investment losses, all of which could materially and adversely affect our results of operations and liquidity.

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

As of December 31, 2011, the fair value of our portfolio of life settlement contracts was approximately $131.4 million and constituted approximately 5.9% of the fair value of our cash and investment portfolio (inclusive of these life settlement contracts). We have a 50% ownership interest in the entities that hold the life settlement contracts.

Our estimates of fair value of the life settlement contracts we hold are subjective and based upon our estimates of, among other factors, (i) the life expectancy of the insured person, (ii) the projected premium payments on the contract, including projections of possible rate increases from the related insurance carrier, (iii) the projected costs of administration relating to the contract and (iv) the projected risk of non-payment, including the financial health of the related insurance carrier, the possibility of legal challenges from such insurance carrier or others and the possibility of regulatory changes that may affect payment. The actual value to us of any life settlement contract we acquire cannot be determined until the policy matures (i.e., the insured has died and the insurance carrier has paid out the death benefit to the holder). A significant negative difference between the estimated fair value of a contract and actual death benefits received at maturity for any life settlement contract we hold could adversely affect our financial condition and results of operations.

Some of the critical factors considered in determining the fair value of a life settlement contract we own are related to the discounted value of future cash flows from death benefits and the discounted value of future premiums due on the contract. If the rate used to discount the future death benefits or the future premiums changes, the value of the life settlement contract will also change. Generally, if discount rates increase, the fair value of a life settlement contract decreases. If a life settlement contract is sold or otherwise disposed of in the future under a relatively higher interest rate environment, the contract may have a lower value than the value it had when we acquired it.

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

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

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

We conduct business outside the United States primarily in the United Kingdom, Bermuda, Italy, Ireland, France, Norway, Luxembourg, Spain and Canada. While our business outside of the United States currently constitutes approximately 34% of our gross written premium, we are subject to a number of significant risks in conducting such business. These risks include restrictions such as price controls, capital controls, exchange controls and other restrictive government actions, which could have an adverse effect on our business and our reputation. Investments outside the United States also subject us to additional domestic and foreign laws and regulations, including the Foreign Corrupt Practices Act, the U.K. Bribery Act and similar laws in other countries that prohibit the making of improper payments to foreign officials. Although we have policies and controls in place that are designed to ensure compliance with these laws, if those controls are ineffective and an employee or intermediary fails to comply with applicable laws and regulations, we could suffer civil and criminal penalties and our business and our reputation could be adversely affected. In addition, some countries have laws and regulations that lack clarity and, even with local expertise and effective controls, it can be difficult to determine the exact requirements of the local laws. Failure to comply with local laws in a particular market could have a significant and negative effect not only on our business in that market but also on our reputation generally.

Our operating results may be adversely affected by currency fluctuations.

Our functional currency is the U.S. dollar. For both the years ended December 31, 2011 and 2010, approximately 34%, of our gross written premiums written were written in currencies other than the U.S. dollar. As of December 31, 2011 and 2010, approximately 12% and 10%, respectively, of our cash and investments were denominated in non-U.S. currencies. We hold investments denominated in Euros and British Pounds because we write business in the EU and the United Kingdom, and may, from time to time, experience losses resulting from fluctuations in the values of these non-U.S. currencies, which could adversely affect our operating results.

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

In 2009, we acquired a Luxembourg holding company and five Luxembourg-domiciled captive insurance companies. Subsequently, we have made several acquisitions of Luxembourg-domiciled captive insurance companies in 2010 and 2011. In connection with these transactions, we acquire the equalization reserves of the captive insurance companies. An ''equalization reserve'' is a catastrophe reserve in excess of required reserves determined by a formula based on the volatility of the business ceded to the captive insurance company. Provided that we are able to cede losses to the captive insurance companies through intercompany reinsurance arrangements that are sufficient to exhaust the captives' equalization reserves, Luxembourg would not, under laws currently in effect, impose any income, corporation or profits tax on the captive insurance companies. However, if the captive reinsurance companies were to cease reinsuring business without exhausting the equalization reserves, they would recognize income that would be taxed by Luxembourg at a rate of approximately 30%. As of December 31, 2011, we had approximately $332 million of unutilized equalization reserves.

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

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

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

We are an insurance holding company that transacts business through our operating subsidiaries. Our primary assets are the capital stock of these operating subsidiaries. Payments from our Insurance Subsidiaries pursuant to management agreements and tax sharing agreements are our primary source of funds to pay our direct expenses. We anticipate that such payments, together with dividends paid to us by our subsidiaries, will continue to be the primary source of our funds.

Our ability to pay dividends to our stockholders largely depends upon the surplus and earnings of our subsidiaries and their ability to pay dividends to us. Payment of dividends by our Insurance Subsidiaries is restricted by insurance laws of various states, and the laws of certain foreign countries in which we do business (primarily Ireland, England and Bermuda), including laws establishing minimum solvency and liquidity thresholds, and could be subject to contractual restrictions in the future, including those imposed by indebtedness we may incur in the future. As a result, at times, we may not be able to receive dividends from our Insurance Subsidiaries and may not receive dividends in amounts necessary to pay dividends on our capital stock. As of December 31, 2011, our Insurance Subsidiaries collectively could pay dividends to us of $306.1 million without prior regulatory approval. Any dividends paid by our subsidiaries would reduce their surplus. The inability of our operating subsidiaries to pay dividends and other permitted payments in an amount sufficient to enable us to meet our cash requirements at the holding company level would have a material adverse effect on our operations.

Our Bermuda subsidiaries may become subject to taxes in Bermuda after March 31, 2035.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966, as amended, of Bermuda, has given each of our Bermuda subsidiaries an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to these subsidiaries or any of their respective operations, shares, debentures or other obligations until March 31, 2035. See ''Business — Certain International Tax Considerations — Bermuda.'' Given the limited duration of the Bermuda Minister of Finance's assurance, we cannot be certain that these subsidiaries will not be subject to any Bermuda tax after March 31, 2035. In the event that any of our Bermuda subsidiaries becomes subject to any Bermuda tax after such date, it could have a material adverse effect on our financial condition and results of operations.

Risks Related to Our Industry

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

Historically, the financial performance of the property and casualty insurance industry has tended to fluctuate in cyclical periods of price competition and excess capacity (known as a soft market) followed by periods of high premium rates and shortages of underwriting capacity (known as a hard market). Although an individual insurance company's financial performance is also dependent on its own specific business characteristics, the profitability of most property and casualty insurance companies tends to follow this cyclical market pattern. We cannot predict with certainty the timing or duration of changes in the market cycle because the cyclicality is due in large part to the actions of our competitors and general economic factors beyond our control. We experienced increased price competition in certain of our target markets during 2009, 2010 and 2011, and these cyclical patterns, the actions of our competitors, and general economic factors could cause our revenues and net income to fluctuate, which may cause the price of our common stock to be volatile.

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

Although we engage in other businesses, approximately 30% of our gross written premium currently is attributable to workers' compensation insurance. As a result, negative developments in the economic, competitive or regulatory conditions affecting the workers' compensation insurance industry could have an adverse effect on our financial condition and results of operations. For example, in certain states in which we do business, insurance regulators set the premium rates we may charge. In addition, if legislators in one of our larger markets were to enact legislation to increase the scope or amount of benefits for employees under workers' compensation insurance policies without related premium increases or loss control measures, this could negatively affect the workers' compensation insurance industry. Negative developments in the workers' compensation insurance industry could have a greater effect on us than on more diversified insurance companies that also sell many other types of insurance.

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

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

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

We compete with other insurance companies, both domestic and foreign, and many of our existing and potential competitors are significantly larger, have longer operating histories, and possess greater financial, marketing and management resources than we do. In our Small Commercial Business segment, we also compete with individual self-insured companies, state insurance pools and self-insurance funds. We compete on the basis of many factors, including coverage availability, responsiveness to the needs of our independent producers, claims management, payment/settlement terms, premium rates, policy terms, types of insurance offered, overall financial strength, financial ratings and reputation. If any of our competitors offer premium rates, policy terms or types of insurance that are more competitive than ours, we could lose market share. There is no assurance that we will maintain our current competitive position in the markets in which we currently operate or that we will establish a competitive position in new markets into which we may expand.

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

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

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

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

- solvency;
- the lines of business we may transact;
- certain transactions between our Insurance Subsidiaries and affiliates, including us;
- the nature, quality and concentration of our investments;
- rates we may charge and the terms and conditions of our policy forms; and
- dividends paid by our Insurance Subsidiaries.

Although the U.S. federal government has not historically regulated the insurance business, there have been proposals from time to time, including during and after the financial crisis in 2008, to impose federal regulation on the insurance industry. On July 21, 2010, the U.S. President signed into law the Dodd-Frank Act, which is more fully described in ''Item 1. Business — Regulation — United States — Federal and State Legislative and Regulatory Changes.'' These types of federal regulation could impose significant burdens on us, including impacting the ways in which we conduct our business, increasing compliance costs and duplicating state regulation, and could result in a competitive disadvantage, particularly relative to smaller insurers who may not be subject to the same level of regulation.

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

The European Union's executive body, the European Commission, is implementing new capital adequacy and risk management regulations called ''Solvency II'' that would apply to our businesses across the European Union (including the United Kingdom), as more fully described in ''Item 1. Business — Regulation —

Solvency II.'' While it is not yet known how Solvency II will impact us, such regulation could result in a need for additional capital, increased costs of compliance, increased disclosure and less flexibility in our capital management. It is possible that Solvency II may increase our capital requirements and the new regulations have the potential to adversely affect the profitability of our businesses subject to Solvency II. In addition, at this point, it is unclear whether the new regulations will apply only to our businesses across the European Union (including the United Kingdom) or to all of our operations, both within and outside of the European Union. If the regulations do apply to our holding company in the U.S., we could be subject to even more onerous requirements under the new regulations, which could have a significant adverse effect on our ability to operate profitably.

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

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

U.S. insurers are required by state and federal law to offer coverage for terrorism in certain commercial lines, including workers' compensation. As discussed under ''Item 1. Business — Regulation — United States — Federal and State Legislative and Regulatory Changes,'' in response to the September 11, 2001 terrorist attacks, the U.S. Congress enacted legislation designed to ensure, among other things, the availability of insurance coverage for foreign terrorist acts, including the requirement that insurers offer such coverage in certain commercial lines. The Terrorism Risk Insurance Act, or TRIA, as extended by the Terrorism Risk Insurance Program Reauthorization Act of 2007, or TRIPRA, requires commercial property and casualty insurance companies to offer coverage for certain acts of terrorism and established a federal assistance program through the end of 2014 to help such insurers cover claims related to future terrorism-related losses. The impact of any terrorist act is unpredictable, and the ultimate impact on us would depend upon the nature, extent, location and timing of such an act. Although we reinsure a portion of the risk we retain under the program, our terrorism reinsurance does not provide coverage for an act stemming from nuclear, biological or chemical terrorism.

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

The federal terrorism risk assistance provided by TRIA and TRIPRA will expire at the end of 2014. As a result of the above, there remains considerable uncertainty regarding the extent and adequacy of terrorism coverage that will be available to protect our interests in the event of future terrorist attacks. Any future renewal by the U.S. Congress may be on substantially less favorable terms.

The effects of the increasing amount of litigation on our business are uncertain.

Although we are not currently involved in any material litigation with our customers, other members of the insurance industry are the target of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts, and the outcomes of which are unpredictable. This litigation is based on a variety of issues, including insurance and claim settlement practices. In addition, as discussed in ''Item 3. Legal Proceedings,'' we are currently involved in a process resulting from inquiries from various state Attorney Generals' offices in connection with sales and customer refund issues associated with vehicle service contracts sold through independent marketers. We cannot predict with any certainty whether we will be involved in such litigation in the future or what impact such litigation would have on our business.

Risks Related to our Common Stock

Our revenues and results of operations may fluctuate as a result of factors beyond our control, which may cause volatility in the price of our shares of common stock, and consequently could materially and adversely affect the trading price of our convertible senior notes.

Our common stock is listed on the NASDAQ Global Select Market under the symbol ''AFSI.'' Our performance, as well as the risks discussed herein, government or regulatory action, tax laws, interest rates and general market conditions could have a significant impact on the future market price of our common stock, which could also materially and adversely affect the trading price of our notes. Some of the factors that could negatively affect our share price or result in fluctuations in the price of our common stock include:

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

If our revenues and results of operations fluctuate as a result of one or more of these factors, the price of our common stock may be volatile, which could materially and adversely affect the trading price of our notes. Further, because the notes are convertible into shares of our common stock, volatility or depressed market prices of our common stock could have a similar effect on the trading price of our notes. Holders who receive shares of our common stock upon conversion of the notes will also be subject to the risk of volatility and depressed market prices of our common stock.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our common stock price and the trading price of our notes.

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

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

Based on the number of shares outstanding as of December 31, 2011, Barry D. Zyskind, Michael Karfunkel and George Karfunkel, directly or indirectly, collectively own or control approximately 60% of our outstanding common stock. As a result, these stockholders, acting together, have the ability to control all matters requiring approval by our stockholders, including the election and removal of directors, amendments to our certificate of incorporation and bylaws, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. These stockholders may have interests that are different from other stockholders. In addition, we are a ‘‘controlled company’’ as defined in NASDAQ Listing Rule 5615(c). At present, a majority of the members of our board of directors are independent. As a controlled company, each of our board committees, except our audit committee, may include non-independent directors. The audit committee independence requirements imposed by the Sarbanes-Oxley Act of 2002 apply to us, and we have organized our audit committee to meet these requirements.

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

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

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

We may be unable to pay dividends on our common stock.

Our income is generated primarily from our Insurance Subsidiaries. The ability of our insurance subsidiaries to pay dividends is regulated and under certain circumstances, restricted, pursuant to applicable law. If our Insurance Subsidiaries could not pay dividends, we may not, in turn, be able to pay dividends to shareholders. In addition, the terms of our junior subordinated debentures and our credit facility limit, in some circumstances, our ability to pay dividends on our common stock, and future financing arrangements may include prohibitions on dividends or other restrictions. For these reasons, we may be unable to pay dividends on our common stock. As of December 31, 2011, our Insurance Subsidiaries collectively could pay dividends to us of $306.1 million without prior regulatory approval. Any dividends paid by our subsidiaries would reduce their surplus.

We have a history of paying dividends to our shareholders when sufficient cash is available. However, future cash dividends will depend upon our results of operations, financial condition, cash requirements and other factors including the ability of our subsidiaries to make distributions to us, which ability is restricted in the manner discussed above. Also, there can be no assurance that we will continue to pay dividends even if the necessary financial conditions are met and if sufficient cash is available for distribution.

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

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

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

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

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

Certain provisions in our notes and the related indenture could delay or prevent an otherwise beneficial takeover or takeover attempt of us and, therefore, the ability of holders to exercise their rights associated with a potential fundamental change or a make-whole fundamental change.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Location	Square Feet
Alpharetta, Georgia	51,000
Boca Raton, Florida	66,000
Cleveland, Ohio	63,000
Cleveland, Ohio(1)	500,000(1)

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

In addition, we lease an aggregate of approximately 400,000 square feet of office space in 49 locations. See Item 13. ''Certain Relationships and Related Transactions, and Director Independence.''

Item 3. Legal Proceedings

Vehicle service contract industry inquiry and related proceedings

The states of Texas, Washington and Ohio, by and through the offices of their respective Attorneys General, are acting as the Executive Committee of a multi-state Attorneys General task force (the ''Multi-State Task Force'') that is making inquiries into the vehicle service contract industry focusing on former third party administrators of U.S. Fidelis, a direct marketer of vehicle service contracts that filed a petition for Chapter 11 bankruptcy protection in February 2010 in the United States Bankruptcy Court for the Eastern District of Missouri (the ''Bankruptcy Proceeding''). The inquiries relate to the handling of payment of customer refunds in the absence of U.S. Fidelis fulfilling such obligations and violation by U.S. Fidelis of consumer protection statutes in the course of marketing and selling vehicle service contracts to consumers across the country. In connection with such inquiry, on or about January 14, 2011, our subsidiary, Warrantech, received an inquiry from the Texas Attorney General's office because Warrantech was a non-exclusive third party administrator of U.S. Fidelis between 2006 and 2009. Warrantech is working with the Executive Committee to resolve the matter as part of the Bankruptcy Proceeding, as discussed below.

On March 10, 2011, Warrantech received a demand letter from Mepco Finance Corporation (''Mepco'') related to certain damages Mepco allegedly incurred in connection with vehicle service contracts marketed and sold by U.S. Fidelis, financed by Mepco, and administered by Warrantech. Mepco claims that under the terms of an agreement between Warrantech and Mepco, Warrantech is obligated to indemnify Mepco for damages incurred resulting from the failure of U.S. Fidelis to repay certain amounts to Mepco on cancelled vehicle service contracts that were marketed and sold by U.S. Fidelis, financed by Mepco, and administered by Warrantech.

Warrantech disputes that it owes Mepco any amounts resulting from the failure of U.S. Fidelis to repay Mepco for certain cancelled vehicle service contracts. On September 13, 2011, Warrantech commenced an adversary proceeding against Mepco in the Bankruptcy Proceeding, Case Number 11-04313 (the ''Adversary Proceeding''). In the Adversary Proceeding, Warrantech is seeking a judicial determination that Mepco breached the agreement between the parties and, as result, Warrantech has incurred damages in connection with the marketing and sales of vehicle service contracts by U.S. Fidelis and Mepco's financing of those vehicle service contracts. In addition, Warrantech is seeking a declaratory judgment that any contractual obligation it may have had to indemnify or reimburse Mepco for unpaid amounts due from U.S. Fidelis is unenforceable due to Mepco's own conduct.

In a related proceeding, the Official Committee of the Unsecured Creditors (the ''Creditors Committee'') also commenced an adversary proceeding against Mepco in the Bankruptcy Proceeding, Case Number 10-41902-705. In that proceeding, the Creditors Committee asserts, among other things, that Mepco's pre- and post-petition bankruptcy claims should be subordinated due to Mepco's inequitable conduct.

On September 28, 2011, the Multi-State Task Force, acting through its Executive Committee, filed a motion in the Bankruptcy Proceeding requesting that the Bankruptcy Court issue an order compelling Mepco, Warrantech, the Creditors Committee and the Executive Committee to mediate the claims asserted in the Adversary Proceeding and the issues raised by the Multi-State Task Force. On December 19 and December 20, 2011, Mepco, Warrantech, the Creditors Committee, the Executive Committee and counsel representing Worker Adjustment and Retraining Notification (''WARN'') Act claimants participated in the mediation conducted in Austin, Texas. As a result of this mediation, the parties are currently negotiating a potential settlement of the Adversary Proceeding and the Multi-State Task Force inquiry.

Item 4. Mine Safety Disclosures

None.

PART II

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

Shareholders

Our common shares began trading on the NASDAQ Global Market under the symbol ''AFSI'' on November 13, 2006. We have one class of authorized common stock for 100,000,000 shares at a par value of $0.01 per share. As of March 1, 2012, there were approximately 145 registered record holders of our common shares. This figure does not include beneficial owners who hold shares in nominee name.

Price Range of Common Stock

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

2011	High	Low	Dividends Declared
First quarter	$19.74	$17.33	$0.08
Second quarter	$22.99	$18.15	$0.08
Third quarter	$24.74	$20.49	$0.09
Fourth quarter	$27.63	$21.09	$0.09

2010	High	Low	Dividends Declared
First quarter	$14.84	$11.50	$0.07
Second quarter	$14.45	$11.93	$0.07
Third quarter	$14.55	$11.61	$0.07
Fourth quarter	$18.02	$14.39	$0.08

On March 1, 2012, the closing price per share for our common stock was $26.91.

Dividend Policy

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

We are a holding company that transacts business through our operating subsidiaries. Our primary assets are the capital stock of these operating subsidiaries. Payments from our Insurance Subsidiaries pursuant to management agreements and tax sharing agreements are our primary source of funds to pay our direct expenses. We anticipate that such payments, together with dividends paid to us by our subsidiaries, will continue to be the primary source of funds. The ability to pay dividends to our stockholders largely depends upon the surplus and earnings of our subsidiaries and their ability to pay dividends to us. Payment of dividends by our Insurance Subsidiaries is regulated by insurance laws of various states, and the laws of certain foreign countries in which we do business, including laws establishing minimum solvency and liquidity thresholds. In addition, the terms of our junior subordinated debentures, revolving credit facility and convertible senior notes limit, in the event of certain circumstances, our ability to pay dividends on our common stock, and future borrowings may include prohibitions and restrictions on dividends. As a result, at times, we may not be able to receive dividends from our Insurance Subsidiaries and may not receive dividends in amounts necessary to pay dividends on our capital stock. As of December 31, 2011, our Insurance Subsidiaries could pay dividends to us of $306.1 million without prior regulatory approval. Any dividends paid by our subsidiaries would reduce their surplus. During 2011, our Insurance Subsidiaries paid us dividends of $5.8 million.

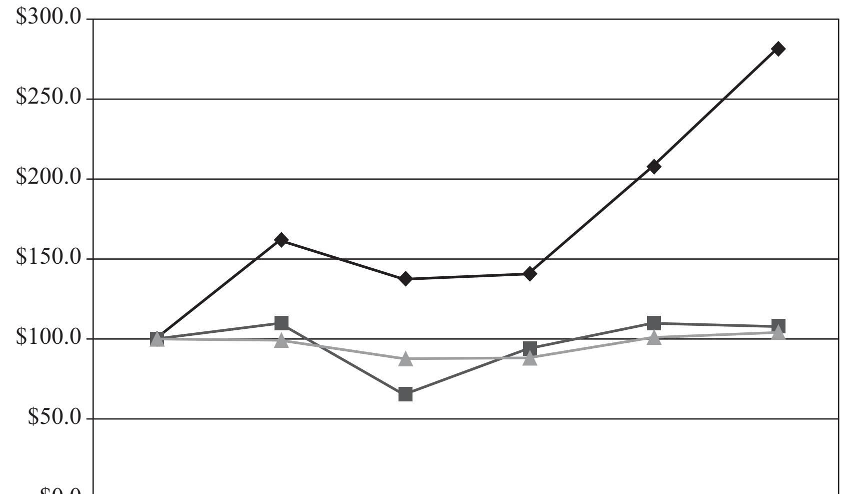
Share Repurchase Plan

In November 2007, our board of directors authorized us to repurchase up to three million shares of common stock in one or more transactions at prevailing prices in the open market or in privately negotiated transactions. Management plans to utilize the authority at such times and to the extent that management determines it is in our best interests. We have repurchased 771,287 shares related to this authorization. We did not repurchase any shares during the years ended December 31, 2010 and 2011.

Common Stock Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return on our common stock for the period beginning December 31, 2006 and ending on December 31, 2011 with the cumulative total return on the NASDAQ Global Market Index and a peer group comprised of the NASDAQ Insurance Index. The graph shows the change in value of an initial $100 investment on December 31, 2006.

Comparative Cumulative Total Returns Since 12/31/06 for AmTrust Financial Services, Inc.: NASDAQ Composite and NASDAQ Insurance



	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
AmTrust Financial Services, Inc.	$100.0	$161.7	$137.5	$140.6	$207.6	$281.1
NASDAQ Composite Index (IXIC)	$100.0	$109.8	$65.3	$93.9	$109.8	$107.9
NASDAQ Insurance Index (IXIS)	$100.0	$99.2	$87.6	$88.1	$101.0	$104.1

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

Item 6. Selected Financial Data

The following tables set forth our selected historical consolidated financial and operating information for the periods ended and as of the dates indicated. The selected consolidated income statement data for the years ended December 31, 2011, 2010 and 2009 and the balance sheet data as of December 31, 2011 and 2010 are derived from our audited financial statements included elsewhere in this report, which have been audited by BDO USA, LLP, our independent auditors. These historical results are not necessarily indicative of results to be expected from any future period. You should read the following selected consolidated financial information together with the other information contained in this report, including ''Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations'' and the consolidated financial statements and related notes included elsewhere in Part IV of this report.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(Amounts in Thousands)				
Selected Income Statement Data[1]					
Gross written premium	$2,150,472	$1,560,822	$1,198,946	$1,110,574	$ 839,391
Ceded gross written premium	(873,875)	(733,596)	(555,520)	(555,661)	(419,510)
Net written premium	$1,276,597	$ 827,226	$ 643,426	$ 554,913	$ 419,881
Change in unearned premium	(239,736)	(81,567)	(69,544)	(115,816)	24,355
Net earned premium	$1,036,861	$ 745,659	$ 573,882	$ 439,097	$ 444,236
Ceding commission – primarily related party	153,953	138,261	113,931	115,474	62,842
Service and fee income	108,660	62,067	30,690	28,978	20,368
Net investment income	55,515	50,517	55,287	60,467	51,636
Net realized gain (loss) on investments	2,768	5,953	(33,579)	(64,585)	4,644
Other revenues	—	—	—	(2,900)	(6,053)
Total revenues	1,357,757	1,002,457	740,211	576,531	577,673
Loss and loss adjustment expense	$ 678,333	$ 471,481	$ 327,771	$ 238,303	$ 276,986
Acquisition costs and other underwriting expenses[2]	398,404	302,809	244,279	203,747	155,366
Other[3]	86,611	56,403	22,232	17,318	13,816
Total expenses	$1,163,348	$ 830,693	$ 594,282	$ 459,368	$ 446,168
Income before other income (expense), income taxes and equity in earnings (loss) of unconsolidated subsidiaries	$ 194,409	$ 171,764	$ 145,929	$ 117,163	$ 131,505
Other income (expense):					
Foreign currency (loss) gain	(2,418)	684	2,459	2,700	129
Interest expense	(16,079)	(12,902)	(16,884)	(18,277)	(10,089)
Acquisition gain on purchase	5,850	—	—	—	—
Net gain on investment in life settlement contracts	46,892	11,855	—	—	—
Total other income (expenses)	$ 34,245	$ (363)	$ (14,425)	$ (15,577)	$ (9,960)
Income before income taxes and equity in earnings (loss) of unconsolidated subsidiaries	$ 228,654	$ 171,401	$ 131,504	$ 101,586	$ 121,545
Provision for income taxes	42,372	47,053	27,459	20,567	36,709
Income before equity in earnings (loss) of unconsolidated subsidiaries and minority interest	186,282	124,348	104,045	81,019	84,836
Equity in earnings (loss) of unconsolidated subsidiaries – related parties	7,871	24,044	(822)	(991)	(749)
Net income	194,153	148,392	103,223	80,028	84,087
Non-controlling interest	(23,719)	(5,927)	—	2,900	6,053
Net income attributable to AmTrust Financial Services, Inc.	$ 170,434	$ 142,465	$ 103,233	$ 82,928	$ 90,140

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(Amounts in Thousands, Except Percentages and per Share Data)				
Per Share Data					
Basic Income Per Share:					
Net income allocated to AmTrust Financial Services, Inc. common shareholders – basic	$ 2.85	$ 2.39	$ 1.74	$ 1.38	$ 1.50
Basic weighted average shares outstanding	59,836	59,453	59,433	59,991	59,958
Diluted Income Per Share:					
Net income allocated to AmTrust Financial Services, Inc. common shareholders – diluted	$ 2.77	$ 2.36	$ 1.72	$ 1.37	$ 1.49
Diluted weighted average shares outstanding	61,582	60,346	59,954	60,671	60,674
Dividend declared per common share	$ 0.34	$ 0.29	$ 0.23	$ 0.18	$ 0.11
Selected Insurance Ratios and Operating Information					
Net loss ratio(4)	65.4%	63.2%	57.1%	54.3%	62.4%
Net expense ratio(5)	23.6%	22.1%	22.7%	20.1%	20.8%
Net combined ratio(6)	89.0%	85.3%	79.8%	74.4%	83.2%
Return on equity(7)	21.2%	22.2%	21.5%	21.2%	24.7%

	As of December 31,				
	2011	2010	2009	2008	2007
	(Amounts in Thousands)				
Selected Balance Sheet Data					
Cash, cash equivalents and restricted cash	$ 421,837	$ 201,949	$ 233,810	$ 192,053	$ 145,337
Investments	1,660,494	1,357,012	1,181,016	1,169,387	1,143,050
Reinsurance recoverable	1,098,569	775,432	643,321	584,822	281,914
Premiums receivable, net	932,992	727,561	495,871	419,577	257,756
Goodwill and intangibles assets	314,616	197,826	115,828	102,425	53,232
Total assets	5,682,554	4,182,453	3,400,364	3,143,893	2,322,794
Reserves for loss and loss adjustment expense	1,879,175	1,263,537	1,091,944	1,014,059	775,392
Unearned premiums	1,366,170	1,024,965	871,779	759,915	527,758
Deferred income tax asset (liability)	(108,775)	(9,883)	7,615	76,910	36,502
Note due to seller	7,170	14,400	21,128	27,561	—
Notes payable	—	6,667	20,000	33,333	—
Convertible senior notes	138,506	—	—	—	—
Junior subordinated debt	123,714	123,714	123,714	123,714	123,714
Common stock and additional paid in capital less treasury stock	282,805	249,086	243,930	245,460	241,293
Total shareholders' equity	890,563	716,514	569,392	392,548	390,386

(1) Results for a number of periods were affected by our various acquisitions from 2007 to 2011.

(2) Acquisition costs and other underwriting expenses include policy acquisition expenses, commissions paid directly to producers, premium taxes and assessments, salary and benefits and other insurance general and administrative expenses which represent other costs that are directly attributable to insurance activities.

(3) Other operating expenses are those expenses including non-cash amortization of tangible and intangible assets, and non-insurance revenue generating activities in which the Company engages.

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

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

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

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

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

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

Overview

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

- Small Commercial Business. We provide workers' compensation, commercial package and other commercial insurance lines produced by wholesale agents, retail agents and brokers in the United States.
- Specialty Risk and Extended Warranty. We provide coverage for consumer and commercial goods and custom designed coverages, such as accidental damage plans and payment protection plans offered in connection with the sale of consumer and commercial goods, in the United States and Europe, and certain niche property, casualty and specialty liability risks in the United States and Europe, including general liability, employers' liability and professional and medical liability.
- Specialty Program. We write commercial insurance for narrowly defined classes of insureds, requiring an in-depth knowledge of the insured's industry segment, through general and other wholesale agents.
- Personal Lines Reinsurance. We reinsure 10% of the net premiums of the GMACI personal lines business, pursuant to the Personal Lines Quota Share with the GMACI personal lines insurance companies. See discussion below related to ACAC investment.

We transact business primarily through our eleven Insurance Subsidiaries:

Company	A.M. Best Rated	Coverage Type Offered	Coverage Market	Domiciled
Technology Insurance Company, Inc. ("TIC")	A (Excellent)	Small commercial, specialty program and specialty risk & extended warranty	United States	New Hampshire
Rochdale Insurance Company ("RIC")	A (Excellent)	Small commercial, specialty program and specialty risk & extended warranty	United States	New York
Wesco Insurance Company ("WIC")	A (Excellent)	Small commercial, specialty program and specialty risk & extended warranty	United States	Delaware
Associated Industries Insurance Company, Inc. ("AIIC")	A (Excellent)	Workers' compensation	United States	Florida
Milwaukee Casualty Insurance Co. ("MCIC")	A (Excellent)	Small Commercial Business	United States	Wisconsin
Security National Insurance Company ("SNIC")	A (Excellent)	Small Commercial Business	United States	Texas
AmTrust Insurance Company of Kansas, Inc. ("AICK")	A (Excellent)	Small Commercial Business	United States	Kansas
AmTrust Lloyd's Insurance Company ("ALIC")	A (Excellent)	Small Commercial Business	United States	Texas
AmTrust International Underwriters Limited ("AIU")	A (Excellent)	Specialty Risk and Extended Warranty; specialty program	European Union and United States	Ireland
AmTrust Europe, Ltd. ("AEL")	A (Excellent)	Specialty Risk and Extended Warranty	European Union	England
AmTrust International Insurance Ltd. ("AII")	A (Excellent)	Reinsurance	United States and European Union	Bermuda

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

We evaluate our operations by monitoring key measures of growth and profitability, including return on equity and net combined ratio. Our return on equity was 21.2%, 22.2% and 21.5% for the years ended December 31, 2011, 2010 and 2009, respectively. Our overall financial objective is to produce a return on equity of 15.0% or more over the long term. In addition, we target a net combined ratio of 95.0% or lower over the long term, while seeking to maintain optimal operating leverage in our Insurance Subsidiaries commensurate with our A.M. Best rating objectives. Our net combined ratio was 89.0%, 85.3% and 79.8% for the years ended December 31, 2011, 2010 and 2009, respectively. A key factor in achieving our targeted net combined ratio is a continuous focus on our net expense ratio. Our strategy across our segments is to maintain premium rates, deploy capital judiciously, manage our expenses and focus on the sectors in which we have expertise, which we believe should provide opportunities for greater returns.

Investment income is also an important part of our business. Because the period of time between our receipt of premiums and the ultimate settlement of claims is often several years or longer, we are able to invest cash from premiums for significant periods of time. Our net investment income was $55.5 million, $50.5 million and $55.3 million for the years ended 2011, 2010 and 2009, respectively. We held 21.1% and 13.6% of total invested assets in cash and cash equivalents as of December 31, 2011 and 2010, respectively. This relatively high concentration of cash and cash equivalents as of December 31, 2011 resulted primarily from the issuance of $175 million of convertible senior notes in December 2011.

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

Acquisitions

AHL

During 2011 and 2010, AmTrust Holdings Luxembourg S.A.R.L (''AHL'') (formerly called AmTrust Captive Holdings Limited) completed a series of acquisitions described below. AHL is a holding company that purchases Luxembourg captive insurance entities that allows us to obtain the benefit of the captives' capital and utilization of their existing and future loss reserves through a series of reinsurance arrangements with one of our subsidiaries. AHL is included in our Specialty Risk and Extended Warranty segment.

In December 2011, AHL acquired all the issued and outstanding stock of Reaal Reassurantie S.A., a Luxembourg domiciled captive insurance company, from SNS REAAL N.V. and REAAL N.V. The purchase price of Reaal Reassurantie S.A. was approximately $72 million. We recorded approximately $79 million of cash, intangible assets of $15 million and a deferred tax liability of $22 million. Reaal Reassurantie S.A. subsequently changed its name to AmTrust Re Kappa.

In December 2011, AHL acquired all the issued and outstanding stock of Vandermoortele International Reinsurance Company SA, a Luxembourg domiciled captive insurance company, from NV Vandermoortele, Vandemoortele International Finance SA and NV Safinco. The purchase price of Vandermoortele International Reinsurance Company SA was approximately $66 million. We recorded approximately $71 million of cash, intangible assets of $11 million and a deferred tax liability of $16 million. Vandermoortele International Reinsurance Company SA subsequently changed its name to AmTrust Re Zeta.

In June 2011, AHL acquired all the issued and outstanding stock of International Crédit Mutuel Reinsurance SA (''ICM Re''), a Luxembourg domiciled captive insurance company, from Assurance du Credit Mutuel IARD SA. The purchase price of ICM Re was approximately $315 million. We recorded approximately $347 million of cash, intangible assets of $56 million and a deferred tax liability of $88 million. ICM Re subsequently changed its name to AmTrust Re Alpha.

In May 2010, AHL acquired all the issued and outstanding stock of Euro International Reinsurance S.A., a Luxembourg domiciled captive insurance company, from TALANX AG. The purchase price of Euro International Reinsurance S.A. was approximately $58 million. We recorded approximately $66 million of cash, intangible assets of $9 million and a deferred tax liability of $16 million. Euro International Reinsurance S.A. subsequently was merged into AmTrust Re 2007.

We have classified the intangible assets as contractual use rights and they will be amortized based on the actual use of the related loss reserves.

Cardinal Comp

In September 2008, we entered into a managing general agency agreement with Cardinal Comp, LLC (''Cardinal Comp''), a workers' compensation managing general agent for which we paid the agency a commission for the placement of insurance policies. The agency operated in eight states and primarily in the state of New York. In September 2011, one of our subsidiaries entered into a renewal rights and asset purchase agreement with Cardinal Comp and Cook Inlet Alternative Risk LLC. The existing managing general agency agreement entered into in 2008 was terminated as part of the new agreement and will enable us to reduce commissions on written premium generated from the renewal rights agreement. In accordance with FASB ASC 805-10 *Business Combinations*, we recorded a purchase price of $30.4 million primarily for goodwill and intangible assets consisting of distribution networks, renewal rights and a trademark. The intangible assets have a life of between 2 and 16 years and are included as a component of the Small Commercial Business segment.

Majestic

One of our subsidiaries and the Insurance Commissioner of the State of California, acting solely in the capacity as the statutory conservator (the ''Conservator'') of Majestic Insurance Company (''Majestic''), entered into a Rehabilitation Agreement that set forth a plan for the rehabilitation of Majestic (the ''Rehabilitation Plan'') by which we acquired the business of Majestic through a Renewal Rights and Asset Purchase Agreement (the ''Purchase Agreement''), and a Loss Portfolio Transfer and Quota Share Reinsurance Agreement (the ''Reinsurance Agreement''). On July 1, 2011, one of our subsidiaries entered into the Reinsurance Agreement, which was effective June 1, 2011, and assumed all of Majestic's liability for losses and loss adjustment expenses under workers' compensation insurance policies of approximately $331.7 million on a gross basis (approximately $183.5 million on a net basis), without any aggregate limit, and certain contracts related to Majestic's workers' compensation business, including leases for Majestic's California office space. In addition, we assumed 100% of the unearned premium reserve of approximately $26 million on all in-force Majestic policies. In connection with this transaction, we received approximately $224.5 million of cash and investments, which included $26 million for a reserve deficiency and also included the assignment of Majestic's reinsurance recoverables of approximately $51.8 million. The Reinsurance Agreement also contains a profit sharing provision whereby we will pay Majestic up to 3% of net earned premium related to current Majestic policies that we renew in the three year period commencing on the closing date should the loss ratio on such policies for the three year period be 65% or less. The insurance premiums, which are included in our Small Commercial Business segment, have been recorded since the acquisition date and were approximately $43 million for the year ended December 31, 2011.

We have completed our purchase price accounting related to the Reinsurance Agreement and, in accordance with ASC 944-805 *Business Combinations*, we are required to adjust to fair value Majestic's loss and LAE reserves by taking the acquired loss reserves recorded and 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 our best estimate of the fair value of such reserves at acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves. We determined the fair value of the loss reserves to be $328.9 million. Accordingly, the amortization will be recorded as an expense on our income statement until fully amortized.

In consideration for our assumption of (i) Majestic's losses and loss adjustment expenses under its workers' compensation insurance policies pursuant to the Reinsurance Agreement and (ii) Majestic's leases for its California offices, pursuant to the Purchase Agreement, we acquired the right to offer, quote and solicit the renewals of in-force workers' compensation policies written by Majestic, certain assets required to conduct such business, including intellectual property and information technology, certain fixed assets, and the right to offer employment to Majestic's California-based employees.

As a result of entering into the Purchase Agreement, in accordance with FASB ASC 805 *Business Combinations*, we recorded $3.9 million of intangible assets related to distribution networks and trademarks. The distribution networks have a life of 13 years and the trademarks have a life of two years. Additionally, we recorded a liability for approximately $0.4 million related to an unfavorable lease assumed in the transaction and a liability for approximately $0.8 million related to the above mentioned profit sharing provision.

BTIS

In December 2011, we acquired the California-based Builders & Tradesmen's Insurance Services, Inc. (''BTIS''), an insurance wholesaler and general agent specializing in insurance policies and bonds for small artisan contractors. Our initial purchase price was $5.0 million, which does not include potential incentives to the sellers based on future profitability of the business. The transaction did not have a material impact on our results of operations or financial condition in 2011.

Warrantech

In August 2010, we, through our wholly-owned subsidiary AMT Warranty Corp., acquired 100% of the issued and outstanding capital stock of Warrantech Corporation and its subsidiaries (''Warrantech'') from WT Acquisition Holdings, LLC for approximately $7.5 million in cash and an earnout payment to the sellers of a minimum of $2.0 million and a maximum and $3.0 million based on AMT Warranty Corp.'s EBITDA over the three-year period from January 1, 2011 through December 31, 2013. Prior to the acquisition, we had a 27% equity interest (in the form of preferred units) in WT Acquisition Holdings, LLC and a $20 million senior secured note due January 31, 2012 issued to us by Warrantech. Interest on the note was payable monthly at a rate of 15% per annum and consisted of a cash component at 11% per annum and 4% per annum for the issuance of additional notes in principal amount equal to the interest not paid in cash on such date.

Immediately prior to the consummation of this transaction, WT Acquisition Holdings, LLC redeemed our preferred units that had represented our 27% equity interest in that entity. In addition, immediately following the transaction, AMT Warranty Corp. was recapitalized and we contributed our note receivable from Warrantech in the approximate amount of $24.1 million to AMT Warranty Corp. in exchange for Series A preferred stock, par value $0.01 per share (the ''Series A Preferred Stock''), of AMT Warranty Corp. valued at $24.1 million. We also received additional shares of Series A Preferred Stock such that the total value of our 100% preferred share ownership in AMT Warranty Corp. is equivalent to $50.7 million. Lastly, AMT Warranty Corp. issued 20% of its issued and outstanding common stock to the Chairman of Warrantech, which had a fair value of $6.9 million as determined using both a market and an income approach. Given our preference position, absent our waiver, we will be paid distributions on our Series A Preferred Stock before any common shareholder would be entitled to a distribution on the common stock.

As a result, the ultimate acquisition price of Warrantech was $48.9 million and we recorded goodwill and intangible assets of approximately $69.7 million and $29.6 million, respectively. We incurred less than $0.1 million of costs related to the acquisition. The intangible assets consisted of trademarks, agency relationships and non-compete agreements, which had estimated lives of between 3 and 18 years. The results of operations from Warrantech, which are included in our Specialty Risk and Extended Warranty segment as a component of service and fee income, have been recorded since the acquisition date and were approximately $53 million and $17 million for the years ended December 31, 2011 and 2010, respectively.

Risk Services

During June 2010, we completed the acquisition of eight direct and indirect subsidiaries of RS Acquisition Holdings Corp., including Risk Services, LLC and PBOA, Inc. (collectively, ''Risk Services''). The entities acquired include various risk retention and captive management companies, brokering entities and workers' compensation servicing entities. The acquired companies are held in a newly created entity, RS Acquisition Holdco, LLC. The Risk Services entities have offices in Florida, Vermont and the District of Columbia and are broadly licensed.

We have a majority ownership interest (80%) in Risk Acquisition Holdco, LLC, for which our total consideration was $11.7 million. Acquisition costs associated with the acquisition were approximately $0.2 million. As part of the purchase agreement, the non-controlling interest has the option under certain circumstances to require us to purchase the remaining ownership interest (20%) of Risk Services. In accordance with FASB ASC Topic 480, *Distinguishing Liabilities from Equity*, and FASB ASC Topic 815, *Derivatives and Hedging*, we have classified the remaining 20% ownership interest of Risk Services as mezzanine equity on the Consolidated Balance Sheet.

In accordance with FASB ASC 805, *Business Combinations*, our total consideration paid for Risk Services was $11.7 million, which included cash of $11.1 million and a value of $0.6 million that was assigned for the redeemable non-controlling interest. We assigned a value of approximately $5.0 million to intangible assets and $5.0 million to goodwill. The intangible assets consisted of trade names, customer relationships, renewal rights and non-compete agreements and have finite lives ranging from 4 years to 17 years. The results of operations from Risk Services, which are included in our Small Commercial Business segment as a component of service and fee income, have been recorded since the acquisition date and were approximately $7 million for each of the years ended December 31, 2011 and 2010.

Strategic Investments

Investment in ACAC

During 2010, we completed our strategic investment in American Capital Acquisition Corporation (''ACAC''). We formed ACAC with The Michael Karfunkel 2005 Grantor Retained Annuity Trust (the ''Trust'') for the purpose of acquiring from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation (''MIC'', together with GMAC Insurance Holdings, Inc., ''GMACI''), GMACI's U.S. consumer property and casualty insurance business (the ''GMACI Business''), a writer of automobile coverages through independent agents in the United States. Its coverage includes standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the ''GMACI Insurers''). Michael Karfunkel, individually, and the Trust, which is controlled by Michael Karfunkel, own 100% of ACAC's common stock (subject to our conversion rights described below). Michael Karfunkel is the chairman of our board of directors and the father-in-law of Barry D. Zyskind, our chief executive officer. The ultimate beneficiaries of the Trust include Michael Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman of the Board of Directors of ACAC.

Pursuant to the Amended Stock Purchase Agreement, ACAC issued and sold to us for an initial purchase price of approximately $53.0 million, which was equal to 25% of the capital initially required by ACAC, 53,054 shares of Series A Preferred Stock, which provides an 8% cumulative dividend, is non-redeemable and is convertible, at our option, into 21.25% of the issued and outstanding common stock of ACAC (the ''Preferred Stock''). We have pre-emptive rights with respect to any future issuances of securities by ACAC and our conversion rights are subject to customary anti-dilution protections. We have the right to appoint two members of ACAC's board of directors, which consists of six members. Subject to certain limitations, the board of directors of ACAC may not take any action in the absence of our appointees and ACAC may not take certain corporate actions without the unanimous prior approval of its board of directors (including our appointees).

We, the Trust and Michael Karfunkel, individually, each shall be required to make its or his proportionate share of deferred payments payable by ACAC to GMACI pursuant to the GMACI Securities Purchase Agreement, which are payable, annually on March 1 through March 1, 2013, to the extent that ACAC is unable to otherwise provide for such payments. Our proportionate share of such deferred payments will not exceed $15.0 million. In addition, in connection with our investment, ACAC will grant us a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMACI.

In accordance with ASC 323-10-15, *Investments-Equity Method and Joint Ventures*, we account for our investment in ACAC under the equity method. We recorded $7.9 million and $25.3 million of income during the years ended December 31, 2011 and 2010, respectively related to our equity investment in ACAC.

Personal Lines Quota Share

We, effective March 1, 2010, reinsure 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement (''Personal Lines Quota Share'') among Integon National Insurance Company, lead insurance company on behalf of the GMACI Insurers, as cedents, and the Company, ACP Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, receive 50% of the net premium of the GMACI Insurers and assume 50% of the related net losses. We have a 20% participation in the Personal Lines Quota Share, by which we receive 10% of the net premiums of the personal lines business and assume 10% of the related net losses. The Personal Lines Quota Share has an initial term of three years and will renew automatically for successive three-year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. In addition, either party is entitled to terminate on 60 days' written 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 the GMACI Insurers, run-off, or a reduction of 50% or more of the shareholders' equity. The GMACI Insurers also may terminate on nine months' written notice following the effective date of an initial public offering or private placement of stock by ACAC or a subsidiary. The Personal Lines Quota Share provides that the reinsurers pay a provisional ceding commission equal to 32.5% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.5% or less and a minimum of 30.5% if the loss ratio is 64.5% or higher. The Personal Lines Quota Share is subject to a premium cap that limits the premium that could be ceded by the GMACI Insurers to TIC to $121 million during calendar year 2011 to the extent TIC was to determine, in good faith, that it could not assume additional premium. The premium cap increases by 10% per annum thereafter. As a result of this agreement, we assumed $102.6 million and $82.3 million of business from the GMACI Insurers during the years ended December 31, 2011 and 2010, respectively.

Information Technology Services Agreement

We provide ACAC and its affiliates information technology development services in connection with the development of a policy management system at a price of cost plus 20% pursuant to a Master Services Agreement with GMAC Insurance Management Corporation, a wholly-owned subsidiary of ACAC. In addition, as consideration for a license for ACAC and its affiliates to use that system, we receive a license fee in the amount of 1.25% of gross premiums of ACAC and its affiliates plus our costs for support services. We recorded approximately $4.0 million and $2.0 million of fee income for the years ended December 31, 2011 and 2010, respectively, related to this agreement.

Asset Management Agreement

We manage the assets of ACAC and its subsidiaries for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1 billion or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1 billion. We currently manage approximately $0.7 billion of assets as of December 31, 2011. As a result of this agreement, we earned approximately $1.6 million and $1.5 million of investment management fees for the years ended December 31, 2011 and 2010, respectively.

As a result of the above service agreements with ACAC, we recorded fees totaling approximately $5.6 million and $3.5 million for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011, the outstanding balance receivable by ACAC related to these service fees and reimbursable costs was approximately $1.1 million.

Life Settlement Contracts

A life settlement contract is a contract between the policy owner of a life insurance policy and a third-party investor who obtains the ownership and beneficiary rights of the underlying life insurance policy. During 2010, we formed Tiger Capital LLC (''Tiger'') with a subsidiary of ACAC for the purposes of acquiring life settlement contracts. In 2011, we formed AMT Capital Alpha, LLC (''AMT Alpha'') with a subsidiary of ACAC and AMT Capital Holdings, S.A. (''AMTCH'') with ACP Re, LTD., an entity controlled by Michael Karfunkel, for the purposes of acquiring additional life settlement contracts. We have a fifty percent ownership interest in each of Tiger, AMT Alpha and AMTCH (collectively, the ''LSC entities''). Tiger may also acquire premium finance loans made in connection with the borrowers' purchase of life insurance policies that are secured by the policy, which are in default at the time of purchase. The LSC entities acquire the underlying policies through the borrowers' voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator of the Tiger life settlement contract portfolio, for which it receives an annual fee. Under the terms of an agreement for Tiger, the third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. We provide for certain actuarial and finance functions related to the LSC entities. Additionally, in conjunction with our 21.25% ownership percentage of ACAC, we ultimately receive 60.6% of the profits and losses of Tiger and AMT Alpha. As such, in accordance with ASC 810-10, *Consolidation,* we have been deemed the primary beneficiary and, therefore, consolidate the LSC entities.

We account for investments in life settlements in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. We have elected to account for these policies using the fair value method. We determine fair value on a discounted cash flow basis of anticipated death benefits, incorporating current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available.

Total capital contributions of approximately $43 million and $22 million were made to the LSC entities during the years ended December 31, 2011 and 2010, respectively, for which we contributed our fifty percent ownership share of approximately $21.5 million and $11 million in those same periods. The LSC entities used a majority of the contributed capital to acquire certain life insurance policies of approximately $26.4 million and $4.6 million for the years ended December 31, 2011 and 2010, respectively. Our investments in life settlements and cash value loans were approximately $136.8 million and $31.5 million as of December 31, 2011 and 2010, respectively and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. We recorded other income for the years ended December 31, 2011 and 2010 of approximately $46.9 million and $11.9 million, respectively, related to the life settlement contracts.

Principal Revenue and Expense Items

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

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

Net Earned Premium. Net earned premium is the earned portion of our net written premiums. We earn insurance premiums on a pro rata basis over the term of the policy. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums and are earned in subsequent periods over the remaining term of the policy. Our workers' compensation insurance and commercial package policies typically have a term of one year. Thus, for a one-year policy written on July 1, 2011 for an employer with a constant payroll during the term of the policy, we would earn half of the premiums in 2011 and the other half in 2012. We earn our specialty risk and extended warranty coverages over the estimated exposure time period. The terms vary depending on the risk and have an average duration of approximately 23 months, but range in duration from one month to 120 months.

Ceding Commission Revenues. Ceding commission is a commission we receive from ceding gross written premium to third-party reinsurers. In connection with the Maiden Quota Share, which is our primary source of ceding commission, we receive a ceding commission of 30% or 34.375%, based on the business ceded. Prior to April 1, 2011, we received a ceding commission of 31% or 34.375%, based on the business ceded. Additionally, for European medical liability business ceded to Maiden Insurance, Maiden Insurance pays us a 5% ceding commission, and we earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%. We allocate earned ceding commissions to our segments based on each segment's proportionate share of total acquisition costs and other underwriting expenses recognized during the period.

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

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

- Product warranty registration and service — Our Specialty Risk and Extended Warranty business generates fee revenue for product warranty registration and claims handling services provided to unaffiliated third parties.
- Servicing carrier — We act as a servicing carrier for workers' compensation assigned risk plans in eight states. In addition, we also offer claims adjusting and loss control services for fees to unaffiliated third parties.
- Management services — We provide services to insurance consumers, traditional insurers and insurance producers by offering flexible and cost effective alternatives to traditional insurance tools in the form of various risk retention groups and captive management companies, as well as management of workers' compensation and commercial property programs.
- Installment and reinstatement fees — We recognize fee income associated with the issuance of workers' compensation policies for installment fees, in jurisdictions where it is permitted and approved, and reinstatement fees, which are fees charged to reinstate a policy after it has been cancelled for non-payment, in jurisdictions where it is permitted and approved.
- Broker services — We provide brokerage services to Maiden in connection with our reinsurance agreement for which we receive a fee.
- Asset management services — We currently manage the investment portfolios of Maiden and ACAC for which we receive a management fee.
- Information technology services — We provide information technology services to ACAC and its affiliates for a fee.

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

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

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

Gain on Investment in Life Settlement Contracts. The gain on investment in life settlement contracts includes the gain on acquisition of life settlement contracts, the gain realized upon a mortality event and the change in fair value of the investments in life settlements as evaluated at the end of each reporting period. We determine fair value based upon the discounted cash flow of the anticipated death benefits, incorporating a number of factors, such as current life expectancy assumptions, expected premium payment obligations and increased cost assumptions, credit exposure to the insurance companies that issued the life insurance policies and the rate of return that a buyer would require on the policies. The gain realized upon mortality event is the difference between the death benefit received and the recorded fair value of that particular policy. We allocate gain on investment in life settlement contracts to our segments based on net written premium by segment.

Other Expense. Other expense includes those charges that are related to the amortization of tangible and intangible assets and non-insurance fee generating activities in which we engage, including salaries and benefits expenses and other charges directly attributable to non-insurance fee generating activities, such as those generated by Warrantech and Risk Services.

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

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

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

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

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

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

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

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

Critical Accounting Policies

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

We believe that the most critical accounting policies relate to the reporting of reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from third party reinsurers, assessments, deferred policy acquisition costs, deferred income taxes, the impairment of investment securities, goodwill and other intangible assets and the valuation of stock based compensation.

The following is a description of our critical accounting policies.

Premiums. We recognize insurance premiums, other than in our Specialty Risk and Extended Warranty segment, as earned on the straight-line basis over the contract period. Insurance premiums on Specialty Risk and Extended Warranty business are earned based on estimated program coverage periods. We base these estimates on the expected distribution of coverage periods by contract at inception, because a single contract may contain multiple coverage period options, and we revise these estimates based on the actual coverage periods selected by the insured. Unearned premiums represent the portion of premiums written that is applicable to the unexpired term of the contract or policy in force. We base premium adjustments on contracts and audit premiums on estimates made over the contract period. We also estimate an allowance for doubtful accounts based on a percentage of premium. We review our bad debt write-offs at least annually and adjust our premium percentage as required. Allowance for doubtful accounts were approximately $11.7 million and $10.4 million at December 31, 2011 and 2010, respectively.

Ceding Commission. Ceding commission is a commission we receive from ceding gross written premium to third party reinsurers. We earn commissions on reinsurance premiums ceded in a manner consistent with the recognition of the direct acquisition costs of the underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured. In connection with the Maiden Quota Share, which is our primary source of ceding commission, the amount we receive is a blended rate based on a contractual formula contained in the individual reinsurance agreements, and the rate may not correlate specifically to the cost structure of our individual segments. As such, we allocate earned ceding commissions to our segments based on each segment's proportionate share of total acquisition costs and other underwriting expenses recognized during the period.

Life Settlement profit commission. Investments in life settlements are accounted for in accordance with ASC 325-30, *Investments in Insurance Contracts*, and we have elected to account for our investment in life settlements using the fair value method. We retain a third party service provider to perform certain administration functions to effectively manage these life settlement contracts and a portion of their fee is contingent on the overall profitability of the life settlement contracts. We accrue the related profit commission on life settlements at fair value, in relation to life settlements purchased prior to December 31, 2010. This profit commission is calculated based on the discounted anticipated cash flows and the provisions of the underlying contract. In addition, we accrue a best estimate in relation to profit commission due on certain life settlement contracts acquired subsequent to December 31, 2010 as no contractual relationship currently exists.

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

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

We believe this method, by which we track the development of claims incurred in a particular time period, is the best method for projecting our ultimate liability. Loss development factors are dependent on a number of elements, including frequency and severity of claims, length of time to achieve ultimate settlement of claims, projected inflation of medical costs and wages (for workers' compensation), insurance policy coverage interpretations, judicial determinations and existing laws and regulations. The predictive ability of loss development factors is dependent on consistent underwriting, claims handling, and inflation, among other factors, and predictable legislatively and judicially imposed legal requirements. If all things remain equal, losses incurred in 2011 should develop similarly to losses incurred in 2010 and prior years. Thus, if the Net Loss Ratio for premiums written in year one is 55.0%, we expect that the Net Loss Ratio for premiums written in year two also would be 55.0%. However, due to the inherent uncertainty in the loss development factors, our actual liabilities may differ significantly from our original estimates.

Notwithstanding the inherent uncertainty, we have not experienced material variability in our loss development factors. We believe that it is reasonably likely that we could experience a 5% deviation in our loss and loss adjustment expense reserves due to changes in the elements that underlie loss development, such as claims frequency or severity. For example, as of December 31, 2011, the average cost per workers' compensation claim was $11,871, which was a 4.3% increase over the claims severity from 2001 – 2010 of $11,377. In 2011, claims frequency (number of claims per $1.0 million of payroll) decreased to .972 from .979, a decrease of 0.7%, for the period between 2001 and 2011.

In the event of a 5% increase in claims frequency as measured by our insureds' payroll, which we believe is the most important assumption regarding our business, our loss reserves as of December 31, 2011 would be understated by $16.3 million and would result in an after tax reduction in shareholders' equity of $10.6 million. In the event of a 5% increase in claim severity, which is the average incurred loss per claim, our loss and loss adjustment expense reserves would be understated by $8.8 million and would result in an after tax reduction in shareholders' equity of $5.7 million.

On a quarterly basis, at a minimum, and in some cases more frequently, we review our reserves to determine whether they are consistent with our actual results. In the event of a discrepancy, we would seek to determine the causes (underwriting, claims, inflation, regulatory) and would adjust our reserves accordingly. For example, if the development of our total incurred losses were 5% greater than the loss development factors would have predicted, we would adjust our reserves for the periods in question. In 2009, our liabilities for unpaid losses and LAE attributable to prior years decreased by $4.8 million primarily as result of favorable development in the Small Commercial Business segment, partially offset by unfavorable development from our involuntary participation in NCCI pools. In 2010, our liabilities for unpaid losses and LAE attributable to prior years increased by $7.9 million primarily as result of unfavorable loss development, in our Specialty Program segment. In 2011, our liabilities for unpaid losses and LAE attributable to prior years increased by $12.5 million primarily as result of higher actuarial estimates based on actual losses in our Specialty Program segment. We do not anticipate that we will make any material reserve adjustments, but will continue to monitor the accuracy of our loss development factors and adequacy of our reserves. Additional information regarding our reserves for loss and loss adjustment expenses can be found in "Item 1A. Risk Factors" and "Item 1. Business — Loss Reserves."

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

Deferred Policy Acquisition Costs. We defer commission expenses, premium taxes and assessments as well as certain sales, underwriting and safety costs that vary with and are primarily related to the acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. We may realize deferred policy acquisition costs only if the ratio of loss and loss adjustment expense reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%, we could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve.

Assessments Related to Insurance Premiums. We are subject to various assessments and premium surcharges related to our insurance activities, including assessments and premium surcharges for state guaranty funds and second injury funds. Assessments based on premiums are generally paid within one year after the calendar year in which the policies are written. Assessments based on losses are generally paid within one year of when claims are paid by us. State insurance regulatory agencies use state guaranty fund assessments to pay claims of policyholders of impaired, insolvent or failed insurance companies and the operating expenses of those agencies. States use second injury funds to reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. In some states, these assessments and premium surcharges may be partially recovered through a reduction in future premium taxes.

Earned But Unbilled Premium. Earned but unbilled premium ("EBUB") estimates the amount of audit premium for those policies that have yet to be audited as of the date of the quarter or year end. Workers' compensation policies are subject to audit and the final premium may increase or decrease materially from the original premium due to revisions to actual payroll and/or employee classification. Based on guidance in FASB ASC 944 as well as Statement of Statutory Accounting Principles 53, we determine EBUB using statistically supported aggregate calculations based on our historical premium audit results. We have not had a material adjustment as a result of actual premium audits materially differing from the estimates used in calculating EBUB.

As of December 31, 2011, if the actual results of the future premiums audits were 1% lower than the historical results used in calculating EBUB, the result would be a decrease in EBUB and net earned premium of $2.9 million or $1.9 million after tax. If the actual results of the future premiums audits were 1% higher than the historical results used in calculating EBUB, the result would be an increase in EBUB, and net earned premium of $2.9 million or $1.9 million after tax.

In calculating EBUB, we consider our ability to collect the projected increased premium as well as those expenses associated with both the additional premium and return premium.

Cash and Cash Equivalents. Cash and cash equivalents are presented at cost, which approximates fair value. We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. We maintain our cash balances at several financial institutions. The Federal Deposit Insurance Corporation secures accounts up to $250,000 at these institutions. Management monitors balances in excess of insured limits and believes they do not represent a significant credit risk to us.

Investments. We account for our investments in accordance with ASC 320, *Debt and Equity Securities*, which requires that fixed-maturity and equity securities that have readily determined fair values be segregated into categories based upon our intention for those securities. In accordance with ASC 320, we have classified our fixed-maturity securities and equity securities as available-for-sale. We may sell our available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors.

We report fixed-maturity securities and equity securities 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. We determine realized gains and losses on the specific identification of the investments sold.

Quarterly, our Investment Committee (''Committee'') evaluates each security that has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment (''OTTI''). The Company generally considers an investment to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion or more) for over 24 months. In addition, the Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

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

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

Based on guidance in FASB ASC 320-10-65, in the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is not more than likely than not that such holder will be required to sell the debt security before recovery of its amortized cost basis, is required to separate the decline in fair value into (a) the amount representing the credit loss and (b) the amount related to other factors. The amount of total decline in fair value related to the credit loss shall be recognized in earnings as an OTTI with the amount related to other factors recognized in accumulated other comprehensive loss net loss, net of tax. OTTI credit losses result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of the loss realization. During 2011, 2010 and 2009, we recorded impairment write-downs of $4.4 million, $21.2 million and $24.8 million, respectively after determining that certain of our investments were OTTI.

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

Goodwill and Intangible Assets — We account for goodwill and intangible assets in accordance with ASC 820, *Business Combinations* and ASC 350, *Intangibles — Goodwill and Other.* We record a purchase price paid that is in excess of net assets (''goodwill'') arising from a business combination as an asset, and it is not amortized. We amortize intangible assets with a finite life over the estimated useful life of the asset. We do not amortize intangible assets with an indefinite useful life. We test goodwill and intangible assets for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statement of operations.

Income Taxes — We join our domestic subsidiaries in the filing of a consolidated federal income tax return and are party to federal income tax allocation agreements. Under the tax allocation agreements, we pay to or receive from our subsidiaries the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return.

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

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

Results of Operations

Consolidated Results of Operations

	December 31,		
	2011	2010	2009
	(Amounts in Thousands)		
Gross written premium	$2,150,472	$1,560,822	$1,198,946
Net written premium	$1,276,597	$ 827,226	$ 643,426
Change in unearned premium	(239,736)	(81,567)	(69,544)
Net earned premium	1,036,861	745,659	573,882
Ceding commission – primarily related party	153,953	138,261	113,931
Service and fee income (related parties $16,700; $12,322; $8,622)	108,660	62,067	30,690
Net investment income	55,515	50,517	55,287
Net realized gain (loss) on investments	2,768	5,953	(33,579)
Total revenue	1,357,757	1,002,457	740,211
Loss and loss adjustment expense	678,333	471,481	327,771
Acquisition costs and other underwriting expenses	398,404	302,809	244,279
Other	86,611	56,403	22,232
Total expenses	1,163,348	830,693	594,282
Income before other income (expense), income taxes and equity in earnings (loss) of unconsolidated subsidiaries	194,409	171,764	145,929
Other income (expense):			
Foreign currency (loss) gain	(2,418)	684	2,459
Interest expense	(16,079)	(12,902)	(16,884)
Acquisition gain on purchase	5,850	—	—
Net gain on investment in life settlement contracts	46,892	11,855	—
Total other income (expense)	34,245	(363)	(14,425)
Income before income taxes and equity in earnings (loss) of unconsolidated subsidiaries	228,654	171,401	131,504
Provision for income taxes	42,372	47,053	27,459
Income before equity in earnings (loss) of unconsolidated subsidiaries and minority interest	186,282	124,348	104,045
Equity in earnings (loss) of unconsolidated subsidiaries – related parties	7,871	24,044	(822)
Net income	194,153	148,392	103,223
Non-controlling interest	(23,719)	(5,927)	—
Net income attributable to AmTrust Financial Services, Inc.	$ 170,434	$ 142,465	$ 103,223
Net realized gain (loss) on investments:			
Total other-than-temporary impairment losses	$ (4,411)	$ (21,196)	$ (24,778)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(4,411)	(21,196)	(24,778)
Other net realized gain (loss) on investments	7,179	27,149	(8,801)
Net realized investment gain (loss)	$ 2,768	$ 5,953	$ (33,579)

Consolidated Results of Operations 2011 Compared to 2010

Gross Written Premium. Gross written premium increased $589.5 million, or 37.8%, to $2,150.4 million from $1,560.9 million for the years ended December 31, 2011 and 2010, respectively. The increase of $589.5 million was attributable to growth across all segments. Gross written premium increased in our Small Commercial Business segment by $143.8 million, resulting primarily from increases in policy counts, new product offerings and the Majestic acquisition. The increase in Specialty Risk and Extended Warranty business of $308.0 million resulted primarily from growth in new programs in the U.S. and Europe, as well as our European medical liability business. The increase in our Specialty Program segment of $117.4 million resulted largely from new program additions. We also benefited from participating in the Personal Lines Quota share with the GMACI Insurers for all of 2011 compared to ten months in 2010, which resulted in an additional $20.3 million of assumed gross written premium.

Net Written Premium. Net written premium increased $449.4 million, or 54.3%, to $1,276.6 million from $827.2 million for the years ended December 31, 2011 and 2010, respectively. The increase by segment was: Small Commercial Business — $112.6 million; Specialty Risk and Extended Warranty — $253.5 million; Specialty Program — $63.0 million; and Personal Lines — $20.3 million. Net written premium increased for the year ended December 31, 2011 compared to the same period in 2010 due to the increase in gross written premium in 2011 compared to 2010, as well as the reduction in the percentage of our European medical liability business ceded to reinsurers from 80% to 40%, which became effective April 1, 2011.

Net Earned Premium. Net earned premium increased $291.3 million, or 39.1%, to $1,037.0 million from $745.7 million for the years ended December 31, 2011 and 2010, respectively. The increase by segment was: Small Commercial Business — $67.9 million; Specialty Risk and Extended Warranty — $143.2 million; Specialty Program — $31.1 million; and Personal Lines — $49.1 million.

Ceding Commission. Ceding commission represents commission earned primarily through the Maiden Quota Share, whereby AmTrust receives a 30% or 34.375% ceding commission, depending on the business ceded, on ceded written premiums to Maiden. The ceding commission earned during the year ended December 31, 2011 and 2010 was $154.0 million and $138.3 million, respectively. Ceding commission increased period over period as a result of increased premium writings. Additionally, effective April 1, 2011, we entered into a 40% quota share reinsurance agreement with Maiden covering our European medical liability business by which we receive a five percent ceding commission. Prior to April 1, 2011, this business was ceded to another reinsurer.

Service and Fee Income. Service and fee income increased $46.5 million, or 74.9%, to $108.6 million from $62.1 million for the years ended December 31, 2011 and 2010, respectively. The increase was attributable primarily to incremental fees of approximately $36 million generated by Warrantech, which was acquired during the third quarter of 2010 as well as an increase of approximately $4 million in fees derived by services we provide to ACAC and Maiden.

Net Investment Income. Net investment income increased $5.0 million, or 10.0%, to $55.5 million from $50.5 million for the years ended December 31, 2011 and 2010, respectively. In the year ended December 31, 2010, investment income benefited from the inclusion of $2.6 million of interest income related to a note receivable due from Warrantech before it was acquired during the third quarter of 2010. Absent this item, investment income increased $7.6 million as a result of a higher amount of invested assets period over period, which included the cash and investments acquired in the Majestic transaction.

Net Realized Gains (Losses) on Investments. Net realized gains on investments were $2.8 million, compared to net realized gains of $5.9 million for the year ended December 31, 2011 and 2010, respectively. The decrease in realized gains of investments related to lower trading activity of equity securities in 2011 as we have deemphasized equity investments in our overall investment portfolio. The net realized gains were inclusive of non-cash impairment writedowns of $4.4 million and $21.2 million in 2011 and 2010, respectively.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $206.8 million, or 43.8%, to $678.3 million for the year ended December 31, 2011 from $471.5 million for the year ended December 31, 2010. Our loss ratio for the years ended December 31, 2011 and 2010 was 65.4% and 63.2%, respectively. The increase in the loss ratio in 2011 resulted from higher current year accident selected ultimate losses as compared to selected ultimate losses from the prior year.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $95.6 million, or 31.6%, to $398.4 million for the year ended December 31, 2011 from $302.8 million for the year ended December 31, 2010. Our expense ratio increased to 23.6% in 2011 from 22.1% in 2010 and resulted from a reduction in the percentage of Maiden ceding commission earned in 2011 which was 27.5% compared to 31.3% in 2010.

Other. Other expenses increased $30.2 million, or 53.5%, to $86.6 million for the year ended December 31, 2011 from $56.4 million for the year ended December 31, 2010. The increase was the result, primarily, of the inclusion of Warrantech's results for all of 2011 compared to five months in 2010.

Income Before Other Income (Expense), Income Taxes and Equity in Earnings of Unconsolidated Subsidiaries. Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries increased $22.6 million, or 13.1%, to $194.4 million from $171.8 million for the years ended December 31, 2011 and 2010, respectively. The increase from 2010 to 2011 resulted primarily from higher net earned premium and increased service and fee income offset, partially, by higher loss and loss adjustment expenses and other insurance general and administrative expense.

Interest Expense. Interest expense for the years ended December 31, 2011 and 2010 was $16.1 million and $12.9 million, respectively. The increase in interest expense was primarily attributable to higher average outstanding debt balances in 2011 compared to 2010. The increase in average debt balances for 2011 relate to our revolving credit facility we entered into during January 2011, which replaced our now terminated $40 million term loan, a secured loan agreement we entered into in February 2011 and the reduction of the principal amount of our $30 million promissory note.

Acquisition Gain on Purchase. We recorded a gain of $5.9 million in 2011 related to the acquisition of Majestic's workers' compensation renewal rights acquisition and loss portfolio transfer in 2011.

Net Gain on Investment in Life Settlement Contracts. Gain on investment in life settlement contracts increased $35.0 million, or 294%, to $46.9 million from $11.9 million for the years ended December 31, 2011 and 2010, respectively, and primarily resulted from the gain realized upon a mortality event in 2011 and the acquisition of a higher number of life settlement contracts that were purchased by or surrendered to us in satisfaction of premium finance loans during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Provision for Income Tax. Income tax expense for the year ended December 31, 2011 was $42.4 million, which resulted in an effective tax rate of 18.5%. Income tax expense for the year ended December 31, 2010 was $47.1 million, which resulted in an effective tax rate of 27.5%. The decrease in our effective rate resulted primarily from increases in tax exempt interest and foreign source income not subject to tax for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Equity in Earnings of Unconsolidated Subsidiaries — Related Parties. Equity in earnings of unconsolidated subsidiaries — related parties decreased by $16.2 million for the year ended December 31, 2011 to $7.8 million. The majority of the decrease related to the initial acquisition gain on ACAC of $10.4 million we recognized during the year ended December 31, 2010 that was adjusted downward during the year ended December 31, 2011 by $3.6 million. Absent this adjustment for purchase price accounting, earnings related to ACAC decreased to $11.4 million in 2011 from $14.9 million in 2010 and resulted primarily from higher loss ratios on the GMACI Business.

Consolidated Results of Operations 2010 Compared to 2009

Gross Written Premium. Gross written premium increased $362.0 million, or 30.2%, to $1,560.9 million from $1,198.9 million for the years ended December 31, 2010 and 2009, respectively. The increase of $362.0 million was primarily attributable to growth in our Specialty Risk and Extended Warranty segment of

$287.2 million. The increase in Specialty Risk and Extended Warranty business resulted primarily from new coverage plans in the U.S. and Europe, as well as additional premiums from growth in our European business related to general liability, employers' liability and professional and medical liability business generated by new underwriting teams who joined us in 2009 and 2010. Additionally, gross written premium increased by $82.3 million in 2010 as a result of business assumed from the GMACI Insurers pursuant to the Personal Lines Quota share.

Net Written Premium. Net written premium increased $183.8 million, or 28.6%, to $827.2 million from $643.4 million for the years ended December 31, 2010 and 2009, respectively. The increase (decrease), by segment, was: Small Commercial Business — $(12.4) million; Specialty Risk and Extended Warranty — $116.5 million; Specialty Program — $(2.6) million; and Personal Lines — $82.3 million.

Net Earned Premium. Net earned premium increased $171.8 million, or 29.9%, to $745.7 million from $573.9 million for the years ended December 31, 2010 and 2009, respectively. The increase (decrease) by segment was: Small Commercial Business — $13.4 million; Specialty Risk and Extended Warranty — $113.4 million; Specialty Program — $(4.4) million; and Personal Lines — $49.4 million.

Ceding Commission. The ceding commission earned during the years ended December 31, 2010 and 2009 was $138.3 million and $113.9 million, respectively. Ceding commission increased period over period as a result of increased premium writings, which were partially offset by an increase in the percentage of business ceded at 31% instead of 34.375% in 2010 compared to 2009.

Service and Fee Income. Service and fee income increased $31.4 million, or 102.3%, to $62.1 million from $30.7 million for the years ended December 31, 2010 and 2009, respectively. The increase was attributable primarily to fees of approximately $24.7 million generated from Warrantech and Risk Services, which were acquired in 2010, as well as $2.9 million of incremental fees from ACAC in 2010.

Net Investment Income. Net investment income decreased $4.8 million, or 8.6%, to $50.5 million from $55.3 million for the years ended December 31, 2010 and 2009, respectively. The change period over period related primarily to a decrease in the yields on our fixed maturities to 3.6% in 2010 from 4.0% in the same period in 2009.

Net Realized Gains (Losses) on Investments. Net realized gains on investments for the year ended December 31, 2010 were $5.9 million, compared to the net realized loss of $33.6 million for the same period in 2009. The increase period over period related to the continued recovery of our equity portfolio and the timing of certain sales within our equity and fixed income portfolio. The net realized gain and loss included non-cash write-downs of $21.2 million and $24.8 million during 2010 and 2009, respectively, for securities that we determined to be other-than-temporarily-impaired.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $143.7 million, or 43.8%, to $471.5 million for the year ended December 31, 2010 from $327.8 million for the year ended December 31, 2009. Our loss ratio for the years ended December 31, 2010 and 2009 was 63.2% and 57.1%, respectively. The increase in the loss ratio in 2010 resulted from higher actuarial estimates based on current year actual losses and was not the result of any increase in the frequency or severity of losses. Additionally, the loss ratio in 2009 benefited from the effect of a one-time $11.8 million benefit to the Specialty Risk and Extended Warranty segment related to the 2009 acquisition of AHL.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $58.5 million, or 24.0%, to $302.8 million for the year ended December 31, 2010 from $244.3 million for the year ended December 31, 2009. The expense ratio decreased slightly to 22.1% from 22.7% for the years ended December 31, 2010 and 2009, respectively. The decrease in the expense ratio in 2010 resulted primarily from a decline in other underwriting expenses, which resulted from a change in product mix from the Small Commercial Business segment to the Specialty Risk and Extended Warranty segment.

Income Before Other Income (Expense), Income Taxes and Equity in Earnings of Unconsolidated Subsidiaries. Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries increased $25.8 million, or 18.0%, to $171.8 million from $146.0 million for the years ended

December 31, 2010 and 2009, respectively. The increase from 2009 to 2010 resulted primarily from improvement in realized gains on our investment portfolio offset partially by a higher loss ratio in 2010.

Interest Expense. Interest expense for the years ended December 31, 2010 and 2009 was $12.9 million and $16.9 million, respectively. The decrease was attributable to lower outstanding debt balances on our $40 million term loan and $30 million promissory note as well as lower expenses on an interest rate swap agreement.

Gain on Investment in Life Settlement Contracts. Gain on investment in life settlement contracts was $11.9 million in 2010 and resulted from the gain recognized in 2010 from the initial portfolio purchase of life settlement contracts by Tiger Capital, LLC, a company we formed in the third quarter of 2010 with ACAC.

Provision for Income Tax. Income tax expense for the year ended December 31, 2010 was $47.1 million, which resulted in an effective tax rate of 27.5%. Income tax expense for the year ended December 31, 2009 was $27.5 million, which resulted in an effective tax rate of 20.9%. The increase in our effective rate for the year ended December 31, 2010 resulted primarily from a one-time benefit in 2009 related to the acquisition of AHL in the first quarter of 2009.

Equity in Earnings of Unconsolidated Subsidiaries — Related Party. Equity in earnings of unconsolidated subsidiaries — related parties increased by $24.9 million for the year ended December 31, 2010 to $24.0 million. The increase related to our proportionate share of income from our equity investment in ACAC of $14.9 million for the year ended December 31, 2010 of $14.9 million and a gain on acquisition of ACAC of $10.4 million. Additionally, prior to acquiring the remaining 73% ownership of Warrantech during the third quarter of 2010, our proportionate share of equity loss in Warrantech was included in this line item. We previously classified the equity earnings (loss) from Warrantech as a component of investment income in prior years. This amount has been reclassified in all periods presented.

Small Commercial Business Segment — Results of Operations

	December 31,		
	2011	2010	2009
	(Amounts in Thousands)		
Gross written premium	$609,822	$465,951	$469,627
Net written premium	$355,721	$243,146	$255,496
Change in unearned premium	(35,455)	9,296	(16,525)
Net earned premium	320,266	252,442	238,971
Ceding commission revenue – primarily related party	62,093	66,282	59,415
Loss and loss adjustment expense	201,921	154,442	137,525
Acquisition costs and other underwriting expenses	148,041	128,142	119,734
	349,962	282,584	257,259
Underwriting income	$ 32,397	$ 36,140	$ 41,127
Key Measures:			
Net loss ratio	63.0%	61.2%	57.5%
Net expense ratio	26.8%	24.5%	25.2%
Net combined ratio	89.9%	85.7%	82.8%
Reconciliation of net expense ratio:			
Acquisition costs and other underwriting expenses	$148,041	$128,142	$119,734
Less: Ceding commission revenue – primarily related party	62,093	66,282	59,415
	$ 85,948	$ 61,860	$ 60,319
Net earned premium	$320,266	$252,442	$238,971
Net expense ratio	26.8%	24.5%	25.2%

Small Commercial Business Segment Results of Operations 2011 Compared to 2010

Gross Written Premium. Gross written premium increased $143.8 million, or 30.9%, to $609.8 million for the year ended December 31, 2011 from $466.0 million for the year ended December 31, 2010. The increase resulted primarily from new business associated with additional product offerings, workers' compensation rate increases in New York and Florida, higher overall policy counts and an increase in California workers' compensation production of approximately $43 million, as well as $26 million from the assumption of unearned premium in connection with the Majestic acquisition.

Net Written Premium. Net written premium increased $112.6 million, or 46.3%, to $355.7 million from $243.1 million for the years ended December 31, 2011 and 2010, respectively. The increase in net premium resulted from an increase in gross written premium for the year ended December 31, 2011 compared to the year ended December 31, 2010, as well as the assumption of $26 million of unearned premium from Majestic.

Net Earned Premium. Net earned premium increased $67.9 million, or 26.9%, to $320.3 million for the year ended December 31, 2011 from $252.4 million for the year ended December 31, 2010. As premiums written earn ratably over a twelve month period, the increase in net premium earned resulted from higher net premium written for the twelve months ended December 31, 2011 compared to the twelve months ended December 31, 2010, as well as the assumption of $26 million of unearned premium from Majestic in the second quarter of 2011, for which we earned approximately $24.4 million during 2011.

Ceding Commission. The ceding commission earned during the years ended December 31, 2011 and 2010 was $62.1 million and $66.3 million, respectively. The decrease related to a decline in the allocation to this segment of its proportionate share of our overall policy acquisition expense in 2011, which achieved proportionally less growth than our other segments in 2011, and from a reduction in the Maiden ceding commission percentage resulting from our amended quota share agreement, which became effective April 1, 2011.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $47.5 million, or 30.7%, to $201.9 million for the year ended December 31, 2011 from $154.4 million for the year ended December 31, 2010. Our loss ratio for the segment for the year ended December 31, 2011 increased to 63.0% from 61.2% for the year ended December 31, 2010. The increase in the loss ratio in the year ended December 31, 2011 resulted primarily from higher current accident year selected ultimate losses as compared to selected ultimate losses in prior accident years.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $19.9 million, or 15.5%, to $148.0 million for the year ended December 31, 2011 from $128.1 million for the year ended December 31, 2010. The expense ratio increased to 26.8% for the year ended December 31, 2011 compared to 24.5% for the year ended December 21, 2010. The increase in the expense ratio resulted primarily from a lower allocation of Maiden ceding commission to the segment during the year ended December 31, 2011 compared to the same period in 2010 and an increase in premium for this segment, resulting in a higher allocation of expenses to this segment.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio decreased to $32.4 million for the year ended December 31, 2011 compared to $36.1 million for the year ended December 31, 2010. This decrease resulted primarily from higher loss and loss adjustment expenses during the year ended December 31, 2011 as compared to the year ended December 31, 2010, as well as lower ceding commission earned in 2011 compared to 2010.

Small Commercial Business Segment Results of Operations 2010 Compared to 2009

Gross Written Premium. Gross written premium decreased $3.6 million, or 0.8%, to $466.0 million for the year ended December 31, 2010 from $469.6 million for the year ended December 31, 2009. The decrease resulted from a six percent mandated rate reduction in the state of Florida's workers' compensation rates, a decrease in assigned risk business and our continued effort of reunderwriting of our commercial package business.

Net Written Premium. Net written premium decreased $12.4 million, or 4.9%, to $243.1 million from $255.5 million for the years ended December 31, 2010 and 2009, respectively. The decrease in net premium resulted from a decrease in gross written premium for the twelve months ended December 31, 2010 compared to gross written premium for the twelve months ended December 31, 2009 and the cession of certain gross written premium to a new reinsurer in 2010 at a higher rate than the rate in effect in 2009.

Net Earned Premium. Net earned premium increased $13.4 million, or 5.6%, to $252.4 million for the year ended December 31, 2010 from $239.0 million for the year ended December 31, 2009. As premiums written earn ratably over the policy term, net earned premium continued to increase in 2010 although gross written premium remained primarily flat in 2010 compared to 2009. This increase was due to a decline in unearned premium that resulted from an additional $19.4 million of premium writings in the three months ended December 31, 2009 compared to the three months ended December 31, 2010.

Ceding Commission. The ceding commission earned during the years ended December 31, 2010 and 2009 was $66.3 million and $59.4 million, respectively. The increase related to the allocation to this segment of its proportionate share of our overall policy acquisition expense.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $16.9 million, or 12.3%, to $154.4 million for the year ended December 31, 2010 from $137.5 million for the year ended December 31, 2009. Our loss ratio for the segment for the year ended December 31, 2010 increased to 61.2% from 57.5% for the year ended December 31, 2009. The increase in the loss and loss adjustment expense ratio in the twelve months ended December 31, 2010 resulted primarily from higher actuarial estimates based on actual losses.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $8.4 million, or 7.0%, to $128.1 million for the year ended December 31, 2010 from $119.7 million for the year ended December 31, 2009. The expense ratio decreased to 24.5% for the year ended December 31, 2010 compared to 25.2% for the year ended December 21, 2009. The decrease in expense ratio resulted primarily from a decrease in the segment's proportionate share of allocated salary expense and other underwriting expenses during the year ended 2010.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio decreased $5.0 million, or 12.1%, to $36.1 million for the year ended December 31, 2010 from $41.1 million for the year ended December 31, 2009. The decrease resulted primarily from an increase in the segment's loss ratio in 2010 compared to 2009.

Specialty Risk and Extended Warranty Segment — Results of Operations

	December 31, 2011	2010	2009
	(Amounts in Thousands)		
Gross written premium	$1,056,511	$748,525	$461,338
Net written premium	$ 615,563	$362,100	$245,604
Change in unearned premium	(168,798)	(58,517)	(55,378)
Net earned premium	446,765	303,583	190,226
Ceding commission revenue – primarily related party	57,648	48,015	25,909
Loss and loss adjustment expense	297,501	191,149	98,797
Acquisition costs and other underwriting expenses	137,442	98,547	55,551
	434,943	289,696	154,348
Underwriting income	$ 69,470	$ 61,902	$ 61,787
Key measures:			
Net loss ratio	66.6%	63.0%	51.9%
Net expense ratio	17.9%	16.6%	15.6%
Net combined ratio	84.5%	79.6%	67.5%
Reconciliation of net expense ratio:			
Acquisition costs and other underwriting expenses	$ 137,442	$ 98,547	$ 55,551
Less: Ceding commission revenue – primarily related party	57,648	48,015	25,909
	$ 79,794	$ 50,532	$ 29,642
Net earned premium	$ 446,765	$303,583	$190,226
Net expense ratio	17.9%	16.6%	15.6%

Specialty Risk and Extended Warranty Segment Results of Operations 2011 Compared to 2010

Gross Written Premium. Gross written premium increased $308 million, or 41.1%, to $1,057 million for the year ended December 31, 2011 from $749 million for the year ended December 31, 2010. A majority of the increase related to growth in new and existing programs in our European business from warranty coverage of approximately $73 million, medical liability of approximately $61 million, general liability of approximately $19 million and professional liability of approximately $16 million. Additionally, the segment benefited from the underwriting of new programs in the U.S., and the assumption of unearned premium of $19 million from a new customer.

Net Written Premium. Net written premium increased $253.5 million, or 70.0%, to $615.6 million from $362.1 million for the years ended December 31, 2011 and 2010, respectively. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2011 compared to gross written premium for the year ended December 31, 2010, as well as the reduction in the percentage of our European medical liability business ceded to reinsurers from 80% to 40% commencing in the second quarter of 2011.

Net Earned Premium. Net earned premium increased $143.2 million, or 47.2%, to $446.8 million for the year ended December 31, 2011 from $303.6 million for the year ended December 31, 2010. As net premiums written are earned ratably over the term of a policy, which on average is 23 months, the increase resulted from growth in net written premium between 2010 and 2011. In addition, net earned premium increased as a result of our new reinsurance program for our European medical liability business.

Ceding Commission. The ceding commission earned during the years ended December 31, 2011 and 2010 was $57.6 million and $48.0 million, respectively. The increase related to the allocation to this segment of its proportionate share of our overall policy acquisition expense, which achieved proportionally more growth than certain other segments in 2011. Additionally, beginning on April 1, 2011, we entered into a 40% quota share reinsurance agreement with Maiden covering our European medical liability business by which we receive five percent ceding commission. Prior to April 1, 2011, this business was ceded to another reinsurer.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expense increased $106.4 million, or 55.7%, to $297.5 million for the year ended December 31, 2011 from $191.1 million for the year ended December 31, 2010. Our loss ratio for the segment for the year ended December 31, 2011 increased to 66.6% from 63.0% for the year ended December 31, 2010. The increase in the loss ratio in 2011 resulted primarily from higher current accident year selected ultimate losses as compared to selected ultimate losses in prior accident years, as well as a shift of business mix within the segment.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $38.9 million, or 39.5%, to $137.4 million for the year ended December 31, 2011 from $98.5 million for the year ended December 31, 2010. The expense ratio increased to 17.9% for the year ended December 31, 2011 compared to 16.6% for the year ended December 31, 2010. The increase in the expense ratio resulted primarily from the allocation of a smaller percentage of Maiden ceding commission to the segment during year ended December 31, 2011 compared to the same period in 2010 and an increase in premium for this segment, resulting in a higher allocation of expenses to this segment.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio increased to $69.5 million for the year ended December 31, 2011 compared to $61.9 million for the year ended December 31, 2010. The increase was attributable primarily to higher earned premium that was partially offset by higher loss and loss adjustment expense.

Specialty Risk and Extended Warranty Segment Results of Operations 2010 Compared to 2009

Gross Written Premium. Gross written premium increased $287.2 million, or 62.3%, to $748.5 million for the year ended December 31, 2010 from $461.3 million for the year ended December 31, 2009. The increase related primarily to the underwriting of new coverage plans in the U.S. and Europe, as well as additional premiums from growth in our European business related to general liability, employers' liability and professional and medical liability business generated by new underwriting teams who joined us in 2009 and 2010. The segment was also affected from the strengthening of the U.S. dollar in 2010, which negatively impacted the European business by approximately $14.6 million.

Net Written Premium. Net written premium increased $116.5 million, or 47.4%, to $362.1 million from $245.6 million for the years ended December 31, 2010 and 2009, respectively. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2010 compared to gross written premium for the year ended December 31, 2009.

Net Earned Premium. Net earned premium increased $113.4 million, or 59.6%, to $303.6 million for the year ended December 31, 2010 from $190.2 million for the year ended December 31, 2009. As net premiums written are earned ratably over the term of a policy, which range from one to three years, the increase resulted from growth in net written premium between 2008 and 2010.

Ceding Commission. The ceding commission earned during the years ended December 31, 2010 and 2009 was $48.0 million and $25.9 million, respectively. The increase related to the allocation to this segment of its proportionate share of our overall policy acquisition expense.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expense increased $92.3 million, or 93.4%, to $191.1 million for the year ended December 31, 2010 from $98.8 million for the year ended December 31, 2009. Our loss ratio for the segment for the year ended December 31, 2010 increased to 63.0% from 51.9% for the year ended December 31, 2009. The increase in the loss ratio resulted primarily from a one-time benefit of $11.8 million in 2009, which was recognized over the first half of 2009, related to the acquisition of AHL in 2009. Absent the one-time benefit, the loss ratio would have been 58.1%

for the twelve months ended December 31, 2009. The additional increase in the loss and loss adjustment expense ratio in the twelve months ended December 31, 2010 resulted primarily from higher actuarial estimates based on actual losses.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $42.9 million, or 77.2%, to $98.5 million for the year ended December 31, 2010 from $55.6 million for the year ended December 31, 2009. The expense ratio increased to 16.6% for the year ended December 31, 2010 from 15.6% for the year ended December 31, 2009. The increase in the expense ratio resulted, primarily, from higher allocated policy acquisition expense for the year ended December 31, 2010 compared to the year ended December 31, 2009.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio increased $0.1 million, or 0.2%, to $61.9 million for the year ended December 31, 2010 from $61.8 million for the years ended December 31, 2009. The slight increase was attributable primarily to higher premiums earned in 2010 offset by an increase in allocated policy acquisition costs and salary expense.

Specialty Program Segment — Results of Operations

	December 31,		
	2011	2010	2009
	(Amounts in Thousands)		
Gross written premium	$381,541	$264,051	$267,981
Net written premium	$202,715	$139,685	$142,326
Change in unearned premium	(31,340)	568	2,359
Net earned premium	171,375	140,253	144,685
Ceding commission revenue – primarily related party	34,212	23,964	28,607
Loss and loss adjustment expense	114,685	94,261	91,449
Acquisition costs and other underwriting expenses	81,568	60,071	68,994
	196,253	154,332	160,443
Underwriting income	$ 9,334	$ 9,885	$ 12,849
Key measures:			
Net loss ratio	66.9%	67.2%	63.2%
Net expense ratio	27.6%	25.7%	27.9%
Net combined ratio	94.6%	93.0%	91.1%
Reconciliation of net expense ratio:			
Acquisition costs and other underwriting expenses	$ 81,568	$ 60,071	$ 68,994
Less: Ceding commission revenue – primarily related party	34,212	23,964	28,607
	$ 47,356	$ 36,107	$ 40,387
Net earned premium	$171,375	$140,253	$144,685
Net expense ratio	27.6%	25.7%	27.9%

Specialty Program Segment Results of Operations 2011 Compared to 2010

Gross Written Premium. Gross written premium increased $117.4 million, or 44.5%, to $381.5 million for the year ended December 31, 2011 from $264.1 million for the year ended December 31, 2010. The increase in gross written premium related primarily to an increase in new and existing programs of approximately $192 million, including commercial auto and general liability programs, excess and surplus lines programs and public entity programs. The increases were offset by declines in other programs as a result of our maintenance of our pricing and administrative discipline, which resulted in the termination of certain programs representing approximately $73 million, of which three programs represented approximately 81% of this decrease. Additionally, we experienced a decrease of approximately $1.6 million in business we wrote on behalf of HSBC Insurance Company of Delaware pursuant to a 100% fronting arrangement we entered into in connection with our acquisition of WIC, which is now in run-off.

Net Written Premium. Net written premium increased $63.0 million, or 45.1%, to $202.7 million for the year ended December 31, 2011 from $139.7 million for the year ended December 31, 2010. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2011 compared to gross written premium for the year ended December 31, 2010.

Net Earned Premium. Net earned premium increased $31.1 million, or 22.2%, to $171.4 million for the year ended December 31, 2011 from $140.3 million for the year ended December 31, 2010. The segment experienced a majority of the net written premium increase in the second half of 2011. As a result, the increase in net earned premium was not in proportion to the increase in gross written premiums. As premiums earn ratably primarily over a twelve month period, the increase in net premium earned resulted from higher net premium written for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Ceding Commission. The ceding commission earned during the years ended December 31, 2011 and 2010 was $34.2 million and $24.0 million, respectively. The increase related primarily to an increase in earned premium and a shift in the mix of the programs written during the periods. The policy acquisition costs for certain programs that we wrote in 2011 are greater relative to earned premiums from programs that were in place in 2010. Therefore, we allocated more ceding commission to the segment. In addition, this segment achieved proportionally more growth as compared to certain other segments.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $20.4 million, or 21.7%, to $114.7 million for the year ended December 31, 2011 compared to $94.3 million for the year ended December 31, 2010. The loss ratio for the segment was consistent year over year and was 66.9% compared to 67.2% for the years ended December 31, 2011 and 2010, respectively. Current accident year selected ultimate losses were similar to selected ultimate losses from the prior accident years, resulting in a flat loss ratio for the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $21.5 million, or 35.8%, to $81.6 million for the year ended December 31, 2011 from $60.1 million for the year ended December 31, 2010. The expense ratio increased to 27.6% for the year ended December 31, 2011 from 25.7% for the year ended December 31, 2010. The increase in the expense ratio was attributable to the allocation to this segment of a higher proportion of our unallocated expenses as a result of the increase in premium compared to the year ended December 31, 2010, but was partially offset by a decline in acquisition costs resulting from the assumption of certain business from an arrangement we fronted in 2010.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio were $9.3 million and $9.9 million for the years ended December 31, 2011 and 2010, respectively. The majority of the decrease of $0.6 million resulted from an increase in the expense ratio.

Specialty Program Segment Results of Operations 2010 Compared to 2009

Gross Written Premium. Gross written premium decreased $3.9 million, or 1.5%, to $264.1 million for the year ended December 31, 2010 from $268.0 million for the year ended December 31, 2009. The decrease in Specialty Program gross written premium related primarily to maintenance of our pricing and administrative discipline, which resulted in the termination of two programs. Additionally we experienced a decline from business we wrote on behalf of HSBC Insurance Company of Delaware pursuant to a 100% fronting arrangement that was entered into as an accommodation to the seller in connection with our acquisition of WIC and is now in run-off. The decrease was partially offset from new business generated by the addition of underwriting teams and their specialty programs.

Net Written Premium. Net written premium decreased $2.6 million, or 1.8%, to $139.7 million for the year ended December 31, 2010 from $142.3 million for the year ended December 31, 2009. The decrease in net written premium resulted from a decrease of gross written premium for the year ended December 31, 2010 compared to gross written premium for the year ended December 31, 2009.

Net Earned Premium. Net earned premium decreased $4.4 million, or 3.0%, to $140.3 million for the year ended December 31, 2010 from $144.7 million for the year ended December 31, 2009. As premiums written earn ratably primarily over a twelve month period, the decrease was a result of lower net written premium for the twelve months ended December 31, 2010 compared to the twelve months ended December 31, 2009.

Ceding Commission. The ceding commission earned during the years ended December 31, 2010 and 2009 was $24.0 million and $28.6 million, respectively. The decrease related to the allocation to the segment of its proportionate share of our overall policy acquisition expense.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $2.8 million, or 3.1%, to $94.3 million for the year ended December 31, 2010 compared to $91.5 million for the year ended December 31, 2009. The loss ratio for the segment increased for the year ended December 31, 2010 to 67.2% from 63.2% for the years ended December 31, 2009. The increase in the loss and loss adjustment expense ratio in 2010 resulted primarily from higher actuarial estimates based on actual losses.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses decreased $8.9 million, or 12.9%, to $60.1 million for the year ended December 31, 2010 from $69.0 million for the year ended December 31, 2009. The expense ratio decreased to 25.7% for the year ended December 31, 2010 from 27.9% for the year ended December 31, 2009. The decrease in the expense ratio related primarily to a decrease in allocated policy acquisition expenses.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio were $9.9 million and $12.8 million for the years ended December 31, 2010 and 2009, respectively. The decrease of $2.9 million resulted primarily from an increase to the loss ratio period over period.

Personal Lines Reinsurance Segment — Results of Operations

	December 31,	
	2011	2010
	(Amounts in Thousands)	
Gross written premium	$102,598	$ 82,295
Net written premium	102,598	82,295
Change in unearned premium	(4,143)	(32,914)
Net earned premium	98,455	49,381
Ceding commission revenue – primarily related party	—	—
Loss and loss adjustment expense	64,226	31,629
Acquisition costs and other underwriting expenses	31,353	16,049
	95,579	47,678
Underwriting income	$ 2,876	$ 1,703
Key measures:		
Net loss ratio	65.2%	64.1%
Net expense ratio	31.8%	32.5%
Net combined ratio	97.1%	96.6%

We began assuming commercial auto business from the GMACI Insurers effective March 1, 2010 pursuant to the Personal Lines Quota Share. We assumed $102.6 million and $82.3 million of premium from the GMACI Insurers for the years ended December 31, 2011 and 2010, respectively. The increase in 2011 related primarily to assuming business for twelve months in 2011 compared to ten months in 2010. Net earned premium increased in 2011 compared to 2010 due to the earning cycle of assumed premium written in 2010 and earned in 2011. Loss and loss adjustment expense increased 103.1% in 2011 compared to 2010 and increased proportionally with net earned premium. The increase in the net loss ratio in 2011 from 2010 resulted primarily from higher actuarial estimates based on actual losses. The decrease in the net expense ratio in 2011 compared to 2010 resulted from the sliding scale commission structure, by which the ceding commission payable to GMACI decreases as the loss ratio increases.

Investment Portfolio

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

Our investment portfolio, including cash and cash equivalents, increased $519.9 million, or 35.6%, to $1,980.2 million at December 31, 2011 from $1,460.3 million as of December 31, 2010 (excluding $14.6 million and $21.5 million of other investments, respectively). Our investment portfolio is classified as available-for-sale, as defined by ASC 320, *Investments — Debt and Equity Securities*. This increase is attributable to cash flow from operations, the cash proceeds we received upon issuance of our convertible senior notes in December 2011 and the investments received from the Majestic loss portfolio transfer. Our fixed maturity securities, gross, as of December 31, 2011, had a fair value of $1,394.2 million and an amortized cost of $1,382.9 million. Our equity securities are reported at fair value and were $35.6 million with a cost of $34.0 million as of December 31, 2011. Securities sold but not yet purchased represent our obligations to deliver the specified security at the contracted price and thereby create a liability to purchase the security in the market at prevailing rates. We account for sales of securities under repurchase agreements as collateralized borrowing transactions and we record these sales at their contracted amounts.

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

	December 31, 2011		December 31, 2010	
	Carrying Value	Percentage of Portfolio	Carrying Value	Percentage of Portfolio
	(Amounts in Thousands)			
Cash, cash equivalents and restricted cash	$ 421,837	21.3%	$ 201,949	13.8%
Time and short-term deposits	128,565	6.5	32,137	2.2
U.S. treasury securities	53,274	2.7	82,447	5.6
U.S. government agencies	6,790	0.3	7,162	0.5
Municipals	275,017	13.9	66,676	4.6
Commercial mortgage back securities	150	—	2,076	0.1
Residential mortgage back securities:				
Agency backed	364,000	18.4	546,098	37.4
Non-agency backed	7,664	0.4	8,591	0.6
Asset backed securities	—	—	2,687	0.2
Corporate bonds	687,348	34.7	493,076	33.8
Preferred stocks	4,314	0.2	7,037	0.5
Common stocks	31,286	1.6	10,375	0.7
	$1,980,245	100.0%	$1,460,311	100.0%

The table below summarizes the credit quality of our fixed maturity securities as of December 31, 2011 and 2010, as rated by Standard and Poor's.

	2011	2010
U.S. Treasury	3.2%	2.5%
AAA	12.5	55.3
AA	39.7	4.6
A	23.0	20.8
BBB, BBB+, BBB-	20.1	13.2
BB, BB+, BB-	0.8	2.7
B, B+, B-	0.4	0.1
Other (includes securities rated CC, CCC, CCC- and D)	0.3	0.8
Total	100.0%	100.0%

The decrease in the percentage of our fixed maturity securities we owned having a credit quality of AAA in 2010 to 2011 was due to the downgrading of the U.S. credit rating to AA+ in 2011 by Standard & Poor's.

The table below summarizes the average duration by type of fixed maturity as well as detailing the average yield as of December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Average Yield%	Average Duration in Years	Average Yield%	Average Duration in Years
U.S. treasury securities	2.31	3.3	2.77	6.9
U.S. government agencies	4.12	2.9	4.82	2.9
Foreign government	3.98	5.6	4.30	2.1
Corporate bonds	4.38	3.7	4.01	3.1
Municipals	4.18	5.4	5.32	10.5
Mortgage and asset backed	3.68	2.6	3.78	3.3

As of December 31, 2011, the weighted average duration of our fixed income securities was 3.7 years and had a yield of 4.1%.

Other investments represented approximately 1.0% and 1.5% of our total investment portfolio as of December 31, 2011 and 2010, respectively. At December 31, 2011, other investments consisted primarily of limited partnerships or hedge funds totaling $13.2 million and an annuity of $1.4 million. At December 31, 2010, other investments consisted primarily of limited partnerships or hedge funds totaling $15.1 million, an annuity of $1.4 million and miscellaneous investments totaling $5.0 million.

Quarterly, our Investment Committee (''Committee'') evaluates each security that has an unrealized loss as of the end of the subject reporting period for OTTI. We generally consider an investment to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion or more) for over 24 months. In addition, the Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

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

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

The impairment charges of our fixed-maturities and equity securities for the years ended December 31, 2011, 2010 and 2009 are presented in the table below:

	2011	2010	2009
	(Amounts in Thousands)		
Equity securities	$ 937	$10,656	$20,639
Fixed maturity securities	3,474	10,540	4,139
	$4,411	$21,196	$24,778

In addition to the other-than-temporary impairment of $4.4 million recorded during the year ended December 31, 2011, we had $41.3 million of gross unrealized losses, of which $3.7 million related to marketable equity securities and $37.6 million related to fixed maturity securities as of December 31, 2011.

Corporate bonds represent 49% of the fair value of our fixed maturities and 97% of the total unrealized losses of our fixed maturities. We own 232 corporate bonds in the industrial, bank and financial and other sectors, which have a fair value of approximately 9%, 37% and 3%, respectively, and 8%, 85% and 4% of total unrealized losses, respectively, of our fixed maturities. We believe that the unrealized losses in these securities are the result, primarily, of general economic conditions and not the condition of the issuers, which we believe are solvent and have the ability to meet their obligations. Therefore, we expect that the market price for these securities should recover within a reasonable time. Additionally, we do not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost basis.

Our investment in marketable equity securities consist of investments in preferred and common stock across a wide range of sectors. We evaluated the near-term prospects for recovery of fair value in relation to the severity and duration of the impairment and have determined in each case that the probability of recovery is reasonable and we have the ability and intent to hold these investments until a recovery of fair value. Within our portfolio of equity securities, 11 common stocks comprised $3.6 million, or 97%, of the unrealized loss. We own 3 securities in the financial sector that represent 12% of the fair market value and 42% of our unrealized losses. We own 3 securities in the industrial sector that represent approximately 5% of the fair market value and approximately 35% our unrealized losses. We own 3 securities in the consumer products sector that have approximately 3% of the fair value and approximately 12% of the unrealized losses. We also own 2 securities in the healthcare sector that represent approximately 1% of the fair market value and 8% of our unrealized losses. The duration of these impairments ranges from 1 to 24 months. The remaining securities in a loss position are not considered individually significant and accounted for 3% of our unrealized losses. We believe these securities will recover and that we have the ability and intent to hold them to recovery.

The table below summarizes 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, 2011:

	Less than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
	(Amounts in Thousands)							
Common and preferred stock	$ 4,211	$ (648)	7	$ 4,573	$ (3,021)	17	$ 8,784	$ (3,669)
U.S. treasury securities	7,523	(257)	4	773	—	1	8,296	(257)
Municipal bonds	43,452	(452)	10	4,098	(61)	1	47,550	(513)
Corporate bonds:								
Finance	221,950	(13,250)	81	104,461	(18,668)	17	326,411	(31,918)
Industrial	35,105	(2,125)	11	2,500	(865)	1	37,605	(2,990)
Utilities	21,483	(1,261)	9	5,766	(457)	1	27,249	(1,718)
Commercial mortgage backed securities	150	—	2	—	—	—	150	—
Residential mortgage backed securities:								
Agency backed	31,986	(58)	9	—	—	—	31,986	(58)
Non-agency backed	7,641	(216)	1	22	(6)	1	7,663	(222)
Total temporarily impaired	$373,501	$(18,267)	134	$122,193	$(23,078)	39	$495,694	$(41,345)

There are 173 securities at December 31, 2011 that account for the gross unrealized loss, none of which we deem to be OTTI. Significant factors influencing our determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that we will be required to sell these investments before anticipated recovery of fair value to our cost basis.

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

Liquidity and Capital Resources

We are organized as a holding company with eleven insurance company subsidiaries (''Insurance Subsidiaries''), as well as various other non-insurance subsidiaries. Our primary liquidity needs include debt payments, interest on debt, taxes and shareholder dividends. Our income is generated primarily from our Insurance Subsidiaries and investment income.

We may generate liquidity through a combination of debt or equity securities issuances, as well as financing through borrowing and sales of securities. In 2011, we issued ten-year, $175.0 million convertible senior notes (the $25.0 million overallotment was issued in January 2012) and entered into a three-year, $150 million credit facility that was initially used to pay off the remaining principal balance of a then outstanding $40 million term loan.

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

The laws of the jurisdictions in which our Insurance Subsidiaries are organized regulate and restrict, under certain circumstances, their ability to pay dividends to us. As of December 31, 2011 and 2010, respectively, the Insurance Subsidiaries would have been permitted to pay dividends in the aggregate of approximately $306.1 million and $253.0 million, respectively. Our Insurance Subsidiaries paid dividends to us of $5.8 million in 2011. There were $5.0 million and $4.5 million of dividends paid in 2010 and 2009, respectively. In addition, the terms of our debt arrangements limit our ability to pay dividends on our common stock, and future borrowings may include prohibitions and restrictions on dividends. Additional information regarding our dividends is presented in ''Item 1. Business — Regulation'', in ''Item 1A. Risk Factors'' and in ''Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchase of Equity Securities — Dividend Policy'' appearing elsewhere in this Form 10-K.

We forecast claim payments based on our historical trends. We seek to manage the funding of claim payments by actively managing available cash and forecasting cash flows on a short-term and long-term basis. Cash payments for claims were $313.1 million, $409.6 million and $569.9 million in 2009, 2010 and 2011, respectively. Historically, we have funded claim payments from cash flow from operations (principally premiums) net of amounts ceded to our third party reinsurers. We presently expect to maintain sufficient cash flow from operations to meet our anticipated claim obligations and operating and capital expenditure needs. Our cash and investment portfolio has increased from $1,460.3 million (excluding $21.5 million of other investments) at December 31, 2010 to $1,980.2 million (excluding $14.6 million of other investments) at December 31, 2011. We do not anticipate selling securities in our investment portfolio to pay claims or to fund operating expenses. Should circumstances arise that would require us to do so, we may incur losses on such sales, which would adversely affect our results of operations and financial condition and could reduce investment income in future periods.

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

Comparison of Years Ended December 31, 2011 and 2010

Net cash provided by operating activities was approximately $295 million for the year ended December 31, 2011, compared to $26 million for the same period in 2010. The increase in cash provided from operations resulted primarily from an increase in gross written premium written in 2011 compared to 2010. Additionally, we had increased cash collections in 2011 related to the earning of the tail end of premium written in 2010 for Specialty Risk and Extended Warranty segment policies that generally have a longer policy life and therefore a longer cash collection cycle. The increase was partially offset by earnings from our equity investment in ACAC and gains from our investment in life settlement contracts, which were non-cash.

Net cash used in investing activities was $97 million for the year ended December 31, 2011. Net cash used in investing activities was $210 million for the year ended December 31, 2010. In 2011, net cash used in investing activities primarily included approximately $44 million for the net purchase of fixed and equity securities, approximately $53 million for the acquisition of and premium payments for life settlement contracts, approximately $39 million for capital expenditures and approximately $30 million for the Cardinal Comp acquisition, and was partially offset by the net receipt of cash in the approximate amount of $44 million obtained in the acquisition of Luxembourg captives and approximately $29 million obtained as part of the loss portfolio transfer from Majestic. In 2010, major components of net cash provided by investing activities included an equity investment in ACAC of $53 million, acquisitions of Warrantech and Risk Services of $20 million, net purchases of investments for $105 million and capital expenditures of $15 million.

Net cash provided by financing activities was $19 million for the year ended December 31, 2011 compared to net cash used in 2010 of $150 million. In 2011, cash provided by financing activities primarily included the receipt of $175 million from the issuance of our convertible senior notes and the contribution of approximately $25 million from non-controlling interests to our subsidiaries partially offset by the repayment on repurchase agreements in the amount of approximately $156 million, dividend payments of approximately $20 million and principal payment of debt obligations of approximately $15 million. In 2010, cash provided by financing activities included $175 million received from entering into repurchase agreements and capital contributions to a subsidiary of $11 million, partially offset by principal payments on debt of $21 million and dividend payments of $17 million.

Other Material Changes in Financial Position

	December 31,	
	2011	2010
	(Amounts in Thousands)	
Selected Assets:		
Cash and cash equivalents	$ 406,847	$ 192,925
Premiums receivable, net	932,992	727,561
Prepaid expenses and other assets	292,849	155,799
Reinsurance recoverable	1,098,569	775,432
Selected Liabilities:		
Loss and loss expense reserves	$1,879,175	$1,263,537
Unearned premium	1,366,170	1,024,965
Securities sold under arrangements to repurchase, at contract value	191,718	347,617
Debt	279,600	144,781

In 2011, cash and cash equivalents increased $213.9 million and resulted primarily from generating cash from operations and the issuance of our convertible senior notes. Premium receivables increased $205.4 million as a result of the increase in premium writing in 2011, related primarily to organic growth in Europe in the Specialty Risk and Extended Warranty segment. Prepaid expenses and other assets increased $137.1 million and resulted primarily from our investment in life settlement contracts. Reinsurance recoverable increased $323.1 million as a result of ceding more premium in 2011 compared to 2010.

Loss and loss expense reserves increased $615.6 million and unearned premium increased $341.2 million in 2011 due primarily to higher premium writings in 2011. Securities sold under agreements to repurchase, at contract value, decreased by $155.9 million in 2011 as we decreased our borrowing position on these investments in 2011. Debt increased $134.8 million as a result of the issuance of our convertible senior notes in 2011.

Reinsurance

The following table summarizes the top eleven reinsurers that account for approximately 92% of our reinsurance recoverables on paid and unpaid losses and loss adjustment expenses as of December 31, 2011:

Reinsurer	A.M. Best Rating	Amount Recoverable as of December 31, 2011
	(Amounts in Thousands)	
Maiden Insurance Company Ltd.	A-	$597,525
National Indemnity Company	A++	71,687
National Workers' Compensation Reinsurance Pool (NWCRP)(1)	NR	68,440
American Home Assurance Company	A	66,370
Trinity Universal Insurance Company(2)	A-	54,601
Hannover Ruckversicherungs AG(3)	A	48,971
Alterra Bermuda Limited(3)	A	35,730
Twin Bridges Ltd.(3)	NR	31,478
Lloyd's Underwriter Syn No. 2003 SIC	A	13,359
Swiss Reinsurance America Corporation	A+	12,329
AXIS Specialty(3)	A	12,097

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

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

(3) At the time of the Majestic loss portfolio transfer, these entities were reinsurers of Majestic. We currently hold collateral of approximately $73 million in a trust account related to cessions for Twin Bridges and Alterra, as well as approximately $37 million of funds held.

Third Party Excess of Loss Reinsurance

We purchase excess of loss reinsurance from third party insurers for our workers' compensation, commercial property and casualty business attributable to both the Small Commercial Business segment and the Specialty Program segment. Under excess of loss reinsurance, covered losses above a specified amount up to the limit of the reinsurance coverage are paid by the reinsurer. In return for this coverage, we pay our reinsurers a percentage of our insurance premiums subject to certain minimum reinsurance premium requirements. Our excess of loss reinsurance program includes contracts that are scheduled to renew at various times during the year.

Workers' Compensation Excess of Loss

We have coverage for our workers' compensation line of business under excess of loss reinsurance agreements. In addition to insuring employers for their statutory workers' compensation liabilities, our workers' compensation policies provide insurance for the employers' tort liability (if any) for bodily injury or disease sustained by employees in the course of their employment. Certain layers of our workers' compensation reinsurance provide coverage for such employers' liability insurance at lower limits than the applicable limits for workers' compensation insurance. As the scale of our workers' compensation business has increased, we have also increased the amount of risk we retain. The agreements cover, per occurrence, losses in excess of $0.5 million through December 31, 2004, $0.6 million effective January 1, 2005, $1.0 million effective July 1, 2006 through July 1, 2009, $1.0 million plus 55% of $9.0 million in excess of

$1.0 million effective July 1, 2009 through January 1, 2010, and $10 million effective January 1, 2010 up to a maximum $130 million ($50 million prior to December 1, 2003) in losses. For losses occurring on or after January 1, 2010, we purchased a ''third and fourth event cover'' that covers losses between $5.0 million and $10.0 million per occurrence, after an aggregate deductible equal to the first $10.0 million per annum on such losses. For losses occurring on or after January 1, 2011, we replaced this ''third and fourth event cover'' with a ''second and third event cover'' that applies after an aggregate deductible equal to the first $5.0 million per annum on such losses. Effective August 19, 2011, we purchased a new layer of coverage providing $100 million in excess of $130 million per occurrence, providing us with total protection of $220 million for losses in excess of $10.0 million. The agreements have annual limits of coverage of twice the occurrence limit.

Our reinsurance for workers' compensation losses caused by acts of terrorism is more limited than our reinsurance for other types of workers' compensation losses and, effective August 19, 2011, provides coverage, per contract year, of $220.0 million in the aggregate, in excess of an aggregate retention of $10.0 million, but excludes acts of nuclear, biological or chemical terrorism (which are covered by the Terrorism Risk Insurance Act, as amended (''TRIA'')). The reinsurance for worker's compensation losses caused by acts of terrorism is provided net of any recovery we receive from the federal government pursuant to TRIA. A limited amount of workers' compensation and excess workers' compensation exposures are written as reinsurance and were not, prior to January 1, 2012, protected by the excess reinsurance program listed above. The limit exposed to a single workers' compensation occurrence loss for such exposures varies depending on the size of the loss occurrence. For smaller losses, the additional exposure can be as high as $6.625 million, while for larger losses (greater than $30.0 million for the group), the additional exposure is $0.525 million or less unless the group loss exceeds $230 million.

Specialty Risk Excess of Loss

We have excess of loss reinsurance coverage for international general liability and professional business underwritten by our English and Irish insurers. The agreements cover losses in excess of £1.0 million per occurrence up to a maximum of £10.0 million per occurrence, subject to annual aggregate limits that vary by layer. Through December 31, 2010, we had excess of loss reinsurance under the same terms for our European medical liability business. In 2010, we purchased an 80% quota share reinsurance agreement from National Indemnity Company for our European medical liability business. This contract was effective for claims made through March 31, 2011. Effective April 1, 2011, we replaced this quota share reinsurance agreement with a 40% cession to Maiden Insurance, as more fully described below under ''Reinsurance Agreements with Maiden Holdings, Ltd.'' In addition, we purchase various pro-rata and excess reinsurance relating to specific foreign insurance programs and/or specialty lines of business.

Casualty Reinsurance

We have coverage for our U.S. casualty lines of business under an excess of loss reinsurance agreement. The agreement covers losses in excess of $2.0 million per occurrence (in certain cases the retention can rise to $2.5 million) up to a maximum $30.0 million, subject to annual limits that vary by layer. We purchase quota share reinsurance for a portion of our umbrella business, whereby we cede 70% of the first $5.0 million of loss per policy and 100% of the next $5.0 million loss per policy. In addition, we also purchase various pro-rata and excess reinsurance relating to specific insurance programs and/or specialty lines of business, including casualty, public entity, and professional errors and omissions insurance.

Property Per Risk Excess Coverage

We have coverage for our U.S. property lines of business under an excess of loss reinsurance agreement. The agreement covers losses in excess of $2.0 million per location up to a maximum $20 million, subject to per occurrence and annual limits that vary by layer.

Property Catastrophe Reinsurance

For our U.S. business, we have a property catastrophe excess of loss agreement that covers losses in excess of $5.0 million per occurrence up to a maximum $65.0 million, subject to annual limits that vary by layer. We also have coverage for our U.K. property lines of business under an excess of loss reinsurance agreement. The agreement covers losses in excess of £0.5 million per risk up to a maximum £2.0 million. In addition, we have a property catastrophe excess of loss agreement that covers losses in excess of £5.0 million per occurrence up to a maximum £45.0 million, subject to annual limits that vary by layer.

TRIA requires that commercial property and casualty insurance companies offer coverage for U.S. risks (with certain exceptions, such as with respect to commercial auto insurance) for certain acts of terrorism and has established a federal assistance program through the end of 2014 to help such insurers cover claims for terrorism-related losses. TRIA covers certified acts of terrorism, and the U.S. Secretary of the Treasury must declare the act to be a ''certified act of terrorism'' for it to be covered under this federal program. In addition, no certified act of terrorism will be covered by the TRIA program unless the aggregate insurance industry losses from the act exceed $100 million for each year. Under the TRIA program, the federal government covers 85% of the losses from covered certified acts of terrorism on commercial risks in the United States only, in excess of a deductible amount. This deductible is calculated as a percentage of an affiliated insurance group's prior year premiums on commercial lines policies (with certain exceptions, such as commercial auto insurance policies) covering risks in the United States. This deductible amount is 20% of such premiums.

TRIA will expire at the end of 2014 and no assurance can be given that it will be renewed or that any such renewal will not be on materially less favorable terms.

Specialty Risk and Extended Warranty Reinsurance

We purchase quota share and/or excess of loss and/or facultative reinsurance for specific programs, specialty lines of business, or individual policies to limit our loss exposure and/or allow our program managers to share the risks and rewards of the business they produce.

Reinsurance Agreements with Maiden Holdings, Ltd.

During the third quarter of 2007, we entered into a master agreement with Maiden, as amended, by which our Bermuda subsidiary, AII, and Maiden Insurance entered into a quota share reinsurance agreement (the ''Maiden Quota Share''), as amended. Under this agreement, AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by our U.S., Irish and U.K. insurance companies (the ''AmTrust Ceding Insurers''), net of the cost of unaffiliated inuring reinsurance (and in the case of our U.K. insurance subsidiary, AEL, net of commissions) and 40% of losses, excluding certain specialty risk programs that we commenced writing after the effective date and risks, other than workers' compensation risks and certain business written by our Irish subsidiary, AIU, for which the AmTrust Ceding Insurers' net retention exceeds $5.0 million, which Maiden has not expressly agreed to assume (''Covered Business''). Effective January 1, 2010, Maiden agreed to assume its proportionate share of our workers' compensation exposure in excess of $5.0 million, and will share the benefit of our excess of loss reinsurance protection.

The Maiden Quota Share, which had an initial term of three years, was renewed through June 30, 2014 and will automatically renew for successive three-year terms unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on thirty days' notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Insurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers.

Effective April 1, 2011, the Maiden Quota Share, as amended, further provides that AII receives a ceding commission of 30% of ceded written premiums with respect to all Covered Business, except retail commercial package business, for which the ceding commission is 34.375%. Commencing January 1, 2012, the ceding commission, excluding the retail package business ceding commission (which remains at 34.375%), was adjusted to (a) 30% of ceded premium, if the Specialty Risk and Extended Warranty subject premium, excluding ceded premium related to our medical liability business discussed below, is greater than or equal to 42% of the total subject premium, (b) 30.5% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 42% but greater than or equal to 38%, or (c) 31% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 38% of the total subject premium. Prior to April 1, 2011, AII received a ceding commission of 31% of ceded premiums with respect to all Covered Business, except retail commercial package business, for which the ceding commission was 34.375%.

We recorded approximately $154 million, $138 million and $113 million of ceding commission during 2011, 2010 and 2009, respectively, as a result of the Maiden Quota Share. The agreement also will include, subject to regulatory requirements, the premiums and losses of any Covered Business of any majority-owned insurance subsidiary that we may acquire in the future.

Effective September 1, 2010, we, through our subsidiary, SNIC, entered into a reinsurance agreement with Maiden Reinsurance Company and an unrelated third party. Under the agreement, which had an initial term of one year and has been extended to August 31, 2012, SNIC cedes 80% of the gross liabilities produced under the Southern General Agency program to Maiden Reinsurance Company and 20% of the gross liabilities produced to the unrelated third party. SNIC receives a five percent commission on ceded written premiums. We ceded written premium of $0.9 million for the year ended December 31, 2011 related to this agreement, for which we earned ceding commission of $0.2 million for the year ended December 31, 2011.

Effective April 1, 2011, we, through our subsidiaries AEL and AIU, entered into a reinsurance agreement with Maiden Insurance by which we cede 40% of our European medical liability business, including business in force at April 1, 2011. The quota share has an initial term of one year and can be terminated at April 1, 2012 or any April 1 thereafter by either party on four months' notice. Maiden Insurance pays us a 5% ceding commission, and we will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%.

Other Reinsurance

As part of our acquisition of AIIC, we acquired reinsurance recoverables as of the date of closing. The most significant reinsurance recoverable is from American Home Assurance Co. (''American Home''). AIIC's reinsurance relationship with American Home incepted January 1, 1998 on a loss occurring basis. From January 1, 1998 through March 31, 1999, the American Home reinsurance covered losses in excess of $0.25 million per occurrence up to statutory coverage limits. Effective April 1, 1999, American Home provided coverage in the amount of $0.15 million in excess of $0.1 million. This additional coverage terminated on December 31, 2001 on a run-off basis. Therefore, for losses occurring in 2002 that attached to a 2001 policy, the retention was $0.1 million per occurrence. Effective January 1, 2002, American Home increased its attachment to $0.25 million per occurrence. The excess of loss treaty that had an attachment of $0.25 million was terminated on a run-off basis on December 31, 2002. Therefore, losses occurring in 2003 that attached to a 2002 policy were ceded to American Home at an attachment point of $0.25 million per occurrence.

We reevaluate our reinsurance programs annually or more frequently, as needed, and consider a number of factors, including cost of reinsurance, quality of reinsurers, our liquidity requirements, operating leverage and coverage terms. Even if we maintain our existing retention levels, if the cost of reinsurance increases, our cash flow from operations would decrease as we would cede a greater portion of our premiums written to our reinsurers. Conversely, our cash flow from operations would increase if the cost of reinsurance declined relative to our retention.

Revolving Credit Agreement

On January 28, 2011, we entered into a three-year, $150 million credit agreement (the ''Credit Agreement''), among JPMorgan Chase Bank, N.A., as Administrative Agent, The Bank of Nova Scotia, as Syndication Agent, SunTrust Bank, as Documentation Agent, and the various lending institutions party thereto. The credit facility is a revolving credit facility with a letter of credit sublimit of $50 million and an expansion feature not to exceed $50 million. Proceeds of borrowings under the Credit Agreement may be used for working capital, acquisitions and general corporate purposes. In connection with entering into the Credit Agreement, we terminated the then existing Term Loan and Uncommitted Line of Credit Letter Agreement with JPMorgan Chase Bank, N.A. We did not record a gain or loss on the extinguishment of its previous term loan.

ABR borrowings (which are borrowings bearing interest at a rate determined by reference to the Alternate Base Rate) under the Credit Agreement will bear interest at (x) the greatest of (a) the Administrative Agent's prime rate, (b) the federal funds effective rate plus 0.5 percent or (c) the adjusted LIBO rate for a one month interest period on such day plus 1 percent, plus (y) a margin that is adjusted on the basis of our consolidated leverage ratio. Eurodollar borrowings under the credit agreement will bear interest at the adjusted LIBO rate for the interest period in effect plus a margin that is adjusted on the basis of our consolidated leverage ratio.

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 us to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. We were in compliance with all covenants as of December 31, 2011.

As of December 31, 2011, we had no outstanding borrowings under this Credit Agreement. We had outstanding letters of credit in place under this Credit Agreement at December 31, 2011 for $49.8 million, which reduced the availability on the line of credit to $0.2 million and the availability under the facility to $100.2 million as of December 31, 2011.

We recorded approximately $1.0 million of deferred financing costs related to the Credit Agreement. Fees payable by us under the Credit Agreement include a letter of credit participation fee (which is the margin applicable to Eurodollar borrowings and was 2.25% at December 31, 2011), a letter of credit fronting fee with respect to each letter of credit (.125%) and a commitment fee on the available commitments of the lenders (a range of .35% to .45% based on our consolidated leverage ratio and was 0.40% at December 31, 2011).

The interest rate on the credit facility as of December 31, 2011 was 2.50%. We recorded interest expense of approximately $2.7 million for the year ended December 31, 2011, under the Credit Agreement. We recorded interest expense of approximately $0.07 million and $0.8 million for the years ended December 31, 2011 and 2010, respectively, related to the terminated term loan.

Convertible Senior Notes

In December 2011, we issued $175 million aggregate principal amount of our 5.5% convertible senior notes due 2021 (the ''Notes'') to certain initial purchasers in a private placement. In January 2012, the initial purchasers of the Notes exercised their overallotment option for the purchase of $25.0 million of Notes, bringing the aggregate amount of Notes issued to $200 million. The Notes bear interest at a rate equal to 5.50% per year, payable semiannually in arrears on June 15th and December 15th of each year, beginning on June 15, 2012.

The Notes will mature on December 15, 2021 (the ''Maturity Date''), unless earlier purchased by us or converted into shares of our common stock, par value $0.01 per share (the ''Common Stock''). Prior to September 15, 2021, the Notes will be convertible only upon satisfaction of certain conditions, and thereafter, at any time prior to the close of business on the second scheduled trading day immediately preceding the Maturity Date. The conversion rate will initially equal 31.4218 shares of Common Stock per $1,000 principal amount of Notes, which corresponds to an initial conversion price of approximately $31.83 per share of Common Stock, representing a conversion premium of 25.0% over $25.46 per share, which was the last reported sale price of the Common Stock on the NASDAQ on December 15, 2011. The conversion rate will be subject to adjustment upon the occurrence of certain events as set forth in the indenture governing the notes. Upon conversion of the Notes, we will, at our election, pay or deliver, as the case may be, cash, shares of Common Stock, or a combination of cash and shares of Common Stock.

Upon the occurrence of a fundamental change (as defined in the indenture governing the notes), holders of the Notes will have the right to require us to repurchase their Notes for cash, in whole or in part, at 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date.

We separately allocate the proceeds for the issuance of the Notes to a liability component and an equity component, which is the embedded conversion option. The equity component was reported as an adjustment to paid-in-capital, net of tax, and is reflected as an original issue discount (''OID''). The OID of $36.5 million and deferred origination costs relating to the liability component of $4.2 million will be amortized into interest expense over the term of the loan of the Notes. After considering the contractual interest payments and amortization of the original discount, the Notes effective interest rate is 8.57%. Transaction costs of

$1.1 million associated the equity component were netted with the equity component in paid-in-capital. Interest expense, including amortization of deferred origination costs, recognized on the Notes was $0.5 million for the year ended December 31, 2011.

Secured Loan Agreement

During February 2011, we entered into a seven-year secured loan agreement with Bank of America Leasing & Capital, LLC in the aggregate amount of $10.8 million to finance the purchase of an aircraft. The loan bears interest at a fixed rate of 4.45%, requires monthly installment payments of approximately $0.1 million, commencing on March 25, 2011 and ending on February 25, 2018, and a balloon payment of $3.2 million at the maturity date. We recorded approximately $0.07 million of deferred financing costs related this agreement. We recorded interest expense of approximately $0.4 million for the year ended December 31, 2011 related to this agreement. The loan is secured by an aircraft that one of our subsidiaries acquired in February 2011.

The agreement contains certain covenants that are similar to our revolving credit facility. Additionally, subsequent to February 25, 2012, but prior to payment in full, if the outstanding balance of this loan exceeds 90% of the fair value of the aircraft, we are required to pay the lender the entire amount necessary to reduce the outstanding principal balance to be equal or less than 90% of the fair value of the aircraft. The agreement allows us, under certain conditions, to repay the entire outstanding principal balance of this loan without penalty.

Promissory Note

In connection with the stock and asset purchase agreement with a subsidiary of Unitrin, Inc. (now called Kemper Corporation), on June 1, 2008, we issued a promissory note to Unitrin, Inc. in the amount of $30 million. The note is non-interest bearing and requires four annual principal payments of $7.5 million. We paid the first three annual principal payments between 2009 and 2011, and the remaining principal payment is due on June 1, 2012. Upon entering into the promissory note, we calculated imputed interest of approximately $3.2 million based on interest rates available to us, which was 4.5%. Accordingly, the note's carrying balance was adjusted to approximately $26.8 million at the acquisition. The note is required to be paid in full, immediately, under certain circumstances including a default of payment or change of control of the Company. We included approximately $0.5 million and $0.8 million of amortized discount on the note in our results of operations for the years ended December 31, 2011 and 2010, respectively. The note's carrying value at December 31, 2011 was $7.4 million.

Securities Sold Under Agreements to Repurchase, at Contract Value

We enter into repurchase agreements. The agreements are accounted for as collateralized borrowing transactions and are recorded at contract amounts. We receive cash or securities that we invest or hold in short term or fixed income securities. As of December 31, 2011, there were $191.7 million principal amount outstanding at interest rates between 0.4% and 0.45%. Interest expense associated with these repurchase agreements for 2011 was $1.0 million of which $0 million was accrued as of December 31, 2011. We have approximately $210.9 million of collateral pledged in support of these agreements.

Note Payable — Collateral for Proportionate Share of Reinsurance Obligation

In conjunction with the Maiden Quota Share (see ''— Reinsurance''), AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby, Maiden Insurance loaned to AII the amount equal to its quota share of the obligations of the AmTrust Ceding Insurers that AII was then obligated to secure. We deposited all proceeds from the advances into a sub-account of each trust account that has been established for each AmTrust Ceding Insurer. To the extent of the loan, Maiden Insurance is discharged from providing security for its proportionate share of the obligations as contemplated by the Maiden Quota Share. If an AmTrust Ceding Insurer withdraws loan proceeds from the trust account for the purpose of reimbursing such AmTrust Ceding Insurer for an ultimate net loss, the outstanding principal balance of the loan shall be reduced by the amount of such withdrawal. The loan agreement was amended in February 2008 to provide for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Each advance under the loan is secured by a promissory note. Advances totaled $168.0 million as of December 31, 2011.

Comerica Letter of Credit Facility

One of our subsidiaries, entered into a secured letter of credit facility with Comerica Bank, N.A. during 2011. The credit limit is for $75 million and was utilized for $49.8 million as of December 31, 2011. We are required to pay a letter of credit participation fee for each letter of credit in the amount of 0.40%.

Short-term borrowings

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

Contractual Obligations and Commitments

The following table sets forth certain of our contractual obligations as of December 31, 2011:

	Payment Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	(Amounts in Thousands)				
Loss and loss adjustment expenses[1]	$1,879,175	$ 944,535	$503,800	$208,980	$ 221,860
Loss-based insurance assessments[2]	13,696	6,884	3,672	1,523	1,617
Operating lease obligations	62,352	8,403	15,435	13,418	25,096
Purchase obligations[3]	16,309	12,087	3,143	1,079	—
Employment agreement obligations	22,495	9,474	6,610	4,204	2,207
Life insurance policy premiums related to life settlement contracts and premium finance loans[4]	662,033	22,444	53,208	65,436	520,945
Debt and interest[5]	700,901	27,570	206,423	31,814	435,094
Total	$3,356,961	$1,031,397	$792,291	$326,454	$1,206,819

(1) The loss and loss adjustment expense payments due by period in the table above are based upon the loss and loss adjustment expense estimates as of December 31, 2011 and actuarial estimates of expected payout patterns and are not contractual liabilities as to a time certain. Our contractual liability is to provide benefits under the policy. As a result, our calculation of loss and loss adjustment expense payments due by period is subject to the same uncertainties associated with determining the level of loss and loss adjustment expenses generally and to the additional uncertainties arising from the difficulty of predicting when claims (including claims that have not yet been reported to us) will be paid. For a discussion of our loss and loss adjustment expense estimate process, see "Item 1. Business — Loss Reserves." Actual payments of loss and loss adjustment expenses by period will vary, perhaps materially, from the table above to the extent that current estimates of loss and loss adjustment expenses vary from actual ultimate claims amounts and as a result of variations between expected and actual payout patterns. See "Item 1A. Risk Factors — Risks Related to Our Business — Our loss reserves are based on estimates and may be inadequate to cover our actual losses" for a discussion of the uncertainties associated with estimating loss and loss adjustment expenses.

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

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

(4) We currently own 237 life settlement contracts and 36 premium finance loans with a carrying value of $136.8 million. In order for us to derive the economic benefit of the face value of the policies, we are required to make these premium payments.

(5) The interest related to the debt by period is as follows: $19.2 million — less than 1 year, $36.4 million — 1 – 3 years, $29.5 million — 3 – 5 years and $135.4 million — more than 5 years. In addition, included within debt and interest is $168.0 million related to the Maiden collateral loan and $4.8 million of associated interest.

Inflation

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Liquidity Risk. Liquidity risk represents our potential inability to meet all payment obligations when they become due. We maintain sufficient cash and marketable securities to fund claim payments and operations. We purchase reinsurance coverage to mitigate the risk of an unexpected rise in claims severity or frequency from catastrophic events or a single large loss. The availability, amount and cost of reinsurance depend on market conditions and may vary significantly.

Credit Risk. Credit risk is the potential loss arising principally from adverse changes in the financial condition of the issuers of our fixed maturity securities and the financial condition of our third party reinsurers. We address the credit risk related to the issuers of our fixed maturity securities by investing primarily in fixed maturity securities that are rated ‘‘BBB-’’ or higher by Standard & Poor’s. We also independently monitor the financial condition of all issuers of our fixed maturity securities. To limit our risk exposure, we employ diversification policies that limit the credit exposure to any single issuer or business sector.

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

Interest Rate Risk. We had fixed maturity securities (excluding $128.6 million of time and short-term deposits) with a fair value of $1.39 billion and a carrying value of $1.38 billion as of December 31, 2011 that are subject to interest rate risk. Interest rate risk is the risk that we may incur losses due to adverse changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of our fixed maturity securities. We manage our exposure to interest rate risk through a disciplined asset and liability matching and capital management process. In the management of this risk, the characteristics of duration, credit and variability of cash flows are critical elements. These risks are assessed regularly and balanced within the context of our liability and capital position.

The table below summarizes the interest rate risk associated with our fixed maturity securities by illustrating the sensitivity of the fair value and carrying value of our fixed maturity securities as of December 31, 2011 to selected hypothetical changes in interest rates, and the associated impact on our stockholders' equity. We anticipate that we will continue to meet our obligations out of income. We classify our fixed securities and equity securities as available-for-sale. Temporary changes in the fair value of our fixed maturity securities impact the carrying value of these securities and are reported in our shareholders' equity as a component of other comprehensive income, net of deferred taxes.

The selected scenarios in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the fair value and carrying value of our fixed maturity securities and on our shareholders' equity, each as of December 31, 2011.

Hypothetical Change in Interest Rates	**Fair Value**	**Estimated Change in Fair Value**	**Hypothetical Percentage Increase (Decrease) in Shareholders' Equity**
		(Amounts in Thousands)	
200 basis point increase	$1,259,946	$(134,297)	(9.8)%
100 basis point increase	1,326,941	(67,302)	(4.9)
No change	1,394,243	—	—
100 basis point decrease	1,459,657	65,414	4.8
200 basis point decrease	1,529,560	135,317	9.9

Changes in interest rates would affect the fair market value of our fixed rate debt instruments but would not have an impact on our earnings or cash flow. We currently have $447.6 million of debt instruments of which $279.6 million are fixed rate debt instruments. A fluctuation of 100 basis points in interest on our variable rate debt instruments, which are tied to LIBOR, would affect our earnings and cash flows by $1.7 million before income tax, on an annual basis, but would not affect the fair market value of the variable rate debt.

Foreign Currency Risk. We write insurance in the United Kingdom and certain other European Union member countries through AIU and AEL. While the functional currency of AIU and AEL are, respectively, the Euro and the British Pound, we write coverages that are settled in local currencies, including, primarily, the Euro and the British Pound. We attempt to maintain sufficient local currency assets on deposit to minimize our exposure to realized currency losses. Assuming a 5% increase in the exchange rate of the local currency in which the claims will be paid and that we do not hold that local currency, we would recognize a $18.8 million before tax realized currency loss based on our outstanding foreign denominated reserves of $376.0 million at December 31, 2011.

Equity Price Risk. Equity price risk is the risk that we may incur losses due to adverse changes in the market prices of the equity securities we hold in our investment portfolio, which include common stocks, non-redeemable preferred stocks and master limited partnerships. We classify our portfolio of equity securities as available-for-sale and carry these securities on our balance sheet at fair value. Accordingly, adverse changes in the market prices of our equity securities result in a decrease in the value of our total assets and a decrease in our shareholders' equity. As of December 31, 2011, the equity securities in our investment portfolio had a fair value of $35.6 million, representing approximately two percent of our total invested assets on that date.

The table below illustrates the impact on our equity portfolio and financial position given a hypothetical movement in the broader equity markets. The selected scenarios in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the carrying value of our equity portfolio and on shareholders' equity as of December 31, 2011. The hypothetical scenarios below assume that our Beta is 1 when compared to the S&P 500 index.

Hypothetical Change in S&P 500 Index	Fair Value	Estimated Change in Fair Value	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
		(Amounts in Thousands)	
5% increase	$37,380	$ 1,780	0.1%
No change	35,600	—	
5% decrease	33,820	(1,780)	(0.1)

Off Balance Sheet Risk. We have exposure or risk related to securities sold but not yet purchased.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Controls Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Internal Control Over Financial Reporting

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

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

Management has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2011, based on the control criteria established in a report entitled *Internal Control — Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that our internal control over financial reporting is effective as of December 31, 2011.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AmTrust Financial Services, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, AmTrust Financial Services, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AmTrust Financial Services, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated March 15, 2012 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
March 15, 2012

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 on Form 10-K is incorporated by reference to the information contained in our Proxy Statement for our Annual Meeting of Stockholders to be held May 24, 2012 (the "Proxy Statement") under the captions "Proposal 1: Election of Directors," "Executive Officers," "Corporate Governance — Code of Business Conduct and Ethics," "Corporate Governance — Board Committees — Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance."

Item 11. Executive Compensation

The information required by Item 11 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions "Executive Compensation," "Compensation of Directors," "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report."

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

A portion of the information required by Item 12 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management."

Equity Compensation Plan Information

The table below shows information regarding awards outstanding and shares of common stock available for issuance as of December 31, 2011 under the AmTrust Financial Services, Inc. 2010 Omnibus Incentive Plan.

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	4,063,018	$10.17	5,512,089
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	4,063,018	$10.17	5,512,089

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

The information required by Item 13 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions "Certain Relationships and Related Transactions" and "Corporate Governance — Independence of Directors."

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the caption "Proposal 2: Ratification of Independent Registered Public Accounting Firm."

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

(b) Exhibits: See Item 15(a).

(c) Schedules: See Item 15(a).

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

SIGNATURES

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

AMTRUST FINANCIAL SERVICES, INC.

March 15, 2012

By: /s/ Ronald E. Pipoly, Jr.
Name: Ronald E. Pipoly, Jr.
Title: Chief Financial Officer

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

Signature	Title	Date
/s/ Barry D. Zyskind Barry D. Zyskind	Chief Executive Officer, President and Director (Principal Executive Officer)	March 15, 2012
/s/ Ronald E. Pipoly, Jr. Ronald E. Pipoly, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2012
/s/ Michael Karfunkel Michael Karfunkel	Chairman of the Board	March 15, 2012
/s/ George Karfunkel George Karfunkel	Director	March 15, 2012
/s/ Donald T. DeCarlo Donald T. DeCarlo	Director	March 15, 2012
/s/ Susan Fisch Susan Fisch	Director	March 15, 2012
/s/ Abraham Gulkowitz Abraham Gulkowitz	Director	March 15, 2012
/s/ Jay J. Miller Jay J. Miller	Director	March 15, 2012

AMTRUST FINANCIAL SERVICES, INC.

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of AmTrust Financial Services, Inc. as of December 31, 2011 and 2010 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmTrust Financial Services, Inc. at December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2012 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
March 15, 2012

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Par Value per Share)

	December 31, 2011	December 31, 2010
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at market value (amortized cost $1,382,863; $1,192,844)	$1,394,243	$1,208,813
Equity securities, available-for-sale, at market value (cost $34,041; $18,577)	35,600	17,412
Short-term investments	128,565	32,137
Equity investments in unconsolidated subsidiaries – related parties	87,498	77,136
Other investments	14,588	21,514
Total investments	1,660,494	1,357,012
Cash and cash equivalents	406,847	192,925
Restricted cash and cash equivalents	23,104	17,130
Accrued interest and dividends	12,644	7,979
Premiums receivable, net	932,992	727,561
Reinsurance recoverable (related party $597,525; $386,932)	1,098,569	775,432
Prepaid reinsurance premium (related party $429,124; $283,899)	584,871	484,960
Prepaid expenses and other assets (recorded at fair value $131,387; $22,155)	292,849	155,799
Federal income tax receivable	13,024	10,269
Deferred policy acquisition costs	280,991	224,671
Property and equipment, net	61,553	30,889
Goodwill	147,654	106,220
Intangible assets, net	166,962	91,606
	$5,682,554	$4,182,453
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss expense reserves	$1,879,175	$1,263,537
Unearned premiums	1,366,170	1,024,965
Ceded reinsurance premiums payable (related party $222,408; $95,629)	337,508	266,314
Reinsurance payable on paid losses	14,731	11,343
Funds held under reinsurance treaties	49,249	3,217
Note payable on collateral loan – related party	167,975	167,975
Securities sold but not yet purchased, at market	55,942	8,847
Securities sold under agreements to repurchase, at contract value	191,718	347,617
Accrued expenses and other current liabilities (recorded at fair value $7,311; $4,711)	267,643	193,008
Deferred income taxes	108,775	9,883
Debt	279,600	144,781
Total liabilities	4,718,486	3,441,487
Commitments and contingencies		
Redeemable non-controlling interest	600	600
Stockholders' equity:		
Common stock, $.01 par value; 100,000 shares authorized, 84,906 and 84,314 issued in 2011 and 2010, respectively; 60,106 and 59,565 outstanding in 2011 and 2010, respectively	849	844
Preferred stock, $.01 par value; 10,000 shares authorized	—	—
Additional paid – in capital	582,321	548,731
Treasury stock at cost; 24,800 and 24,816 shares in 2011 and 2010, respectively	(300,365)	(300,489)
Accumulated other comprehensive loss	(9,999)	(266)
Retained earnings	617,757	467,694
Total AmTrust Financial Services, Inc. equity	890,563	716,514
Non-controlling interest	72,905	23,852
Total stockholders' equity	963,468	740,366
	$5,682,554	$4,182,453

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)

	Year Ended December 31, 2011	2010	2009
Revenues:			
Premium income:			
Net premium written	$ 1,276,597	$ 827,226	$ 643,426
Change in unearned premium	(239,736)	(81,567)	(69,544)
Net earned premium	1,036,861	745,659	573,882
Ceding commission – primarily related party	153,953	138,261	113,931
Service and fee income (related parties $16,700; $12,322; $8,622)	108,660	62,067	30,690
Net investment income	55,515	50,517	55,287
Net realized gain (loss) on investments	2,768	5,953	(33,579)
Total revenues	1,357,757	1,002,457	740,211
Expenses:			
Loss and loss adjustment expense	678,333	471,481	327,771
Acquisition costs and other underwriting expenses	398,404	302,809	244,279
Other	86,611	56,403	22,232
Total expenses	1,163,348	830,693	594,282
Income before other income (expense), income taxes and equity in earnings (loss) of unconsolidated subsidiaries	194,409	171,764	145,929
Other income (expenses):			
Foreign currency gain (loss)	(2,418)	684	2,459
Interest expense	(16,079)	(12,902)	(16,884)
Acquisition gain on purchase	5,850	—	—
Gain on investment in life settlement contracts net of profit commission	46,892	11,855	—
Total other income (expenses)	34,245	(363)	(14,425)
Income before income taxes and equity in earnings (loss) of unconsolidated subsidiaries	228,654	171,401	131,504
Provision for income taxes	42,372	47,053	27,459
Income before equity in earnings (loss) of unconsolidated subsidiaries	186,282	124,348	104,045
Equity in earnings (loss) of unconsolidated subsidiaries – related party	7,871	24,044	(822)
Net income	194,153	148,392	103,223
Net income attributable to non-controlling interests of subsidiaries	(23,719)	(5,927)	—
Net income attributable to AmTrust Financial Services, Inc.	$ 170,434	$ 142,465	$ 103,223
Earnings per common share:			
Basic earnings per share	$ 2.85	$ 2.39	$ 1.74
Diluted earnings per share	$ 2.77	$ 2.36	$ 1.72
Dividends declared per common share	$ 0.34	$ 0.29	$ 0.23
Weighted average common shares outstanding:			
Basic	59,836	59,453	59,433
Diluted	61,582	60,346	59,954
Net realized gain (loss) on investments:			
Total other-than-temporary impairment losses	$ (4,411)	$ (21,196)	$ (24,778)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(4,411)	(21,196)	(24,778)
Other net realized gain (loss) on investments	7,179	27,149	(8,801)
Net realized investment gain (loss)	$ 2,768	$ 5,953	$ (33,579)

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)
Years Ended December 31, 2011, 2010, 2009

	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2008	842	—	$539,421	$(294,803)	$(105,815)	$252,903	$392,548
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	103,223	103,223
Foreign currency translation	—	—	—	—	4,863	—	4,863
Unrealized holding loss on investments	—	—	—	—	63,370	—	63,370
Reclassification adjustment for securities sold during the year	—	—	—	—	20,562	—	20,562
Total comprehensive income							192,018
Stock option compensation	—	—	4,241	—	—	—	4,241
Stock repurchase	—	—	—	(6,086)	—	—	(6,086)
Exercise of stock options	—	—	315	—	—	—	315
Common stock dividend	—	—	—	—	—	(13,644)	(13,644)
Balance, December 31, 2009	842	—	543,977	(300,889)	(17,020)	342,482	569,392
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	148,392	148,392
Foreign currency translation	—	—	—	—	(4,820)	—	(4,820)
Unrealized holding gain on investments	—	—	—	—	8,414	—	8,414
Reclassification adjustment for securities sold during the year	—	—	—	—	13,160	—	13,160
Total comprehensive income							165,146
Non-controlling interest in subsidiaries	—	—	—	—	—	(5,927)	(5,927)
Comprehensive income attributable to AmTrust							159,219
Issuance of restricted stock	—	—	(400)	400	—	—	—
Stock option compensation	—	—	3,386	—	—	—	3,386
Exercise of stock options	2	—	1,768	—	—	—	1,770
Common stock dividend	—	—	—	—	—	(17,253)	(17,253)
Balance, December 31, 2010	844	—	548,731	(300,489)	(266)	467,694	716,514
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	194,153	194,153
Foreign currency translation	—	—	—	—	(4,815)	—	(4,815)
Change in fair value of derivative	—	—	—	—	(2,280)	—	(2,280)
Unrealized holding loss on investments	—	—	—	—	4,518	—	4,518
Reclassification adjustment for securities sold during the year	—	—	—	—	(7,156)	—	(7,156)
Total comprehensive income							184,420
Non-controlling interest in subsidiaries	—	—	—	—	—	(23,719)	(23,719)
Comprehensive income attributable to AmTrust							160,701
Equity component of convertible senior notes, net of income tax and issue costs	—	—	22,723	—	—	—	22,723
Issuance of restricted stock	—	—	(124)	124	—	—	—
Stock option compensation	—	—	5,571	—	—	—	5,571
Exercise of stock options	5	—	5,420	—	—	—	5,425
Common stock dividend	—	—	—	—	—	(20,371)	(20,371)
Balance, December 31, 2011	849	—	$582,321	$(300,365)	$ (9,999)	$617,757	$890,563
Non-controlling interest in equity of consolidated Subsidiaries:							
Balance, December 31, 2009							$ —
Capital contributions to subsidiaries							17,925
Income attributable to non-controlling interests							5,927
Balance, December 31, 2010							$ 23,852
Capital contribution to subsidiaries							25,334
Income attributable to non-controlling interests							23,719
Balance, December 31, 2011							$ 72,905

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net income	$ 194,153	$ 148,392	$ 103,223
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	50,000	18,429	8,791
Equity (earnings) losses and gain on investment in unconsolidated subsidiaries	(7,871)	(24,044)	822
Gain on investment in life settlement contracts	(46,892)	(11,855)	—
Realized (gain) loss on marketable securities	(7,179)	(27,149)	8,801
Acquisition gain on purchase	(5,850)	—	—
Non-cash write-down of marketable securities	4,411	21,196	24,778
Discount on notes payable	462	772	1,067
Stock based compensation	5,571	3,386	4,241
Bad debt expense	7,287	6,037	4,843
Foreign currency (gain) loss	2,418	(684)	(2,459)
Changes in assets – (increase) decrease:			
Premiums and notes receivable	(186,721)	(208,677)	(81,137)
Reinsurance recoverable	(174,988)	(132,111)	(58,499)
Deferred policy acquisition costs, net	(56,320)	(44,492)	(76,214)
Prepaid reinsurance premiums	(99,911)	(74,407)	(38,523)
Prepaid expenses and other assets	(40,229)	(48,210)	(8,696)
Changes in liabilities – increase (decrease):			
Reinsurance premium payable	71,194	132,238	(1,700)
Loss and loss expense reserves	283,978	171,593	77,885
Unearned premiums	315,208	153,186	111,864
Funds held under reinsurance treaties	(5,683)	2,527	462
Accrued expenses and other current liabilities	44,071	(63,402)	27,191
Deferred tax asset (liability)	(52,551)	3,626	57,673
Net cash provided by operating activities	294,558	26,351	164,413
Cash flows from investing activities:			
Purchases of available for sale fixed maturities	(2,065,393)	(3,711,080)	(498,035)
Purchases of equity securities	(37,410)	(28,321)	(26,893)
Purchases of other investments	(611)	(5,284)	(1,398)
Sales of held to maturity fixed maturities	—	—	48,881
Sales of available for sale fixed maturities	2,122,923	3,573,660	350,837
Sales of equity securities	17,634	65,531	21,637
Sales of other investments	6,776	200	—
Net (purchases) sales of short term investments	(96,428)	(872)	136,580
Acquisition of and capitalized premiums for life settlement contracts	(53,363)	(14,574)	—
Receipt of life settlement contract proceeds	10,530	—	—
Acquisition of renewal rights and goodwill	(30,388)	—	(7,904)
Loss portfolio transfer, net of cash obtained	28,969	—	—

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(In Thousands)

	Years Ended December 31,		
	2011	2010	2009
Acquisition of subsidiaries, net of cash obtained	43,950	6,929	6,545
Investment in ACAC	—	(53,055)	—
Acquisition of Warrantech, net of cash obtained	—	(9,056)	—
Acquisition of Risk Services, net of cash obtained	—	(10,846)	—
Increase in restricted cash and cash equivalents	(5,974)	(8,180)	(2,588)
Purchase of property and equipment	(38,601)	(14,722)	(5,519)
Net cash (used in) provided by investing activities	(97,386)	(209,670)	22,143
Cash flows from financing activities:			
Repurchase agreements, net	(155,899)	174,843	(111,718)
Revolving credit facility borrowings	123,200	—	—
Revolving credit facility payments	(123,200)	—	—
Convertible senior notes proceeds	175,000	—	—
Secured loan agreement borrowings	10,800	—	—
Secured loan agreements payments	(782)	—	—
Term loan payment	(6,667)	(13,333)	(13,333)
Non-interest bearing note payment	(7,500)	(7,500)	(7,500)
Financing fees	(6,644)	—	—
Repurchase of common stock	—	—	(6,086)
Capital contribution to subsidiaries	25,334	11,025	—
Stock option exercise and other	5,425	1,770	315
Dividends distributed in common stock	(19,712)	(16,647)	(13,088)
Net cash provided by (used in) financing activities	19,355	150,158	(151,410)
Effect of exchange rate changes on cash	(2,605)	1,226	4,023
Net increase (decrease) in cash and cash equivalents	213,922	(31,935)	39,169
Cash and cash equivalents, beginning year	192,925	224,860	185,691
Cash and cash equivalents, end of year	$ 406,847	$ 192,925	$ 224,860
Supplemental Cash Flow Information			
Interest	$ 12,931	$ 13,405	$ 14,601
Income tax payments	14,158	33,480	18,802

See accompanying notes to consolidated financial statements.

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

1. Nature of Operations

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

The Company transacts business through eleven insurance company subsidiaries: Technology Insurance Company, Inc. (''TIC''), Rochdale Insurance Company (''RIC''), Wesco Insurance Company (''WIC''), Associated Industries Insurance Company, Inc. (''AIIC''), Milwaukee Casualty Insurance Company (''MCIC''), Security National Insurance Company (''SNIC''), AmTrust Insurance Company of Kansas, Inc. (''AICK'') and AmTrust Lloyd's Insurance Company of Texas (''ALIC''), which are domiciled in New Hampshire, New York, Delaware, Florida, Wisconsin, Texas, Kansas and Texas, respectively; and AmTrust International Insurance Ltd. (''AII''), AmTrust International Underwriters Limited (''AIU'') and AmTrust Europe, Ltd. (''AEL''), which are domiciled in Bermuda, Ireland and England, respectively.

2. Significant Accounting Policies

Basis of Reporting — The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries. The Company uses the equity method of accounting for its investment in American Capital Acquisition Corporation (''ACAC'') in which it owns a 21.25% ownership interest. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Premiums — Insurance premiums, other than specialty risk and extended warranty, are recognized as earned on the straight-line basis over the contract period. Insurance premiums on specialty risk and extended warranty are earned based on an estimated program coverage period. These estimates are based on the expected distribution of coverage periods by contract at inception, because a single contract may contain multiple coverage period options, these estimates are revised based on the actual coverage period selected by the insured. Unearned premiums represent the portion of premiums written which is applicable to the unexpired term of the contract or policy in force. Premium adjustments on contracts and audit premiums are based on estimates made over the contract period. Premiums earned but not yet billed to insureds are estimated and accrued, net of related costs. These estimates are subject to the effects of trends in payroll audit adjustments. Although considerable variability is inherent in such estimates, management believes that the accrual for earned but unbilled premiums is reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The Company historically has used a percentage of premium for establishing its allowance for doubtful accounts. The Company reviews its bad debt write-offs at least annually and adjusts its premium percentage as required. Allowance for doubtful accounts were approximately $11,682 and $10,420 at December 31, 2011 and 2010, respectively.

Ceding Commission Revenue — Commissions on reinsurance premiums ceded are earned in a manner consistent with the recognition of the direct acquisition costs of underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured. Certain reinsurance agreements contain provisions whereby the ceding commission rates vary based on the loss experience under the agreements. The Company records ceding commission revenue based on its current estimate of subject losses. The Company records adjustments to the ceding commission revenue in the period that changes in the estimated losses are determined.

2. Significant Accounting Policies – (continued)

Loss and Loss Adjustment Expenses — Loss and loss adjustment expenses (‘‘LAE’’) represent the estimated ultimate net costs of all reported and unreported losses incurred through December 31, 2011. The reserves for unpaid losses and LAE are estimated using individual case-basis valuations and statistical analyses and are not discounted. Although considerable variability is inherent in the estimates of reserves for losses and LAE, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

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

Quarterly, the Company's Investment Committee (‘‘Committee’’) evaluates each security that has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment (‘‘OTTI’’). The Company generally considers an investment to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion or more) for over 24 months. In addition, the Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

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

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

2. Significant Accounting Policies – (continued)

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

The Company has the following types of investments:

(a) Short-term investments — Short term investments are carried at cost, which approximates fair value, and include investments with maturities between 91 days and less than one year at date of acquisition. As of December 31, 2011 and 2010, short term investments consisted primarily of money market investments.

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

(c) 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.

(d) Limited partnerships — The Company uses the equity method of accounting for investments in limited partnerships in which its ownership interest of the limited partnership enables the Company to influence the operating or financial decisions of the investee company, but the Company's interest in the limited partnership does not require consolidation. The Company's proportionate share of equity in net income of these unconsolidated affiliates is reported in net investment income.

(e) Derivatives and hedging activities — The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio. Derivatives are financial arrangements among two or more parties with returns linked to an underlying equity, debt, commodity, asset, liability, foreign exchange rate or other index. Unless subject to a scope exclusion, the Company carries all derivatives on the consolidated balance sheet at fair value. For derivatives that do not qualify for hedge accounting, the changes in fair value of the derivative are presented as a component of operating income. The Company primarily utilizes the following types of derivatives:

- Credit default swap contracts (''CDS''), which, are valued in accordance with the terms of each contract based on the current interest rate spreads and credit risk of the referenced obligation of the underlying issuer and interest accrual through valuation date. Fair values are based on the price of the underlying bond on the valuation date. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract. Such amounts are limited to the total equity of the account;
- Interest rate swaps (''IS''), which are valued in terms of the contract between the Company and the issuer of the swaps, are based on the difference between the stated floating rate of the underlying indebtedness, and a predetermined fixed rate for such indebtedness with the result that the indebtedness carries a net fixed interest rate; and

2. Significant Accounting Policies – (continued)

- Contracts for difference contracts (''CFD''), which, are valued based on the market price of the underlying stock. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract.

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

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

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

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

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

2. Significant Accounting Policies – (continued)

Level 1 as the estimates are based on unadjusted prices. The Company's Level 2 investments include obligations of U.S. government agencies, municipal bonds, corporate debt securities and other mortgage backed securities.

Equity Securities. For public common and preferred stocks, the Company receives estimates from a pricing service that are based on observable market transactions and includes these estimates in Level 1 hierarchy.

Other Investments. The Company has approximately 1% of its investment portfolio, in limited partnerships or hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy. The Company has determined that its investments in Level 3 securities are not material to its financial position or results of operations.

Derivatives. The Company estimates fair value using information provided by the portfolio manager for IS and CDS and the counterparty for CFD and classifies derivatives as Level 3 hierarchy.

Life Settlements — When the Company becomes the owner of a life insurance policy either by direct purchase or following a default on a premium finance loan, the life insurance premium for such policy is accounted for as an investment in life settlements. Investments in life settlements are accounted for in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these investments using the fair value method. Fair value of the investment in policies is determined using unobservable Level 3 inputs and is calculated by performing a net present value calculation of the face amount of the life policies less premiums for the total portfolio. The unobservable Level 3 inputs use new or updated information that affects our assumptions about remaining life expectancy, credit worthiness of the policy issuer, funds needed to maintain the asset until maturity, and discount rates.

Premium Finance Loans — The Company owns certain premium finance loans, in association with the acquisition of life settlement contracts. The Company records the premium finance loans initially at cost. These loans are collateralized by underlying life insurance policies and the Company is obligated to pay premiums on these policies. Interest income is not accrued on loans where management has determined that the borrowers may be unable to meet contractual obligations. Cash receipts on these loans (if any) are generally applied to the principal balance until the remaining balance is considered collectible, at which time interest income may be recognized when received. Upon default of a loan, the Company has the option to acquire the underlying collateral, if the Company believes it has the required economic value.

Warranty Fee Revenue — The Company promotes and markets extended service plans (''ESP'') to consumers through retailers and certain other marketing organizations usually with terms of coverage ranging from one to three years, commencing at the expiration of the manufacturers' warranty, if applicable. The Company generally insures the obligations under ESPs through contractual liability insurance issued by one of its insurance company subsidiaries. Under the terms of service agreements with various retailers, the Company provides for marketing and administrative services related to ESP. These agreements are generally for one-year terms and can be cancelled by either party with thirty days advance notice. The Company recognizes revenue related to promotion, marketing and administration services at the time of the sale of ESP. However, the Company defers a portion of service revenue based upon an estimate of administrative services to be provided in future periods.

(In Thousands, Except Per Share Data)

2. Significant Accounting Policies – (continued)

Deferred Policy Acquisition Costs — The Company defers commission expenses, premium taxes and assessments as well as certain sales, underwriting and safety costs that vary with and are primarily related to the acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. The Company may realize deferred policy acquisition costs only if the ratio of loss and loss adjustment expense reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%, the Company could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve. The Company considers anticipated investment income in determining whether a premium deficiency relating to short duration contracts exists. The change in net deferred acquisition costs was $56,320, $44,492 and $76,214 for the years ended December 31, 2011, 2010 and 2009, respectively. The amortization for deferred acquisition costs was $161,392, $102,085 and $73,531 in 2011, 2010 and 2009, respectively.

Reinsurance — Reinsurance premiums, losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums earned and losses incurred ceded to other companies have been recorded as a reduction of premium revenue and losses and LAE. Commissions allowed by reinsurers on business ceded have been recorded as ceding commission revenue. Reinsurance recoverables are reported based on the portion of reserves and paid losses and LAE that are ceded to other companies. The Company remains liable for all loss payments, notwithstanding the failure to collect from the reinsurer.

Assessments — Insurance related assessments are accrued in the period in which they have been incurred. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. The Company is subject to a variety of assessments, such as assessments by state guaranty funds and workers' compensation second injury funds. State guaranty funds assessments are used by state insurance regulators to cover losses of policyholders of insolvent insurance companies and for the operating expenses of such agencies. The Company uses estimated assessment rates in determining the appropriate assessment expense and accrual. The Company uses estimates derived from state regulators and/or National Association of Insurance Commissioners (''NAIC'') Tax and Assessments Guidelines. Assessment expense for the years ended December 31, 2011, 2010 and 2009 was approximately $8,504, $9,220 and $8,304, respectively.

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

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

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

Goodwill and Intangible Assets — The Company accounts for goodwill and intangible assets in accordance with ASC 350 *Intangibles — Goodwill and Other.* Upon the completion of an acquisition, the Company completes purchase price accounting in accordance with ASC 805, *Business Combinations*, which requires an acquirer to assign values to the acquired assets and liabilities based on their fair value. In the event that a purchase price paid is in excess of the net assets acquired, any unidentified excess is deemed to be goodwill. Goodwill is not amortized. Additionally as a result of an acquisition, the Company may obtain identifiable intangible assets. Indefinite lived intangible assets are not amortized. Intangible assets with a finite

2. Significant Accounting Policies – (continued)

life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statement of operations. Goodwill and intangible assets with an indefinite useful life were carried at $165,427 and $123,994 as of December 31, 2011 and 2010, respectively. As of December 31, 2011 and 2010, intangible assets with a finite life were valued at $149,189 and $73,832, respectively. For the years ended December 31, 2011, 2010 and 2009, the Company amortized approximately $40,194, $14,305 and $4,023, respectively related to its intangible assets with a finite life.

Income Taxes — The Company joins its domestic subsidiaries in the filing of a consolidated federal income tax return and is party to federal income tax allocation agreements. Under the tax allocation agreements, the Company pays to or receives from its subsidiaries the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return.

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

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that we will generate future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. If necessary, 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. Tax years 2007 through 2011 are still subject to examination. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

Foreign Currency — The Company assigns functional currencies to its foreign operations, which are generally the currencies of the local operating environment. Foreign currency amounts are remeasured to the functional currency and the resulting foreign exchange gains and losses are reflected in earnings. Functional currency amounts from the Company's foreign operations are then translated into U.S. dollars. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of accumulated other changes in equity from nonowner sources. The foreign currency remeasurement and translation are calculated using current exchange rates for the items reported on the balance sheets and average exchange rates for items recorded in earnings.

2. Significant Accounting Policies – (continued)

Stock Compensation Expense — The Company follows ASC 720 *Compensation — Stock Compensation* and recognizes compensation expense for its share-based payments based on the fair value of the awards. Share-based payments include restricted stock, restricted stock units and stock option grants under the Company's 2005 Equity Incentive Plan and 2010 Omnibus Incentive Plan. ASC 720 requires share-based compensation expense recognized to be based on estimated grant date fair value.

Earnings Per Share — The Company accounts for earnings per share under the two-class method, as described in ASC 260, *Earnings Per Share*. Under the two-class method, earnings for the period are allocated between common stockholders and other stockholders based on their respective rights to receive dividends. Restricted stock awards granted to employees under the Company's 2005 Equity Incentive Plan are considered participating securities as they receive dividends on this stock.

Treasury Stock — The Company accounts for the treasury stock at the repurchase price as a reduction to stockholders' equity.

Concentration and Credit Risk — Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, investments and premium receivable. Investments are diversified through the types of investments, industry sectors and geographic regions. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and investments. At December 31, 2011 and 2010, the outstanding premium receivable balance is generally diversified due to the number of entities composing the Company's customer base. To reduce credit risk, the Company performs ongoing evaluations of its customers' financial condition. The Company also has receivables from its reinsurers. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company periodically evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. It is the policy of management to review all outstanding receivables at period end as well as the bad debt write-offs experienced in the past and establish an allowance for doubtful accounts, if deemed necessary.

Non-controlling Interest — The ownership interest in consolidated subsidiaries of non-controlling interests is reflected as non-controlling interest. The Company's consolidation principles would also consolidate any entity in which the Company would be deemed a primary beneficiary. Non-controlling interest expense represents such non-controlling interests' in the earnings of that entity. All significant transactions and account balances between the Company and its subsidiaries were eliminated during consolidation.

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

Reclassifications — Certain accounts in the prior years' consolidated financial statements have been reclassified for comparative purposes to conform to the current year's presentation. This did not have any impact on the net income of the Company.

2. Significant Accounting Policies – (continued)

Recent Accounting Literature

In December 2011, the Financial Accounting Standards Board (''FASB'') issued a new standard which indefinitely defers certain provisions of a previously issued standard, Accounting Standards Update (''ASU'') No. 2011-05 *Comprehensive Income (Topic 220)* that revised the manner in which companies present comprehensive income in financial statements. One of the ASU provisions required companies to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. Accordingly, this requirement is indefinitely deferred and will be further deliberated by the FASB at a future date. The amendment will be effective for fiscal years and interim periods within those years that begin after December 15, 2011.

In June 2011, the FASB issued ASU No. 2011-05 *Comprehensive Income (Topic 220)*. This update requires that all non-owner charges in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-step approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The updated guidance is effective for fiscal years and interim periods beginning on or after December 15, 2011 and is to be applied on a retrospective basis to the beginning of the annual period of adoption. The new standard does not change the items that must be reported in other comprehensive income and will be effective for fiscal years and interim periods within those years that begin after December 15, 2011. The adoption of the new standard will not have a material impact on the Company's results of operations, financial position or liquidity.

In September 2011, the FASB issued ASU No. 2011-08 *Intangibles-Goodwill and Other (Topic 350)*. The updated guidance is intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment, using factors such as changes in management, key personnel, business strategy, technology or customers, to determine whether it should calculate the fair value of a reporting unit. Previous accounting literature required an entity to test goodwill for impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. In the second step, the implied fair value of the reporting unit's goodwill is determined in the same manner as goodwill is measured in a business combination (by measuring the fair value of the reporting unit's assets, liabilities and unrecognized intangible assets and determining the remaining amount ascribed to goodwill) and comparing the amount of the implied goodwill to the carrying amount of the goodwill. Under the updated guidance, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that is more likely than not that its fair value is less than its carrying amount. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 31, 2011. The Company is currently assessing the impact of the adoption of this guidance, but does not anticipate any material impact on its results of operations, financial position or liquidity.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820)*. The ASU generally aligns the principles for fair value measurements and the related disclosure requirements under GAAP and International Financial Reporting Standards (''IFRS''). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. The amendment is effective on a prospective basis for interim and annual reporting periods beginning after December 15, 2011 and early adoption is not permitted. The adoption of the standard will not have a material impact on the Company's consolidated financial statements.

2. Significant Accounting Policies – (continued)

In April 2011, the FASB amended its guidance on accounting for repurchase agreements. The amendments eliminate the criteria to assess whether a transferor must have the ability to repurchase or redeem the financial assets in order to demonstrate effective control over the transferred asset. Under the amended guidance, a transferor maintains effective control over transferred financial assets (and thus accounts for the transfer as a secured borrowing) if there is an agreement that both entitles and obligates the transferor to repurchase the financial assets before maturity and if all of the following conditions previously required are met: (i) financial assets to be repurchased or redeemed are the same or substantially the same as those transferred; (ii) repurchase or redemption date before maturity at a fixed or determinable price; and (iii) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. As a result, more arrangements could be accounted for as secured borrowings rather than sales. The updated guidance is effective on a prospective basis for interim and annual reporting periods beginning on or after December 15, 2011. The Company does not believe the impact of the adoption of this new guidance will have a material impact on the Company's results of operations, financial position or liquidity.

In October 2010, the FASB issued ASU No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* (''ASU 2010-26''). ASU 2010-26 modifies the types of costs that may be deferred, allowing insurance companies to only defer costs directly related to a successful contract acquisition or renewal. These costs include incremental direct costs of successful contracts, the portion of employees' salaries and benefits related to time spent on acquisition activities for successful contracts and other costs incurred in the acquisition of a contract. Additional disclosure of the type of acquisition costs capitalized is also required. ASU 2010-26 is effective on prospective basis for interim and annual reporting periods beginning after December 15, 2011. The Company has completed its assessment using the prospective method and believes the adoption of the new standard will have an impact of additional expenses of approximately $8,000 on an annual basis on the Company's consolidated financial statements.

3. Investments

(a) Available-for-Sale Securities

The amortized cost, estimated fair value and gross unrealized appreciation and depreciation of fixed and equity securities are presented in the tables below:

(Amounts in Thousands) As of December 31, 2011	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 5,091	$ —	$ (777)	$ 4,314
Common stock	28,950	5,228	(2,892)	31,286
U.S. treasury securities	50,474	3,057	(257)	53,274
U.S. government agencies	6,268	522	—	6,790
Municipal bonds	268,240	7,290	(513)	275,017
Corporate bonds:				
Finance	534,810	13,059	(31,918)	515,951
Industrial	131,489	4,392	(2,990)	132,891
Utilities	38,434	1,790	(1,718)	38,506
Commercial mortgage backed securities	150	—	—	150
Residential mortgage backed securities:				
Agency backed	345,112	18,946	(58)	364,000
Non-agency backed	7,886	—	(222)	7,664
	$1,416,904	$54,284	$(41,345)	$1,429,843

(Amounts in Thousands) As of December 31, 2010	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 7,175	$ 107	$ (245)	$ 7,037
Common stock	11,402	1,224	(2,251)	10,375
U.S. treasury securities	82,279	1,634	(1,466)	82,447
U.S. government agencies	6,483	679	—	7,162
Municipal bonds	67,396	438	(1,158)	66,676
Corporate bonds:				
Finance	411,532	9,756	(15,276)	406,012
Industrial	47,828	1,970	(45)	49,753
Utilities	36,375	1,204	(268)	37,311
Commercial mortgage backed securities	1,970	106	—	2,076
Residential mortgage backed securities:				
Agency backed	528,683	18,653	(1,238)	546,098
Non-agency backed	7,779	817	(5)	8,591
Asset-backed securities	2,519	168	—	2,687
	$1,211,421	$36,756	$(21,952)	$1,226,225

Proceeds from the sale of investments in available-for-sale securities during the years ended December 31, 2011, 2010, and 2009 were approximately $2,140,557, $3,639,191, and $421,355, respectively.

3. Investments – (continued)

A summary of the Company's available-for-sale fixed securities as of December 31, 2011 and 2010, 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, 2011	
(Amounts in Thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 10,044	$ 18,661
Due after one through five years	286,007	277,959
Due after five through ten years	501,490	494,290
Due after ten years	228,695	231,519
Mortgage backed securities	356,627	371,814
Total fixed maturities	$1,382,863	$1,394,243

	December 31, 2010	
(Amounts in Thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 5,153	$ 5,241
Due after one through five years	102,536	103,222
Due after five through ten years	451,481	450,164
Due after ten years	92,723	90,734
Mortgage backed securities	540,951	559,452
Total fixed maturities	$1,192,844	$1,208,813

(b) Investment Income

Net investment income for the years ended December 31, 2011, 2010 and 2009 was derived from the following sources:

(Amounts in Thousands)	2011	2010	2009
Fixed maturity securities	$53,595	$43,789	$47,675
Equity securities	981	702	2,084
Cash and short term investments	1,966	4,042	4,173
Interest on note receivable – related party	—	2,612	2,967
	56,542	51,145	56,899
Less: Investment expenses and interest expense on securities sold under agreement to repurchase	(1,027)	(628)	(1,612)
	$55,515	50,517	$55,287

(c) Other Than Temporary Impairment

OTTI charges of our fixed-maturities and equity securities for the years ended December 31, 2011, 2010 and 2009 are presented in the table below:

(Amounts in Thousands)	2011	2010	2009
Equity securities recognized in earnings	$ 937	$10,656	$20,639
Fixed maturity securities recognized in earnings	3,474	10,540	4,139
	$4,411	$21,196	$24,778

3. Investments – (continued)

The tables below summarize the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized loss position as of December 31, 2011 and 2010:

(Amounts in Thousands) December 31, 2011	Less Than 12 Months Fair Market Value	Less Than 12 Months Unrealized Losses	Less Than 12 Months No. of Positions Held	12 Months or More Fair Market Value	12 Months or More Unrealized Losses	12 Months or More No. of Positions Held	Total Fair Market Value	Total Unrealized Losses
Common and preferred stock	$ 4,211	$ (648)	7	$ 4,573	$ (3,021)	17	$ 8,784	$ (3,669)
U.S. treasury securities	7,523	(257)	4	773	—	1	8,296	(257)
Municipal bonds	43,452	(452)	10	4,098	(61)	1	47,550	(513)
Corporate bonds:								
Finance	221,950	(13,250)	81	104,461	(18,668)	17	326,411	(31,918)
Industrial	35,105	(2,125)	11	2,500	(865)	1	37,605	(2,990)
Utilities	21,483	(1,261)	9	5,766	(457)	1	27,249	(1,718)
Commercial mortgage backed securities	150	—	2	—	—	—	150	—
Residential mortgage backed securities:								
Agency backed	31,986	(58)	9	—	—	—	31,986	(58)
Non-agency backed	7,641	(216)	1	22	(6)	1	7,663	(222)
Total temporarily impaired	$373,501	$(18,267)	134	$122,193	$(23,078)	39	$495,694	$(41,345)

(Amounts in Thousands) December 31, 2010	Less Than 12 Months Fair Market Value	Less Than 12 Months Unrealized Losses	Less Than 12 Months No. of Positions Held	12 Months or More Fair Market Value	12 Months or More Unrealized Losses	12 Months or More No. of Positions Held	Total Fair Market Value	Total Unrealized Losses
Common and preferred stock	$ 1,291	$ (208)	1	$ 7,148	$ (2,288)	54	$ 8,439	$ (2,496)
U.S. treasury securities	49,390	(1,466)	6	—	—	—	49,390	(1,466)
Municipal bonds	50,301	(1,147)	14	1,204	(11)	1	51,505	(1,158)
Corporate bonds:								
Finance	79,451	(1,700)	16	160,126	(13,576)	31	239,577	(15,276)
Industrial	6,319	(45)	1	—	—	—	6,319	(45)
Utilities	1,981	(106)	1	11,635	(162)	2	13,616	(268)
Residential mortgage backed securities:								
Agency backed	150,575	(1,238)	3	—	—	—	150,575	(1,238)
Non-agency backed	—	—	—	26	(5)	1	26	(5)
Total temporarily impaired	$339,308	$(5,910)	42	$180,139	$(16,042)	89	$519,447	$(21,952)

There are 173 and 131 securities at December 31, 2011 and 2010, respectively that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company's cost basis.

3. Investments – (continued)

(d) Realized Gains and Losses

The tables below indicate the gross realized gains and losses for the years ended December 31, 2011, 2010 and 2009.

(Amounts in Thousands) Year Ended December 31, 2011	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$7,631	$ (266)	$ 7,365
Equity securities	569	(755)	(186)
Write-down of fixed maturity securities	—	(3,474)	(3,474)
Write-down of equity securities	—	(937)	(937)
	$8,200	$(5,432)	$ 2,768

(Amounts in Thousands) Year Ended December 31, 2010	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$17,860	$ (4,353)	$ 13,507
Equity securities	19,656	(6,047)	13,609
Derivatives	33	—	33
Write-down of fixed maturity securities	—	(10,540)	(10,540)
Write-down of equity securities	—	(10,656)	(10,656)
	$37,549	$(31,596)	$ 5,953

(Amounts in Thousands) Year Ended December 31, 2009	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 6,421	$ (5,536)	$ 885
Equity securities	5,617	(10,734)	(5,117)
Derivatives	—	(4,569)	(4,569)
Write-down of fixed maturity securities	—	(4,429)	(4,429)
Write-down of equity securities	—	(20,349)	(20,349)
	$12,038	$(45,617)	$(33,579)

(e) Unrealized Gains and Losses

The net unrealized gain (loss) on available-for-sale securities were as follows:

(Amounts in Thousands) Year Ended December 31,	2011	2010	2009
Fixed maturity securities	$11,380	$15,969	$ 4,444
Equity securities	1,559	(1,165)	(10,283)
Total net unrealized gain (loss)	12,939	14,804	(5,839)
Deferred income tax benefit (expense)	(4,529)	(5,181)	2,044
Net unrealized gains (loss), net of deferred income tax	8,410	9,623	(3,795)
(Decrease) increase in net unrealized gains, net of deferred income tax	$ (1,213)	$13,418	$ 83,087

(f) Derivatives

The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. The Company records changes in valuation on its derivative positions not designated as a hedge as a component of net realized gains and losses.

3. Investments – (continued)

The Company records changes in valuation on its hedged positions as a component of other comprehensive income. As of December 31, 2011, the Company had two interest rate swap agreements designated as a hedge and were recorded as a liability in the amount of $3,508 and were included as a component of accrued expenses and other liabilities.

The following table presents the notional amounts by remaining maturity of the Company's Interest Rate Swaps as of December 31, 2011:

	Remaining Life of Notional Amount[1]				
(Amounts in Thousands)	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years	Total
Interest rate swaps	$ —	$30,000	$40,000	$ —	$70,000

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

(g) Restricted Cash and Investments

The Company, in order to conduct business in certain states, is required to maintain letters of credit or assets on deposit to support state 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 are as follows:

(Amounts in Thousands) As of December 31,	2011	2010
Restricted cash	$ 23,104	$17,130
Restricted investments	187,227	35,682
Total restricted cash and investments	$210,331	$52,812

(h) Other

Securities sold but not yet purchased, represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value and as of December 31, 2011 and 2010 was $55,830 and $8,483 for corporate bonds, respectively, and $112 and $364 for equity securities, respectively. These transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, may exceed the amount reflected at December 31, 2011. Substantially all securities owned are pledged to the clearing broker to sell or repledge the securities to others subject to certain limitations.

The Company entered into repurchase agreements, 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, 2011 there were $191,718 principal amount outstanding at interest rates between 0.4% and 0.45%. Interest expense associated with these repurchase agreements for the year ended December 31, 2011 was $1,028 of which $0 was accrued as of December 31, 2011. The Company has $210,890 of collateral pledged in support of these agreements. As of December 31, 2010 there were $347,617 principal amount outstanding at interest rates between 0.32% and 0.4%. Interest expense associated with these repurchase agreements for the year ended December 31, 2010 was $610 of which $63 was accrued as of December 31, 2010. The Company had $351,211 of collateral pledged in support of these agreements. Interest expense related to repurchase agreements is recorded as a component of investment income.

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, 2011 and 2010:

(Amounts in Thousands)	Total	Level 1	Level 2	Level 3
As of December 31, 2011				
Assets:				
U.S. treasury securities	$ 53,274	$ 53,274	$ —	$ —
U.S. government securities	6,790	—	6,790	—
Municipal bonds	275,017	—	275,017	—
Corporate bonds and other bonds:				
Finance	515,951	—	515,951	—
Industrial	132,891	—	132,891	—
Utilities	38,506	—	38,506	—
Commercial mortgage backed securities	150	—	150	—
Residential mortgage backed securities:				
Agency backed	364,000	—	364,000	—
Non-agency backed	7,664	—	7,664	—
Equity securities	35,600	35,600	—	—
Short term investments	128,565	128,565	—	—
Other investments	14,588	—	—	14,588
Life settlement contracts	131,387	—	—	131,387
	$1,704,383	$217,439	$1,340,969	$145,975
Liabilities:				
Equity securities sold but not yet purchased, market	$ 112	$ 112	$ —	$ —
Fixed maturity securities sold but not yet purchased, market	55,830	—	55,830	—
Securities sold under agreements to repurchase, at contract value	191,718	—	191,718	—
Life settlement contract profit commission	7,311	—	—	7,311
Derivatives	3,508	—	—	3,508
	$ 258,479	$ 112	$ 247,548	$ 10,819

4. Fair Value of Financial Instruments – (continued)

(Amounts in Thousands)	Total	Level 1	Level 2	Level 3
As of December 31, 2010				
Assets:				
U.S treasury securities	$ 82,447	$ 82,447	$ —	$ —
U.S. government securities	7,162	—	7,162	—
Municipal bonds	66,676	—	66,676	—
Corporate bonds and other bonds:				
Finance	406,012	—	406,012	—
Industrial	49,753	—	49,753	—
Utilities	37,311	—	37,311	—
Commercial mortgage backed securities	2,076	—	2,076	—
Residential mortgage backed securities:				
Agency backed	546,098	—	546,098	—
Non-agency backed	8,591	—	8,591	—
Asset-backed securities	2,687	—	2,687	—
Equity securities	17,412	17,412	—	—
Short term investments	32,137	32,137	—	—
Other investments	21,514	—	—	21,514
Life settlement contracts	22,155	—	—	22,155
	$1,302,031	$131,996	$1,126,366	$43,669
Liabilities:				
Equity securities sold but not yet purchased, market	$ 364	$ 364	$ —	$ —
Fixed maturity securities sold but not yet purchased, market	8,483	—	8,483	—
Securities sold under agreements to repurchase, at contract value	347,617	—	347,617	—
Life settlement contract profit commission	4,711	—	—	4,711
	$ 361,175	$ 364	$ 356,100	$ 4,711

The Company had no transfers between levels during 2011 and 2010.

4. Fair Value of Financial Instruments – (continued)

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets for the years ended December 31, 2011 and 2010:

(Amounts in Thousands)	Balance as of January 1, 2011	Net income (loss)	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2011
Other investments	$21,514	$ 883	$(1,644)	$ 611	$ (6,776)	$ —	$ 14,588
Life settlement contracts	22,155	80,523	—	39,239	(10,530)	—	131,387
Life settlement contract profit commission	(4,711)	(2,600)	—	—	—	—	(7,311)
Derivatives	—	—	(3,508)	—	—	—	(3,508)
Total	$38,958	$78,806	$(5,152)	$39,850	$(17,306)	$ —	$135,156

(Amounts in Thousands)	Balance as of January 1, 2010	Net income (loss)	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2010
Other investments	$14,034	$ 283	$2,113	$ 5,284	$ (200)	$ —	$21,514
Life settlement contracts	—	16,853	—	5,302	—	—	22,155
Life settlement contract profit commission	—	(4,711)	—	—	—	—	(4,711)
Derivatives	(1,893)	33	—	—	1,860	—	—
Total	$12,141	$12,458	$2,113	$10,586	$1,660	$ —	$38,958

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

- *Equity and Fixed Income Investments:* Fair value disclosures for these investments are disclosed elsewhere in Note 2. "Significant Accounting Policies";
- *Premiums Receivable:* 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;
- *Subordinated Debentures and Debt:* The carrying values reported in the accompanying balance sheets for these financial instruments approximate fair value. Fair value was estimated using projected cash flows, discounted at rates currently being offered for similar notes.

The fair value of life settlement contracts is based on information available to the Company at the end of the reporting period. The Company considers the following factors in its fair value estimates: cost at date of purchase, recent purchases and sales of similar investments, financial standing of the issuer, changes in economic conditions affecting the issuer, maintenance cost, premiums, benefits, standard actuarially developed mortality tables and industry life expectancy reports. The fair value of a life insurance policy is estimated using present value calculations based on the data specific to each individual life insurance policy. The following summarizes data utilized in estimating the fair value of the portfolio of life insurance policies for the years ended December 31, 2011 and 2010:

	2011	2010
Average age of insured	77	75
Average life expectancy, months(1)	155	193
Average face amount per policy	$6,703,000	$6,084,000
Fair value discount rate	7.5%	7.3%

(1) Mortality rates: standard life expectancy as adjusted for insured's specific circumstances

(In Thousands, Except Per Share Data)

4. Fair Value of Financial Instruments – (continued)

These 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 reasonable 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, 2011 and 2010:

	Change in life expectancy	
	Plus 4 Months	Minus 4 Months
Investment in life policies:		
December 31, 2011	$(18,778)	$20,785
December 31, 2010	$ (4,163)	$ 4,912

	Change in discount rate	
	Plus 1%	Minus 1%
Investment in life policies:		
December 31, 2011	$(13,802)	$15,804
December 31, 2010	$ (2,996)	$ 2,537

5. Acquisitions

AHL

During 2011 and 2010, AmTrust Holdings Luxembourg S.A.R.L (''AHL'') (formerly called AmTrust Captive Holdings Limited) completed a series of acquisitions described below. AHL is a holding company that purchases Luxembourg captive insurance entities that allows the Company to obtain the benefit of the captives' capital and utilization of their existing and future loss reserves through a series of reinsurance arrangements with a subsidiary of the Company. AHL is included in the Company's Specialty Risk and Extended Warranty segment.

In December 2011, AHL acquired all the issued and outstanding stock of Reaal Reassurantie S.A., a Luxembourg domiciled captive insurance company, from SNS REAAL N.V. and REAAL N.V. The purchase price of Reaal Reassurantie S.A. was approximately $71,900. The Company recorded approximately $78,700 of cash, intangible assets of $15,500 and a deferred tax liability of $22,300. Reaal Reassurantie S.A. subsequently changed its name to AmTrust Re Kappa.

In December 2011, AHL acquired all the issued and outstanding stock of Vandermoortele International Reinsurance Company SA, a Luxembourg domiciled captive insurance company, from NV Vandermoortele, Vandemoortele International Finance SA and NV Safinco. The purchase price of Vandermoortele International Reinsurance Company SA was approximately $66,000. The Company recorded approximately $71,400 of cash, intangible assets of $10,600 and a deferred tax liability of $16,000. Vandermoortele International Reinsurance Company SA subsequently changed its name to AmTrust Re Zeta.

In June 2011, AHL acquired all the issued and outstanding stock of International Crédit Mutuel Reinsurance SA (''ICM Re''), a Luxembourg domiciled captive insurance company, from Assurance du Credit Mutuel IARD SA. The purchase price of ICM Re was approximately $315,000. The Company recorded approximately $347,000 of cash, intangible assets of $55,900 and a deferred tax liability of $87,800. ICM Re subsequently changed its name to AmTrust Re Alpha.

5. Acquisitions – (continued)

In May 2010, AHL acquired all the issued and outstanding stock of Euro International Reinsurance S.A., a Luxembourg domiciled captive insurance company, from TALANX AG. The purchase price of Euro International Reinsurance S.A. was approximately $58,300. The Company recorded approximately $65,700 of cash, intangible assets of $8,600 and a deferred tax liability of $16,000. Euro International Reinsurance S.A. subsequently was merged into AmTrust Re 2007.

The Company has classified the intangible assets as contractual use rights and they will be amortized based on the actual use of the related loss reserves. As a result of these acquisitions in 2011 and 2010, the Company reduced its acquisition costs and other underwriting expenses by approximately $23,000 in 2011.

Cardinal Comp

In September 2008, the Company entered into a managing general agency agreement with Cardinal Comp, LLC (''Cardinal Comp''), a workers' compensation managing general agent for which the Company paid the agency a commission for the placement of insurance policies. The agency operated in eight states and primarily in the state of New York. In September 2011, the Company, through one of its subsidiaries, entered into a renewal rights and asset purchase agreement with Cardinal Comp and Cook Inlet Alternative Risk LLC. The purchase price was approximately $30,388. The existing managing general agency agreement entered into in 2008 was terminated as part of the new agreement and will enable the Company to reduce commissions on written premium generated from the renewal rights agreement. In accordance with FASB ASC 805-10 *Business Combinations*, the Company recorded a purchase price of $30,388, which consisted primarily of goodwill and intangible assets of $5,250 and $24,750, respectively. The intangible assets consist of distribution networks, renewal rights and a trademark and have asset lives of between 2 and 16 years. The goodwill and intangibles are included as a component of the Small Commercial Business segment.

Majestic

The Company, through certain of its subsidiaries and the Insurance Commissioner of the State of California acting solely in the capacity as the statutory conservator (the ''Conservator'') of Majestic Insurance Company (''Majestic''), entered into a Rehabilitation Agreement that set forth a plan for the rehabilitation of Majestic (the ''Rehabilitation Plan'') by which the Company acquired the business of Majestic through a Renewal Rights and Asset Purchase Agreement (the ''Purchase Agreement''), and a Loss Portfolio Transfer and Quota Share Reinsurance Agreement (the ''Reinsurance Agreement''). On July 1, 2011, the Company, through one of its subsidiaries, entered into the Reinsurance Agreement, which was effective June 1, 2011, and assumed all of Majestic's liability for losses and loss adjustment expenses under workers' compensation insurance policies of approximately $331,660 on a gross basis (approximately $183,511 on a net basis), without any aggregate limit, and certain contracts related to Majestic's workers'' compensation business, including leases for Majestic's California office space. In addition, the Company assumed 100% of the unearned premium reserve of approximately $25,997 on all in-force Majestic policies. In connection with this transaction, the Company received approximately $224,532 of cash and investments, which included $26,000 for a reserve deficiency and also included the assignment of Majestic's reinsurance recoverables of approximately $51,715. The Reinsurance Agreement also contains a profit sharing provision whereby the Company pays Majestic up to 3% of net earned premium related to current Majestic policies that are renewed by the Company in the three year period commencing on the closing date should the loss ratio on such policies for the three year period be 65% or less. The insurance premiums, which are included in the Company's Small Commercial Business segment, have been recorded since the acquisition date and were approximately $42,881 for the year ended December 31, 2011.

5. Acquisitions – (continued)

The Company completed its purchase price accounting related to the Reinsurance Agreement. In accordance with ASC 944-805 *Business Combinations*, the Company is required to adjust to fair value Majestic's loss and LAE reserves by taking the acquired loss reserves recorded and 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 acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves. The Company determined the fair value of the loss reserves to be $328,905. Accordingly, the amortization will be recorded as an expense on the Company's income statement until fully amortized.

In consideration for the Company's assumption of (i) Majestic's losses and loss adjustment expenses under its workers' compensation insurance policies pursuant to the Reinsurance Agreement and (ii) Majestic's leases for its California offices, a Company subsidiary, pursuant to the Purchase Agreement, acquired the right to offer, quote and solicit the renewals of in-force workers' compensation policies written by Majestic, certain assets required to conduct such business, including intellectual property and information technology, certain fixed assets, and the right to offer employment to Majestic's California-based employees.

As a result of entering into the Purchase Agreement, the Company, in accordance with FASB ASC 805 *Business Combinations* recorded $3,870 of intangible assets related to distribution networks and trademarks. The distribution networks have a life of 13 years and the trademarks have a life of two years. Additionally, the Company recorded a liability for approximately $390 related to an unfavorable lease assumed in the transaction and a liability for approximately $815 related to the above mentioned profit sharing provision.

As a result, the Company recorded an acquisition gain of $5,850 related to the entire Majestic purchase during the year ended December 31, 2011. The finalized purchase price allocation as of the date of the acquisition is as follows:

(Amounts in Thousands)	
Assets	
Cash and investments	$224,532
Premium receivables	25,997
Reinsurance recoverables	148,149
Other assets	11,124
Intangible assets	6,625
Total assets	$416,427
Liabilities	
Loss and loss expense reserves	$331,660
Funds held under reinsurance treaties	51,715
Unearned premium	25,997
Accrued expenses and other current liabilities	1,205
Total liabilities	$410,577
Acquisition gain	$ 5,850

5. Acquisitions – (continued)

BTIS

In December 2011, the Company acquired the California-based Builders & Tradesmen's Insurance Services, Inc. (''BTIS''), an insurance wholesaler and general agent specializing in insurance policies and bonds for small artisan contractors. The Company's initial purchase price was $5,000, which does not include potential incentives to the sellers based on future profitability of the business. The transaction did not have a material impact on the Company's results of operations or financial condition in 2011.

Warrantech

In August 2010, the Company, through its wholly-owned subsidiary AMT Warranty Corp., acquired 100% of the issued and outstanding capital stock of Warrantech Corporation and its subsidiaries (''Warrantech'') from WT Acquisition Holdings, LLC for approximately $7,500 in cash and an earnout payment to the sellers of a minimum of $2,000 and a maximum and $3,000 based on AMT Warranty Corp.'s EBITDA over the three-year period from January 1, 2011 through December 31, 2013. Prior to the acquisition, the Company had a 27% equity interest (in the form of preferred units) in WT Acquisition Holdings, LLC and a $20,000 senior secured note due January 31, 2012 issued to it by Warrantech. Interest on the note was payable monthly at a rate of 15% per annum and consisted of a cash component at 11% per annum and 4% per annum for the issuance of additional notes in principal amount equal to the interest not paid in cash on such date.

Immediately prior to the consummation of this transaction, WT Acquisition Holdings, LLC redeemed the Company's preferred units that had represented the Company's 27% equity interest in that entity. In addition, immediately following the transaction, AMT Warranty Corp. was recapitalized and the Company contributed its note receivable from Warrantech in the approximate amount of $24,100 to AMT Warranty Corp. in exchange for Series A preferred stock, par value $0.01 per share (the ''Series A Preferred Stock''), of AMT Warranty Corp. valued at $24,100. The Company also received additional shares of Series A Preferred Stock such that the total value of its 100% preferred share ownership in AMT Warranty Corp. is equivalent to $50,700. Lastly, AMT Warranty Corp. issued 20% of its issued and outstanding common stock to the Chairman of Warrantech, which had a fair value of $6,900 as determined using both a market and an income approach. Given its preference position, absent the Company's waiver, the Company will be paid distributions on its Series A Preferred Stock before any common shareholder would be entitled to a distribution on the common stock.

As a result, the ultimate acquisition price of Warrantech was $48,928 and the Company recorded goodwill and intangible assets of approximately $69,739 and $29,600, respectively. Acquisition related costs related to the deal were less then $100. The intangible assets consisted of trademarks, agency relationships and non-compete agreements, which had estimated lives of between 3 and 18 years. The change in the preliminary amount of goodwill recorded during the third quarter of 2010 resulted primarily from the determination of the fair value of Warrantech's deferred tax liabilities and accrued liabilities. The results of operations from Warrantech, which are included in the Company's Specialty Risk and Extended Warranty segment as a component of service and fee income, have been recorded since the acquisition date and were approximately $52,800 and $17,400 for the years ended December 31, 2011 and 2010, respectively.

5. Acquisitions – (continued)

The finalized purchase price allocation as of the date of acquisition is as follows:

(Amounts in Thousands)	
Assets	
Accounts receivable	$ 15,232
Deferred tax asset	7,619
Property and equipment	2,123
Other assets	10,752
Goodwill	69,739
Intangible assets	29,600
Total assets	$135,065
Liabilities	
Premium payable	$ 35,717
Deferred revenue	11,293
Deferred tax liability	9,652
Accrued expenses and other current liabilities	29,475
Total liabilities	$ 86,137
Total purchase price	$ 48,928

Risk Services

During June 2010, the Company completed the acquisition of eight direct and indirect subsidiaries of RS Acquisition Holdings Corp., including Risk Services, LLC and PBOA, Inc. (collectively, ''Risk Services''). The entities acquired include various risk retention and captive management companies, brokering entities and workers' compensation servicing entities. The acquired companies are held in a newly created entity, RS Acquisition Holdco, LLC. The Risk Services entities have offices in Florida, Vermont and the District of Columbia and are broadly licensed.

The Company has a majority ownership interest (80%) in Risk Acquisition Holdco, LLC, for which the Company's total consideration was $11,700. Acquisition costs associated with the acquisition were approximately $200. As part of the purchase agreement, the non-controlling interest has the option under certain circumstances to require the Company to purchase the remaining ownership interest (20%) of Risk Services. In accordance with FASB ASC Topic 480, *Distinguishing Liabilities from Equity*, and FASB ASC Topic 815, *Derivatives and Hedging,* the Company has classified the remaining 20% ownership interest of Risk Services as mezzanine equity on the Consolidated Balance Sheet.

In accordance with FASB ASC 805, *Business Combinations,* the Company's total consideration paid for Risk Services was $11,700, which included cash of $11,100 and a value of $600 that was assigned for the redeemable non-controlling interest as determined using both a market and an income approach. The Company assigned a value of approximately $5,000 to intangible assets and $5,029 to goodwill. The intangible assets consisted of tradenames, customer relationships, renewal rights and non-compete agreements and have finite lives ranging from 4 years to 17 years. The results of operations from Risk Services, which are included in our Small Commercial Business segment as a component of service and fee income, have been included since the acquisition date and were approximately $7,300 and $7,400 for the years ended December 31, 2011 and 2010, respectively.

6. Investment in Life Settlements

A life settlement contract is a contract between the policy owner of a life insurance policy and a third-party investor who obtains the ownership and beneficiary rights of the underlying life insurance policy. During 2010, the Company formed Tiger Capital LLC (''Tiger'') with a subsidiary of ACAC for the purposes of acquiring life settlement contracts. In 2011, the Company formed AMT Capital Alpha, LLC (''AMT Alpha'') with a subsidiary of ACAC and AMT Capital Holdings, S.A. (''AMTCH'') with ACP Re, LTD., an entity controlled by Michael Karfunkel, for the purposes of acquiring additional life settlement contracts. The Company has a fifty percent ownership interest in each of Tiger, AMT Alpha and AMTCH (collectively, the ''LSC entities''). Tiger may also acquire premium finance loans made in connection with the borrowers' purchase of life insurance policies that are secured by the policies, which are in default at the time of purchase. The LSC entities acquire the underlying policies through the borrowers' voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator of the Tiger life settlement contract portfolio, for which it receives an annual fee. Under the terms of an agreement for Tiger, the third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. The Company provides for certain actuarial and finance functions related to the LSC entities. Additionally, in conjunction with the Company's 21.25% ownership percentage of ACAC, the Company ultimately receives 60.6% of the profits and losses of Tiger and AMT Alpha. As such, in accordance with ASC 810-10, *Consolidation,* we have been deemed the primary beneficiary and, therefore, consolidate the LSC entities.

The Company accounts for investments in life settlements in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these policies using the fair value method. The Company determines fair value on a discounted cash flow basis of anticipated death benefits, incorporating current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available.

Total capital contributions of $43,000 and $22,000 were made to the LSC entities during the years ended December 31, 2011 and 2010, respectively, for which the Company contributed their fifty percent ownership share of approximately $21,500 and $11,000 in those same periods. The LSC entities used a majority of the contributed capital to acquire certain life insurance policies of approximately $31,000 and $4,600 for the years ended December 31, 2011 and 2010, respectively. The Company's investments in life settlements and cash value loans were approximately $136,800 and $31,500 as of December 31, 2011 and 2010, respectively and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. The Company recorded other income for the years ended December 31, 2011 and 2010 of approximately $46,900 and $11,900, respectively, related to the life settlement contracts.

In addition to the 237 and 79 policies disclosed in the table below as of December 31, 2011 and 2010, respectively, Tiger owned 36 and 143 premium finance loans as of December 31, 2011 and 2010, respectively, which were secured by life insurance policies and were carried at a value of $5,391 and $9,302 as of December 31, 2011 and 2010, respectively. As of December 31, 2011, the face value amount of the related 237 life insurance policies and 36 premium finance loans were approximately $1,518,183 and $217,950, respectively. All of the premium finance loans are in default and Tiger is enforcing its rights in the collateral. Upon the voluntary surrender of the underlying life insurance policy in satisfaction of the loan or foreclosure, Tiger will become the owner of and beneficiary under the underlying life insurance policy and will have the option to continue to make premium payments on the policies or allow the policies to lapse. If a policyholder

6. Investment in Life Settlements – (continued)

wishes to cure his or her default and repay the loan, Tiger will be repaid the total amount due under the premium finance loans, including all premium payments made by Tiger to maintain the policy in force since its acquisition of the loan.

The following tables describe the Company's investment in life settlements as of December 31, 2011 and 2010:

(Amounts in thousands, except Life Settlement Contracts) Expected Maturity Term in Years	Number of Life Settlement Contracts	Fair Value	Face Value
As of December 31, 2011:			
0 – 1	—	$ —	$ —
1 – 2	—	—	—
2 – 3	1	6,665	10,000
3 – 4	1	2,703	5,000
4 – 5	2	9,630	20,000
Thereafter	233	112,389	1,483,183
Total	237	$131,387	$1,518,183
As of December 31, 2010:			
0 – 1	—	$ —	$ —
1 – 2	—	—	—
2 – 3	—	—	—
3 – 4	—	—	—
4 – 5	—	—	—
Thereafter	79	22,155	495,183
Total	79	$ 22,155	$ 495,183

Premiums to be paid for each of the five succeeding fiscal years to keep the life insurance policies in force as of December 31, 2011, are as follows:

(Amounts in Thousands)	Premiums Due on Life Settlement Contracts	Premiums Due on Premium Finance Loans	Total
2012	$ 20,077	$ 2,367	$ 22,444
2013	23,386	2,671	26,057
2014	24,413	2,738	27,151
2015	25,209	2,957	28,166
2016	33,029	4,241	37,270
Thereafter	439,038	81,907	520,945
	$565,152	$96,881	$662,033

7. Intangible Assets and Goodwill

The composition of the intangible assets is summarized as follows:

(Amounts in Thousands) As of December 31, 2011	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$147,654	$ —	$147,654	Indefinite Life
Renewal rights	14,680	3,150	11,530	7 – 17 years
Covenant not to compete	7,756	4,569	3,187	3 – 9 years
Distribution networks	63,542	14,754	48,788	10 – 20 years
Software	2,305	2,028	277	20 years
Customer relationships	23,263	4,595	18,668	5 – 10 years
Trademarks	5,124	2,105	3,019	2 – 15 years
Trademarks	3,433	—	3,433	Indefinite Life
License	408	27	381	50 years
Licenses	14,340	—	14,340	Indefinite Life
Contractual use rights	98,306	37,405	60,901	Specific use
Other	2,755	317	2,438	4 years
Total	$383,566	$68,950	$314,616	9 years average

(Amounts in Thousands) As of December 31, 2010	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$106,220	$ —	$106,220	Indefinite Life
Renewal rights	7,780	2,373	5,407	7 – 17 years
Covenant not to compete	7,756	2,545	5,211	3 – 9 years
Distribution networks	57,817	10,138	47,679	10 – 20 years
Software	2,304	2,006	298	20 years
Customer relationships	6,395	3,439	2,956	5 – 10 years
Trademarks	3,820	1,176	2,644	2 – 15 years
Trademarks	3,433	—	3,433	Indefinite Life
License	408	16	392	50 years
Licenses	14,340	—	14,340	Indefinite Life
Contractual use rights	16,309	7,063	9,246	2 – 3 years
Total	$226,582	$28,756	$197,826	12 years average

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2011 and 2010 are as follows:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Total
Balance as of January 1, 2010	$42,816	$ 5,020	$ 5,320	$ 53,156
Goodwill additions	4,872	48,342	—	53,214
Foreign currency translation	—	(150)	—	(150)
Balance as of January 1, 2011	$47,688	$53,212	$ 5,320	$106,220
Goodwill additions	9,854	23,288	8,300	41,442
Foreign currency translation	—	(9)	—	(9)
Balance as of December 31, 2011	$57,542	$76,491	$13,620	$147,653

7. Intangible Assets and Goodwill – (continued)

Goodwill added during 2011 resulted primarily from the acquisition of Cardinal Comp and other adjustments for deferred tax liabilities in the Small Commercial Business segment, the finalization of purchase adjustments for Warrantech in the Specialty Risk and Extended Warranty segment and contingent consideration related to a Specialty Program business. Goodwill added during 2010 resulted primarily from the acquisitions of Risk Services and Warrantech.

Goodwill and intangible assets are subject to annual impairment testing. No impairment was recorded during the years ended December 31, 2011, 2010 and 2009. Finite lived intangible assets are amortized under the straight-line method, except for renewal rights, which the Company amortizes using a 125% accelerated method, and contractual use rights, which are amortized based on actual use. Amortization expense for 2011, 2010 and 2009 was $40,194, $14,305 and $4,023, respectively. The estimated aggregate amortization expense for each of the next five years is:

(Amounts in Thousands)	
2012	$32,073
2013	30,588
2014	27,921
2015	7,638
2016	5,741

8. Property and Equipment, Net

(Amounts in Thousands) As of December 31,	2011	2010
Land	$ 7,593	$ 2,604
Building	21,516	14,658
Software	26,428	18,002
Computer equipment	15,471	10,114
Other equipment	17,239	3,829
Leasehold improvements	1,335	1,339
	89,582	50,546
Less: Accumulated depreciation and amortization	(28,029)	(19,657)
	$ 61,553	$ 30,889

Depreciation expense was $9,806, $6,039 and $4,768 for the years ended December 31, 2011, 2010 and 2009.

9. Liability for Unpaid Loss and LAE

The following table provides a reconciliation of the beginning and ending balances for unpaid losses and LAE, reported in the accompanying consolidated balance sheets as of December 31, 2011 and 2010:

(Amounts in Thousands)	2011	2010	2009
Unpaid losses and LAE, gross of related reinsurance recoverables at beginning of year	$1,263,537	$1,091,944	$1,014,059
Less: Reinsurance recoverables at beginning of year	670,877	561,874	504,404
Net balance, beginning of year	592,660	530,070	509,655
Incurred related to:			
Current year	665,812	463,535	332,598
Prior year	12,521	7,946	(4,827)
Total incurred losses during the year	678,333	471,481	327,771
Paid losses and LAE related to:			
Current year	(390,267)	(222,593)	(203,210)
Prior year	(179,721)	(187,012)	(109,872)
Total payments for losses and LAE	(569,988)	(409,605)	(313,082)
Commuted loss reserves	—	1,350	4,612
Net balance, December 31	701,005	593,296	528,956
Acquired outstanding loss and loss adjustment reserve	209,651	—	—
Effect of foreign exchange rates	(3,873)	(636)	1,114
Plus reinsurance recoverables at end of year	972,392	670,877	561,874
Unpaid losses and LAE, gross of related reinsurance recoverables at end of year	$1,879,175	$1,263,537	$1,091,944

In 2011, the Company's liabilities for unpaid losses and LAE attributable to prior years increased by $12,521 primarily as result of unfavorable loss development, in its Specialty Program segment due to higher actuarial estimates based on actual losses. In 2010, the Company's liabilities for unpaid losses and LAE attributable to prior years increased by $7,946 primarily as result of unfavorable loss development, in its Specialty Program segment due to higher actuarial estimates based on actual losses. In 2009, the Company's liabilities for unpaid losses and LAE attributable to prior years decreased by $4,827 primarily as result of favorable development in both the Small Commercial Business segment and Specialty Risk and Extended Warranty segment partially offset by unfavorable development in our Specialty Program Business segment as well as the Company's involuntary participation in NCCI pools. 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 than the industry, as a whole, the Company's liabilities for unpaid losses and LAE should decrease. Management believes that its use of both its historical experience and industry-wide loss development factors provide a reasonable basis for estimating future losses. As the Company has written more business and developed more credible data, the Company has assigned more weight to its historical experience than to industry-wide results. 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.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated changes in claim costs due to inflation are considered 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. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and are modified if necessary.

10. Accrued Expenses and Other Liabilities

(Amounts in Thousands) As of December 31,	2011	2010
Premium taxes, assessments and surcharges payable	$ 67,138	$ 63,557
Deferred warranty revenue	51,011	32,410
Commissions payable	43,923	23,114
Premiums collected in advance	18,279	19,343
Claims payable	18,005	14,655
Deposits from customers	17,396	—
Due to sellers	16,309	9,119
Other accrued expenses	15,339	16,968
Accounts payable	8,464	7,338
Dividends payable	6,048	4,768
Derivative liability	3,508	—
Accrued interest	2,223	1,736
	$267,643	$193,008

11. Debt

The Company's borrowings consisted of the following at December 31, 2011 and 2010:

(Amounts in Thousands) As of December 31,	2011	2010
Revolving credit facility	$ —	$ —
Subordinated debentures	123,714	123,714
Convertible senior notes	138,506	—
Secured loan agreement	10,018	—
Promissory note	7,362	14,400
Term loan	—	6,667
	$279,600	$144,781

Aggregate scheduled maturities of the Company's borrowings at December 31, 2011 are:

(Amounts in Thousands)	
2012	$ 8,339(1)
2013	1,021
2014	1,068
2015	1,116
2016	1,167
Thereafter	266,889(2)

(1) Amount reflected in balance sheet for promissory note is net of unamortized original issue discount of $138.

(2) Amount reflected in balance sheet for convertible senior notes is net of unamortized original issue discount of $36,494.

11. Debt – (continued)

Revolving Credit Agreement

On January 28, 2011, the Company entered into a three-year, $150,000 credit agreement (the ''Credit Agreement''), among JPMorgan Chase Bank, N.A., as Administrative Agent, The Bank of Nova Scotia, as Syndication Agent, SunTrust Bank, as Documentation Agent, and the various lending institutions party thereto. The credit facility is a revolving credit facility with a letter of credit sublimit of $50,000 and an expansion feature not to exceed $50,000. Proceeds of borrowings under the Credit Agreement may be used for working capital, acquisitions and general corporate purposes. In connection with entering into the Credit Agreement, the Company terminated the then existing Term Loan and Uncommitted Line of Credit Letter Agreement with JPMorgan Chase Bank, N.A (''Term Loan''). The Company did not record a gain or loss on the extinguishment of its previous term loan.

ABR borrowings (which are borrowings bearing interest at a rate determined by reference to the Alternate Base Rate) under the Credit Agreement will bear interest at (x) the greatest of (a) the Administrative Agent's prime rate, (b) the federal funds effective rate plus 0.5 percent or (c) the adjusted LIBO rate for a one month interest period on such day plus 1 percent, plus (y) a margin that is adjusted on the basis of the Company's consolidated leverage ratio. Eurodollar borrowings under the credit agreement will bear interest at the adjusted LIBO rate for the interest period in effect plus a margin that is adjusted on the basis of the Company's consolidated leverage ratio.

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 the Company to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. The Company was in compliance with all covenants as of December 31, 2011.

As of December 31, 2011, the Company had no outstanding borrowings under this Credit Agreement. The Company had outstanding letters of credit in place under this Credit Agreement at December 31, 2011 for $49,771, which reduced the availability on the line of credit to $229 as of December 31, 2011 and the availability under the facility to $100,229 as of December 31, 2011. The Company did not record a gain or loss on the extinguishment of its previous term loan.

The Company recorded approximately $1,324 of deferred financing costs related to the Credit Agreement. Fees payable by the Company under the Credit Agreement include a letter of credit participation fee (which is the margin applicable to Eurodollar borrowings and was 2.25% at December 31, 2011), a letter of credit fronting fee with respect to each letter of credit (.125%) and a commitment fee on the available commitments of the lenders (a range of .35% to .45% based on the Company's consolidated leverage ratio and was 0.40% at December 31, 2011).

The interest rate on the credit facility as of December 31, 2011 was 2.50%. The Company recorded interest expense of approximately $2,697 year ended December 31, 2011, under the Credit Agreement. The Company recorded interest expense of approximately $72 and $752 for the years ended December 31, 2011 and 2010, respectively, related to the terminated term loan.

Junior Subordinated Debt

The Company has established four special purpose trusts for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in junior subordinated debentures issued by the Company. In accordance with FASB ASC 810-10-25, the Company does not consolidate such special purpose trusts, as the Company is not considered to be the primary beneficiary. The equity investment, totaling $3,714 as of

11. Debt – (continued)

December 31, 2011 on the Company's consolidated balance sheet, represents the Company's ownership of common securities issued by the trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on the Company's common stock under certain circumstances, including default of payment. The Company incurred $2,605 of placement fees in connection with these issuances which is being amortized over thirty years. The Company recorded $9,871, $10,209 and $10,209 of interest expense for the years ended December 31, 2011, 2010 and 2009, respectively, related to these trust preferred securities.

The table below summarizes the Company's trust preferred securities as of December 31, 2011:

(Amounts in Thousands) Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate of Notes
AmTrust Capital Financing Trust I	$ 25,000	$ 774	$ 25,774	3/17/2035	8.275%(1)
AmTrust Capital Financing Trust II	25,000	774	25,774	6/15/2035	7.710(1)
AmTrust Capital Financing Trust III	30,000	928	30,928	9/15/2036	3.647(2)
AmTrust Capital Financing Trust IV	40,000	1,238	41,238	3/15/2037	7.930(3)
Total trust preferred securities	$120,000	$3,714	$123,714		

(1) The interest rate will change to three-month LIBOR plus 3.40% after the tenth anniversary in 2015.

(2) The interest rate was LIBOR plus 3.30% as of December 31, 2011.

(3) The interest rate will change to LIBOR plus 3.00% after the fifth anniversary in 2012.

The Company entered into two interest rate swap agreements related to these junior subordinated debentures, which effectively convert the interest rate on the trust preferred securities from a variable rate to a fixed rate. Each agreement is for a period of five years and commenced on September 15, 2011 for tranche III and will commence for tranche IV on its fifth anniversary in 2012.

Convertible Senior Notes

In December 2011, the Company issued $175,000 aggregate principal amount of the Company's 5.5% convertible senior notes due 2021 (the "Notes") to certain initial purchasers in a private placement. The Notes will bear interest at a rate equal to 5.50% per year, payable semiannually in arrears on June 15th and December 15th of each year, beginning on June 15, 2012.

The Notes will mature on December 15, 2021 (the "Maturity Date"), unless earlier purchased by the Company or converted into shares of the Company's common stock, par value $0.01 per share (the "Common Stock"). Prior to September 15, 2021, the Notes will be convertible only upon satisfaction of certain conditions, and thereafter, at any time prior to the close of business on the second scheduled trading day immediately preceding the Maturity Date. The conversion rate will initially equal 31.4218 shares of Common Stock per $1,000 principal amount of Notes, which corresponds to an initial conversion price of approximately $31.83 per share of Common Stock, representing a conversion premium of 25.0% over $25.46 per share, which was the last reported sale price of the Common Stock on the NASDAQ on December 15, 2011. The conversion rate will be subject to adjustment upon the occurrence of certain events as set forth in the indenture governing the notes. Upon conversion of the Notes, the Company will, at its election, pay or deliver, as the case may be, cash, shares of Common Stock, or a combination of cash and shares of Common Stock.

11. Debt – (continued)

Upon the occurrence of a fundamental change (as defined in the indenture governing the notes) involving the Company, holders of the Notes will have the right to require the Company to repurchase their Notes for cash, in whole or in part, at 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date.

The Company separately allocated the proceeds for the issuance of the Notes to a liability component and an equity compenent, which is the embedded conversion option. The equity component was reported as an adjustment to paid-in-capital, net of tax, and is reflected as an original issue discount (''OID''). The OID of $36,593 and deferred origination costs relating to the liability component of $4,152 will be amortized into interest expense over the term of the loan of the Notes. After considering the contractual interest payments and amortization of the original discount, the Notes effective interest rate was 8.57%. Transaction costs of $1,098 associated with the equity component were netted in paid-in-capital. Interest expense, including amortization of deferred origination costs, recognized on the Notes was $524 for the year ended December 31, 2011.

The following table shows the amounts recorded for the Notes as of December 31, 2011:

(Amounts in Thousands)	
Liability component	
Outstanding principal	$175,000
Unamortized OID	(36,494)
Liability component	138,506
Equity component, net of tax	$ 23,785

Secured Loan Agreement

During February 2011, the Company entered into a seven-year secured loan agreement with Bank of America Leasing & Capital, LLC in the aggregate amount of $10,800 to finance the purchase of an aircraft. The loan bears interest at a fixed rate of 4.45%, requires monthly installment payments of approximately $117 commencing on March 25, 2011 and ending on February 25, 2018, and a balloon payment of $3,240 at the maturity date. The Company recorded approximately $70 of deferred financing costs related to this agreement. The Company recorded interest expense of approximately $402 for the year ended December 31, 2011, respectively, related to this agreement. The loan is secured by an aircraft that a Company subsidiary acquired in February 2011.

The agreement contains certain covenants that are similar to the Company's revolving credit facility. Additionally, subsequent to February 25, 2012, but prior to payment in full, if the outstanding balance of this loan exceeds 90% of the fair value of the aircraft, 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 90% of the fair value of the aircraft. The agreement allows the Company, under certain conditions, to repay the entire outstanding principal balance of this loan without penalty.

11. Debt – (continued)

Promissory Note

In connection with the stock and asset purchase agreement with a subsidiary of Unitrin, Inc. (now called Kemper Corporation), the Company, on June 1, 2008, issued a promissory note to Unitrin, Inc. in the amount of $30,000. The note is non-interest bearing and requires four annual principal payments of $7,500. The first three annual principal payments were paid between 2009 and 2011, and the remaining principal payment is due on June 1, 2012. Upon entering into the promissory note, the Company calculated imputed interest of $3,155 based on interest rates available to the Company, which was 4.5%. Accordingly, the note's carrying balance was adjusted to $26,845 at the acquisition. The note is required to be paid in full, immediately, under certain circumstances including a default of payment or change of control of the Company. The Company included $462 and $771 of amortized discount on the note in its results of operations for the years ended December 31, 2011 and 2010, respectively. The note's carrying value was $7,362 and $14,400 as of December 31, 2011 and 2010, respectively.

Comerica Letter of Credit Facility

The Company, through one of its subsidiaries, entered into a secured letter of credit facility with Comerica Bank during the three months ended September 30, 2011. The credit limit is for $75,000 and was utilized for $49,801 as of December 31, 2011. The Company is required to pay a letter of credit participation fee for each letter of credit in the amount of 0.40%.

Other Letters of Credit

The Company, through certain subsidiaries, has additional existing stand-by letters of credit as of December 31, 2011 in the amount of $1,271.

12. Reinsurance

The Company utilizes reinsurance agreements to reduce its exposure to large claims and catastrophic loss occurrences and to increase its capacity to write profitable business. These agreements provide for recovery from reinsurers of a portion of losses and LAE under certain circumstances without relieving the insurer of its obligation to the policyholder. Losses and LAE incurred and premiums earned are reflected after deduction for reinsurance. In the event reinsurers are unable to meet their obligations under reinsurance agreements, the Company would not be able to realize the full value of the reinsurance recoverable balances. The Company periodically evaluates the financial condition of its reinsurers in order to minimize its exposure to significant losses from reinsurer insolvencies. Reinsurance does not discharge or diminish the primary liability of the Company; however, it does permit recovery of losses on such risks from the reinsurers.

The Company has coverage for its workers' compensation line of business under excess of loss reinsurance agreements. As the scale of the Company's workers' compensation business has increased, the Company has also increased the amount of risk retained. The agreements cover, per occurrence, losses in excess of $500 through December 31, 2004, $600 effective January 1, 2005, $1,000 effective July 1, 2006 through July 1, 2009, $1,000 plus 55% of $9,000 in excess of $1,000 effective July 1, 2009 through January 1, 2010, and $10,000 effective January 1, 2010 up to a maximum $130,000 ($50,000 prior to December 1, 2003) in losses. For losses occurring on or after January 1, 2010, the Company has purchased a ''third and fourth event cover'' that covers losses between $5,000 and $10,000 per occurrence, after a deductible equal to the first $10,000 per annum on such losses. For losses occurring on or after January 1, 2011, we replaced this ''third and fourth event cover'' with a ''second and third event cover'' that applies after an aggregate deductible equal to the first $5,000 per annum on such losses. Effective August 19, 2011, we purchased a new layer of coverage providing $100,000 in excess of $130,000 per occurrence, providing us with total protection of $220,000 for losses in excess of $10,000. The Company's reinsurance for worker's compensation losses caused by acts of terrorism is more limited than its reinsurance for other types of workers' compensation losses and, through December 31, 2011, provided coverage, per contract year, of $220,000 in the aggregate in excess of an aggregate retention of $10,000, but excludes acts of nuclear, biological or chemical terrorism (which are covered by the Terrorism Risk Insurance Act, as amended).

12. Reinsurance – (continued)

The Company has coverage for its U.S. casualty lines of business under an excess of loss reinsurance agreement. The agreement covers losses in excess of $2,000 per occurrence (in certain cases the retention can rise to $2,500) up to a maximum $30,000. The Company purchases quota share reinsurance for its non-program umbrella business, whereby we cede 70% of the first $5,000 of loss per policy and 100% of the next $5,000 loss per policy. In addition, we also purchase various pro-rata and excess reinsurance relating to specific insurance programs and/or specialty lines of business, including casualty, public entity, and professional errors and omissions insurance.

The Company has coverage for its U.S. property lines of business under an excess of loss reinsurance agreement. The agreement covers losses in excess of $2,000 per location up to a maximum $20,000, subject to per occurrence and annual limits that vary by layer. In addition the Company has a property catastrophe excess of loss agreement, which covers losses in excess of $5,000 per occurrence up to a maximum $65,000, subject to annual limits that vary by layer.

The Company has coverage for its U.K. property lines of business under an excess of loss reinsurance agreement. The agreement covers losses in excess of £500 per risk up to a maximum £2,000 per risk. In addition, the Company has a property catastrophe excess of loss agreement, which covers losses in excess of £5,000 per occurrence up to a maximum £45,000. The Company also has excess of loss reinsurance coverage for international general liability and non-medical professional business underwritten by our English and Irish insurers. The agreements cover losses in excess of £1,000 per occurrence up to a maximum of £10,000 per occurrence, subject to annual aggregate limits that vary by layer. Through December 31, 2010, we had excess of loss reinsurance under the same terms for our European medical liability business. In 2010, we purchased an 80% quota share reinsurance agreement from National Indemnity Company for our European medical liability business. This contract was effective for claims made through March 31, 2011. Effective April 1, 2011, we replaced this quota share reinsurance agreement with a 40% cession to Maiden Insurance, as more fully described below in Note 13 ''Related Party Transactions.'' In addition, we purchase various pro-rata and excess reinsurance relating to specific foreign insurance programs and/or specialty lines of business.

TIC acts as servicing carrier on behalf of Workers' Compensation Assigned Risk Plans in eight states. TIC issues and services certain workers compensation policies issued to assigned risk insureds. Those policies issued are subject to a 100% quota-share reinsurance agreement offered by the National Workers Compensation Reinsurance Pool or a state-based equivalent, which is administered by the National Council on Compensation Insurance, Inc. TIC, wrote approximately $46,000, $37,000 and $35,400 of premium in 2011, 2010 and 2009, respectively, as a servicing carrier.

As part of the agreement to purchase WIC from Household Insurance Group Holding Company (''Household''), the Company agreed to write certain business on behalf of Household for a three-year period through June 2009. The premium written under this arrangement is 100% reinsured by HSBC Insurance Company of Delaware, a subsidiary of Household. The reinsurance recoverable associated with this business is guaranteed by Household. This business is now in run-off. WIC wrote approximately $7,300, $8,800 and $17,100 of premium in 2011, 2010 and 2009, respectively, subject to this reinsurance treaty.

As part of its acquisition of AIIC, the Company acquired reinsurance recoverable as of the date of closing. The most significant reinsurance recoverable is from American Home Assurance Company (''American Home''). AIIC's reinsurance relationship with American Home incepted January 1, 1998 on a loss occurring basis. From January 1, 1998 through March 31, 1999 the American Home reinsurance covered losses in excess of $250 per occurrence up to statutory coverage limits. Effective April 1, 1999, American Home provided coverage in the amount of $150 in excess of $100. This additional coverage terminated on December 31, 2001 on a run-off basis. Therefore, for losses occurring in 2002 that attached to a 2001 policy, the retention was $100 per occurrence. Effective January 1, 2002 American Home increased its attachment was $250 per occurrence. The XOL treaty that had an attachment of $250 was terminated on a run-off basis

12. Reinsurance – (continued)

on December 31, 2002. Therefore, losses occurring in 2003 that attached to a 2002 policy were ceded to American Home at an attachment point of $250 per occurrence. As of December 31, 2011, the Company had $66,370 of reinsurance recoverables with American Home.

During the third quarter of 2007, the Company entered into a master agreement with Maiden, as amended, by which its Bermuda subsidiary, AII, and Maiden Insurance entered into a quota share reinsurance agreement (the ''Maiden Quota Share''). For a description of this agreement see Note 13. ''Related Party Transactions.''

The effect of reinsurance with unrelated companies on premiums and losses for 2011, 2010 and 2009 are as follows:

	Year Ended December 31,					
	2011		2010		2009	
(Amounts in Thousands)	Written	Earned	Written	Earned	Written	Earned
Premiums:						
Direct	$1,843,185	$1,553,878	$1,375,993	$1,220,164	$1,117,090	$1,038,470
Assumed	307,287	265,258	184,829	160,285	81,856	49,626
Ceded	(873,875)	(782,275)	(733,596)	(634,790)	(555,520)	(514,214)
	$1,276,597	$1,036,861	$ 827,226	$ 745,659	$ 643,426	$ 573,882

	As of December 31,					
	2011		2010		2009	
(Amounts in Thousands)	Assumed	Ceded	Assumed	Ceded	Assumed	Ceded
Loss and LAE reserves	$547,127	$(972,392)	$129,066	$(670,877)	$71,859	$(561,963)
Unearned premiums	124,207	(584,871)	77,548	(484,960)	53,003	(410,553)
Loss and LAE expense incurred	222,859	(575,794)	105,501	(441,106)	24,511	(374,192)

The Company continuously updates the reserves on these lines of business based on information available from the ceding insurers. During 2011, the Company had no commutations related to workers' compensation that were included in ceded reinsurance treaties. During 2010, the Company commuted certain loss reserves of $1,350 related to workers' compensation that were included in ceded reinsurance treaties. This commutation had no material effect on net earnings in either year.

13. Related Party Transactions

Maiden

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, the principal shareholders, and, respectively, the chairman of the board of directors, a director, and the chief executive officer and director of the Company. As of December 31, 2011, Michael Karfunkel owns or controls approximately 13.9% of the issued and outstanding capital stock of Maiden, George Karfunkel owns or controls approximately 9.4% of the issued and outstanding capital stock of Maiden and Mr. Zyskind owns or controls approximately 5.1% of the issued and outstanding stock of Maiden. Mr. Zyskind serves as the non-executive chairman of the board of Maiden's board of directors. Maiden Insurance Company, Ltd (''Maiden Insurance''), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer. The following section describes the agreements in place between the Company and its subsidiaries and Maiden and its subsidiaries.

13. Related Party Transactions – (continued)

Quota Share Agreement

In 2007, the Company and Maiden entered into a master agreement, as amended, by which the parties caused the Company's Bermuda subsidiary, AmTrust International Insurance, Ltd. (''AII'') and Maiden Insurance to enter into a quota share reinsurance agreement (the ''Maiden Quota Share''), as amended, by which AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by the Company's U.S., Irish and U.K. insurance companies (the ''AmTrust Ceding Insurers''), net of the cost of unaffiliated inuring reinsurance (and in the case of the Company's U.K. insurance subsidiary, AmTrust Europe Ltd., net of commissions) and 40% of losses, excluding certain specialty risk programs that the Company commenced writing after the effective date and risks, other than workers' compensation risks and certain business written by the Company's Irish subsidiary, AmTrust International Underwriters Limited (''AIU''), for which the AmTrust Ceding Insurers' net retention exceeds $5,000 (''Covered Business'').

The Maiden Quota Share, which had an initial term of three years, was renewed through June 30, 2014 and will automatically renew for successive three-year terms unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on thirty days' notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Insurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers.

Effective April 1, 2011, the Maiden Quota Share, as amended, further provides that AII receives a ceding commission of 30% of ceded written premiums with respect to all Covered Business, except retail commercial package business, for which the ceding commission remains 34.375%. Commencing January 1, 2012, the ceding commission, excluding the retail package business ceding commission (which remains at 34.375%), will be adjusted to (a) 30% of ceded premium, if the Specialty Risk and Extended Warranty subject premium, excluding ceded premium related to our medical liability business discussed below, is greater than or equal to 42% of the total subject premium, (b) 30.5% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 42% but greater than or equal to 38%, or (c) 31% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 38% of the total subject premium. Prior to April 1, 2011, AII received a ceding commission of 31% of ceded premiums with respect to all Covered Business, except retail commercial package business, for which the ceding commission was 34.375%.

Effective April 1, 2011, the Company, through its subsidiaries AEL and AIU, entered into a reinsurance agreement with Maiden Insurance by which the Company cedes to Maiden Insurance 40% of its European medical liability business, including business in force at April 1, 2011. The quota share has an initial term of one year and can be terminated at April 1, 2012 or any April 1 thereafter by either party on four months' notice. Maiden Insurance 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%.

13. Related Party Transactions – (continued)

The following is the effect on the Company's results of operations for the years ended December 31, 2011, 2010 and 2009 related to the Maiden Quota Share agreement:

(Amounts in Thousands)	2011	2010	2009
Results of operations:			
Premium written – ceded[1]	$(703,175)	$(463,042)	$(379,744)
Change in unearned premium – ceded	143,553	21,771	21,747
Earned premium – ceded	$(559,622)	$(441,271)	$(357,997)
Ceding commission on premium written	$ 182,316	$ 144,598	$ 118,991
Ceding commission – deferred	(28,363)	(6,487)	(6,140)
Ceding commission – earned	$ 153,953	$ 138,111	$ 112,851
Incurred loss and loss adjustment expense – ceded	$ 401,822	$ 295,469	$ 259,780
Interest expense on collateral loan	1,925	982	2,958

Other Reinsurance Agreements

Effective September 1, 2010, the Company, through its subsidiary, Security National Insurance Company (''SNIC''), entered into a reinsurance agreement with Maiden Reinsurance Company and an unrelated third party. Under the agreement, which had an initial term of one year and has been extended to August 31, 2012, SNIC cedes 80% of the gross liabilities produced under the Southern General Agency program to Maiden Reinsurance Company and 20% of the gross liabilities produced to the unrelated third party. SNIC receives a five percent commission on ceded written premiums. The Company ceded written premium of $857 for the year ended December 31, 2011 related to this agreement for which the Company earned ceding commission of $192 for the year ended December 31, 2011. The Company did not enter into any material transactions related to this agreement during the year ended December 31, 2010.

Between January 1, 2009 and January 1, 2010, Maiden was a 45% participating reinsurer in the first layer of the Company's workers' compensation excess of loss program, which provided coverage in the amount of $9,000 per occurrence in excess of $1,000, subject to an annual aggregate deductible of $1,250. From January 1, 2009 through June 30, 2009, Maiden was one of two participating reinsurers in the layer and participated on the same market terms and conditions as the other participant. Effective July 1, 2009, the other participant's participation in the layer was terminated, but Maiden continued to assume 45% of the layer on the existing terms and conditions through the end of the term on January 1, 2010.

As of January 1, 2009, Maiden Insurance had a participation in a $4,000 in excess of $1,000 specialty transportation program written by the Company. For calendar year 2009, Maiden Insurance's participation was 30%. This program provided primarily, commercial auto coverage and, to a lesser extent, general liability coverage to private non-emergency para-transit and school bus service operators. The participations were sourced through a reinsurance intermediary via open market placement in which competitive bids were solicited by an independent broker. Several other broker market reinsurers hold the other 70% participation for 2009. The agreement terminated January 1, 2010.

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

In conjunction with the Maiden Quota Share, as described above, AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby Maiden Insurance loaned to AII the amount equal to its quota share of the obligations of the AmTrust Ceding Insurers that AII was then obligated to secure. The loan agreement provides for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Advances under the loan are secured by a promissory note and totaled $167,975 as of December 31, 2011 and 2010. The Company recorded $1,925 and $982 of interest expense during the years ended December 31, 2011 and 2010, respectively. Effective December 1, 2008, AII and Maiden Insurance

13. Related Party Transactions – (continued)

entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Insurance is required to provide AII the assets required to secure Maiden's proportionate share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral as of December 31, 2011 was approximately $465,000. Maiden retains ownership of the collateral in the trust account.

Fronting Arrangement with Maiden Specialty Insurance Company

Effective September 1, 2010, we, through our wholly-owned subsidiary, TIC, entered into a quota share reinsurance agreement with Maiden Specialty Insurance Company (''Maiden Specialty'') by which TIC assumes a portion (generally 90%) of premiums and losses with respect to certain surplus lines programs written by Maiden Specialty on our behalf (the ''Surplus Lines Facility''). The Surplus Lines Facility enables us to write business on a surplus lines basis throughout the United States in states in which we are unauthorized to write such business through our own insurance subsidiaries. During 2011, we utilized the Surplus Lines Facility for two programs for which Maiden Specialty receives a five percent ceding commission on all premiums ceded by Maiden Specialty to TIC. The Surplus Lines Facility shall remain continuously in force until terminated. We are actively pursuing surplus lines authority for two of our insurance company subsidiaries, which would remove the need for the Surplus Lines Facility. As a result of this agreement, we assumed approximately $18,000 of written premium for which we earned approximately $10,400 and incurred losses of approximately $6,500 for the year ended December 31, 2011. The Company did not enter into any material transactions related to this agreement during the year ended December 31, 2010.

Reinsurance Brokerage Agreement

Effective July 1, 2007, AmTrust, through a subsidiary, entered into a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, AmTrust provides brokerage services relating to the Maiden Quota Share for a fee equal to 1.25% of reinsured premium. The brokerage fee is payable in consideration of AII Reinsurance Broker Ltd.'s brokerage services. The Company recorded $8,082, $5,841 and $5,135 of brokerage commission (recorded as a component of Service and fee income) during the years ended December 31, 2011, 2010 and 2009, respectively.

Asset Management Agreement

Effective July 1, 2007, AmTrust, through a subsidiary, entered into an asset management agreement with Maiden, pursuant to which it provides investment management services to Maiden and its affiliates. The Company currently manages approximately $2,200,000 of assets as of December 31, 2011 related to this agreement. Effective April 1, 2008, the investment management services fee was 0.20% per annum for periods in which average invested assets are $1,000,000 or less and 0.15% per annum for periods in which the average invested assets exceed $1,000,000. As a result of this agreement, the Company earned approximately $3,046, $2,693 and $2,459 of investment management fees (recorded as a component of service and fee income) for the years ended December 31, 2011, 2010 and 2009, respectively.

Services Agreement

AmTrust, through its subsidiaries, entered into services agreements in 2008, pursuant to which it provides certain marketing and back office services to Maiden. Pursuant to the services agreements, AmTrust earns a fee equal to the amount required to reimburse AmTrust for its costs plus 8%. As a result of this agreement, the Company recorded fee income of approximately $0, $38 and $432 for the years ended December 31, 2011, 2010 and 2009, respectively.

Senior Notes

In June 2011, the Company, through a subsidiary, participated as a purchaser in a registered public offering by Maiden Holdings North America, Ltd., a subsidiary of Maiden, for $12,500 of an aggregate $107,500 principal amount of 8.25% Senior Notes due 2041 (the ''Notes'') that are fully and unconditionally

13. Related Party Transactions – (continued)

guaranteed by Maiden. The Notes are redeemable for cash, in whole or in part, on or after June 15, 2016, at 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but not including, the redemption date. Maiden Holdings North America, Ltd. issued the Notes to use the proceeds, together with cash on hand, to repurchase, at 114% of the principal amount, $107,500 of Maiden's $260,000 outstanding trust preferred securities, on a pro rata basis, to all of its trust preferred securities holders. ACP Re, Ltd., an entity owned by a trust controlled by Michael Karfunkel, the Company's Chairman of the Board, accepted the offer to repurchase its $79,066 in principal amount of trust preferred securities. The Company's Audit Committee reviewed and approved the Company's participation in this offering.

American Capital Acquisition Corporation

During the three months ended March 31, 2010, the Company completed its strategic investment in American Capital Acquisition Corporation (''ACAC''). ACAC was formed by The Michael Karfunkel 2005 Grantor Retained Annuity Trust (the ''Trust'') and the Company for the purpose of acquiring from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation (''MIC'', together with GMAC Insurance Holdings, Inc., ''GMACI''), GMACI's U.S. consumer property and casualty insurance business (the ''GMACI Business''), a writer of automobile coverages through independent agents in the United States. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the ''GMACI Insurers''). Michael Karfunkel, individually, and the Trust, which is controlled by Michael Karfunkel, own 100% of ACAC's common stock (subject to the Company's conversion rights described below). Michael Karfunkel is the chairman of the board of directors of the Company and the father-in-law of Barry D. Zyskind, the chief executive officer of the Company. The ultimate beneficiaries of the Trust include Michael Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman of the Board of Directors of ACAC.

Pursuant to the Amended Stock Purchase Agreement, ACAC issued and sold to the Company for an initial purchase price of approximately $53,000, which was equal to 25% of the capital initially required by ACAC, 53,054 shares of Series A Preferred Stock, which provides an 8% cumulative dividend, is non-redeemable and is convertible, at the Company's option, into 21.25% of the issued and outstanding common stock of ACAC (the ''Preferred Stock''). The Company has pre-emptive rights with respect to any future issuances of securities by ACAC and the Company's conversion rights are subject to customary anti-dilution protections. The Company has the right to appoint two members of ACAC's board of directors, which consists of six members. Subject to certain limitations, the board of directors of ACAC may not take any action in the absence of the Company's appointees and ACAC may not take certain corporate actions without the unanimous prior approval of its board of directors (including the Company's appointees).

The Company, the Trust and Michael Karfunkel, individually, each shall be required to make its or his proportionate share of deferred payments payable by ACAC to GMACI pursuant to the GMACI Securities Purchase Agreement, which are payable, annually on March 1 through March 1, 2013, to the extent that ACAC is unable to otherwise provide for such payments. The Company's proportionate share of such deferred payments as of December 31, 2011 will not exceed $15,000. In addition, in connection with the Company's investment, ACAC will grant the Company a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMACI.

In accordance with ASC 323-10-15, *Investments-Equity Method and Joint Ventures*, the Company accounts for its investment in ACAC under the equity method. The Company recorded $7,871 and $25,332 of income during the years ended December 31, 2011 and 2010, respectively related to its equity investment in ACAC. The decrease in equity income in 2011 primarily related to the initial acquisition gain on ACAC of $10,450 the Company recognized during 2010 that was adjusted downward during 2011 by $3,614. Absent this adjustment for purchase price accounting, the earnings related to ACAC decreased to $11,485 in 2011 from $14,882 in 2010.

13. Related Party Transactions – (continued)

Personal Lines Quota Share

The Company, effective March 1, 2010, reinsures 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement (''Personal Lines Quota Share'') among Integon National Insurance Company, lead insurance company on behalf of the GMACI Insurers, as cedents, and the Company, ACP Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, receive 50% of the net premium of the GMACI Insurers and assume 50% of the related net losses. The Company has a 20% participation in the Personal Lines Quota Share, by which it receives 10% of the net premiums of the personal lines business and assumes 10% of the related net losses. The Personal Lines Quota Share has an initial term of three years and will renew automatically for successive three-year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. In addition, either party is entitled to terminate on 60 days' written 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 the GMACI Insurers, run-off, or a reduction of 50% or more of the shareholders' equity. The GMACI Insurers also may terminate on nine months' written notice following the effective date of an initial public offering or private placement of stock by ACAC or a subsidiary. The Personal Lines Quota Share provides that the reinsurers pay a provisional ceding commission equal to 32.5% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.5% or less and a minimum of 30.5% if the loss ratio is 64.5% or higher. The Personal Lines Quota Share is subject to a premium cap that limits the premium that could be ceded by the GMACI Insurers to TIC to $121,000 during calendar year 2011 to the extent TIC was to determine, in good faith, that it could not assume additional premium. The premium cap increases by 10% per annum thereafter. As a result of this agreement, the Company assumed $102,598 and $82,295 of business from the GMACI Insurers during the years ended December 31, 2011 and 2010, respectively.

Information Technology Services Agreement

The Company provides ACAC and its affiliates information technology development services in connection with the development of a policy management system at a price of cost plus 20% pursuant to a Master Services Agreement with GMAC Insurance Management Corporation, a wholly-owned subsidiary of ACAC. In addition, as consideration for a license for ACAC and its affiliates to use that system, the Company receives a license fee in the amount of 1.25% of gross premiums of ACAC and its affiliates plus the Company's costs for support services. The Company recorded approximately $4,022 and $2,022 of fee income for the years ended December 31, 2011 and 2010, respectively, related to this agreement.

Asset Management Agreement

The Company manages the assets of ACAC and its subsidiaries for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1,000,000 or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1,000,000. The Company currently manages approximately $750,000 of assets as of December 31, 2011 related to this agreement. As a result of this agreement, the Company earned approximately $1,550 and $1,456 of investment management fees for the years ended December 31, 2011 and 2010, respectively.

As a result of the above service agreements with ACAC, the Company recorded fees totaling approximately $5,572 and $3,478 for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011, the outstanding balance payable by ACAC related to these service fees and reimbursable costs was approximately $1,089.

13. Related Party Transactions – (continued)

800 Superior LLC

In August 2011, the Company formed 800 Superior, LLC with a subsidiary of ACAC for the purposes of acquiring an office building in Cleveland, Ohio. The Company and ACAC each have a fifty percent ownership interest in 800 Superior, LLC. The cost of the building was approximately $7,500. The Company has been appointed managing member of the LLC. The Company's Audit Committee reviewed and approved this joint purchase with ACAC. Additionally in conjunction with the Company's 21.25% ownership percentage of ACAC, the Company ultimately receives 60.6% of the profits and losses of the LLC. As such, in accordance with ASC 810-10, *Consolidation,* the Company has been deemed the primary beneficiary and, therefore, consolidates this entity. The results of operations of the LLC did not have a material impact on the Company's results of operations for the year ended December 31, 2011.

Diversified

Diversified Construction Management, LLC (''Diversified'') provided construction management and general contractor services for a Company subsidiary between 2009 and 2011. The Company recorded a total of $201, $423 and $260 for the years ended December 31, 2011, 2010 and 2009, respectively, for Diversified's services in connection with the construction project. Robert A. Saxon, Jr., a principal of Diversified, is the brother of Michael J. Saxon, the Company's Chief Operating Officer. During several prior years, Diversified provided similar services to the Company. While the initial arrangements were not pre-approved by the Audit Committee, upon subsequent review, the Audit Committee determined that the contracts were not less favorable to the Company than similar services provided at arms-length and approved future contracts.

Lease Agreements

In January 2008, the Company entered into an amended agreement for its office space at 59 Maiden Lane in New York, New York from 59 Maiden Lane Associates, LLC, an entity that is wholly-owned by Michael Karfunkel and George Karfunkel. The lease was amended such that it increased the leased space to 14,807 square feet and extended the lease through December 31, 2017. The Company's Audit Committee reviewed and approved the extension of the lease. The Company paid approximately $665 and $689 for the lease for the years ended December 31, 2011 and 2010, respectively.

In January 2011, the Company entered into an amended agreement to lease office space in Chicago, Illinois from 33 West Monroe Associates, LLC, an entity that is wholly-owned by entities controlled by Michael Karfunkel and George Karfunkel. The lease was amended to increase the leased space to 9,030 square feet and extend the lease through October 31, 2017. The Company's Audit Committee reviewed and approved this amended lease agreement. The Company paid approximately $285 and $257 for the years ended December 31, 2011 and 2010, respectively.

Use of Company Aircraft

The Company's wholly-owned subsidiary, AmTrust Underwriters, Inc. (''AUI''), is a party to an aircraft time share agreement with each of Maiden and ACAC. The agreements provide for payment to AUI for usage of its company-owned aircraft and covers actual expenses incurred and permissible under federal aviation regulations, including travel and lodging expenses of the crew, in-flight catering, flight planning and weather contract services, ground transportation, fuel, landing and hanger fees, airport taxes, among others. AUI does not charge Maiden or ACAC for the fixed costs that would be incurred in any event to operate the aircraft (for example, aircraft purchase costs, insurance and flight crew salaries). During the year ended December 31, 2011, Maiden and ACAC paid AUI $74 and $185, respectively, for the use of AUI's aircraft under these agreements.

13. Related Party Transactions – (continued)

In addition, for personal travel, Mr. Zyskind, the Company's President and Chief Executive Officer and Michael Karfunkel, the Chairman of the Board, each entered into an aircraft reimbursement agreement with AUI and, since entering into such agreement, has fully reimbursed AUI for the incremental cost billed by AUI for their personal use of AUI's aircraft, which for the year ended December 31, 2011 was $200 and $30, respectively. The Company's Audit Committee reviewed and approved the time share and reimbursement agreements.

14. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses:

(Amounts in Thousands)	2011	2010	2009
Policy acquisition expenses	$256,464	$180,757	$120,182
Salaries and benefits	119,171	97,934	80,179
Other insurance general and administrative expense	22,769	24,118	43,918
	$398,404	$302,809	$244,279

15. Share Based Compensation

During 2010, the Company adopted the 2010 Omnibus Incentive Plan (the ''Plan''), which permits the Company to grant to officers, employees and non-employee directors of the Company incentive compensation directly linked to the price of the Company's stock. This plan replaced the 2005 Equity Incentive Plan. The Plan authorizes up to an aggregate of 6,045,511 shares of Company stock for awards of options to purchase shares of the Company's common stock, restricted stock, restricted stock units (''RSU'') or appreciation rights. Shares used may be either newly issued shares or treasury shares or both. The aggregate number of shares of common stock for which awards may be issued may not exceed 6,045,511 shares, subject to the authority of the Company's board of directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting the Company's common stock. All remaining unissued shares related to the Company's previously existing 2005 and Equity and Incentive Plan were absorbed into the Plan. As of December 31, 2011, approximately 5,500,000 shares of Company common stock remained available for grants under the Plan.

The Company recognizes compensation expense under FASB ASC 718-10-25 for its share-based payments based on the fair value of the awards. The Company grants stock options at prices equal to the closing stock price of the Company's stock on the dates the options are granted. The options have a term of ten years from the date of grant and vest primarily in equal annual installments over the four-year period following the date of grant for employee options. Employees have three months after the employment relationship ends to exercise all vested options. The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense.

(In Thousands, Except Per Share Data)

15. Share Based Compensation – (continued)

A summary of the Company's stock option activity for the years ended December 31, 2011, 2010 and 2009 is shown below:

	2011		2010		2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,126,926	$10.46	4,168,089	$10.12	3,728,500	$ 9.88
Granted	235,000	16.83	276,250	14.24	565,539	10.95
Forfeited	(64,533)	14.96	(116,500)	11.16	(92,250)	9.26
Exercised	(525,605)	9.20	(200,913)	8.10	(33,700)	7.50
Outstanding at end of year	3,771,788	$10.96	4,126,926	$10.46	4,168,089	$10.12

The fair value was estimated at the date of grant with the following weighted average assumptions for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Volatility	32.75%	31.43%	31.04%
Risk-free interest rate	2.11%	1.92%	2.50%
Weighted average expected lives in years	6.25	6.25	6.25
Dividend rate	1.65%	1.98%	1.98%
Forfeiture rate	0.50%	0.50%	1.45%

The weighted average grant date fair value of options granted was $6.97, $3.94 and $3.04 during 2011, 2010 and 2009, respectively. As of December 31, 2011 and 2010, all option grants outstanding had an approximate weighted average remaining life of 5.8 and 6.7 years, respectively. As of December 31, 2011 and 2010, there were approximately 3,166,000 shares and 3,118,000 shares, respectively, with a weighted average exercise price of $10.26 and $9.62, respectively, which were exercisable.

A summary of the Company's restricted stock and restricted stock unit activity for the years ended December 31, 2011 and 2010 is shown below:

	2011		2010	
	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value
Non-vested at beginning of year	139,388	$14.04	—	$ —
Granted	204,260	20.39	140,828	14.04
Vested	(44,225)	14.08	—	—
Forfeited	(8,193)	19.99	(1,440)	13.92
Non-vested at end of year	291,230	$22.24	139,388	$14.04

Compensation expense for all share-based payments under ASC 718-10-30 was approximately $5,571, $3,386 and $4,241 for the years ended December 31, 2011, 2010 and 2009, respectively. The Company had approximately $5,346, $4,189 and $5,144 of unrecognized compensation cost related to all share based compensation as of December 31, 2011, 2010 and 2009, respectively.

15. Share Based Compensation – (continued)

The intrinsic value of stock options exercised during 2011, 2010 and 2009 was $6,957, $1,286 and $152, respectively. The intrinsic value of stock options that were outstanding as December 31, 2011 and 2010 was $48,247 and $29,044, respectively.

Cash received from options exercised was $5,425, $1,700 and $315 during 2011, 2010 and 2009 respectively.

16. Income Taxes

The provision for income taxes consists of the following for the years ended December 31, 2011, 2010 and 2009:

(Amounts in Thousands) Income Tax Provision (Benefit)	2011	2010	2009
Current expense (benefit)			
Federal	$ 11,147	$ 20,693	$11,856
Foreign	21,345	9,165	3,321
Total current tax expense	32,492	29,858	15,177
Deferred expense (benefit)			
Federal	$ 40,462	$ 35,623	$19,683
Foreign	(30,582)	(18,428)	(7,401)
Total deferred tax expense	9,880	17,195	12,282
Total income tax expense	$ 42,372	$ 47,053	$27,459

The following table is a reconciliation of the Company's statutory income tax expense to its effective tax rate for the years ended December 31, 2011, 2010 and 2009:

(Amounts in Thousands)	2011	2010	2009
Effective tax rate			
Income before equity in earnings (loss) of unconsolidated subsidiaries	$228,654	$171,401	$131,504
Tax at federal statutory rate of 35%	$ 80,029	$ 59,990	$ 46,026
Tax effects resulting from:			
Net income of non-includible foreign subsidiaries	(29,063)	(19,483)	(12,905)
Foreign currency gain	861	(247)	(864)
Other, net	(9,455)	6,793	(4,798)
	$ 42,372	$ 47,053	$ 27,459
Effective tax rate	18.5%	27.5%	20.9%

16. Income Taxes – (continued)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of December 31, 2011 and 2010 are shown below:

(Amounts in Thousands)	2011	2010
Deferred tax assets:		
Unearned premiums	$ 55,140	$ 37,930
Ceding commission	49,882	31,749
Other	15,164	12,195
Carryforward loss	14,579	20,990
Bad debt	4,904	4,628
Deferred compensation	4,837	4,132
Losses and LAE reserves	—	6,718
	$ 144,506	$ 118,342
Deferred tax liabilities:		
Deferred acquisition costs	$(147,819)	$(110,384)
Losses and LAE reserves	(56,869)	—
Intangible assets	(17,175)	—
Depreciation	(12,379)	(5,501)
Equity results which cannot be liquidated tax free	(8,796)	(4,179)
Other	(6,299)	(4,610)
Accrual market discount	(2,062)	(1,674)
Cash surrender value on insurance	(1,882)	(1,877)
	(253,281)	(128,225)
Deferred tax liability, net	$(108,775)	$ (9,883)

The Company's management believes that it will realize the benefits of its deferred tax asset and, accordingly, no valuation allowance has been recorded for the periods presented. A provision has not been made for the U.S. or additional foreign taxes on undistributed earnings of foreign subsidiaries, which have been, and will continue to be reinvested. These earnings could become subject to additional tax if they were remitted as dividends, if foreign earnings were loaned to the parent entity or a U.S. affiliate, or if the Company should sell its stock in its foreign subsidiaries. It is not practicable to determine the amount of additional tax, if any, that might be payable on foreign earnings. The deferred tax liability related to loss and LAE reserves of $56,869 includes a deferred tax liability of $88,576 for equalization reserves that were acquired as part of the AmTrust Re 2007, AmTrust Re Alpha, AmTrust Re Kappa, and AmTrust Re Zeta acquisitions.

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 limitation is open for tax years ended December 31, 2007 and forward. As permitted by FASB ASC 740-10, the Company adopted an accounting policy to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. Previously, the Company's policy was to classify interest and penalties as an operating expense in arriving at pre-tax income. At December 31, 2011, the Company does not have any accrued interest and penalties related to unrecognized tax benefits in accordance with FASB ASC 740-10.

16. Income Taxes – (continued)

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 sale. 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, 2011 and 2010, the financial reporting basis in excess of the tax basis for which no deferred taxes have been recognized was approximately $223,000 and $163,400, respectively.

A reconciliation of the total amounts of gross unrecognized tax benefits is as follows:

(Amounts in Thousands)	2011	2010
Gross unrecognized tax benefit as of January 1	$ 1,017	$ 5,293
Decreases in tax positions for prior years	(1,017)	(4,325)
Increases in tax positions for prior years	—	49
Decreases in tax positions for current year	—	—
Increases in tax positions for current year	—	—
Lapse in statute of limitations	—	—
Settlements	—	—
Gross unrecognized tax benefits as of December 31	$ —	$ 1,017

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

	Open Tax Years
Major tax jurisdictions:	
United States	2008 – 2011
United Kingdom	2009 – 2011
Ireland	2007 – 2011

17. Employee Benefit Plans

The Company sponsors a defined contribution pension plan. Participation in this plan is available to a majority of employees. Contributions to this plan were based on a percentage of employee contributions. The cost of this plan for the Company was approximately $1,397, $1,172 and $1,021 for the years ended December 31, 2011, 2010 and 2009, respectively.

18. Earnings per Share

Effective January 1, 2009, the Company adopted ASC subtopic 260-10, *Determining Whether Instruments Granted in Share-Based Payments Transactions Are Participating Securities*. ASC 260-10 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and are to be included in the computation of earnings per share under the two-class method. The Company's unvested restricted shares contain rights to receive nonforfeitable dividends and are participating securities, requiring the two-class method of computing earnings per share. There were no participating securities issued in 2009.

The following, is a summary of the elements used in calculating basic and diluted earnings per share for the years ended December 31, 2011, 2010 and 2009:

(Amounts in Thousands, except for earnings per share)	2011	2010	2009
Basics earnings per share:			
Net income attributable to AmTrust Financial Services, Inc. shareholders	$170,434	$142,465	$103,223
Less: Net income allocated to participating securities and redeemable non-controlling interest	111	81	—
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$170,323	$142,384	$103,223
Weighted average shares outstanding – basic	59,875	59,491	59,433
Less: Weighted average participating shares outstanding	39	38	—
Weighted average common shares outstanding – basic	59,836	59,453	59,433
Net income per AmTrust Financial Services, Inc. common shares – basic	$ 2.85	$ 2.39	$ 1.74
Diluted earnings per share:			
Net income attributable to AmTrust Financial Services, Inc. shareholders	$170,434	$142,465	$103,223
Less: Net income allocated to participating securities and redeemable non-controlling interest	111	81	—
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$170,323	$142,384	$103,223
Weighted average common shares outstanding – basic	59,836	59,453	59,433
Plus: Dilutive effect of stock options, other	1,746	893	521
Weighted average common shares outstanding – dilutive	61,582	60,346	59,954
Net income per AmTrust Financial Services, Inc. common shares – diluted	$ 2.77	$ 2.36	$ 1.72

As of December 31, 2011, there were less than 100,000 anti-dilutive securities excluded from diluted earnings per share.

19. Accumulated Other Comprehensive Income (Loss)

(Amounts in Thousands)	Foreign Currency Items	Unrealized Gains (Losses) on Investments	Interest Rate Swap Hedge	Accumulated Other Comprehensive Income
Balance, December 31, 2008	$(12,319)	$(93,496)	$ —	$(105,815)
Current period changes, net of tax	4,863	83,932	—	88,795
Balance, December 31, 2009	(7,456)	(9,564)	—	(17,020)
Current period changes, net of tax	(4,820)	21,574	—	16,754
Balance, December 31, 2010	(12,276)	12,010	—	(266)
Current period changes, net of tax	(4,815)	(2,638)	(2,280)	(9,733)
Balance, December 31, 2011	$(17,091)	$ 9,372	$(2,280)	$ (9,999)

20. Commitments and Contingencies

Litigation

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

Vehicle service contract industry inquiry and related proceedings

As disclosed in Part I, Item 3 of this Annual Report on Form 10-K, the states of Texas, Washington and Ohio, by and through the offices of their respective Attorneys General, are acting as the Executive Committee of a multi-state Attorneys General task force (the ''Multi-State Task Force'') that is making inquiries into the vehicle service contract industry focusing on former third party administrators of U.S. Fidelis, a direct marketer of vehicle service contracts that filed a petition for Chapter 11 bankruptcy protection in February 2010 in the United States Bankruptcy Court for the Eastern District of Missouri (the ''Bankruptcy Proceeding''). The inquiries relate to the handling of payment of customer refunds in the absence of U.S. Fidelis fulfilling such obligations and violation by U.S. Fidelis of consumer protection statutes in the course of marketing and selling vehicle service contracts to consumers across the country. In connection with such inquiry, on or about January 14, 2011, the Company's subsidiary, Warrantech Corporation (''Warrantech''), received an inquiry from the Texas Attorney General's office because Warrantech was a non-exclusive third party administrator of U.S. Fidelis between 2006 and 2009. Warrantech is working with the Executive Committee to resolve the matter as part of the Bankruptcy Proceeding, as discussed below.

On March 10, 2011, Warrantech received a demand letter from Mepco Finance Corporation (''Mepco'') related to certain damages Mepco allegedly incurred in connection with vehicle service contracts marketed and sold by U.S. Fidelis, financed by Mepco, and administered by Warrantech. Mepco claims that under the terms of an agreement between Warrantech and Mepco, Warrantech is obligated to indemnify Mepco for damages incurred resulting from the failure of U.S. Fidelis to repay certain amounts to Mepco on cancelled vehicle service contracts that were marketed and sold by U.S. Fidelis, financed by Mepco, and administered by Warrantech.

Warrantech disputes that it owes Mepco any amounts resulting from the failure of U.S. Fidelis to repay Mepco for certain cancelled vehicle service contracts. On September 13, 2011, Warrantech commenced an adversary proceeding against Mepco in the Bankruptcy Proceeding, Case Number 11-04313 (the ''Adversary Proceeding''). In the Adversary Proceeding, Warrantech is seeking a judicial determination that Mepco breached the agreement between the parties and, as result, Warrantech has incurred damages in connection with the marketing and sales of vehicle service contracts by U.S. Fidelis and Mepco's financing of those vehicle service contracts. In addition, Warrantech is seeking a declaratory judgment that any contractual

20. Commitments and Contingencies – (continued)

obligation it may have had to indemnify or reimburse Mepco for unpaid amounts due from U.S. Fidelis is unenforceable due to Mepco's own conduct.

In a related proceeding, the Official Committee of the Unsecured Creditors (the ''Creditors Committee'') also commenced an adversary proceeding against Mepco in the Bankruptcy Proceeding, Case Number 10-41902-705. In that proceeding, the Creditors Committee asserts, among other things, that Mepco's pre- and post-petition bankruptcy claims should be subordinated due to Mepco's inequitable conduct.

On September 28, 2011, the Multi-State Task Force, acting through its Executive Committee, filed a motion in the Bankruptcy Proceeding requesting that the Bankruptcy Court issue an order compelling Mepco, Warrantech, the Creditors Committee and the Executive Committee to mediate the claims asserted in the Adversary Proceeding and the issues raised by the Multi-State Task Force. On December 19 and December 20, 2011, Mepco, Warrantech, the Creditors Committee, the Executive Committee and counsel representing WARN Act claimants participated in the mediation conducted in Austin, Texas. As a result of this mediation, the parties are currently negotiating a potential settlement of the Adversary Proceeding and the Multi-State Task Force inquiry.

Lease Commitments

The Company is obligated under approximately 49 leases for office space expiring at various dates through 2032. Future minimum lease payments as of December 31, 2011 under non-cancellable operating leases for each of the next five years are approximately as follows:

(Amounts in Thousands)	
2012	$ 8,403
2013	7,871
2014	7,564
2015	6,931
2016	6,487
2017 and Thereafter	25,096
	$62,352

Rent expense for the years ended December 31, 2011, 2010 and 2009 was $10,451, $8,490 and $6,869, respectively.

Employment Agreements

The Company has employment agreements with approximately 26 of its key executives and employees. The agreements terminate on varying dates through 2020, contain annual minimum levels of compensation, and contain bonuses based on the Company's achieving certain financial targets. The annual future minimums in the aggregate are as follows through 2020:

(Amounts in Thousands)	
2012	$ 9,474
2013	4,508
2014	2,102
2015	2,102
2016	2,102
2017 and Thereafter	2,207
	$22,495

21. Dividend Restriction and Risk Based Capital

The Company's insurance subsidiaries are subject to statutory and regulatory restrictions, applicable to insurance companies, imposed by the states of domicile, which limit the amount of cash dividends or distributions that they may pay and was approximately $306,100 and $253,000 as of December 31, 2011 and 2010, respectively. During 2011, 2010 and 2009, the Company received a dividend of approximately $5,800, $5,000 and $4,500, respectively, from one of its subsidiaries.

Property and casualty insurance companies in the United States are subject to certain Risk-Based Capital (''RBC'') requirements as specified by the National Association of Insurance Commissioners. Under such requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined on various risk factors. As of December 31, 2011 and 2010, the capital and surplus of the Company's eight insurance subsidiaries domiciled in the United States exceeded the RBC requirements.

22. Statutory Financial Data

The Company's insurance subsidiaries file financial statements in accordance with statutory accounting practices (''SAP'') prescribed or permitted by domestic or foreign insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between domestic and foreign jurisdictions. The principal differences relate to (1) acquisition costs incurred in connection with acquiring new business which are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) limitation on net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and loss expense, and unearned premium reserves are presented gross of reinsurance with a corresponding asset recorded; and (4) fixed maturity portfolios that are carried at fair value and changes in fair value are reflected directly in unassigned surplus, net of related deferred taxes.

Statutory surplus and net income for insurance operations as reported to regulatory authorities were approximately as follows:

(Amounts in Thousands) December 31, 2011	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$193,036	$215,664	$ 1,721	$ 13,849
RIC (domestic)	46,107	52,313	903	1,524
WIC (domestic)	82,580	84,260	5,590	7,386
AIIC (domestic)	72,034	76,513	13,546	12,348
SNIC (domestic)	31,493	32,772	3,338	4,050
MCIC (domestic)	12,512	13,000	936	984
ALIC (domestic)	2,128	2,128	—	—
AICK (domestic)	12,852	13,324	22	(26)
AEL (United Kingdom)	160,724	169,932	51,240	54,721
AIU (Ireland)	106,574	119,692	39,927	39,509
AII (Bermuda)	369,336	518,206	120,904	120,904

22. Statutory Financial Data – (continued)

(Amounts in Thousands) December 31, 2010	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$186,470	$203,052	$11,473	$13,104
RIC (domestic)	43,957	50,023	4,445	6,197
WIC (domestic)	60,943	62,538	5,234	7,401
AIIC (domestic)	58,391	63,508	10,988	10,660
SNIC (domestic)	16,921	17,665	1,372	1,158
MCIC (domestic)	11,599	12,032	793	655
ALIC (domestic)	2,081	2,146	8	8
AICK (domestic)	12,718	13,372	836	817
AEL (United Kingdom)	89,710	89,710	14,161	14,223
AIU (Ireland)	128,028	135,880	22,117	17,589
AII (Bermuda)	286,714	406,088	52,312	52,312

(Amounts in Thousands) December 31, 2009	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$167,316	$178,467	$15,259	$16,338
RIC (domestic)	36,782	40,460	8,772	9,413
WIC (domestic)	52,875	53,511	6,806	7,402
AIIC (domestic)	51,636	58,646	10,973	11,425
SNIC (domestic)	15,641	16,252	231	149
MCIC (domestic)	10,967	11,258	514	422
ALIC (domestic)	2,116	2,121	11	—
AICK (domestic)	9,648	10,035	(263)	(207)
AEL (United Kingdom)	37,785	37,785	2,015	2,266
AIU (Ireland)	96,329	111,156	15,387	13,999
AII (Bermuda)	224,823	327,681	17,891	17,891

23. Geographic Information

Three of the Company's insurance subsidiaries (AII, AIU and AEL) operate outside the United States. Their assets and liabilities are located principally in the countries where the insurance risks are written or assumed. For both 2011 and 2010, 34% of the Company's gross written premiums related to foreign risks, of which 37% were written from the United Kingdom. For 2009, 21% of the Company's gross written premiums related to foreign risks, of which 47% were written from the United Kingdom. As of December 31, 2011 and 2010, approximately 46% and 47%, respectively, of the consolidated assets were located outside the United States. For the years ended 2011, 2010 and 2009, approximately 77%, 70% and 66%, respectively, of the consolidated revenues earned were located in or derived from foreign countries.

The domestic and foreign components of Income before equity in earnings (loss) of unconsolidated subsidiaries for the years ended December 31, 2011, 2010 and 2009 are as follows:

(Amounts in Thousands)	2011	2010	2009
Domestic	$ 24,328	$ 65,882	$ 73,542
Foreign	204,326	105,519	57,962
	$228,654	$171,401	$131,504

23. Geographic Information – (continued)

The following table summarizes the Company's operations by major geographic segment:

(Amounts in Thousands)	Domestic	Bermuda	Other Foreign
December 31, 2011:			
Revenue	$306,915	$865,262	$169,406
Property and equipment	58,682	—	2,871
December 31, 2010:			
Revenue	$299,340	$603,827	$ 99,291
Property and equipment	30,340	—	549
December 31, 2009:			
Revenue	$249,934	$429,042	$ 61,235
Property and equipment	15,428	—	430

24. Segments

The Company currently operates four business segments, Small Commercial Business; Specialty Risk and Extended Warranty; Specialty Program and Personal Lines Reinsurance (began in 2010 with the investment in ACAC). The ''Corporate & Other'' segment represents the activities of the holding company as well as a portion of service and fee revenue. In determining total assets (excluding cash and invested assets) by segment, the Company identifies those assets that are attributable to a particular segment such as deferred acquisition cost, reinsurance recoverable, goodwill, intangible assets and prepaid reinsurance while the remaining assets are allocated based on net written premium by segment. In determining cash and invested assets by segment, the Company matches certain identifiable liabilities such as unearned premium and loss and loss adjustment expense reserves by segment. The remaining cash and invested assets are then allocated based on net written premium by segment. Investment income and realized gains (losses) are determined by calculating an overall annual return on cash and invested assets and applying that overall return to the cash and invested assets by segment. Ceding commission revenue is allocated to each segment based on that segment's proportionate share of the Company's overall acquisition costs. Interest expense is allocated based on net written premium by segment. Income taxes are allocated on a pro rata basis based on the Company's effective tax rate. Additionally, management reviews the performance of underwriting income in assessing the performance of and making decisions regarding the allocation of resources to the segments. Underwriting income excludes, primarily, service and fee revenue, investment income and other revenues, other expenses, interest expense and income taxes. Management believes that providing this information in this manner is essential to providing Company's shareholders with an understanding of the Company's business and operating performance.

The Company's Specialty Risk and Extended Warranty segment derived over ten percent of gross written premium from one broker in 2011 and was approximately $237,000. In both 2011 and 2010, the Specialty Program segment derived over ten percent of gross written premium from one program and was approximately $66,000 and $59,000, respectively.

24. Segments – (continued)

The following tables summarize business segments as follows for 2011, 2010 and 2009:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Year ended December 31, 2011:						
Gross premium written	$ 609,822	$1,056,511	$ 381,541	$102,598	—	$ 2,150,472
Net premium written	355,721	615,563	202,715	102,598	—	1,276,597
Change in unearned premium	(35,455)	(168,798)	(31,340)	(4,143)	—	(239,736)
Net earned premium	320,266	446,765	171,375	98,455	—	1,036,861
Ceding commission – primarily related party	62,093	57,648	34,212	—	—	153,953
Loss and loss adjustment expense	(201,921)	(297,501)	(114,685)	(64,226)	—	(678,333)
Acquisition costs and other underwriting expenses	(148,041)	(137,442)	(81,568)	(31,353)	—	(398,404)
	(349,962)	(434,943)	(196,253)	(95,579)	—	(1,076,737)
Underwriting income	32,397	69,470	9,334	2,876	—	114,077
Service, fee and other revenues	20,887	67,312	17	—	20,444	108,660
Investment income and realized gain (loss)	23,385	22,708	10,104	2,086	—	58,283
Other expenses	(25,000)	(43,354)	(15,143)	(3,114)	—	(86,611)
Interest expense	(4,641)	(8,049)	(2,811)	(578)	—	(16,079)
Foreign currency loss	—	(2,418)	—	—	—	(2,418)
Gain on life settlement contracts	13,535	23,472	8,199	1,686	—	46,892
Acquisition gain on purchase	5,850	—	—	—	—	5,850
Provision for income taxes	(11,897)	(23,135)	(1,738)	(530)	(5,072)	(42,372)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	—	7,871	7,871
Non-controlling interest	(6,846)	(11,873)	(4,147)	(853)	—	(23,719)
Net income attributable to AmTrust Financial Services, Inc.	$ 47,670	$ 94,133	$ 3,815	$ 1,573	$23,243	$ 170,434

24. Segments – (continued)

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Year ended December 31, 2010:						
Gross premium written	$ 465,951	$ 748,525	$ 264,051	$ 82,295	—	$1,560,822
Net premium written	243,146	362,100	139,685	82,295	—	827,226
Change in unearned premium	9,296	(58,517)	568	(32,914)	—	(81,567)
Net earned premium	252,442	303,583	140,253	49,381	—	745,659
Ceding commission – primarily related party	66,282	48,015	23,964	—	—	138,261
Loss and loss adjustment expense	(154,442)	(191,149)	(94,261)	(31,629)	—	(471,481)
Acquisition costs and other underwriting expenses	(128,142)	(98,547)	(60,071)	(16,049)	—	(302,809)
	(282,584)	(289,696)	(154,332)	(47,678)	—	(774,290)
Underwriting income	36,140	61,902	9,885	1,703	—	109,630
Service, fee and other revenues	19,696	29,729	—	—	12,642	62,067
Investment income and realized gain (loss)	21,951	20,339	11,616	2,564	—	56,470
Other expenses	(17,966)	(24,443)	(10,397)	(3,597)	—	(56,403)
Interest expense	(4,110)	(5,591)	(2,378)	(823)	—	(12,902)
Foreign currency gain	—	684	—	—	—	684
Gain on life settlement contracts	3,776	5,138	2,185	756	—	11,855
Provision for income taxes	(16,331)	(24,091)	(2995)	(166)	(3,470)	(47,053)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	—	24,044	24,044
Non-controlling interest	(1,887)	(2,569)	(1,093)	(378)	—	(5,927)
Net income attributable to AmTrust Financial Services, Inc.	$ 41,269	$ 61,098	$ 6,823	$ 59	$33,216	$ 142,465

24. Segments – (continued)

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Corporate and Other	Total
Year ended December 31, 2009:					
Gross premium written	$ 469,627	$ 461,338	$ 267,981	$ —	$1,198,946
Net premium written	255,496	245,604	142,326	—	643,426
Change in unearned premium	(16,525)	(55,378)	2,359	—	(69,544)
Net earned premium	238,971	190,226	144,685	—	573,882
Ceding commission – primarily related party	59,415	25,909	28,607	—	113,931
Loss and loss adjustment expense	(137,525)	(98,797)	(91,449)	—	(327,771)
Acquisition costs and other underwriting expenses	(119,734)	(55,551)	(68,994)	—	(244,279)
	(257,259)	(154,348)	(160,443)	—	(572,050)
Underwriting income	41,127	61,787	12,849	—	115,763
Service and fee revenues	12,323	9,841	—	8,526	30,690
Investment income, realized gain (loss) and loss on managed assets	9,880	6,731	5,097	—	21,708
Other expenses	(9,073)	(8,114)	(5,045)	—	(22,232)
Interest expense	(6,890)	(6,162)	(3,832)	—	(16,884)
Foreign currency gain	—	2,459	—	—	2,459
Provision for income taxes	(9,891)	(13,894)	(1,894)	(1,780)	(27,459)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	(822)	(822)
Net income	$ 37,476	$ 52,648	$ 7,175	$ 5,924	$ 103,223

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and other	Total
As of December 31, 2011:						
Fixed assets	$ 17,767	$ 30,811	$ 10,762	$ 2,213	$ —	$ 61,553
Goodwill and intangible assets	123,976	167,782	22,858	—	—	314,616
Total assets	2,151,924	2,483,923	913,141	133,566	—	5,682,554
As of December 31, 2010:						
Fixed assets	$ 9,839	$ 13,386	$ 5,694	$ 1,970	$ —	$ 30,889
Goodwill and intangible assets	87,001	95,737	15,088	—	—	197,826
Total assets	1,581,946	1,716,980	741,835	141,692	—	4,182,453

25. Equity Investment in Unconsolidated Subsidiary

The following table summarizes total assets and total liabilities as of December 31, 2011 and 2010, and the results of operations for the Company's unconsolidated equity method investment in ACAC for the years ended December 31, 2011 and 2010:

(Amounts in Thousands)	As of December 31, 2011	2010
Balance sheet data:		
Investments	$ 782,711	$ 840,504
Premiums and other receivables	441,817	363,505
Reinsurance recoverable – unpaid loss	775,444	695,023
Total assets	2,403,477	2,229,662
Reserve for insurance loss and loss adjustment expenses	1,053,137	1,081,630
Unearned insurance premiums and revenue	449,598	443,910
Total liabilities	2,026,179	1,903,984

	2011	2010
Results of operations:		
Gross written premium	$1,172,686	$904,553
Net earned premium	498,205	560,917
Income from continuing operations	54,046	70,034
Net income	54,046	119,211

26. Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results of operations:

(Amounts in Thousands)	2011 March 31,	June 30,	September 30,	December 31,
Earned premium	$200,338	$248,282	$288,848	$299,393
Investment income	14,192	13,167	14,456	13,700
Net income	51,321	56,644	40,653	37,393
Income attributable to Common Shareholders	45,183	50,162	37,166	37,923
Basic EPS	0.76	0.84	0.62	0.63
Diluted EPS	0.74	0.81	0.60	0.61

	2010 March 31,	June 30,	September 30,	December 31,
Earned premium	$148,100	$196,261	$190,885	$210,413
Investment income	13,599	14,686	10,952	11,280
Net income	38,700	30,823	43,149	33,688
Income attributable to Common Shareholders	38,700	30,823	39,296	33,646
Basic EPS	0.65	0.52	0.65	0.57
Diluted EPS	0.64	0.51	0.65	0.56

(In Thousands, Except Per Share Data)

26. Quarterly Financial Data (Unaudited) – (continued)

	2009			
	March 31,	June 30,	September 30,	December 31,
Earned premium	$132,423	$136,803	$145,292	$159,364
Investment income	13,589	13,582	14,079	13,215
Net income	24,162	26,771	24,221	28,069
Basic EPS	0.40	0.45	0.41	0.47
Diluted EPS	0.40	0.45	0.40	0.47

During the three months ended March 31, 2010 and December 31, 2010, the Company recorded a retrospective gain of $10,450 and $1,263, respectively, related to an acquisition gain on ACAC for the three months ended March 31, 2010 and related to a gain on the purchase of life settlement contracts in the three months ended September 30, 2010. The impact of the retrospective gain on net income and earnings per share was $6,792 and $0.11 for the three months ended March 31, 2010. The impact of the retrospective gain on net income and income attributable to common shareholders was $821 and $410, respectively.

During the three months ended September 30, 2011, the Company in conjunction with the completion of its purchase price accounting related to the Majestic transaction recorded a retrospective gain of $3,185. The impact of the retrospective gain on net income and earnings per share was $2,070 and $0.03 for the three months ended September 30, 2011.

27. Subsequent Event

On January 13, 2012, the initial purchasers of the Company's convertible senior notes (the ''Notes'') exercised their $25,000 overallotment option on the previously completed offering of Notes (See Note 11. ''Debt''). On January 19, 2012, the Company closed the sale of this overallotment, bringing the aggregate amount of Notes issued to $200,000.

SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES

At December 31, 2011 Type of Investment	Cost[1]	Value	Amount at which Shown in the Balance Sheet
		(In Thousands)	
Fixed Maturities:			
Bonds:			
United States government and government agencies & authorities	$ 392,327	$ 414,537	$ 414,537
States, municipalities and political subdivisions	268,240	275,018	275,018
Foreign governments	9,527	9,527	9,527
Public utilities	38,434	38,506	38,506
Convertibles and bonds with warrants attached	—	—	—
All other corporate bonds	674,335	656,655	656,655
Certificates of deposit	—	—	—
Redeemable preferred stock	—	—	—
Total fixed maturities	1,382,863	1,394,243	1,394,243
Equity securities:			
Common stocks:			
Public utilities Banks, trust and insurance companies	20,232	22,624	22,624
Industrial, miscellaneous and all other Nonredeemable preferred stocks	13,809	12,976	12,976
Total equity securities	34,041	35,600	35,600
Short-term investments, at cost (approximates market value)	128,565	128,565	128,565
Other invested assets (approximates market value)	14,588	14,588	14,588
Total investments	$1,560,057	$1,572,996	$1,572,996

(1) Original cost of equity securities and, as to fixed maturities, original cost reduced by repayments and adjusted for amortization of premiums or accrual of discounts.

AMTRUST FINANCIAL SERVICES
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEET — PARENT COMPANY ONLY

	December 31, 2011	December 31, 2010
	(In Thousands)	
Assets:		
Cash	$ —	$ —
Invested assets	9	5,009
Carrying value of subsidiaries, at equity	1,107,857	912,027
Other assets	142,090	113,844
Total Assets	1,249,956	1,030,880
Liabilities:		
Due to affiliates – net	42,654	150,202
Notes payable	7,362	21,066
Convertible senior notes	138,506	—
Junior subordinated debt	123,714	123,714
Other liabilities	47,157	19,384
Total Liabilities	359,393	314,366
Stockholders' Equity		
Common stock	849	844
Paid-in and contributed capital	582,321	548,731
Treasury shares	(300,365)	(300,489)
Accumulated other comprehensive income	(9,999)	(266)
Retained earnings	617,757	467,694
Total Shareholders' Equity	890,563	716,514
Total Liabilities and Shareholders' Equity	$1,249,956	$1,030,880

STATEMENT OF INCOME — PARENT COMPANY ONLY

	Year Ended December 31, 2011	2010	2009
		(In Thousands)	
Income:			
Investment income	$ 294	$ 2,900	$ 4,154
Equity in undistributed net income of consolidated subsidiaries and partially-owned companies	212,926	162,202	117,473
Miscellaneous income (expense)	63	120	661
Total Income	213,283	165,222	122,288
Expenses:			
Interest expense	3,861	1,725	3,422
Federal tax expense	—	4,746	5,547
Other expenses from operations	15,269	10,359	10,096
Total Expenses	19,130	16,830	19,065
Net Income	$194,153	$148,392	$103,223

The condensed financial statements should be read in conjunction with consolidated financial statements and notes thereto.

AMTRUST FINANCIAL SERVICES
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF CASH FLOWS — PARENT COMPANY ONLY

	December 31,		
	2011	2010	2009
		(In Thousands)	
Cash flows from operating activities:			
Net income	$ 194,153	$146,340	$ 103,223
Depreciation and amortization	948	1,197	1,104
Stock option compensation	5,571	3,386	4,241
Discount on note	462	771	1,067
Adjustments to reconcile net income to net cash changes in assets (increase) decrease:			
Carrying value of equity interest in subsidiaries	(221,166)	(71,492)	(117,224)
Equity (earnings) losses and gain on investments in unconsolidated subsidiaries	(7,871)	(24,044)	822
Other assets	(28,246)	20,589	(5,300)
Changes in liabilities increase (decrease):			
Due to affiliates	(107,548)	13,536	58,994
Other liabilities	27,772	8,449	(2,476)
Net cash provided by (used in) operating activities	(135,925)	98,732	44,451
Cash flows from investing activities:			
Capital expenditures	(20)	(299)	(36)
Investment in subsidiary	(4,027)	—	—
Investment in unconsolidated subsidiary	—	(53,055)	—
Acquisition of intangible assets	—	—	(7,610)
Acquisition of subsidiary companies, net of cash acquired	—	(11,295)	—
Net cash used in investing activities	(4,047)	(64,649)	(7,646)
Cash flows from financing activities:			
Issuance of debt	298,200	—	—
Payment of debt	(137,367)	(20,833)	(20,833)
Financing fees	(6,574)	—	—
Net, issuance (repurchase) of common stock	5,425	1,770	(5,771)
Dividends paid	(19,712)	(16,647)	(13,088)
Net cash (used in) provided by financing activities	139,972	(35,710)	(39,692)
Net decrease in cash and cash equivalents	—	(1,627)	(2,887)
Cash and cash equivalents, beginning of the year	—	1,627	4,514
Cash and cash equivalents, end of period	$ —	$ —	$ 1,627

The condensed financial statements should be read in conjunction with consolidated financial statements and notes thereto.

AMTRUST FINANCIAL SERVICES, INC.
AND SUBSIDIARIES SUPPLEMENTARY INSURANCE INFORMATION

At December 31, 2011, 2010 and 2009 and for the years then ended:

Segment	Deferred Policy Acquisition Costs	Reserves for Losses and Loss Expenses, Future Policy Benefits	Reserves for Unearned Premiums	Premium Revenue	Net Investment Income	Losses and Loss Expenses Incurred, Benefits	Amortization of Deferred Policy Acquisition Costs	Other Operating Expenses	Net Premiums Written
					(In Thousands)				
2011:									
Small Commercial Business	$ 43,605	$1,163,618	$ 281,863	$ 320,266	$22,274	$201,921	$ 40,281	$107,760	$ 355,721
Specialty Risk and Extended Warranty	193,401	323,900	880,586	446,765	21,630	297,501	84,371	53,071	615,563
Specialty Program	32,449	368,358	166,665	171,375	9,624	114,685	25,820	55,748	202,715
Personal Lines Reinsurance	11,536	23,299	37,056	98,455	1,987	64,226	10,920	20,433	102,598
Total	$280,991	$1,879,175	$1,366,170	$1,036,861	$55,515	$678,333	$161,392	$237,012	$1,276,597
2010:									
Small Commercial Business	$ 40,281	$ 766,998	$ 224,490	$ 252,442	$19,636	$154,442	$ 43,097	$ 85,045	$ 243,146
Specialty Risk and Extended Warranty	147,650	167,517	653,138	303,583	18,195	191,149	36,404	62,143	362,100
Specialty Program	25,820	318,187	114,423	140,253	10,392	94,261	22,584	37,487	139,685
Personal Lines Reinsurance	10,920	10,835	32,914	49,381	2,294	31,629	—	16,049	82,295
Total	$224,671	$1,263,537	$1,024,965	$ 745,659	$50,517	$471,481	$102,085	$200,724	$ 827,226
2009:									
Small Commercial Business	$ 41,473	$ 763,143	$ 226,927	$ 238,971	$25,163	$137,525	$ 43,780	$ 75,954	$ 255,496
Specialty Risk and Extended Warranty	23,425	121,869	326,203	190,226	17,143	98,797	13,804	41,747	245,604
Specialty Program	115,281	206,932	318,649	144,685	12,981	91,449	15,947	53,047	142,326
Total	$180,179	$1,091,944	$ 871,779	$ 573,882	$55,287	$327,771	$ 73,531	$170,748	$ 643,426

See accompanying notes to financial statements.

Schedule IV

AMTRUST FINANCIAL SERVICES, INC.
AND SUBSIDIARIES REINSURANCE

At December 31, 2011, 2010 and 2009 and for the years then ended:

	Gross Amount	Ceded to Other Companies	Amount from Other Companies	Net Amount	Percent of Amount Assumed to Net
			(Amounts in Thousands)		
2011					
Premiums:					
General Insurance	$1,843,185	$873,875	$307,287	$1,276,597	24.1%
2010					
Premiums:					
General Insurance	$1,375,993	$733,596	$184,829	$ 827,226	22.3%
2009					
Premiums:					
General Insurance	$1,117,090	$555,520	$ 81,856	$ 643,426	12.7%

See accompanying notes to financial statements.

AMTRUST FINANCIAL SERVICES, INC.
CONSOLIDATED SUPPLEMENTARY PROPERTY AND CASUALTY INSURANCE INFORMATION
(In Thousands)

	Losses and Loss Adjustment Expenses Incurred Related to		
Years Ended December 31,	**Current Year**	**Prior Years**	**Paid Losses and Loss Adjustment Expenses**
2011	$665,812	$12,521	$569,988
2010	$463,535	$ 7,946	$409,605
2009	$332,598	$ (4,827)	$313,082

See accompanying notes to financial statements.

INDEX TO EXHIBITS

The following documents are filed as exhibits to this report:

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 333-134960) filed on June 12, 2006)
3.2	Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 333-134960) filed on June 12, 2006)
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (No. 333-134960) filed on June 12, 2006)
4.2	Form of 5.50% Convertible Senior Notes due 2021 (incorporated by reference to Exhibit 4.3 to the Company's Form 8-K (No. 001-33143) filed on December 21, 2011)
4.3	Indenture, dated as of December 21, 2011, by and between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K (No. 001-33143) filed on December 21, 2011)
4.4	First Supplemental Indenture, dated as of December 21, 2011, by and between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K (No. 001-33143) filed on December 21, 2011)
4.5	The Company will file with the SEC upon request, pursuant to the requirements of Item 601(b)(4) of Regulation S-K, documents (other than Exhibits 4.3 and 4.4) defining rights of holders of the Company's long-term indebtedness
10.1*	2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-134960) filed on June 12, 2006)
10.2*	AmTrust Financial Services, Inc. 2010 Omnibus Incentive Plan (incorporated by reference to Appendix B to the Company's definitive proxy statement on Schedule 14A filed on April 1, 2010)
10.3*	Employment Agreement, dated as of January 1, 2005, by and between the Company and Barry D. Zyskind (incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (No. 333-134960) filed on June 12, 2006)
10.4*	Amendment to Employment Agreement, dated October 6, 2010, by and between the Company and Barry D. Zyskind (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on October 7, 2010)
10.5*	Employment Agreement, dated November 22, 2010, by and between the Company and Max G. Caviet (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on November 23, 2010)
10.6*	Employment Agreement, dated as of March 1, 2010, by and between the Company and Christopher M. Longo (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (No. 001-33143) filed on March 5, 2010)
10.7*	Amendment No. 1 to Employment Agreement, dated November 3, 2010, by and between the Company and Christopher M. Longo (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on November 9, 2010)
10.8*	Amendment No. 2 to Employment Agreement, dated March 1, 2012, by and between the Company and Christopher M. Longo (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (No. 001-33143) filed on March 5, 2012)
10.9*	Employment Agreement, dated as of March 1, 2010, by and between the Company and Ronald E. Pipoly, Jr. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on March 5, 2010)*

Exhibit No.	Description
10.10*	Amendment No. 1 to Employment Agreement, dated March 1, 2012, by and between the Company and Ronald E. Pipoly, Jr. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-33143) filed on March 5, 2012
10.11*	Employment Agreement, dated as of March 1, 2010, by and between the Company and Michael J. Saxon. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-33143) filed on March 5, 2010)
10.12*	Amendment No. 1 to Employment Agreement, dated November 3, 2010, by and between the Company and Michael J. Saxon (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on November 9, 2010)
10.13*	Amendment No. 2 to Employment Agreement, dated March 1, 2012, by and between the Company and Michael J. Saxon (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on March 5, 2012)
10.14	Form of Indemnification Agreement between the Company and its officers and directors (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (No. 333-134960) filed on June 12, 2006)
10.15	Tax Assurance from the Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966, as amended, of Bermuda, issued to AmTrust International Insurance, Ltd., AmTrust Equity Solutions Ltd., Agent Alliance Reinsurance Company, Ltd., AII Investment Holdings Ltd., AII Insurance Management Limited and AII Reinsurance Broker Limited (filed herewith)
10.16	Lease dated June 28, 2002, between 59 Maiden Lane Associates, LLC and the Company (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-134960) filed on July 25, 2006)
10.17	First Lease Modification Agreement, dated as of February 1, 2005, by and between 59 Maiden Lane Associates, LLC and the Company (incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-134960) filed on July 25, 2006)
10.18	Second Lease Modification Agreement, dated as of December 2007, by and between 59 Maiden Lane Associates, LLC and the Company (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K (No. 001-33143) filed on March 14, 2008)
10.19	Form of Letter Agreement between AmTrust North America and Diversified Construction Management, LLC (incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-134960) filed on July 25, 2006)
10.20	Master Agreement dated July 3, 2007 between AmTrust Financial Services, Inc. and Maiden Holdings, Ltd. (incorporated by reference to Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on August 14, 2007)
10.21	First Amendment to Master Agreement dated September 17, 2007 between AmTrust Financial Services, Inc. and Maiden Holdings, Ltd. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on September 19, 2007)
10.22	Quota Share Reinsurance Agreement between AmTrust International Insurance, Ltd. and Maiden Insurance Company, Ltd. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-33143) filed on September 19, 2007)
10.23	Amended and Restated Quota Share Reinsurance Agreement between AmTrust International Insurance, Ltd. and Maiden Insurance Company Ltd. (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K (No. 001-33143) filed on March 16, 2009)
10.24	Endorsement No. 1 to the Amended and Restated Quota Share Reinsurance Agreement, dated July 26, 2011, between AmTrust International Insurance, Ltd. and Maiden Insurance Company Ltd. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on August 4, 2011)

Exhibit No.	Description
10.25	Quota Share Reinsurance Agreement, dated April 1, 2011, among AmTrust Europe Ltd., AmTrust International Underwriters Limited, and Maiden Insurance Company Ltd., as amended by Endorsement No.1 to the Quota Share Reinsurance Agreement, dated July 26, 2011, among AmTrust Europe Ltd., AmTrust International Underwriters Limited, and Maiden Insurance Company Ltd. (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on August 4, 2011)
10.26	Stock Purchase Agreement dated as of October 16, 2009 by and among, the Company, American Capital Acquisition Corporation (''ACAC'') and The Michael Karfunkel 2005 Grantor Retained Annuity Trust (incorporated by reference to Exhibit 10.29.1 to the Company's Annual Report on Form 10-K (No. 001-33143) filed on March 16, 2010)
10.27	Joinder & Amendment No. 1 to Stock Purchase Agreement dated October 16, 2009 with ACAC, Michael Karfunkel and The Michael Karfunkel 2005 Grantor Retained Annuity Trust (incorporated by reference to Exhibit 10.29.2 to the Company's Annual Report on Form 10-K (No. 001-33143) filed on March 16, 2010)
10.28	Stockholders Agreement dated as of October 16, 2009 by and among the Company, ACAC and The Michael Karfunkel 2005 Grantor Retained Annuity Trust (incorporated by reference to Exhibit 10.30.1 to the Company's Annual Report on Form 10-K (No. 001-33143) filed on March 16, 2010)
10.29	Joinder Agreement dated as of February 26, 2010 to Stockholder Agreement by and among, the Company, ACAC, Michael Karfunkel and The Michael Karfunkel 2005 Grantor Retained Annuity Trust (incorporated by reference to Exhibit 10.30.2 to the Company's Annual Report on Form 10-K (No. 001-33143) filed on March 16, 2010)
10.30	Amendment No. 1 to the Stockholders Agreement, dated August 4, 2010, by and among the Company, ACAC, The Michael Karfunkel 2005 Grantor Retained Annuity Trust and Michael Karfunkel (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on August 9, 2010)
10.31*	Amended and Restated AmTrust Financial Services, Inc. 2007 Executive Performance Plan (incorporated by reference to Appendix A to the Company's definitive proxy statement on Schedule 14A filed on April 1, 2010)
10.32*	Form of Incentive Stock Option Agreement, amended and restated effective November 1, 2011 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on November 9, 2011)
10.33*	Form of Non-qualified Stock Option Agreement for Non-Employee Directors, amended and restated effective November 1, 2011 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on November 9, 2011)
10.34*	Form of Restricted Stock Agreement, amended and restated effective November 1, 2011 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on November 9, 2011)
10.35*	Form of Restricted Stock Unit Agreement, amended and restated effective November 1, 2011 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on November 9, 2011)
10.36	Credit Agreement, dated January 28, 2011, among the Company, JPMorgan Chase Bank, N.A., as Administrative Agent, The Bank of Nova Scotia, as Syndication Agent, SunTrust Bank, as Documentation Agent, and the lending institutions party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on January 31, 2011)

Exhibit No.	Description
10.37	Waiver and Amendment No. 1 to Credit Agreement, dated June 30, 2011, among the Company, JPMorgan Chase Bank, N.A., as Administrative Agent, and the lending institutions party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on July 5, 2011)
10.38	Amendment No. 2 to the Credit Agreement, dated as of December 12, 2011, among the Company, JPMorgan Chase Bank, N.A., as Administrative Agent, and the various lending institutions party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on December 15, 2011)
10.39	Personal and Commercial Automobile Quota Share Reinsurance Agreement between Integon National Insurance Company and Technology Insurance Company, Inc., Maiden Insurance Company Ltd., and American Capital Partners Re, Ltd., effective March 1, 2010 (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K (No. 001-33143) filed on March 15, 2011)
10.40	Master Services Agreement between AmTrust North America, Inc. and GMAC Insurance Management Corporation, dated February 22, 2012 (filed herewith)
12.1	Computation of Ratio of Earnings to Fixed Charges
21.1	List of subsidiaries of the Company (filed herewith)
23.1	Consent of BDO USA, LLP, Independent Registered Public Accounting Firm relating to the Financial Statements of the Company (filed herewith)
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.SC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.SC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
101.1	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets as of December 31, 2011 and 2010; (ii) the Consolidated Statements of Income for the years ended December 31, 2011, 2010 and 2009; (iii) the Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009; (iv) the Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009; and (v) the Notes to the Consolidated Financial Statements, tagged as blocks of text (submitted electronically herewith). In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101.1 to this Annual Report on Form 10-K shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

* Indicates management contract or compensatory plan, contract or arrangement in which one or more directors or executive officers of the Company may be participants.

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

AmTrust Financial Services, Inc.
New York, New York

We hereby consent to the incorporation by reference in the Registration Statements on Form S-1 (No. 333-134960), Form S-8 (No. 333-147867), Form S-8 (No. 333-166943) and Form S-3 (No. 333-169520) of AmTrust Financial Services, Inc. of our report dated March 15, 2012, relating to the consolidated financial statements, the effectiveness of AmTrust Financial Services, Inc.'s internal control over financial reporting and financial statement schedules, which appears in this Form 10-K.

/s/ BDO USA, LLP

New York, New York
March 15, 2012

EXHIBIT 31.1

CERTIFICATION

I, Barry Zyskind, certify that:

1. I have reviewed this Annual Report on Form 10-K of AmTrust Financial Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 15, 2012

By: /s/ Barry Zyskind

Barry Zyskind
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Ronald Pipoly, certify that:

1. I have reviewed this Annual Report on Form 10-K of AmTrust Financial Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 15, 2012

By: /s/ Ronald Pipoly
Ronald Pipoly
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I Barry Zyskind, President and Chief Executive Officer (Principal Executive Officer) of AmTrust Financial Services, Inc. (the ''Company''), hereby certify, that, to my knowledge:

1. The Annual Report on Form 10-K for the year ended December 31, 2011 (the ''Report'') of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2012

By: /s/ Barry Zyskind

Barry Zyskind
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I Ronald Pipoly, Chief Financial Officer (Principal Financial and Accounting Officer) of AmTrust Financial Services, Inc. (the ''Company''), hereby certify, that, to my knowledge:

1. The Annual Report on Form 10-K for the year ended December 31, 2011 (the ''Report'') of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2012

By: /s/ Ronald Pipoly
Ronald Pipoly
Chief Financial Officer
(Principal Financial and Accounting Officer)

MANAGEMENT AND BOARD OF DIRECTORS

Max G. Caviet
President of AmTrust International Insurance, Ltd. and Chief Executive Of cer of AmTrust Europe, Ltd.

Donald T. DeCarlo
Director

Susan C. Fisch
Director

Abraham Gulkowitz
Director

George Karfunkel
Director

Michael Karfunkel
Chairman of the Board

Christopher M. Longo
Chief Information Of cer

Jay J. Miller
Director

Ronald E. Pipoly, Jr
Chief Financial Of cer

David H. Saks
Chief Legal Of cer

Michael J. Saxon
Chief Operating Of cer

Harry C. Schlachter
Treasurer

Stephen B. Ungar
General Counsel and Secretary

Barry D. Zyskind
Chief Executive Of cer, President and Director

CORPORATE INFORMATION

Corporate Of ce
AmTrust Financial Services, Inc.
59 Maiden Lane, 6th Floor
New York, NY 10038
212.220.7120
www.amtrustgroup.com

Common Stock
The Company's common stock trades on the NASDAQ Global Market under the symbol "AFSI."

Transfer Agent and Registrar
American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
800.937.5449 or 718.921.8124

Form 10-K/Investor Contact
A copy of the AmTrust Financial Services, Inc. 2011 Annual Report on Form 10-K as led with the Securities and Exchange Commission is available on the Company's website at www.amtrustgroup.com. It is also available from the Company upon request at no charge. These requests and other investor contacts should be directed to Investor Relations at the Company's corporate of ce.

Annual Meeting
Wednesday, May 23, 2012 at 10 a.m.
AmTrust Financial Services, Inc.
59 Maiden Lane, 6th Floor
New York, NY 10038

Independent Auditors
BDO USA, LLP
New York, NY

AmTrust
FINANCIAL

Corporate Headquarters

AmTrust Financial Services, Inc.
59 Maiden Lane, 6th Floor
New York, NY 10038

ph: 212.220.7120
fx: 212.220.7130

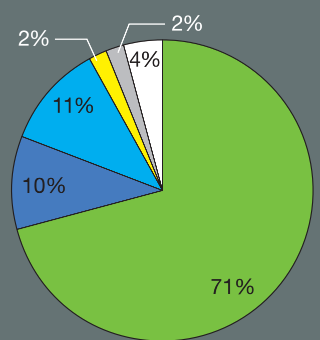
www.amtrustgroup.com

AmTrust
FINANCIAL

growing opportunities

AMTRUST FINANCIAL 2012 ANNUAL REPORT

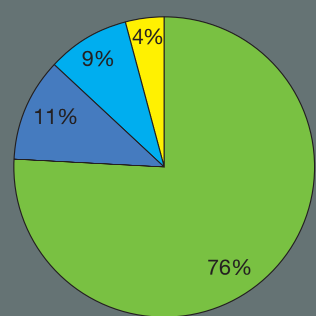
We are a niche specialty property and casualty insurance company, with more than 2,100 employees operating in over fifty offices throughout the United States and Europe. We focus on underserved markets in the areas of small commercial business, specialty risk and extended warranty, and specialty programs. We are rated "A" (Excellent) by AM Best and Company.



Geographic Mix
$2,749 Million GWP 2012

$ in Millions

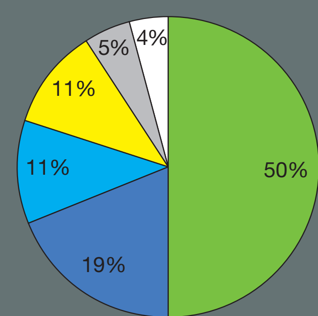
United States	1,958.0
United Kingdom	278.7
Italy	314.4
France	53.6
Norway	43.0
Other	101.6



Revenue
$1,865 Million Total 2012

$ in Millions

Net Earned Premium	1,418.9
Ceding Commision	197.0
Service and Fee Income	172.2
Net Investment Income	77.1



Invested Assets
$ 2,696 Million Total 2012

$ in Millions

Corporate	1,349.4
Cash and Short-Term	503.4
Municipal	299.4
Residential MBS	309.9
Equities and Other	127.8
US Treasuries and Goverment Agencies	106.5

[1] The Company's Annual Report contains non-GAAP financial measures such as operating earnings, operating earnings per share, and operating return on equity. See page 8 for additional information and reconciliation of those non-GAAP financial measures to GAAP.

To our Shareholders:

In 2012, AmTrust Financial was one of the insurance industry's few true growth stories. Despite a difficult economic backdrop, we remained committed to identifying and acting on opportunities. In pursuit of both organic and acquisitive growth, we took steps that will strengthen our portfolio and bottom line for years to come. We planted the seeds of possibilities and broadened our yield.

In the fourteen years since our founding, AmTrust has experienced significant progress. In 2012 we achieved annualized gross written premiums of $2.7 billion, annualized operating return on average equity of 18.8 percent, and shareholders' equity of more than $1 billion. We stayed true to our roots as a creator and provider of low-hazard, predictable, noncatastrophic insurance, and as a tireless innovator. We strengthened our bottom line by continuously growing our high-margin fee and services business. We leveraged a vertically integrated, proprietary IT platform that remains notable for its efficiency, capability, and flexibility. We were recognized by analysts and investors for our approach to expanding both our reach and our value at a time when many of our competitors faced steep challenges.

Recent investments—particularly the acquisition of renewal rights of Majestic Insurance Company and the acquisition of Builders & Tradesmen's Insurance Services—demonstrated their value in 2012, as workers' compensation prices began firming and capacity tightened in key states, including California, Florida, and New York. Going forward, we expect the improving workers' compensation pricing to continue to generate increased profitability.

The acquisitions of 2012 also further rooted us in both established and emerging markets. We expanded into the small-bank market, acquired the CNH Capital insurance agencies, fortified our warranty program, and offered new products to affinity partners in key financial and retail sectors. We also entered into an agreement to acquire Car Care Plan Holdings Ltd., based in West Yorkshire, England. The deal, which will bolster our warranty business around the world, is projected to generate $140 million in revenue for AmTrust in the next twelve months, including fee income of more than $30 million and pretax profits exceeding $14 million. It opens doors for us in China, Russia, and Brazil—and in territories well beyond.

By year's end, 29 percent of our total gross written premium was derived from our non-U.S. business, AmTrust International, which continued its focus on casualty and large-volume, special insurance, and extended-warranty programs, and continued to grow niche insurance businesses to serve the unique needs of the international market.

But we weren't simply leveraging existing investments and taking advantage of new acquisition opportunities in 2012. We were also harvesting new opportunities and bringing our proven conservative principles to bear on our balance sheet. In August, we expanded our credit facility by $50 million to $200 million, and we ultimately ended the year with a debt to total capital position of 20.9 percent. We also took steps to enhance our shareholder value through stock and cash dividends when our

"We don't simply take advantage of opportunities. We build the future with them."

board declared a 39 cents per share cash dividend and a 10 percent or 0.10 per share stock dividend.

As always, we maintained our strong capital position and entered the new year with significant resources—both the expanded credit facility and our cash reserves—that will help fuel additional acquisitions and organic growth going forward. And while we felt deeply for those impacted by the super storm called Sandy, it had no material impact on our 2012 results—proof that we continue to increase predictable earnings without assuming catastrophic risk.

By the end of the year, we were a company of 2,100 people employed in over fifty locations. Our long-term management team remained intact and continued to meet regularly to review the performance of the business segments so as to ensure our continuing success. We thought a lot about our future—learning from every niche market we explored, every conversation we entered into, and every deal we finalized. We brought the right people into new leadership positions and kept ourselves open to new ideas and differing points of view.

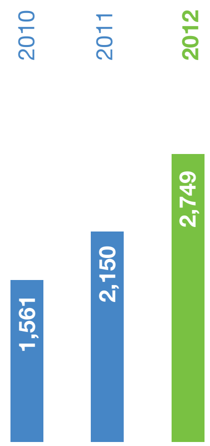
As we look ahead to 2013, we are excited by the emergence of new opportunities and by our ability to capitalize on them. A recent agreement to acquire Sequoia Insurance Company and its subsidiaries, for example, demonstrates our continuing commitment to optimizing our proprietary technology, achieving economies of scale, and putting both our pricing discipline and experienced management to work in underserved niche markets. A year-end agreement to acquire First Nonprofit Companies, Inc., an organization serving nearly 1,500 nonprofit and government entities, reasserts our interest in cultivating ever greener fields. And, of course, we're keeping our sights set on the continuing gains we expect to see from the improvement of prices in both workers' compensation and commercial package insurance.

We are always appreciative of the support of our board and shareholders. We remain confident in our own ceaseless curiosity and optimism, and grateful for the intelligence and energy of our many customers, employees, and partners. There is always more to do—more fertile fields to sow. We have set our sights on the expanding horizon, and we are engaged—every day—with the challenge.

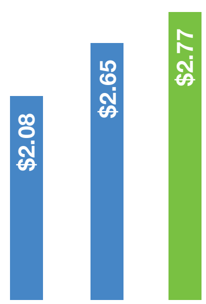
Sincerely,

Barry D. Zyskind
Chief Executive Officer and President

Michael Karfunkel
Chairman of the Board



Gross Written Premium
$ in Millions



Operating Earnings per Share[1]

SUSTAINABLE GROWTH IN THE INSURANCE SPACE AT AMTRUST

Before AmTrust was the $2.7 billion company it has become, its founders made a commitment to four fundamental business principles: the selection and nurture of superior personnel, the aggressive control of expenses, the intelligent leveraging of proprietary information technology, and the pursuit of diversity both in terms of geography and markets. When the right opportunities appeared at the right time for the right price, AmTrust would take action. Where promise lay behind closed doors, AmTrust would find the key.

This commitment to making the very most of present possibilities continues to define AmTrust today. “Wherever I am, whatever conversation I may be having, I’m listening for possibilities,” says Max Caviet, President of AmTrust International. “If, for example, I’m in the midst of a bond negotiation, I’m not just looking to close the deal. I’m also evaluating the people I’m working with—assessing how their view of the industry may or may not mirror my own and what their contribution to AmTrust might be. Our office in Spain, our dynamic relationships, even the inroads we’re now making in Turkey—all these emerged from conversations or insights that were only tangentially related to the deal of the moment.”

“Every time we sit down to talk to a potential partner, we emerge with two or three new ideas that help us think more creatively or do our own work more effectively,” says Chief Operating Officer Mike Saxon. “We learn about how new products may fit within a suite of existing products, or how people in other environments work, or which new market developments could take us to the next level if we capitalize on them appropriately. We continue to learn more about people, process, products, and workflow. We can always become a stronger organization.”

It’s this proactive positioning for growth that ultimately sets AmTrust apart. “We are in niche insurance businesses, and the opportunities to expand our offerings grow year after year,” says Chris Longo, Chief Information Officer. “Our mandate—within IT and for the company as a whole—is to approach the market without encumbrances. Our systems are deliberately efficient and extremely methodical. We can grow at the rate that we have historically grown because we’ve made it our fundamental objective to seamlessly acquire new business and rapidly migrate it onto our platform.”

“The real key to capitalizing on opportunity is being able to distinguish between those acquisitions and growth strategies that can only improve a single line on the financial statement versus those that yield actual accretive value,” says Ron Pipoly, AmTrust’s Chief Financial Officer. “We aren’t about growth just for the sake of growing. We don’t move forward unless we’re sure that we can leverage our existing infrastructure to achieve deep and lasting gains.”

Today, says Chief Executive Officer Barry Zyskind, AmTrust is uniquely positioned to take advantage of market conditions. “We have a strong capital structure, a healthy balance sheet, a lower expense ratio, and a proven capacity for identifying and acquiring profitable books of business and companies that complement our core lines of business,” he says. “We don’t simply take advantage of opportunities. We build the future with them.”

“We aren’t about growth just for the sake of growing. We don’t move forward unless we’re sure that we can leverage our existing infrastructure to achieve deep and lasting gains.”

NURTURING THE FEE BUSINESS

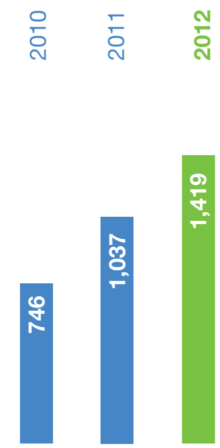
In 2012, AmTrust generated revenues of over $170 million from its fee business, an increase of over 58 percent. That's extraordinary growth for a company that, just a few years ago, had a large percentage of its administrative activities contracted out to third parties.

"Fees became significant with our acquisition of Warrentech," says Ron Pipoly. "In the years since, our fee income has continued to rise. This is thanks to such newly acquired businesses as BTIS and the CNH Capital insurance agencies, the income we generate from our relationship with American Capital Acquisition Corporation (ACAC), the assigned-risk workers' compensation insurance funds we administer for a growing number of states, and our thriving warranty business, among other things."

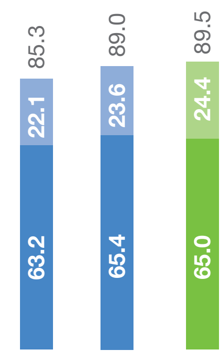
But there's more to the fee business than fees. "By doing the administrative work ourselves, we're eliminating the middle party and thereby removing the possibility of inaccurate data or insufficient customer care," says Mike Saxon. "We are quickly gaining control over our business—and doing far more for our customers in the process."

"We have a history of underwriting risks responsibly, generating profitable premiums, and making money underwriting the risks," says Pipoly. "Now, instead of calling a third-party administrator in to register the warranty, we are doing that work ourselves. We're internalizing what many companies continue to outsource."

"Our IT systems have been core to our growing fee business," says Chris Longo. "We have a full administrative software suite for the processing of both automotive and consumer electronics. We're also providing the software, printing services, and back-office capability to support partners such as ACAC. We have the systems to do this well. More importantly, we have the processes."

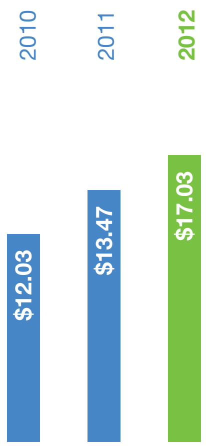


Net Earned Premium
$ in Millions

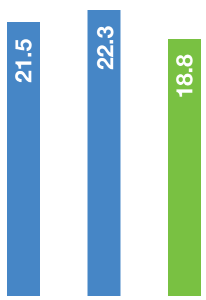


Net Combined Ratio
Percent

Net Expense Ratio
Net Loss Ratio



Book Value Per Share



Annualized Operating ROE [1]
Percent

THE IT STORY: A CORE COMPETENCY

AmTrust's proprietary information technology has distinguished the company for more than a decade, fueling growth and enabling an extraordinarily efficient and effective operating environment.

In 2012, our IT team continued to make new strides, rapidly adding programs in the United States and abroad while also managing key build-outs associated with such acquisitions as the CNH Capital insurance agencies.

"We've taken products that we've never written before and transferred them onto our platform in less than three months," says Mike Saxon. "By organizing our IT department into small working groups, we've streamlined our focus and developed a methodology that rapidly integrates new business. With new horsepower and an expanded team, we're doing a better job than we ever have managing the current business, analyzing opportunities, and integrating new products."

Every acquisition is bridged onto the AmTrust platform under the guidance of a steering committee composed of leaders in compliance, operations, claims, and underwriting—leaders empowered to make decisions as the process unfolds. Nothing is reactionary. Everything is considered. Bureaucracy doesn't crowd out common sense. Technology facilitates process.

"We've definitely done more from a pure technology perspective to facilitate and speed our growth in terms of both products and services," says Longo. "But the real strength of our IT department is that it is not, in fact, an isolated department. Long before we've even entered into negotiations with a potential partner, IT is part of the decision-making process. We're thinking about how to transition new business onto our universal printing, billing, policies, and rating engines platforms. We're making sure we have the resources. We're ready."

CULTIVATING INTERNATIONAL SUCCESS: CAR CARE PLAN TO JOIN AMTRUST

Momentum defined AmTrust in 2012. Markets expanded. Teams were strengthened. Instincts about a right fit or a complementary product line were proven to be spot on. We continued to consolidate our strengths in vertical niches and to build relationships that broadened our portfolio of services and capabilities. With a low expense ratio and substantial information technologies, AmTrust kept forging ahead as competitor companies found themselves struggling.

Our largest transaction of the year was the agreement to purchase Car Care Plan Holdings Ltd., an established U.K. organization. Car Care will strengthen AmTrust's position as an underwriter with a proven client base and deepen the management team with seasoned professionals who understand new markets and have taken an accelerated approach to global expansion. At the same time, it will enable our company to look far beyond extended warranties for cars and to develop our own worldwide fee-based administration businesses. This is a logical progression for AmTrust—the correct next step following our purchase of Warrentech, through which we built a flourishing fee-based warranty administration business in the United States.

"We have the strength, the focus, and the proprietary technology to enter into an agreement to acquire this respected organization and to effectively transition it onto our platform. Any time that you can couple the administrative work with effective underwriting, you are adding to a company's long-term value," says Ron Pipoly.

"By controlling the administration of these policies, we'll be gaining greater synergies and delivering more-profitable results," says Barry Zyskind. "We'll also be strengthening our relationships with the retailers and manufacturers."

"This is one of those perfect pairings," says Max Caviet. "Car Care Plan has a wealth of experience in administering auto warranty and GAP insurance programs around the world—a feature that offers alternatives in some cases to our traditional reliance on third-party administrators."

"We're gaining global expertise with this acquisition," says Chris Longo. "Once the deal is complete, we'll be integrating the considerable strengths of our North American vehicle service contracts with the Car Care platform, giving us true international reach and enhancing our versatility as an organization."

But that's not all that makes this deal a win for both partners. "Car Care Plan comes to AmTrust with sales and administration platforms in Europe, China, Russia, and Brazil," says Caviet. "These platforms are primed for development. They open new markets for our existing product portfolios—and new opportunities to investigate possibilities."

FINANCIAL HIGHLIGHTS

($ in millions)

SUMMARY INCOME STATEMENT	2012	2011	2010
Gross Written Premium	**$ 2,749.3**	$ 2,150.5	$ 1,560.8
Net Written Premium	**1,648.0**	1,276.6	827.2
Net Earned Premium	**1,418.9**	1,036.9	745.7
Ceding Commission	**197.0**	154.0	138.3
Service and Fee Income	**172.2**	108.7	62.1
Net Investment Income and Realized Gain/(Loss)	**77.2**	58.3	56.5
Loss and LAE Expense	**922.7**	678.3	471.5
Acquisition Cost and Other Underwriting Expense	**543.7**	398.4	302.8
Income Before Other Income (Expense) and Equity Earnings	**237.4**	194.4	171.8
Net Income	**184.9**	191.2	147.6
Net Income Attributable to AmTrust	**178.0**	170.4	142.5
Operating Earnings [1]	**$ 191.6**	$ 179.5	$ 138.3
Operating EPS [1]	**$ 2.77**	$ 2.65	$ 2.08
Annualized Operating ROE [1]	**18.8%**	22.3%	21.5%
Net Loss Ratio	**65.0%**	65.4%	63.2%
Net Expense Ratio	**24.4%**	23.6%	22.1%
Net Combined Ratio	**89.5%**	89.0%	85.3%

SUMMARY BALANCE SHEET	2012	2011	2010
Cash and Investments	**$ 2,696.4**	$ 2,086.6	$ 1,567.1
Reinsurance Recoverable	**1,318.4**	1,098.6	775.4
Premium Receivable, Net	**1,251.3**	933.0	727.6
Goodwill and Intangible Assets, Net	**515.0**	372.8	197.8
Prepaid Reinsurance Premium	**754.8**	584.9	485.0
Deferred Policy Acquisition Costs and Other Assets	**881.3**	656.6	429.6
Total Assets	**7,417.2**	5,732.5	4,182.5
Loss and LAE Reserve	**2,426.4**	1,879.2	1,263.5
Unearned Premiums	**1,773.6**	1,366.2	1,025.0
Debt	**302.0**	279.6	144.8
Reinsurance Payables, Accrued Expenses, and Other Liabilities	**1,667.2**	1,247.2	1,008.2
Total Liabilities	**6,169.2**	4,772.2	3,441.5
AmTrust Financial Shareholders' Equity	**1,144.1**	890.6	716.5
Total Non-Controlling Interest	**103.9**	69.7	24.5
Total Shareholders' Equity	**1,248.0**	960.3	741.0
Total Liabilities and Shareholders' Equity	**$ 7,417.2**	$ 5,732.5	$ 4,182.5
Book Value Per Share	**$ 17.03**	$ 13.47	$ 12.03

Non-GAAP Reconciliation

The following measures as referenced by footnote 1 in the table above and on pages 4 and 6 of this annual report are non-GAAP financial measures that the Company believes provide a useful indicator of its underlying operating trends because these measures provide a more meaningful representation of the Company's earnings power.

[1] Operating earnings: Net Income attributable to AmTrust ($178.0 million, $170.4 million and $142.5 million for 2012, 2011 and 2010, respectively) less after-tax realized investment gain or loss ($5.8 million gain, $1.8 million gain, $3.9 million gain in 2012, 2011 and 2010 respectively) less certain intangible amortization ($17.2 million, $9.9 million and $7.2 million in, 2012, 2011 and 2010, respectively) less foreign currency transaction gain or loss ($0.2 million loss, $2.4 million loss and $0.6 million gain in 2012, 2011 and 2010, respectively) less after-tax impact of acquisition of ACAC of a loss of $2.3 million in 2011 and a gain of $6.8 million in 2010, less $2.1 million in non-cash interest on convertible senior notes net of tax in 2012, less a $3.8 million gain on Majestic acquisition net of tax in 2011. Annualized operating return on equity: Operating earnings divided by average shareholders' equity of $1,017.3 million, $803.5 million and $643.0 million in 2012, 2011 and 2010, respectively.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2012
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to .
Commission File Number: 001-33143

AMTRUST FINANCIAL SERVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**04-3106389**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
59 Maiden Lane, 6th Floor New York, New York	**10038**
(Address of Principal Executive Offices)	(Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, $0.01 par value per share	The NASDAQ Stock Market LLC

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes ☒ No ☐

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

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

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

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

As of June 30, 2012, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the common stock held by non-affiliates was $743,211,129.

As of February 19, 2013, the number of common shares of the registrant outstanding was 67,221,232.

Documents incorporated by reference: Portions of the Proxy Statement for the 2013 Annual Meeting of Shareholders of the Registrant to be filed subsequently with the SEC are incorporated by reference into Part III of this report.

AMTRUST FINANCIAL SERVICES, INC.

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PART I

Note on Forward-Looking Statements

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

Item 1. Business

Legal Organization

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

Business Overview

AmTrust underwrites and provides property and casualty insurance in the United States and internationally to niche customer groups that we believe are generally underserved within the broader insurance market.

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

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

Competition

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

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

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

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

Underwriting and Claims Management Philosophy

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

Business Segments

Historically, we managed our business through three primary segments, Small Commercial Business, Specialty Risk and Extended Warranty and Specialty Program Business, which are based on the products we provide and the markets we serve. In March 2010, we formed a fourth segment, Personal Lines Reinsurance, effective with our entry into an agreement to reinsure 10% of the GMAC Insurance consumer property and casualty business acquired by American Capital Acquisition Corporation, or ACAC, from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation. ACAC is a related party, which is described below in "Acquisitions and Strategic Investments".

The following table provides our gross written premium by segment for the years ended December 31, 2012, 2011 and 2010:

(Amounts in Thousands)	2012	2011	2010
Small Commercial Business	$ 933,740	$ 609,822	$ 465,951
Specialty Risk and Extended Warranty	1,118,710	1,056,511	748,525
Specialty Program Business	578,735	381,541	264,051
Personal Lines Reinsurance	118,141	102,598	82,295
Total	$ 2,749,326	$ 2,150,472	$ 1,560,822

Additional financial information regarding our segments is presented in Note 24 “Segments” of the notes to our 2012 audited consolidated financial statements appearing elsewhere in this Form 10-K.

Small Commercial Business

This segment provides workers’ compensation to small businesses that operate in low and medium hazard classes, such as restaurants, retail stores, physicians and other professional offices, and commercial package and other property and casualty insurance products to small businesses, with average annual premiums of approximately $5,873. We are authorized to write our Small Commercial Business products in all 50 states. We distribute our policies through a network of over 8,100 select retail and wholesale agents who are paid commissions based on the annual policy premiums written. Workers’ compensation insurance pricing and coverage options are generally mandated and regulated on a state by state basis and provide coverage for the statutory obligations of employers to pay medical care expenses and lost wages for employees who are injured in the course of their employment. Commercial package products provide a broad array of insurance to small businesses, including commercial property, general liability, inland marine, automobile, workers’ compensation, umbrella coverage. As of December 31, 2012, we employed approximately 133 underwriters in this segment.

We believe the small business component of the workers’ compensation market is generally less competitive than the broader insurance market because the smaller policy size and low average premiums needed by these types of policyholders generally does not fit the underwriting and profitability criteria of many of our competitors. Our highly customized and proprietary technology platform enables us to individually underwrite, manage and control losses in a cost-effective manner for a large number of small policies while still providing quality customer service and responsive claims management to our clients and the agents that distribute our products. We believe these factors have been key to our ability to achieve high retention and renewal rates. Our policy renewal rate on voluntary business (excluding assigned risk plans), which represented approximately 89% of the segment’s gross written premiums in 2012, was 86%, 82%, and 82% in 2012, 2011 and 2010, respectively.

Some of our commonly written small business risks include:

- restaurants;
- retail stores and strip malls;
- physician and other professional offices;
- building management-operations by owner or contractor;
- private schools;
- business traveler hotels/motels;
- light manufacturing;
- small grocery and specialty food stores;

- auto repair shops;
- light contracting, distributors; and
- laundry/dry cleaners.

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

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

Our workers' compensation claims adjusters have an average of 18 years of experience and have teams located in 11 different states. Each adjuster handles an average monthly pending caseload of approximately 143 cases. Supervision of the adjusters is performed by internal supervisors and a claims manager in each region.

In 2012, approximately 77% of our Small Commercial Business workers' compensation claims were only for medical expenses with 23% of claims for medical expenses and lost wages compared with 76.0% and 24.0%, respectively, in 2011.

As of December 31, 2012, approximately 1.0% of the 12,053 Small Commercial Business workers' compensation claims reported for accident year 2007 were open, 1.6% of the 11,920 claims reported for accident year 2008 were open, 3.7% of the 16,186 claims reported for accident year 2009 were open, 5.5% of the 18,595 claims reported for accident year 2010 were open, 10.8% of the 22,554 claims reported for accident year 2011 were open and 41.7% of the 26,892 claims reported for accident year 2012 were open.

We maintain Small Commercial Business property and casualty claims operations in several of our domestic offices and the commercial package claims operation is separated into four processing units: casualty, property, cost-containment/recovery and a fast-track physical damage unit. As of December 31, 2012, we employed 41 property and casualty claim adjusters. Overall, our property and casualty claims adjusters handle an average monthly pending caseload of approximately 123 claims.

As of December 31, 2012, our Small Commercial Business property and casualty claims were approximately 61% automobile and 13% property and inland marine with the remaining 26% involving general liability and umbrella losses compared to 54%, 22% and 24%, respectively, in 2011. At the end of 2012, 25% of the 2,868 claims features reported in accident year 2012 remained open, while 7% and 3% of the 2,717 claims and 2,579 claims from 2011 and 2010, respectively, remained open.

Our Small Commercial Business property and casualty claims adjusters have an average of 21 years of experience. Supervision of the adjusters is performed by our internal claims management, comprised of a staff that has an average of over 27 years of experience. Increases in reserves over the authority of the claims adjuster must be approved by supervisors. Senior claims managers provide direct oversight on all claims with an incurred value of $50,000 or more.

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

Specialty Risk and Extended Warranty

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

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

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

- personal computers;
- consumer electronics, such as televisions and home theater components;
- consumer appliances, such as refrigerators and washing machines;
- automobiles (excluding liability coverage);
- furniture; and
- heavy equipment.

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

In connection with our extended warranty business, we issue policies to our clients that provide for payment or replacement of goods to meet our clients' contractual liabilities to the end purchasers of the warranty under contracts that have coverage terms with durations ranging from one month to 120 months depending on the type of product. The weighted average term of the portfolio is 24 months. In the event that the frequency or the severity of loss on the claims of a program exceeds original projections, we generally have the right to increase premium rates for the balance of the term of the contract and, in Europe, the right to cancel prior to the end of the term. We believe that the profitability of each coverage plan we underwrite is largely dependent upon our ability to accurately forecast the frequency and severity of claims and manage the claims process efficiently. We continuously collect and analyze claims data in order to forecast future claims trends. We also provide warranty administration services in the United States.

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

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

In 2012, approximately 72% of gross written premium for this segment originated internationally, while 28% originated in the United States. During the year ended December 31, 2012, we derived over ten percent of our gross written premium in this segment from one broker.

Specialty Program

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

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

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

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

As of December 31, 2012, we underwrote 77 programs through 44 independent wholesale and managing general agents. Workers' compensation insurance comprised approximately 33%, 37% and 40% of this business in 2012, 2011 and 2010, respectively. The general liability and commercial auto lines combined comprised approximately 59%, 53% and 48% of this business in 2012, 2011 and 2010, respectively. During the year ended December 31, 2012, we derived over ten percent of our gross written premium in this segment from two programs.

Personal Lines Reinsurance

We formed the Personal Lines Reinsurance Segment in connection with the Personal Lines Quota Share entered into in connection with the acquisition of GMACI's U.S. consumer property and casualty insurance business (the "GMACI Business") during March 2010, as described below under "Acquisitions and Strategic Investments — Investment in ACAC." We reinsure 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement ("Personal Lines Quota Share") among Integon National Insurance Company, GMACI's lead insurance company on behalf of all GMACI's statutory insurance companies ("the GMACI Insurers"), as cedent, and the Company, ACP Re, Ltd., a Bermuda reinsurer that is a wholly-owned subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. We have a 20% participation in the Personal Lines Quota Share, by which we receive 10% of the net premiums of the personal lines business. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, will receive 50% of the net premium of the GMACI Insurers and assume 50% of the related net losses. The Personal Lines Quota Share, which had an initial term of three years, was renewed through March 1, 2016 and will renew automatically for successive three-year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. The Personal Lines Quota Share, as amended on October 1, 2012, provides that the reinsurers pay a provisional ceding commission equal to 32.0% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment. The ceding commission is subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.0% or less and a minimum of 30.0% if the loss ratio is 64.5% or higher. The Personal Lines Quota Share is subject to a premium cap that limited the premium that could be ceded by the GMACI Insurers to Technology Insurance Company ("TIC"), one of our wholly-owned subsidiaries, to $133 million during the calendar year 2012 to the extent TIC determined, in good faith, that it could not assume additional premium. The premium cap increases by 10% per year. As result of this agreement, we assumed $118 million of business from the GMACI Insurers during the year end December 31, 2012.

Distribution

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

Geographic Diversity

Our Insurance Subsidiaries domiciled in the United States are collectively licensed to provide workers' compensation insurance and commercial property and casualty insurance, including service contract reimbursement coverages related to our Specialty Risk and Extended Warranty segment, in 50 states, the District of Columbia and Puerto Rico, and in the year ended December 31, 2012, we wrote commercial property and casualty in 49 states and the District of Columbia.

The table below identifies, for the year ended December 31, 2012, the top ten producing states by percentage of direct gross written premium for our Small Commercial Business segment and the equivalent percentage for the years ended December 31, 2011 and 2010.

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

	Year Ended December 31,		
State	**2012**	**2011**	**2010**
California	17.3%	11.9%	2.2%
New York	11.3	15.1	18.6
Florida	10.2	12.1	12.4
Illinois	7.6	8.5	9.2
New Jersey	6.6	6.1	6.6
Georgia	5.5	5.8	5.9
Pennsylvania	3.9	4.5	4.3
Texas	3.8	4.8	7.0
Massachusetts	2.5	3.6	2.2
Minnesota	2.4	2.2	1.9
All Other States and the District of Columbia	28.9	25.4	29.7
	100.0%	100.0%	100.0%

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

Through the Insurance Subsidiaries, we are licensed to provide specialty risk and extended warranty coverage in 50 states and the District of Columbia, and in Ireland and the United Kingdom, and pursuant to European Union law, certain other European Union member states.

Based on coverage plans written or renewed in 2012, 2011 and 2010, the European Union accounted for approximately 72%, 68% and 72%, respectively, of our Specialty Risk and Extended Warranty business and in 2012, Italy, the United Kingdom and France accounted for approximately 40%, 35% and 7%, respectively, of our European Specialty Risk and Extended Warranty business. For a discussion of the various risks we face related to our foreign operations, see "Item 1A. Risk Factors."

The table below shows the geographic distribution of our annualized gross premiums written in our Specialty Risk and Extended Warranty segment with respect to coverage plans in effect at December 31, 2012.

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

	Year Ended December 31,		
Country	**2012**	**2011**	**2010**
Italy	29%	24%	25%
United States	28	32	28
United Kingdom	26	26	27
France	5	5	7
Norway	4	4	4
Other	8	9	9
Total	100%	100%	100%

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

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

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

	Year Ended December 31,		
State	**2012**	**2011**	**2010**
California	35%	25%	6%
New York	27	37	46
New Jersey	6	6	6
Florida	4	3	2
Louisiana	4	3	2
Texas	3	1	1
Pennsylvania	2	2	4
Georgia	2	3	4
Tennessee	2	2	4
Illinois	2	1	4
All other States and the District of Columbia	13	17	21
Total	100%	100%	100%

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

Acquisitions and Strategic Investments

We have grown at an above-industry average rate through a combination of organic growth and strategic acquisitions of other companies or selected books of businesses. We have balanced our opportunistic acquisition strategy with a conservative approach to risk.   We will continue to evaluate the acquisition of companies, distribution networks and renewal rights, and other alternative types of transactions as they present themselves. We seek transactions that we believe can be accretive to earnings and return on equity. The following is a summary of our major acquisition and strategic investment activity during 2011 and 2012.

First Nonprofit Companies, Inc.

On December 31, 2012, we completed the acquisition of First Nonprofit Companies, Inc. ("FNC") for approximately $55 million. FNC serves approximately 1,500 nonprofit and government entities covering approximately $5 billion of annual payroll. FNC offers unique services as well as insurance programs that are designed to allow nonprofit and government entities to economically manage their unemployment tax obligations. The acquisition of FNC had no impact on the Company's results of operations for 2012.

AHL

During 2012 and 2011, AmTrust Holdings Luxembourg ("AHL") completed a series of acquisitions. AHL is a holding company that purchases Luxembourg captive insurance entities that allow us to obtain the benefit of the captives’ capital and utilization of their existing and future loss reserves through a series of reinsurance arrangements with one of our subsidiaries. The following is a list of the acquired captive insurance entities for 2012 and 2011:

- Inter Re S.A. - 2012
- Socare S.A. - 2012
- Reaal Reassurantie S.A. - 2011
- Vandermoortele International Reinsurance Company SA - 2011
- International Crédit Mutuel Reinsurance SA - 2011

These transactions and the result of our utilization of the captives' loss reserves are included in our Specialty Risk and Extended Warranty segment.

CNH Capital's Insurance Agencies

In July 2012, we completed the acquisition of CNH Capital Insurance Agency Inc. and CNH Capital Canada Insurance Agency, Ltd., collectively known as "CNH Capital Insurance Agencies," from CNH Capital, the financial services business of CNH Global N.V. for approximately $34 million. The acquisition allows us to enhance and expand CNH Capital Insurance Agencies' offering of equipment extended service contracts and other insurance products to Case IH, Case Construction, New Holland Agriculture and New Holland Construction equipment dealers in the United States and Canada. As a result of this transaction, we recorded approximately $30 million of written premium and approximately $10 million of service and fee income in 2012.

BTIS

In December 2011, we acquired the California-based Builders & Tradesmen's Insurance Services, Inc. ("BTIS"), an insurance wholesaler and general agent specializing in the procurement and brokering of insurance policies and bonds for small artisan contractors. BTIS operates in 12 states and has significant relationships with western U.S. retail and wholesale insurance brokerages. These brokers rely on the industry expertise of BTIS to provide clients with proper coverage and pricing. As a result of this transaction, we recorded approximately $70 million of written premium and approximately $18 million of service and fee income in 2012.

Cardinal Comp

In September 2008, we entered into a managing general agency agreement with Cardinal Comp, LLC ("Cardinal Comp"), a workers' compensation managing general agent for which we paid the agency a commission for the placement of insurance policies. The agency operated in eight states and primarily in the state of New York and generated business through 800 independent retail agents and brokers. In September 2011, we entered into a renewal rights and asset purchase agreement with Cardinal Comp and Cook Inlet Alternative Risk LLC for approximately $30 million. As a result of this transaction, we recorded approximately $91 million and $84 million of written premium in 2012 and 2011, respectively.

Majestic

In 2011, we acquired the business of Majestic Insurance Company ("Majestic) through a Rehabilitation Agreement, a Renewal Rights and Asset Purchase Agreement, and a Loss Portfolio Transfer and Quota Share Reinsurance Agreement. In addition, we assumed 100% of the unearned premium on all in-force Majestic policies. As a result of this transaction, we have recorded written premiums of approximately $104 million and $43 million for 2012 and 2011, respectively.

For a more detailed description of our acquisitions, see "Acquisitions" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations".

Investment in ACAC

During 2010, we completed our strategic investment in American Capital Acquisition Corporation ("ACAC"). We formed ACAC with The Michael Karfunkel 2005 Grantor Retained Annuity Trust (the "Trust") for the purpose of acquiring from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation ("MIC", together with GMAC Insurance Holdings, Inc., "GMACI"), GMACI's U.S. consumer property and casualty insurance business (the "GMACI Business"), a writer of automobile coverages through independent agents in the United States. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the "GMACI Insurers"). Michael Karfunkel, individually, and the Trust own 100% of ACAC's common stock (subject to our conversion rights described below). Michael Karfunkel is the chairman of our board of directors and the father-in-law of Barry D. Zyskind, our chief executive officer. The ultimate beneficiaries of the Trust include Michael Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman of the Board of Directors of ACAC.

Pursuant to the Amended Stock Purchase Agreement, ACAC issued and sold to us for an initial purchase price of approximately $53 million, which was equal to 25% of the capital initially required by ACAC, 53,054,000 shares of Series A Preferred Stock, which provides an 8% cumulative dividend, is non-redeemable and is convertible, at our option, into 21.25% of the issued and outstanding common stock of ACAC (the "Preferred Stock"). We have pre-emptive rights with respect to any future issuances of securities by ACAC and our conversion rights are subject to customary anti-dilution protections. We have the right to appoint two members of ACAC's board of directors, which consists of six members. Subject to certain limitations, the board of directors of ACAC may not take any action at a meeting without at least one of our appointees in attendance and ACAC may not take certain corporate actions without the approval of a majority of its board of directors (including both of our appointees).

We, the Trust and Michael Karfunkel, individually, each will be required to make its or his proportionate share of deferred payments payable by ACAC to GMACI pursuant to the GMACI Securities Purchase Agreement, the final payment of which is payable March 1, 2013, to the extent that ACAC is unable to otherwise provide for such payments. Our proportionate share of such deferred payments will not exceed $7.5 million. In addition, in connection with our investment, ACAC granted us a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMACI. In February 2013, our obligation for any remaining deferred payment was eliminated.

In accordance with ASC 323-10-15, *Investments-Equity Method and Joint Ventures*, we account for our investment in ACAC under the equity method. We recorded approximately $9.3 million, $4.9 million and $24.5 million of income during the years ended December 31, 2012, 2011 and 2010, respectively related to our equity investment in ACAC.

Personal Lines Quota Share

We, effective March 1, 2010, reinsure 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement (“Personal Lines Quota Share”) among Integon National Insurance Company, lead insurance company on behalf of the GMACI Insurers, as cedent, and the Company, ACP Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. For a detailed description of the Personal Lines Quota Share, see " – Business Segments – Personal Lines Reinsurance." As a result of this agreement, we assumed $118.1 million, $102.6 million and $82.3 million of business from the GMACI Insurers during the years ended December 31, 2012, 2011 and 2010, respectively.

Master Services Agreement

We provide ACAC and its affiliates information technology development services in connection with the development and licensing of a policy management system at a cost which is currently 1.25% of gross written premium of ACAC and its affiliates plus our costs for development and support services. In addition, we provide ACAC and its affiliates printing and mailing services at a per piece cost for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies we process for ACAC and its affiliates on the policy management system. We recorded approximately $14.4 million, $4.0 million and $2.0 million of fee income for the years ended December 31, 2012, 2011 and 2010, respectively, related to this agreement.

Asset Management Agreement

We manage the assets of ACAC and its subsidiaries for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1 billion or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1 billion. We currently manage approximately $730 million of assets as of December 31, 2012 related to this agreement. As a result of this agreement, we earned approximately $1.5 million, $1.6 million and $1.5 million of investment management fees for the years ended December 31, 2012, 2011 and 2010, respectively.

As a result of the above service agreements with ACAC, we recorded fees totaling approximately $15.9 million, $5.6 million and $3.5 million for the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, the outstanding balance payable by ACAC related to these service fees and reimbursable costs was approximately $5.4 million.

Life Settlement Contracts

A life settlement contract is a contract between the owner of a life insurance policy and a third-party who obtains the ownership and beneficiary rights of the underlying life insurance policy. During 2010, we formed Tiger Capital LLC (“Tiger”) with a subsidiary of ACAC for the purposes of acquiring life settlement contracts. In 2011, we formed AMT Capital Alpha, LLC (“AMT Alpha”) with a subsidiary of ACAC and AMT Capital Holdings, S.A. (“AMTCH”) with ACP Re, Ltd., an entity controlled by the Michael Karfunkel Grantor Retained Annuity Trust, for the purposes of acquiring additional life settlement contracts. We have a 50% ownership interest in each of Tiger, AMT Alpha and AMTCH (collectively, the “LSC entities”). The LSC entities may also acquire premium finance loans made in connection with the borrowers’ purchase of life insurance policies that are secured by the policies, which are in default at the time of purchase. The LSC entities acquire the underlying policies through the borrowers’ voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator of the Tiger life settlement contract portfolio, for which it receives an annual fee. The third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. We provide certain actuarial and finance functions related to the LSC entities. Additionally, in conjunction with our 21.25% ownership percentage of ACAC, we ultimately receive 60.6% of the profits and losses of Tiger and AMT Alpha. As such, in accordance with ASC 810-10, *Consolidation,* we have been deemed the primary beneficiary and, therefore, consolidate the LSC entities.

We account for investments in life settlements in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. We have elected to account for these policies using the fair value method. We determine fair value on a discounted cash flow basis of anticipated death benefits, incorporating current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available.

Total capital contributions of $40 million and $43 million were made to the LSC entities during the years ended December 31, 2012 and 2011, respectively, for which we contributed approximately $20.1 million and $21.5 million in those same periods. Our investments in life settlements and cash value loans were approximately $193.9 million and $136.8 million as of December 31, 2012 and 2011, respectively and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. We recorded a gain on investment in life settlement contracts net of profit commission for the years ended December 31, 2012, 2011 and 2010 of approximately $13.8 million, $46.9 million and $11.9 million, respectively, related to the life settlement contracts.

Reinsurance

Reinsurance is a transaction between insurance companies in which the original insurer, or ceding company, remits a portion of its policy premiums to a reinsurer, or assuming company, as payment for the reinsurer assuming a portion of the insured policies' risk. Reinsurance agreements may be proportional in nature, under which the assuming company shares proportionally in the premiums and losses of the ceding company. Under these "quota share reinsurance" arrangements, the ceding company transfers, or cedes, a percentage of the risk under each policy within the covered class or classes of business to the reinsurer and recovers the same percentage of the ceded loss and loss adjustment expenses. The ceding company pays the reinsurer the same percentage of the insurance premium on the ceded policies, less a ceding commission. Reinsurance agreements may also be structured so that the assuming company indemnifies the ceding company against all or a specified portion of losses on underlying insurance policies in excess of a specified amount, which is called an "attachment level" or "retention," in return for a premium, usually determined as a percentage of the ceding company's insurance premiums for the covered class or classes of business. This arrangement is known as "excess of loss reinsurance." Excess of loss reinsurance may be written in layers, in which a reinsurer or group of reinsurers accepts a band of coverage up to a specified amount. Any liability exceeding the coverage limits of the reinsurance program is retained by the ceding company.

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

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

Loss Reserves

Workers' Compensation Business

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

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

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

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

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

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

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

- *Quarterly Incurred Development Method (Use of AmTrust Factors).* Quarterly incurred loss development factors are derived from our historical, cumulative incurred losses by accident month. These factors are then applied to the latest actual incurred losses and DCC by month to estimate ultimate losses and DCC, based on the assumption that each accident month will develop to estimated ultimate cost in a similar manner to prior years. There is a substantial amount of judgment involved in this method.
- *Yearly Incurred Development (Use of National Council on Compensation Insurance, Inc. ("NCCI") Industry Factors by State).* Yearly incurred loss development factors are derived from either NCCI's annual statistical bulletin or state bureaus. These factors are then applied to the latest actual incurred losses and DCC by year by state to estimate ultimate losses and DCC, based on the assumption that each year will develop to an estimated ultimate cost similar to the industry development by year by state.

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

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

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

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

As of December 31, 2012, our best estimate of our ultimate liability for workers' compensation loss and loss adjustment expenses, net of amounts recoverable from reinsurers, was $699.4 million, of which $29.9 million was reserves resulting from our participation in mandatory pooling arrangements, as reported by the pool administrators. This estimate was derived from the procedures and methods described above, which rely, substantially, on judgment.

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

Of the two methods above, the use of industry loss development factors has consistently produced higher estimates of workers' compensation losses and DCC expenses. The table below shows this higher estimate, along with the lower estimate produced by our monthly factors as of December 31, 2012:

(Amounts in Millions)	Loss & DCC Expense Reserves	Mandatory Pooling Arrangements	Total
Gross Workers' Compensation Reserves:			
Lower estimate	$ 1,099.7	$ 29.9	$ 1,129.6
Gross reserve	1,246.9	29.9	1,276.8
Higher estimate	1,317.8	29.9	1,347.7
Net Workers' Compensation Reserves:			
Lower estimate	$ 590.5	$ 29.9	$ 620.4
Net reserve	669.5	29.9	699.4
Higher estimate	707.5	29.9	737.4

The higher estimate would increase net reserves by $38 million and reduce net income and stockholders' equity by $24.7 million. The lower net estimate would decrease net reserves by $79 million and increase net income and stockholders equity by $51.4 million. A change in our net loss and DCC expense reserve would not have an immediate impact on our liquidity, but would affect cash flows in future years as claim and expense payments made.

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

Specialty Risk and Extended Warranty

Our actual net reserves, including IBNR, on Specialty Risk and Extended Warranty as of December 31, 2012 and 2011 were $334.5 million and $121.8 million, respectively. An upward movement of 5% on overall reserves would result in a reduction of income in 2012 of $17.0 million before tax and $11.1 million after tax. A downward movement of 5% on overall reserves would result in an increase of income of $17.0 million before tax and $11.1 million after tax.

Specialty Risk and Extended Warranty claims are usually paid quickly, development on known claims is negligible, and generally, case reserves are not established. IBNR reserves for warranty claims are generally “pure” IBNR, which refers to amounts for claims that occurred prior to an accounting date but are reported after that date. The reporting lag for warranty IBNR claims is generally small, usually in the range of one to three months. Management determines warranty IBNR by examining the experience of individual coverage plans. Our consulting actuary, at the end of each calendar year, reviews our IBNR by looking at our overall coverage plan experience, with assumptions of claim reporting lag and average monthly claim payouts. Our net IBNR as of December 31, 2012 and 2011 for our Specialty Risk and Extended Warranty segment was $26.6 million and $52.9 million, respectively. The reduction in IBNR as a percentage of overall loss reserves within this segment is a result of redefining IBNR within our European operations, which lead to the classification of a greater percentage of those reserves as case reserves as opposed to IBNR. Though we believe this is a reasonable best estimate of future claims development, this amount is subject to a substantial degree of uncertainty.

There is generally more uncertainty in the unearned premium reserve than in the IBNR reserve. In the Specialty Risk and Extended Warranty segment, the reserve for unearned premium is, in general, an estimate of our liability for projected future losses emanating from the unearned portion of written contracts. Our liability for return of unearned premium is not significant.

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

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

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

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

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

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

Different Specialty Risk and Extended Warranty products have different patterns of incidence during the period of risk. Some products tend to show increasing incidence of claims during the risk period; others may show relatively uniform incidence of claims, while still others tend to show decreasing claim incidence. We have assumed, on average, a uniform incidence of claims for all contracts combined, based on our review of contract provisions and claim history. Incorrect earnings of warranty policy premiums, inadequate pricing of warranty products, changes in conditions during long contract durations or incorrect estimates of future warranty losses on unexpired contracts may produce a deficiency or a redundancy in the unearned premium reserve. Our unearned premium reserve as of December 31, 2012 and 2011 for our Specialty Risk and Extended Warranty segment was $580.6 million and $492.2 million, respectively. Although we believe this is a reasonable best estimate of our unearned premium reserve, this amount is subject to a substantial degree of uncertainty.

Property and Casualty Insurance

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

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

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

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

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

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

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

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

- *Bornhuetter-Ferguson Method.* For each line, IBNR factors are developed from the applicable industry loss development factors and expected losses are taken from the original account level pricing analysis. IBNR factors are then applied to the expected losses to estimate IBNR and DCC.

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

Because we determine our reserves based on industry incurred development patterns, our ultimate losses may differ substantially from our estimates produced by the above methods.

Because of the numerous third party administrators we use, we have utilized only limited incurred development methods based on historical loss development patterns, or methods that rely on paid development factors. Paid loss development methods rely on actual claim payment patterns to develop ultimate loss and DCC estimates.

In the second quarter of 2008, we acquired retail commercial package business in connection with our acquisition of a subsidiary of Unitrin, Inc. (“UBI”). We were able to access UBI’s historical loss data for analysis of that business. Additionally, the claims adjusting have remained stable. As such, we are in the process of developing our own development patterns without the use of industry factors. Similar methods involved in determining reserves are consistent as described above for other property and casualty business.

Reconciliation of Loss and Loss Adjustment Expense Reserves

The table below shows the reconciliation of loss reserves on a gross and net basis for the years ended December 31, 2012, 2011 and 2010, reflecting changes in losses incurred and paid losses:

(Amounts in Thousands)	2012	2011	2010
Unpaid losses and LAE, gross of related reinsurance recoverables at beginning of year	$ 1,879,175	$ 1,263,537	$ 1,091,944
Less: Reinsurance recoverables at beginning of year	972,392	670,877	561,874
Net balance, beginning of year	906,783	592,660	530,070
Incurred related to:			
Current year	909,818	665,812	463,535
Prior year	12,857	12,521	7,946
Total incurred losses during the year	922,675	678,333	471,481
Paid losses and LAE related to:			
Current year	(406,238)	(390,267)	(222,593)
Prior year	(285,479)	(179,721)	(187,012)
Total payments for losses and LAE	(691,717)	(569,988)	(409,605)
Commuted loss reserves	91,529	—	1,350
Net balance, December 31	1,229,270	701,005	593,296
Acquired outstanding loss and loss adjustment reserve	13,137	209,651	—
Effect of foreign exchange rates	3,781	(3,873)	(636)
Plus reinsurance recoverables at end of year	1,180,212	972,392	670,877
Unpaid losses and LAE, gross of related reinsurance recoverables at end of year	$ 2,426,400	$ 1,879,175	$ 1,263,537
Gross loss reserves by segment:			
Small Commercial Business	$ 1,266,261	$ 1,163,618	$ 766,998
Specialty Risk and Extended Warranty	605,366	323,900	167,517
Specialty Program	524,928	368,358	318,187
Personal Lines Reinsurance	29,845	23,299	10,835
	$ 2,426,400	$ 1,879,175	$ 1,263,537

For the years ended December 31, 2012, 2011 and 2010, our gross reserves for loss and loss adjustment expenses were $2,426.4 million, $1,879.2 million, and $1,263.5 million, of which our IBNR reserves constituted 34.5%, 40.3% and 45.1%, respectively.

Loss Development

The table below shows the net loss development for business written each year from 2002 through 2012. The table reflects the changes in our loss and loss adjustment expense reserves in subsequent years from the prior loss estimates based on experience as of the end of each succeeding year on a general accepted accounting principles (“GAAP”) basis.

The next section of the table sets forth the re-estimates in later years of incurred losses, including payments, for the years indicated. The next section of the table shows, by year, the cumulative amounts of loss and loss adjustment expense payments, net of amounts recoverable from reinsurers, as of the end of each succeeding year. For example, with respect to the net loss reserves of $13.4 million as of December 31, 2002, by December 31, 2004 (two years later), $2.3 million had actually been paid in settlement of the claims that relate to liabilities as of December 31, 2002.

The “cumulative redundancy (deficiency)” represents, as of December 31, 2012, the difference between the latest re-estimated liability and the amounts as originally estimated. A redundancy means that the original estimate was higher than the current estimate. A deficiency means that the current estimate is higher than the original estimate.

Analysis of Loss and Loss Adjustment Expense Reserve Development

	As of and for the Year Ended December 31,										
(Amounts in Thousands)	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Reserve for loss and loss adjustment expenses, net of reinsurance recoverables	$ 13,402	$ 33,396	$ 84,919	$150,340	$251,678	$517,365	$ 509,656	$ 530,070	$ 592,660	$ 906,783	$1,246,188
Net reserve estimated as of											
One year later	13,771	36,812	83,957	150,854	253,767	516,821	504,829	538,016	604,302	919,640	
Two years later	13,804	37,954	83,293	150,516	215,465	519,346	490,379	540,723	641,557		
Three years later	10,175	35,056	82,906	122,601	221,362	518,877	491,613	559,251			
Four years later	11,179	34,844	70,146	120,975	220,505	515,427	497,276				
Five years later	10,524	27,992	71,012	121,716	216,830	517,866					
Six years later	9,089	28,069	70,078	120,618	216,922						
Seven years later	9,914	28,211	69,499	120,582							
Eight years later	9,909	27,932	69,383								
Nine years later	9,962	27,636									
Ten years later	9,663										
Net cumulative redundancy (deficiency)	3,739	5,760	15,536	29,758	34,756	(501)	12,380	(29,181)	(48,897)	(12,857)	

(Amounts in Thousands)	Year Ended December 31, 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cumulative amount of reserve paid, net of reinsurance recoverable through											
One year later	$ 1,904	$ 5,079	$ 14,436	$ 24,050	$ 38,010	$113,567	$ 109,872	$ 188,739	$ 225,203	$ 285,479	
Two years later	2,328	10,198	25,113	35,894	70,406	159,874	193,182	302,519	376,499		
Three years later	2,877	13,043	33,049	48,804	91,914	199,876	251,021	382,613			
Four years later	3,493	14,768	38,443	54,444	105,598	220,400	284,858				
Five years later	3,670	16,942	41,830	58,407	111,593	232,554					
Six years later	4,666	17,916	43,417	59,571	115,815						
Seven years later	5,169	18,384	43,984	61,083							
Eight years later	5,238	18,549	44,842								
Nine years later	5,312	18,708									
Ten years later	5,322										
Net reserve – December 31,	13,402	33,396	84,919	150,340	251,678	517,365	509,656	530,070	592,660	906,783	1,246,188
Reinsurance Recoverable	4,078	3,529	14,445	17,667	44,127	258,027	504,404	561,874	670,877	972,392	1,180,212
Gross reserves – December 31,	17,480	36,925	99,364	168,007	295,805	775,392	1,014,060	1,091,944	1,263,537	1,879,175	2,426,400
Net re-estimated reserve	9,663	27,636	69,383	120,582	216,922	517,866	497,276	559,251	641,557	919,640	
Re-estimated reinsurance recoverable	2,940	2,920	11,802	14,170	38,033	258,277	492,151	592,806	726,227	986,180	
Gross re-estimated reserve	12,603	30,556	81,185	134,752	254,955	776,143	989,427	1,152,057	1,367,784	1,905,820	
Gross cumulative redundancy (deficiency)	4,877	6,369	18,179	33,255	40,850	(751)	24,633	(60,113)	(104,247)	(26,645)	

In 2012 and 2011, our liabilities for unpaid loss and lost adjustment expenses ("LAE") attributable to prior years increased by $12.9 million and $12.5 million, respectively, as a result of unfavorable loss development in our Specialty Program segment due to higher actuarial estimates based on actual losses.

Investments

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

	December 31, 2012		December 31, 2011	
(Amounts in Thousands)	Carrying Value	Percentage of Portfolio	Carrying Value	Percentage of Portfolio
Cash, cash equivalents and restricted cash	$ 493,132	19.0%	$ 429,951	21.6%
Short-term investments	10,282	0.4	128,565	6.5
U.S. treasury securities	66,192	2.6	53,274	2.7
U.S. government agencies	40,301	1.6	6,790	0.3
Municipals	299,442	11.6	275,017	13.8
Commercial mortgage back securities	10,200	0.4	150	—
Residential mortgage backed securities – primarily agency backed	299,677	11.5	371,664	18.7
Corporate bonds	1,349,414	52.1	687,348	34.6
Preferred stocks	5,184	0.2	4,314	0.2
Common stocks	15,281	0.6	31,286	1.6
	$ 2,589,105	100.0%	$ 1,988,359	100.0%

The table below summarizes the credit quality of our fixed maturity securities as of December 31, 2012 and 2011 as rated by Standard and Poor's.

	2012	2011
U.S. Treasury	1.9%	3.2%
AAA	13.8	12.5
AA	31.2	39.7
A	24.4	23.0
BBB, BBB+, BBB-	27.1	20.1
BB, BB+, BB-	1.6	0.8
B, B+, B-,	—	0.4
Other (includes securities rated CC, CCC, CCC- and D)	—	0.3
Total	100.0%	100.0%

Our equity investments, which constitute approximately 0.8% of our investment portfolio, typically consist of small capitalized companies with an average market capitalization of approximately $400 million, most without widespread distribution or trading of shares. We have invested in securities in which we believe true value is not properly reflected in the market price and where a catalyst, or event, will send the market price toward our estimate of true value. We typically have a holding period of 36 months for our equity securities. This catalyst, in many instances, takes up to 24 months to occur. Sometimes, a catalyst that does not occur soon after our initial investment requires the passage of another operating cycle, and the 24 month time frame allows for these types of situations. These equity securities tend to be relatively unknown stocks that have less trading volume than well-known or larger capitalized stocks and can, therefore, experience significant price fluctuations without fundamental reasons. These price fluctuations can be large on a percentage basis because many stocks in this category are also low-priced stocks that are often distressed or in a turnaround phase. We believe that in down markets, equity securities with lower turnover are more heavily penalized by the market, even when the underlying fundamentals of the security have held up. Therefore, we believe, and our experience bears out, that, for investments in small cap stocks, an unrealized loss of 35% or less is not necessarily indicative of a fundamental problem with the issuer. Prices of lower turnover stocks can also react significantly to a catalyst or an event that causes market participants to take an interest. When the market participants' interest increases in an equity security, causing trading volume and market bid to increase, we typically seek to exit these positions. For these reasons, we generally consider certain equity investments to be other than temporarily impaired when the investment is in an unrealized loss position in excess of 35% of cost basis for greater than 24 months.

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

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

Certain International Tax Considerations

We operate our business in several foreign countries and are subject to taxation in several foreign jurisdictions. A brief description of certain international tax considerations affecting us appears below. We will be subject to U.S. income taxation on any income of our foreign subsidiaries that is Subpart F income.

Bermuda

Bermuda currently does not impose any income, corporation or profits tax, withholding tax, capital gains tax or capital transfer tax on any of our Bermuda subsidiaries, or any estate duty or inheritance tax applicable to shares of any of our Bermuda subsidiaries (except in the case of shareholders resident in Bermuda). Except as set out in the following paragraph, no assurance can be given that our Bermuda subsidiaries will not be subject to any such tax in the future.

All of our significant operating Bermuda subsidiaries have received a written assurance from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, that, if any legislation is enacted in Bermuda imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of that tax would not be applicable to these Bermuda subsidiaries or to any of their operations, shares, debentures or obligations until March 31, 2035; provided that the assurance is subject to the condition that it will not be construed to prevent the application of such tax to people ordinarily resident in Bermuda, or to prevent the application of any taxes payable by our Bermuda subsidiaries in respect of real property or leasehold interests in Bermuda held by them. No assurance can be given that our Bermuda subsidiaries will not be subject to any such tax after March 31, 2035.

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

Ireland

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

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

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

If AIU carries on a trade in the United Kingdom through a permanent establishment in the U.K., profits realized from such a trade in the U.K. would be subject to Irish corporation tax notwithstanding that such profits may also be subject to taxation in the U.K. A credit against the Irish corporation tax liability would be available for any U.K. tax paid on such profits, subject to the maximum credit being equal to the Irish corporation tax payable on such profits.

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

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

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

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

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

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

AIU transferred its 50% interest in Tiger Capital, LLC to AII on December 31, 2011. Irish tax regulators provide for a capital gains tax exemption for companies on the disposal of certain shareholdings. We received a concession letter from the Irish tax regulators confirming that the capital gains tax exemption applied to AIU’s transfer of its interest in Tiger Capital, LLC.

Luxembourg

AHL, a Luxembourg holding company, is owned by AII, our Bermuda insurance company. AHL owns all of the issued and outstanding stock of seven Luxembourg-domiciled captive insurance companies that had accumulated equalization reserves, which are catastrophe reserves in excess of required reserves that are determined by a formula based on the volatility of the business reinsured. Because AII is an insurance company with the ability to cede losses, the captives are well-positioned to utilize their equalization reserves. Luxembourg does not impose any income, corporation or profits tax on AHL provided sufficient losses cause the equalization reserves to be exhausted. However, if the captives cease to write business or are unable to utilize their equalization reserves, they will ultimately recognize income that will be taxed by Luxembourg at a rate of approximately 30%.

For U.S. federal income tax purposes, AHL is a controlled foreign corporation and its taxable income, if any, will be included in our U.S. federal taxable income. A credit against U.S. federal income tax liability is available for any Luxembourg tax paid on such income.

United Kingdom

AmTrust Europe, Ltd., (“AEL”) a company incorporated in the United Kingdom, is managed and controlled in the U.K. and, therefore, is treated as a resident in the U.K. for British tax purposes and subject to British corporation tax on its worldwide profits (including revenue profits and capital gains). Income derived by AEL is subject to British corporation tax at the rate of 24%. For U.S. federal income tax purposes, AEL is a controlled foreign corporation and its income generally is included in our

U.S. federal taxable income. A credit against U.S. federal income tax liability is available for any British tax paid on such income.

AEL has established a branch office in Italy to facilitate its European medical liability business. As a result, AEL is subject to taxation in Italy at a rate of 31.4% based on the profits specifically related to the activities of this branch.

AEL may pay dividends to AII, its direct parent company, free of U.K. withholding tax.

We expect that neither AmTrust nor any of our subsidiaries, other than AEL, will be resident in the U.K. for British tax purposes unless the central management and control of such companies is, as a matter of fact, located in the U.K. A company not resident in the U.K. for British tax purposes can be subject to British corporation tax if it carries on a trade through a branch or agency in the U.K. or disposes of certain specified assets (e.g., British land, minerals, or mineral rights, or unquoted shares deriving the greater part of their value from such assets). In such cases, the charge to British corporation tax is limited to trading income connected with the branch or agency, capital gains on the disposal of assets used in the branch or agency which are situated in the U.K. at or before the time of disposal, capital gains arising on the disposal of specified assets, with tax imposed at the rates discussed above, plus U.K. income tax (generally by way of withholding) on certain U.K. source income.

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

Ratings

Each of our Insurance Subsidiaries was assigned a letter rating of “A” (Excellent) by A.M. Best in 2012. An “A” rating is the third highest of the 16 categories used by A.M. Best, and is assigned to companies that have, in A.M. Best’s opinion, an excellent ability to meet their ongoing obligations to policyholders. Many insurance buyers, agents and brokers use the ratings assigned by A.M. Best and other agencies to assist them in assessing the financial strength and overall quality of the companies from which they are considering purchasing insurance.

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

Regulation

General

The business of insurance and reinsurance is regulated in most countries, although the degree and type of regulation vary significantly from one jurisdiction to another. We are subject to extensive regulation in the United States and the European Union (especially, Ireland and England) and are also subject to regulation in Bermuda.

United States

We have eight operating insurance subsidiaries domiciled in the United States: Rochdale Insurance Company ("RIC"), TIC, Wesco Insurance Company (“WIC”), Associated Industries Insurance Company (“AIIC”), Milwaukee Casualty Insurance Co. (“MCIC”), Security National Insurance Company (“SNIC”), AmTrust Insurance Company of Kansas, Inc. (“AICK”) and AmTrust Lloyd’s Insurance Company of Texas (“ALIC”) (the “U.S. Insurance Subsidiaries”).

Holding Company Regulation

We qualify as a holding company system under state-enacted legislation that regulates insurance holding company systems. Each insurance company in a holding company system is required to register with the insurance supervisory agency of its state of domicile and periodically furnish information concerning its operations and transactions, particularly with other companies within the holding company system that may materially affect its operations, management or financial condition.

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

Change of Control

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

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

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

State Insurance Regulation

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

Our U.S. Insurance Subsidiaries are required to file detailed financial statements and other reports with the departments of insurance in all states in which they are licensed to transact business. These financial statements are subject to periodic examination by the department of insurance in each state in which they are filed.

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

Insurance agencies, producers, third party administrators, claims adjusters and service contract providers and administrators are subject to licensing requirements and regulation by insurance regulators in various states in which they conduct business. Certain of our subsidiaries, including AmTrust North America, Inc., AmTrust North America of Florida, Inc., AMT Warranty Corp., AmTrust E&S Insurance Services, Inc., Builders & Tradesmen's Insurance Services, Inc., CNH Capital Insurance Agency, Inc., IGI Underwriting Agency, Inc., Risk Services, LLC and Warrantech Corporation are subject to licensing requirements and regulation by insurance regulators in various states.

Federal and State Legislative and Regulatory Changes

From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the National Association of Insurance Commissioners ("NAIC"). The NAIC has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulation framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. In December 2010, the NAIC adopted amendments to the Model Insurance Holding Company System Regulation Act and Regulation (the "Amended Model Act and Regulation") to introduce the concept of "enterprise risk" within an insurance company holding system. "Enterprise risk" is defined as any activity, circumstance, event or series of events involving one or more affiliates of an insurer that, if not remedied promptly, is likely to have a material adverse effect upon the financial condition or the liquidity of the insurer or its insurance holding company system as a whole. If and when adopted by a particular state, the Amended Model Act and Regulation would impose more extensive informational requirements on us in order to protect the licensed insurance companies from enterprise risk, including requiring us to prepare an annual enterprise risk report that identifies the material risks within the insurance company holding system that could pose enterprise risk to the licensed insurer. The Amended Model Act and Regulation must be adopted by the individual states, and specifically states in which our U.S. Insurance Companies are domiciled, for the new requirements to apply to us. Certain states have adopted some or all of these changes (Texas, Rhode Island and West Virginia adopted in 2011, California, Connecticut, Kentucky, Louisiana, Nebraska and Pennsylvania adopted in 2012, while Indiana adopted portions of the amendments and the New York Department of Financial Services issued guidance to insurers indicating that Department's expectations that insurers adopt enterprise risk management as an internal tool); however, it is not yet clear to what extent more states will do so. It is anticipated that the NAIC will seek to make the amendments part of its accreditation standards for state solvency regulation, which would most likely motivate more states to adopt the amendments promptly. Additional requirements are also expected. For example, the NAIC has adopted the Risk Management and Own Risk and Solvency Assessment (ORSA) Model Act, which when adopted by the states, will require insurers to perform an ORSA and, upon request of a state, file an ORSA Summary Report with the state. The ORSA Summary Report will be required in 2014, subject to the various dates of adoption by states, and will describe our process for assessing our own solvency.

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") that established a Federal Insurance Office within the U.S. Department of the Treasury. The Federal Insurance Office initially is charged with monitoring all aspects of the insurance industry (other than health insurance, certain long-term care insurance and crop insurance), gathering data, and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. A report on this study was required to be delivered to Congress within 18 months after enactment of the Dodd-Frank Act, but as of the date of this disclosure, had not yet been issued. This report could be influential in reshaping the current state-based insurance regulatory system and/or introducing a direct federal role in such regulation. In addition, the Dodd-Frank Act gives the Federal Reserve supervisory authority over a number of financial services companies, including insurance companies, if they are designated by a two-thirds vote of a Financial Stability Oversight Council as "systemically important." If an insurance company is designated as systemically important, the Federal Reserve's supervisory authority could include the ability to impose heightened financial regulation upon that insurance company and could impact requirements regarding its capital, liquidity and leverage as well as its business and investment conduct.

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

The Terrorism Risk Insurance Act ("TRIA"), as extended by the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA"), requires that commercial property and casualty insurance companies offer coverage (with certain exceptions, such as with respect to commercial auto liability) for certain acts of terrorism and has established a federal assistance program through the end of 2014 to help such insurers cover claims for terrorism-related losses. TRIA covers certified acts of terrorism, and the U.S. Secretary of the Treasury must declare the act to be a “certified act of terrorism” for it to be covered under this federal program. In addition, pursuant to TRIPRA, no certified act of terrorism will be covered by the TRIA program unless the aggregate insurance industry losses from the act exceed $100 million. Under TRIPRA, the federal government covers 85% for acts of the losses from covered certified acts of terrorism on commercial risks in the United States only, in excess of a deductible amount. This deductible is calculated as a percentage of an affiliated insurance group’s prior year premiums on commercial lines policies (with certain exceptions, such as commercial auto policies) covering risks in the United States. This deductible amount is 20% of such premiums.

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

State Insurance Department Examinations

As part of their regulatory oversight process, state insurance departments conduct periodic detailed financial examinations of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. Financial examinations of SNIC and ALIC were completed by the Texas Department of Insurance for the period ended December 31, 2008. Examinations of the financial conditions of AICK and RIC were also made as of December 31, 2008 by the Kansas Insurance Department and the New York Department of Insurance, respectively. Financial examinations of AIIC, MCIC and TIC were completed in 2012 for the period ending December 31, 2010 by the Florida Office of Insurance Regulation, the Wisconsin Insurance Department and the New Hampshire Insurance Department, respectively. Currently, we have an ongoing financial examination of WIC by the Delaware Insurance Department for the period ending December 31, 2011. Additionally, we have received notice that AICK is currently under examination with an emphasis on the financial results reported for the period between January 1, 2009 through December 31, 2011. Moreover, since SNIC was recently re-domesticated from Texas to Delaware, we were recently advised that an examination of the financial condition of SNIC will be made by the Delaware Insurance Department during the 2013 calendar year.

A second type of regulatory oversight examination of insurance companies involves a review by an insurance department of an authorized company’s market conduct, which entails a review and examination of a company’s compliance with laws governing marketing, underwriting, rating, policy-issuance, claims-handling and other aspects of its insurance business during a specified period of time. WIC was subject to a market conduct examination (for workers' compensation only) by the California Department of Insurance during the 2011 calendar year.

Guaranty Fund Assessments

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

Property and casualty insurance company insolvencies or failures may result in additional guaranty association assessments to our U.S. Insurance Subsidiaries at some future date. At this time, we are unable to determine the impact, if any, such assessments may have on their financial positions or results of their operations. As of December 31, 2012, each of our U.S. Insurance Subsidiaries has established accruals for guaranty fund assessments with respect to insurers that are currently subject to insolvency proceedings.

Residual Market Programs

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

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

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

As noted above, TIC acts as a servicing carrier for the Assigned Risk Plans. Servicing carrier contracts are generally awarded based on a competitive bidding process. As a servicing carrier, we receive fee income for our services but do not retain any underwriting risk, which is fully reinsured by the NCCI pools. We began writing policies as a servicing carrier effective January 1, 2008.

Second Injury Funds

A number of states operate trust funds that reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. These state-managed trust funds are funded through assessments against insurers and self-insurers providing workers' compensation coverage in a particular state. We received recoveries of approximately $2.7 million, $2.2 million and $1.1 million from such state-managed trust funds in 2012, 2011 and 2010, respectively. The aggregate amount of cash we paid for assessments to state-managed trust funds for the years ended December 31, 2012, 2011 and 2010 was approximately $8.8 million, $6.4 million and $5.5 million, respectively.

Risk-Based Capital Regulations

Our U.S. Insurance Subsidiaries are required to report their risk-based capital based on a formula developed and adopted by the NAIC that attempts to measure statutory capital and surplus needs based on the risks in the insurer's mix of products and investment portfolio. The formula is designed to allow insurance regulators to identify weakly-capitalized companies. Under the formula, a company determines its "risk-based capital" by taking into account certain risks related to the insurer's assets (including risks related to its investment portfolio and ceded reinsurance) and the insurer's liabilities (including underwriting risks related to the nature and experience of its insurance business). At December 31, 2012, our U.S. Insurance Subsidiaries' risk-based capital levels exceeded the minimum level that would trigger regulatory attention.

Insurance Regulatory Information System Ratios

The Insurance Regulatory Information System, or IRIS, was developed by the NAIC and is intended primarily to assist U.S. based state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies thirteen industry ratios and specifies "usual values" for each ratio. Departure from the usual values on four or more of the ratios can lead to inquiries from individual state insurance commissioners as to certain aspects of an insurer's business.

In 2012, one of our Insurance Companies (TIC) had four ratios departing from the usual values. For TIC, the investment yield was below the usual result range. Through October 1, 2012, TIC owned another insurance company, RIC, which had a carrying value of approximately $47 million. Any income that RIC generated was excluded for statutory purposes. The remaining three unusual values for TIC were caused by our intercompany reinsurance structure. TIC retains 20% of their written premium and as a result of this structure, unusual values are created for the IRIS test that centers around the measurement of assets to liabilities as well as surplus. SNIC had three ratios departing from the usual range, with one falling outside the usual range due to a decline in investment yield, one unusual range for change in net written premium and one for change in policy holder's surplus. These unusual results related to a capital contribution received by SNIC of approximately $27 million from its parent. All of our remaining U.S. Insurance Subsidiaries had none, one or two ratios outside of the usual values.

Statutory Accounting Principles

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

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

Statutory accounting practices established by the NAIC and adopted in part by the New York, New Hampshire, Delaware, Florida, Wisconsin, Kansas and Texas insurance regulators, determine, among other things, the amount of statutory surplus and statutory net income of RIC, TIC, WIC, AIIC, MCIC, SNIC, AICK and ALIC and thus determine, in part, the amount of funds that are available to pay dividends to AmTrust.

Privacy Regulations

In 1999, Congress enacted the Gramm-Leach-Bliley Act, which, among other things, protects consumers from the unauthorized dissemination of certain personal information. Subsequently, states have implemented additional regulations to address privacy issues. Certain aspects of these laws and regulations apply to all financial institutions, including insurance and finance companies, and require us to maintain appropriate policies and procedures for managing and protecting certain personal information of our policyholders. We may also be subject to future privacy laws and regulations, which could impose additional costs and impact our results of operations or financial condition. In 2000, the NAIC adopted the Privacy of Consumer Financial and Health Information Model Regulation, which assisted states in promulgating regulations to comply with the Gramm-Leach-Bliley Act. In 2002, to further facilitate the implementation of the Gramm-Leach-Bliley Act, the NAIC adopted the Standards for Safeguarding Customer Information Model Regulation. Several states have now adopted similar provisions regarding the safeguarding of policyholder information. To the best of our knowledge, we are in compliance with all applicable privacy laws and regulations.

Credit for Reinsurance

In addition to regulatory requirements imposed by the jurisdictions in which they are licensed, reinsurers' business operations are affected by regulatory requirements in various states governing "credit for reinsurance" that are imposed on their ceding companies. In general, a ceding company obtaining reinsurance from a reinsurer that is licensed, accredited or approved by the jurisdiction or state in which the ceding company files statutory financial statements is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the ceding company's liability for unearned premiums (which are that portion of premiums written which applies to the unexpired portion of the policy period), loss reserves and loss expense reserves ceded to the reinsurer. AII, which reinsures risks of our U.S. Insurance Subsidiaries, is not licensed, accredited or approved in any state in the United States. The great majority of states, however, permit a credit to statutory surplus resulting from reinsurance obtained from a non-licensed or non-accredited reinsurer to be recognized to the extent that the reinsurer provides a letter of credit, trust fund or other acceptable security arrangement. AII posts security to permit our U.S. Insurance Subsidiaries to receive credit.

Ireland

AIU is a non-life insurance company organized under the laws of Ireland. AIU is subject to the regulation and supervision of the Central Bank of Ireland (the "Irish Central Bank") pursuant to the Insurance Acts 1909 to 2000, as amended (the "Insurance Acts") and the European Communities (Non Life Framework) Regulations 1994 (as amended) (the "Regulations"). AIU has been authorized to underwrite various classes of non-life insurance business. AIU (as an Irish authorized insurance company) is permitted to carry on insurance business in any other member state of the European Economic Area ("EEA") by way of freedom to provide services, on the basis that it has notified the Irish Central Bank of its intention to do so, or by way of freedom of establishment, subject to the approval of the Irish Central Bank, and subject to complying with such conditions as may be laid down by the regulator of the jurisdiction in which the insurance activities are carried out for reasons of the "general good."

Qualifying Shareholders

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

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

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

Financial Requirements and Regulatory Guidelines

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

The amount of the minimum guarantee fund that AIU is required to maintain is equal to the minimum solvency margin, which at December 31, 2012 was approximately €19.2 million. The amount of the minimum guarantee fund may never be less than €3.7 million. In addition to the Insurance Acts and Regulations, AIU is expected to comply with various guidelines issued by the Irish Central Bank.

Restrictions on Dividends

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

Bermuda

Classification

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

Principal Representative

An insurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda.

Independent Approved Auditor

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

Loss Reserve Specialist

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

Approved Actuary

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

Annual Statutory Financial Return

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

Minimum Solvency Margin and Restrictions on Dividends and Distributions

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

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

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

Minimum Liquidity Ratio

The Insurance Act provides a minimum liquidity ratio for general business insurers. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable and reinsurance balances receivable. There are certain categories of assets which, unless specifically permitted by the BMA, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined) and letters of credit and guarantees.

Notification by Shareholder Controller of New or Increased Control

Pursuant to Section 30E of the Insurance Act, any person who becomes a holder of at least 10%, 20%, 33% or 50% of AII's shares must notify the BMA in writing within 45 days of becoming such a holder, or 30 days from the date such person has knowledge of having such a holding, whichever is later. The BMA may, by written notice, object to such a person if it appears to the BMA that the person is not fit and proper to be such a holder. A person that does not comply with such a notice from the BMA will be guilty of an offense.

Objection to Existing Shareholder Controller

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

Notification of Change of Officer

As a Class C insurer, AII must notify the BMA in writing of the fact that any person has become or ceased to be an officer of the company. Such notice must be served before the end of a period of 45 days beginning with the day on which the insurer became aware of the relevant facts. For these purposes, "officer" means a director, chief executive or senior executive performing duties of underwriting, actuarial, risk management, compliance, internal audit, finance or investment matters.

United Kingdom

AEL is a non-life insurance company organized under the laws of the United Kingdom (including the Companies Act 2006 and the Financial Services and Markets Act 2000 (FSMA)).

AEL has been authorized by the Financial Services Authority (FSA) to underwrite various classes of non-life insurance business within the U.K. and, for certain of these classes it is authorized to underwrite risks within some member states of the European Economic Area under the European Council Non-Life Insurance Directives. This is either on a "freedom of services" or on a "freedom of establishment" basis and is subject to complying with such "general good" conditions as may be laid down by the local regulatory authorities.

Change in Control

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

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

Financial Requirements and Regulatory Guidelines

AEL is required to maintain regulatory capital resources equal to or in excess of the individual capital guidance ("ICG" or "Required Minimum Capital") that the FSA issues in respect of the company. The ICG is the amount of capital resources that the FSA considers a company should carry to maintain financial adequacy taking into account the company's business profile, structure and risk management systems. As of December 31, 2012, AEL maintained capital resources in excess of the required ICG.

Restrictions on Dividends

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

Change of UK Financial Regulator

On April 1, 2013, the United Kingdom financial services regulation regime will change. This change includes separating the regulation of prudential and conduct operations - both currently regulated by the FSA - and replacing the FSA with two new organizations: the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The PRA is a subsidiary of the Bank of England. As an insurance company, AEL will be “dual regulated” by both the PRA and FCA. The United Kingdom's government's stated aim is to foster a regulatory culture of judgment, expertise and proactive supervision. The FCA will have a more proactive, interventionist approach and has been given a new product intervention power that will enable it to act quickly to ban or impose restrictions on financial products. It is likely that all insurance companies will come under greater regulatory scrutiny than under the current FSA regime.

Solvency II

The European Union’s executive body, the European Commission, is implementing new capital adequacy and risk management regulations called “Solvency II” that would apply to our businesses across the European Union (including the United Kingdom). Although Solvency II was originally supposed to become effective by October 31, 2012, the timetable has been delayed a number of times and, at the time of this report, the European Commission has set no definitive implementation date. The FSA has indicated that, in the absence of a definitive implementation date, it is working on the basis that it is now impractical for Solvency II to be implemented before January 1, 2016, and thus during 2015, insurance companies will be required to demonstrate that they will be in a position to comply with Solvency II by that date. However, the FSA acknowledges that this policy may change depending on the proceedings of the European Commission. Although the details of how Solvency II will apply to us are not yet fully known given the uncertainty surrounding its implementation, it is clear that Solvency II will impose new requirements with respect to capital structure, technical provisions, solvency calculations, governance, disclosure and risk management. In addition, under Solvency II, it is possible that the U.S. parent of a European Union subsidiary could be subject to certain Solvency II requirements if the regulator determines that the subsidiary’s capital position is dependent on the parent company and the U.S. parent is not already subject to regulations deemed “equivalent” to Solvency II. While it is not yet known how these actions will impact us, such regulation could result in a need for additional capital, increased costs of compliance, increased disclosure and less flexibility in our capital management.

Offices

Our principal executive offices are located at 59 Maiden Lane, 6th Floor, New York, New York 10038, and our telephone number at that location is (212) 220-7120. Our website is *www.amtrustgroup.com*. Our internet website and the information contained therein or connected thereto are not intended to be incorporated by reference into this Annual Report on Form 10-K.

Employees

As of December 31, 2012, we had approximately 2,100 employees worldwide.

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

Available Information

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

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

Item 1A. Risk Factors

You should carefully consider the following risks and all of the other information set forth in this report, including our consolidated financial statements and the notes thereto. The following discussion of risk factors includes forward-looking statements and our actual results may differ substantially from those discussed in such forward-looking statements. See "Note on Forward-Looking Statements."

Risks Related to Our Business

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

The financial markets have experienced significant volatility worldwide since the third quarter of 2008, and the United States, European and other foreign economies are experiencing a prolonged period of slow or limited economic growth, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. While economic conditions have moderately improved, financial markets continue to experience periodic volatility and uncertainty remains regarding the duration and strength of any economic recovery. The trend toward recovery and growth may not continue. Even if growth continues, it may be at a slow rate for an extended period of time and other economic conditions, such as employment rates, may continue to be weak. Although the United States, European and other foreign governments have taken various actions to try to stabilize the financial markets, it is unclear what the effects of those actions will be over the long term and it is possible those actions could lead to an inflationary environment.

Economic uncertainty has been impacted by the fact that one or more European sovereign debt issuers have had to seek financial support from supranational entities. Actions or inactions of European governments may exacerbate these actual or perceived risks. Future actions or inactions of the United States government, including an inability to approve appropriations or increase the debt ceiling, could increase the actual or perceived risk that the U.S. may not ultimately pay its obligations when due, which would disrupt financial markets.

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

Many of these risks could materialize, and our financial results could be negatively impacted, even after the end of an economic downturn or financial disruption. During or following an economic downturn, lower levels of economic activity could reduce (and historically have reduced) exposure changes at renewal. In addition, because earned premiums lag written premiums, our results can be adversely affected even after general economic conditions have improved. An inflationary environment (which may follow government efforts to stabilize the economy) may also adversely impact our loss reserves and could adversely impact the valuation of our investment portfolio. Finally, as a result of the financial market disruptions over the past several years, we may face increased regulation, as discussed below. Any or all of these risks could adversely affect our business.

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

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

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

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

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

Property and casualty insurers are subject to claims arising from catastrophes. Catastrophes can cause losses in multiple property and casualty lines, including property and workers' compensation. Workers' compensation constitutes approximately 30% of our business and we write commercial property insurance in our Specialty Program Business segment and our Small Commercial Business segment. In addition, during 2012, we made a 30% investment in a crop insurance managing general agency through which we will issue policies that cover crop-related revenue shortfalls or production losses due to natural causes and other perils such as drought, excessive moisture, hail, wind, frost, insects, and disease. The incidence and severity of catastrophes, such as those due to natural disasters and also large-scale terrorist attacks, are inherently unpredictable, and our losses from catastrophes could be substantial.

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

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

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

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

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

We seek to implement our pricing accurately in accordance with our assumptions. Our ability to undertake these efforts successfully and, as a result, accurately price our policies, is subject to a number of risks and uncertainties, principally:

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

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

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

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

There can be no assurances that our Insurance Subsidiaries will be able to maintain their current ratings. Any downgrade in ratings would likely adversely affect our business through the loss of certain existing and potential policyholders and the loss of relationships with independent agencies that might move to other companies with higher ratings. Some of our policyholders are required to maintain workers' compensation coverage with an insurance company with an A.M. Best rating of "A-" (Excellent) or better. We are not able to quantify the percentage of our business, in terms of premiums or otherwise, that would be affected by a downgrade in our A.M. Best rating.

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

As part of our overall risk and capacity management strategy, we purchase quota share reinsurance and excess of loss and catastrophe reinsurance. The Maiden Quota Share and the reinsurance agreement for our European medical liability business reinsure approximately 40% of our net retained premiums. In addition, we purchase reinsurance on an excess of loss and catastrophe basis for protection against catastrophic events and other large losses. Market conditions beyond our control, in terms of price and available capacity, may affect the level of our business and profitability. The Maiden Quota Share was renewed through June 30, 2014 and our excess of loss and catastrophe reinsurance facilities are generally subject to annual renewal.

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

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

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

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

Reinsurance does not discharge our obligations under the insurance policies we write; it merely provides us with a contractual right to seek reimbursement on certain claims. We remain liable to our policyholders even if we are unable to make recoveries that we are entitled to receive under our reinsurance contracts. As a result, we are subject to credit risk with respect to our reinsurers. Losses are recovered from our reinsurers after underlying policy claims are paid. The creditworthiness of our reinsurers may change before we recover amounts to which we are entitled. Therefore, if a reinsurer is unable to meet its obligations to us, we would be responsible for claims and claim settlement expenses for which we would have otherwise received payment from the reinsurer. If we were unable to collect these amounts from our reinsurers, our costs would increase and our financial condition would be adversely affected. As of December 31, 2012, we had an aggregate amount of approximately $1.3 billion of recoverables from third-party reinsurers on paid and unpaid losses.

Our relationship with Maiden Holdings, Ltd. and its subsidiaries may present, and make us vulnerable to, difficult conflicts of interest, related party transactions, business opportunity issues and legal challenges.

Maiden Holdings, Ltd., or Maiden, is a publicly-held Bermuda insurance holding company (NASDAQ: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, our principal shareholders, and, respectively, our chairman of the board of directors, one of our directors, and our chief executive officer and director. As of December 31, 2012, our principal shareholders, Michael Karfunkel, Leah Karfunkel (the wife of Michael Karfunkel and sole trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust), George Karfunkel and Barry Zyskind own or control approximately 5.4%, 7.6%, 9.4% and 5.1%, 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 Insurance, a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer.

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

Mr. Zyskind’s service as our president and chief executive officer and non-executive chairman of the board of Maiden could also raise a potential challenge under anti-trust laws. Section 8 of the Clayton Antitrust Act prohibits a person from serving as a director or officer in any two competing corporations under certain circumstances. If we and Maiden were in the future deemed to be competitors within the meaning of the Clayton Antitrust Act and certain thresholds relating to direct competition between us and Maiden are met, the Department of Justice and Federal Trade Commission could challenge the arrangement.

Our relationship with ACAC and its subsidiaries may present, and make us vulnerable to, difficult conflicts of interest, related party transactions, business opportunity issues and legal challenges.

ACAC is an insurance holding company owned by The Michael Karfunkel 2005 Grantor Retained Annuity Trust, or the Trust, Michael Karfunkel, individually, and us. On March 1, 2010, the GMAC Insurance consumer property and casualty business was acquired by ACAC from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation. Michael Karfunkel is one of our principal shareholders and our chairman of the board of directors. We own 53,054,000 shares of Series A Preferred Stock in ACAC, which provides for an 8% cumulative dividend, and is non-redeemable and convertible, at our option, into 21.25% of the issued and outstanding common stock of ACAC. Assuming the conversion of our Series A Preferred Stock in

ACAC, the Trust and Michael Karfunkel would own, respectively, 56.98% and 21.77% of the issued and outstanding common stock of ACAC.

We are entitled to appoint two members to ACAC's board of directors, which consists of six members, and have appointed Donald T. DeCarlo, who is an independent member of our board of directors, and Harry Schlachter, our Treasurer, as our designated directors on ACAC's board of directors. In addition, Michael Karfunkel is the chairman of the board of directors of ACAC.

Conflicts of interest could arise with respect to business opportunities that could be advantageous to ACAC or its subsidiaries, on the one hand, and us or our subsidiaries, on the other hand.

We receive significant ceding commission from Maiden.

We receive significant ceding commissionfrom Maiden through the Maiden Quota Share and our reinsurance agreement with Maiden Insurance for our European medical liability business.

Pursuant to the Maiden Quota Share, AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by our U.S., Irish and U.K. insurance companies, or the AmTrust Ceding Insurers, net of the cost of unaffiliated inuring reinsurance (and in the case of our U.K. insurance subsidiary, AEL, net of commissions) and 40% of losses, excluding certain specialty risk programs that we commenced writing after the effective date and risks, other than workers' compensation risks and certain business written by our Irish subsidiary, AIU, for which the AmTrust Ceding Insurers' net retention exceeds $5.0 million (the "Covered Business").

The Maiden Quota Share, as amended, further provides that AII receives a ceding commission based on a percentage of ceded written premiums with respect to all Covered Business. Commencing January 1, 2012, the ceding commission with respect to all Covered Business, other than the retail commercial package business, is adjusted on a quarterly basis to between 30% and 31% of ceded premium depending on what percentage the Specialty Risk and Extended Warranty subject premium, excluding ceded premium related to our medical liability business discussed below, is of the total subject premium. The ceding commission for the retail commercial package business is 34.375% of ceded premium.

Effective April 1, 2011, we, through our subsidiaries AEL and AIU, entered into a reinsurance agreement with Maiden Insurance by which we cede to Maiden Insurance 40% of our European medical liability business, including business in force at April 1, 2011. The quota share had an initial term of one year, automatically renews for one-year terms and can be terminated by either party on four months' notice. Maiden Insurance pays us a 5% ceding commission, and we will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%.

There is no assurance that these arrangements will remain in place beyond their current terms, and we may not be able to readily replace these arrangements if they terminate. If we were unable to continue or replace these arrangements on equally favorable terms, our underwriting capacity and commission and fee income could decline, we could experience a downgrade in our A.M. Best rating, and our results of operations and financial condition may be adversely affected.

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

We receive significant service and fee income from ACAC and Maiden through asset management agreements, by which we manage Maiden's and ACAC's invested assets, a reinsurance brokerage agreement with Maiden, by which we provide Maiden Insurance certain reinsurance brokerage services, and a master services agreement with ACAC, by which we provide ACAC and its affiliates information technology development services in connection with the development and licensing of a policy management system and printing and mailing services for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies we process for ACAC and its affiliates on the policy management system.

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

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

There is no assurance that these arrangements will remain in place. If we no longer provide these services to Maiden and ACAC and do not replace them with services provided to other parties on equally favorable terms and at similar levels, our service and fee income could decline, which may adversely affect our results of operations and financial condition.

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

From time to time we may pursue acquisition opportunities if we believe that such opportunities are consistent with our long-term objectives. The process of integrating an acquired business or company can be complex and costly, may create unforeseen operating difficulties and expenditures and will require substantial management attention. There is no assurance that we will be able to successfully identify and acquire additional existing business on acceptable terms or that we will be successful in integrating any business that we acquire.

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

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

We cannot assure you that we will effectively manage our growth or that any new business will be profitable. If we are unable to manage our growth effectively, our results of operations and financial condition could be adversely affected.

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

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

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

Our business is dependent upon the uninterrupted functioning of our information technology and telecommunication systems. We rely upon our systems, as well as the systems of our vendors, to underwrite and process our business, make claim payments, provide customer service, provide policy administration services, comply with insurance regulatory requirements and perform actuarial and other analytical functions necessary for pricing and product development. Our operations are dependent upon our ability to timely and efficiently process our business and protect our information and telecommunications systems from physical loss, telecommunications failure or other similar catastrophic events, as well as from security breaches. A shut-down of, or inability to access, one or more of our facilities; a power outage; or a failure of one or more of our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis. In the event of a disaster such as a natural catastrophe, terrorist attack or industrial accident, or due to a computer virus, our systems could be inaccessible for an extended period of time. While we have implemented business contingency plans and other reasonable and appropriate internal controls to protect our systems from interruption, loss or security breaches, a sustained business interruption or system failure could adversely impact our ability to process our business, provide customer service, pay claims in a timely manner or perform other necessary business functions.

Our operations depend on the reliable and secure processing, storage and transmission of confidential and other information in our computer systems and networks. Computer viruses, hackers, employee misconduct and other external hazards could expose our data systems to security breaches, cyber-attacks or other disruptions. In addition, we routinely transmit and receive personal, confidential and proprietary information by electronic means. We have implemented security measures designed to protect against breaches of security and other interference with our systems and networks resulting from attacks by third parties, including hackers, and from employee or advisor error or malfeasance. We also assess and monitor the security measures of our third-party business partners, who in the provision of services to us are provided with or process information pertaining to our business or our clients. Despite these measures, we cannot assure that our systems and networks will not be subject to breaches or interference. Any such event may result in operational disruptions as well as unauthorized access to or the disclosure or loss of our proprietary information or our customers' information, which in turn may result in legal claims, regulatory scrutiny and liability, reputational damage, the incurrence of costs to eliminate or mitigate further exposure, the loss of customers or affiliated advisors or other damage to our business. In addition, the trend toward broad consumer and general public notification of such incidents could exacerbate the harm to our business, financial condition or results of operations. Even if we successfully protect our technology infrastructure and the confidentiality of sensitive data, we could suffer harm to our business and reputation if attempted security breaches are publicized. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology or other security measures protecting the networks and systems used in connection with our business.

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

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

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

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

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

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

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

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

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

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

As of December 31, 2012, our total consolidated indebtedness was approximately $302 million. This $302 million does not include approximately $168 million aggregate principal amount of a loan made by Maiden Insurance to AII in connection with a reinsurance agreement between the two parties that requires Maiden Insurance to provide sufficient collateral to secure its proportionate share of AII’s obligations. This amount is accounted for as a note payable on our balance sheet. We may incur additional indebtedness to meet future financing needs. Our indebtedness could have significant negative consequences for our business, results of operations and financial condition, including:

- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring the dedication of a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the amount of our cash flow available for other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business;
- dilution experienced by our existing stockholders as a result of the conversion of our convertible senior notes into shares of common stock; and
- placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

As of December 31, 2012, our annual debt service obligation on our outstanding indebtedness was approximately $20 million. We cannot assure you that we will continue to maintain sufficient cash reserves or that our business will continue to generate cash flow from operations at levels sufficient to permit us to pay principal, premium, if any, and interest on our indebtedness, or that our cash needs will not increase. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we fail to comply with the various requirements of our credit facility, our convertible senior notes, or any indebtedness that we have incurred or may incur in the future, we would be in default, which would permit the holders of our convertible senior notes or other indebtedness to accelerate the maturity of such notes or other indebtedness and could cause defaults under our credit facility or our other notes and indebtedness. Any default under our notes, our credit facility or any indebtedness that we have incurred or may incur in the future could have a material adverse effect on our business, results of operations and financial condition.

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

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

The covenants in our credit facility limit our financial and operational flexibility, which could have an adverse effect on our financial condition.

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

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

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

We invest a small portion of our portfolio in below investment-grade securities. The risk of default by borrowers that issue below investment-grade securities is significantly greater than that of other borrowers because these borrowers are often highly leveraged and more sensitive to adverse economic conditions, including a recession. In addition, these securities are generally unsecured and often subordinated to other debt. The risk that we may not be able to recover our investment in below investment-grade securities is higher than with investment-grade securities.

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

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

Our investment portfolio consists substantially of fixed income securities. As of December 31, 2012, our investment in fixed income securities was approximately $2.07 billion, or 79.8% of our total investment portfolio.

The fair market value of these assets and the investment income from these assets fluctuate depending on general economic and market conditions. The fair market value of fixed income securities generally decreases as interest rates rise. Conversely, if interest rates decline, investment income earned from future investments in fixed income securities will decrease. In addition, some fixed income securities, such as mortgage-backed and other asset-backed securities, carry prepayment risk as a result of interest rate fluctuations. Based upon the composition and duration of our investment portfolio at December 31, 2012, a 100 basis point increase in interest rates would result in a decrease in the fair value of our investments of approximately $100.7 million.

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

While we attempt to manage these risks through investment guidelines and other oversight mechanisms, our efforts may not be successful. To a large degree, the credit risk we face is a function of the economy; accordingly, we face a greater risk in an economic downturn or recession. As a result of the risks set forth above, the value of our investment portfolio could decrease, our net investment income could decrease, or we could experience realized and/or unrealized investment losses, all of which could materially and adversely affect our results of operations and liquidity.

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

As of December 31, 2012, the fair value of our portfolio of life settlement contracts was approximately $194 million million and constituted approximately 7.5% of the fair value of our cash and investment portfolio (inclusive of these life settlement contracts). We have a 50% ownership interest in the entities that hold the life settlement contracts.

Our estimates of fair value of the life settlement contracts we hold are subjective and based upon our estimates of, among other factors, (i) the life expectancy of the insured person, (ii) the projected premium payments on the contract, including projections of possible rate increases from the related insurance carrier, (iii) the projected costs of administration relating to the contract and (iv) the projected risk of non-payment, including the financial health of the related insurance carrier, the possibility of legal challenges from such insurance carrier or others and the possibility of regulatory changes that may affect payment. The actual value to us of any life settlement contract we acquire cannot be determined until the policy matures (i.e., the insured has died and the insurance carrier has paid out the death benefit to the holder). A significant negative difference between the estimated fair value of a contract and actual death benefits received at maturity for any life settlement contract we hold could adversely affect our financial condition and results of operations.

Some of the critical factors considered in determining the fair value of a life settlement contract we own are related to the discounted value of future cash flows from death benefits and the discounted value of future premiums due on the contract. If the rate used to discount the future death benefits or the future premiums changes, the value of the life settlement contract will also change. Generally, if discount rates increase, the fair value of a life settlement contract decreases. If a life settlement contract is sold or otherwise disposed of in the future under a relatively higher interest rate environment, the contract may have a lower value than the value it had when we acquired it.

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

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

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

We conduct business outside the United States primarily in the United Kingdom, Bermuda, Italy, Ireland, France, Norway, Luxembourg, Spain and Canada. While our business outside of the United States currently constitutes approximately 29% of our gross written premium, we are subject to a number of significant risks in conducting such business. These risks include restrictions such as price controls, capital controls, exchange controls and other restrictive government actions, which could have an adverse effect on our business and our reputation. Investments outside the United States also subject us to additional domestic and foreign laws and regulations, including the Foreign Corrupt Practices Act, the U.K. Bribery Act and similar laws in other countries that prohibit the making of improper payments to foreign officials. Although we have policies and controls in place that are designed to ensure compliance with these laws, if those controls are ineffective and an employee or intermediary fails to comply with applicable laws and regulations, we could suffer civil and criminal penalties and our business and our reputation could be adversely affected. In addition, some countries have laws and regulations that lack clarity and, even with local expertise and effective controls, it can be difficult to determine the exact requirements of the local laws. Failure to comply with local laws in a particular market could have a significant and negative effect not only on our business in that market but also on our reputation generally.

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

Our functional currency is the U.S. dollar. For the years ended December 31, 2012 and 2011, approximately 29% and 34%, respectively, of our gross written premiums written were written in currencies other than the U.S. dollar. As of December 31, 2012 and 2011, approximately 20% and 12%, respectively, of our cash and investments were denominated in non-U.S. currencies. We hold investments denominated in Euros and British Pounds because we write business in the EU and the United Kingdom, and may, from time to time, experience losses resulting from fluctuations in the values of these non-U.S. currencies or be unable to repatriate cash to the United States, or otherwise make available cash in the United States, and to do so at a favorable foreign exchange rate and with favorable tax ramifications, all of which could adversely affect our operating results.

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

In 2009, we acquired a Luxembourg holding company and five Luxembourg-domiciled captive insurance companies. During 2010 - 2012, we made several additional acquisitions of Luxembourg-domiciled captive insurance companies. In connection with these transactions, we acquire the equalization reserves of the captive insurance companies. An "equalization reserve" is a catastrophe reserve in excess of required reserves determined by a formula based on the volatility of the business ceded to the captive insurance company. Provided that we are able to cede losses to the captive insurance companies through intercompany reinsurance arrangements that are sufficient to exhaust the captives' equalization reserves, Luxembourg would not, under laws currently in effect, impose any income, corporation or profits tax on the captive insurance companies. However, if the captive reinsurance companies were to cease reinsuring business without exhausting the equalization reserves, they would recognize income that would be taxed by Luxembourg at a rate of approximately 30%. As of December 31, 2012, we had approximately $412 million of unutilized equalization reserves.

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

Our provision for income taxes, our recorded tax liabilities and net deferred tax assets, including any valuation allowances, are recorded based on estimates. These estimates require us to make significant judgments regarding a number of factors, including, among others, the applicability of various federal and state laws, our interpretation of tax laws and the interpretations given to those tax laws by taxing authorities and courts, the timing of future income and deductions, and our expected levels and sources of future taxable income. Additionally, from time to time there are changes to tax laws and interpretations of tax laws that could change our estimates of the amount of tax benefits or deductions expected to be available to us in future periods. In either case, changes to our prior estimates would be reflected in the period changed and could have a material effect on our effective tax rate, financial position, results of operations and cash flows.

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

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

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

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

We are an insurance holding company that transacts business through our operating subsidiaries. Our primary assets are the capital stock of these operating subsidiaries. Payments from our Insurance Subsidiaries pursuant to management agreements and tax sharing agreements, as well as fee income we generate from providing services discussed throughout this report, are our primary source of funds to pay our direct expenses. We anticipate that such payments, together with dividends paid to us by our subsidiaries, will continue to be the primary source of our funds.

Payment of dividends by our Insurance Subsidiaries is restricted by insurance laws of various states, and the laws of certain foreign countries in which we do business (primarily Ireland, England and Bermuda), including laws establishing minimum solvency and liquidity thresholds, and could be subject to contractual restrictions in the future, including those imposed by indebtedness we may incur in the future. As a result, at times, we may not be able to receive dividends from our Insurance Subsidiaries, which would affect our ability to pay dividends on our capital stock, as discussed below. As of December 31, 2012, our Insurance Subsidiaries collectively could pay dividends to us of $403.1 million without prior regulatory approval. Any dividends paid by our subsidiaries would reduce their surplus. The inability of our operating subsidiaries to pay dividends and other permitted payments in an amount sufficient to enable us to meet our cash requirements at the holding company level would have a material adverse effect on our operations.

Risks Related to Our Industry

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

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

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

Although we engage in other businesses, approximately 30% of our gross written premium currently is attributable to workers' compensation insurance. As a result, negative developments in the economic, competitive or regulatory conditions affecting the workers' compensation insurance industry could have an adverse effect on our financial condition and results of operations. For example, in certain states in which we do business, insurance regulators set the premium rates we may charge. In addition, if legislators in one of our larger markets were to enact legislation to increase the scope or amount of benefits for employees under workers' compensation insurance policies without related premium increases or loss control measures, this could negatively affect the workers' compensation insurance industry. Negative developments in the workers' compensation insurance industry could have a greater effect on us than on more diversified insurance companies that also sell many other types of insurance.

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

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

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

We compete with other insurance companies, both domestic and foreign, and many of our existing and potential competitors are significantly larger, have longer operating histories, and possess greater financial, marketing and management resources than we do. In our Small Commercial Business segment, we also compete with individual self-insured companies, state insurance pools and self-insurance funds. We compete on the basis of many factors, including coverage availability, responsiveness to the needs of our independent producers, claims management, payment/settlement terms, premium rates, policy terms, types of insurance offered, overall financial strength, financial ratings and reputation. If any of our competitors offer premium rates, policy terms or types of insurance that are more competitive than ours, we could lose market share. There is no assurance that we will maintain our current competitive position in the markets in which we currently operate or that we will establish a competitive position in new markets into which we may expand.

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

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

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

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

- solvency;
- the lines of business we may transact;
- certain transactions between our Insurance Subsidiaries and affiliates, including us;
- the nature, quality and concentration of our investments;
- rates we may charge and the terms and conditions of our policy forms; and
- dividends paid by our Insurance Subsidiaries.

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

Although the U.S. federal government has not historically regulated the insurance business, there have been proposals from time to time, including during and after the financial crisis in 2008, to impose federal regulation on the insurance industry. On July 21, 2010, the U.S. President signed into law the Dodd-Frank Act, which is more fully described in “Item 1. Business — Regulation — United States — Federal and State Legislative and Regulatory Changes.” These types of state and federal regulations could impose significant burdens on us, including impacting the ways in which we conduct our business, increasing compliance costs, and could result in a competitive disadvantage, particularly relative to smaller insurers who may not be subject to the same level of regulation.

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

The European Union's executive body, the European Commission, is implementing new capital adequacy and risk management regulations called "Solvency II" that would apply to our businesses across the European Union (including the United Kingdom), as more fully described in "Item 1. Business — Regulation — Solvency II." While it is not yet known how Solvency II will impact us or when it will be implemented, such regulation could result in a need for additional capital, increased costs of compliance, increased disclosure and less flexibility in our capital management. It is possible that Solvency II may increase our capital requirements and the new regulations have the potential to adversely affect the profitability of our businesses subject to Solvency II. In addition, at this point, it is unclear whether the new regulations will apply only to our businesses across the European Union (including the United Kingdom) or to all of our operations, both within and outside of the European Union. If the regulations do apply to our holding company in the U.S., we could be subject to even more onerous requirements under the new regulations, which could have a significant adverse effect on our ability to operate profitably.

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

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

U.S. insurers are required by state and federal law to offer coverage for terrorism in certain commercial lines, including workers' compensation. As discussed under "Item 1. Business — Regulation — United States — Federal and State Legislative and Regulatory Changes," in response to the September 11, 2001 terrorist attacks, the U.S. Congress enacted legislation designed to ensure, among other things, the availability of insurance coverage for foreign terrorist acts, including the requirement that insurers offer such coverage in certain commercial lines. The Terrorism Risk Insurance Act, or TRIA, as extended by the Terrorism Risk Insurance Program Reauthorization Act of 2007, or TRIPRA, requires commercial property and casualty insurance companies to offer coverage for certain acts of terrorism and established a federal assistance program through the end of 2014 to help such insurers cover claims related to future terrorism-related losses. The impact of any terrorist act is unpredictable, and the ultimate impact on us would depend upon the nature, extent, location and timing of such an act. Although we reinsure a portion of the risk we retain under the program, our terrorism reinsurance does not provide coverage for an act stemming from nuclear, biological or chemical terrorism.

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

The federal terrorism risk assistance provided by TRIA and TRIPRA will expire at the end of 2014. As a result of the above, there remains considerable uncertainty regarding the extent and adequacy of terrorism coverage that will be available to protect our interests in the event of future terrorist attacks. Any future renewal by the U.S. Congress may be on substantially less favorable terms.

The effects of litigation on our business are uncertain.

Although we are not currently involved in any material litigation with our customers, other members of the insurance industry are the target of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts, and the outcomes of which are unpredictable. This litigation is based on a variety of issues, including insurance and claim settlement practices. We cannot predict with any certainty whether we will be involved in such litigation in the future or what impact such litigation would have on our business.

Risks Related to our Common Stock

Our revenues and results of operations may fluctuate as a result of factors beyond our control, which may cause volatility in the price of our shares of common stock, and consequently could materially and adversely affect the trading price of our convertible senior notes.

Our common stock is listed on the NASDAQ Global Select Market under the symbol "AFSI." Our performance, as well as the risks discussed herein, government or regulatory action, tax laws, interest rates and general market conditions could have a significant impact on the future market price of our common stock, which could also materially and adversely affect the trading price of our notes. Some of the factors that could negatively affect our share price or result in fluctuations in the price of our common stock include:

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

If our revenues and results of operations fluctuate as a result of one or more of these factors, the price of our common stock may be volatile, which could materially and adversely affect the trading price of our notes. Further, because the notes are convertible into shares of our common stock, volatility or depressed market prices of our common stock could have a similar effect on the trading price of our notes. Holders who receive shares of our common stock upon conversion of the notes will also be subject to the risk of volatility and depressed market prices of our common stock.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our common stock price and the trading price of our notes.

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

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

Based on the number of shares outstanding as of December 31, 2012, Barry D. Zyskind, Michael Karfunkel, Leah Karfunkel (wife of Michael Karfunkel and sole trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust) and George Karfunkel, directly or indirectly, collectively own or control approximately 58% of our outstanding common stock. As a result, these stockholders, acting together, have the ability to control all matters requiring approval by our stockholders, including the election and removal of directors, amendments to our certificate of incorporation and bylaws, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. These stockholders may have interests that are different from other stockholders. In addition, we are a “controlled company” as defined in NASDAQ Listing Rule 5615(c). At present, a majority of the members of our board of directors are independent. As a controlled company, each of our board committees, except our audit committee, may include non-independent directors. The audit committee independence requirements imposed by the Sarbanes-Oxley Act of 2002 apply to us, and we have organized our audit committee to meet these requirements.

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

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

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

We may be unable to pay dividends on our common stock.

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

We have a history of paying dividends to our shareholders. However, future cash dividends will depend upon our results of operations, financial condition, cash requirements and other factors including the ability of our subsidiaries to make distributions to us, which ability is restricted in the manner discussed above. Also, there can be no assurance that we will continue to pay dividends even if the necessary financial conditions are met and if sufficient cash is available for distribution.

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

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

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

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

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

Certain provisions in our notes and the related indenture could delay or prevent an otherwise beneficial takeover or takeover attempt of us and, therefore, the ability of holders to exercise their rights associated with a potential fundamental change or a make-whole fundamental change.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Location	Square Feet
Alpharetta, Georgia	51,000
Boca Raton, Florida	66,000
Cleveland, Ohio	63,000
Cleveland, Ohio(1)	500,000 [1]

[1] The building is owned through a subsidiary that is 50% owned.

In addition, we lease an aggregate of approximately 385,000 square feet of office space in 51 locations. See Item 13. “Certain Relationships and Related Transactions, and Director Independence.”

Item 3. Legal Proceedings

We are not involved presently in any material litigation nor, to our knowledge, is any material litigation threatened against us or our properties.

Item 4. Mine Safety Disclosures

None.

PART II

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

Shareholders

Our common shares began trading on the NASDAQ Global Market under the symbol "AFSI" on November 13, 2006. We have one class of authorized common stock for 100,000,000 shares at a par value of $0.01 per share. As of February 19, 2013, there were approximately 160 registered record holders of our common shares. This figure does not include beneficial owners who hold shares in nominee name.

Price Range of Common Stock

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

2012	High	Low	Dividends Declared
First quarter [1]	$ 25.21	$ 20.00	$ 0.09
Second quarter [1]	$ 27.93	$ 23.41	$ 0.10
Third quarter [1]	$ 27.90	$ 24.77	$ 0.10
Fourth quarter	$ 29.34	$ 23.90	$ 0.10

2011	High	Low	Dividends Declared
First quarter [1]	$ 17.95	$ 15.75	$ 0.08
Second quarter [1]	$ 20.90	$ 16.50	$ 0.08
Third quarter [1]	$ 22.49	$ 18.63	$ 0.09
Fourth quarter [1]	$ 25.12	$ 19.17	$ 0.09

[1] The prices have been adjusted for a ten percent stock dividend which was paid during the third quarter of 2012.

On February 19, 2013, the closing price per share for our common stock was $34.14.

Dividend Policy

Our board of directors has historically declared the payment of quarterly cash dividends. Any determination to pay cash dividends will be at the discretion of the board of directors and will be dependent upon our results of operations and cash flows, our financial position and capital requirements. On August 6, 2012, our Board of Directors declared a 10% stock dividend applicable to all stockholders as of the close of business on the record date of September 4, 2012. Such stock dividend was paid on September 20, 2012. Each of our stockholders as of the record date received 0.10 additional shares of common stock for each one share of common stock they held as of the close of business on the record date. Holders of fractional shares of common stock received cash in lieu of fractional shares.

We are a holding company that transacts business through our operating subsidiaries. Our primary assets are the capital stock of these operating subsidiaries. Payments from our Insurance Subsidiaries pursuant to management agreements and tax sharing agreements,as well as fee income we generate from providing services discussed throughout this report, are our primary source of funds to pay our direct expenses. We anticipate that such payments, together with dividends paid to us by our subsidiaries, will continue to be the primary source of funds. The ability to pay dividends to our stockholders largely depends upon the surplus and earnings of our subsidiaries and their ability to pay dividends to us. Payment of dividends by our Insurance Subsidiaries is regulated by insurance laws of various states, and the laws of certain foreign countries in which we do business, including laws establishing minimum solvency and liquidity thresholds. In addition, the terms of our junior subordinated debentures, revolving credit facility and convertible senior notes limit, in the event of certain circumstances, our ability to pay dividends on our common stock, and future borrowings may include prohibitions and restrictions on dividends. As a result, at times, we may not be able to receive dividends from our Insurance Subsidiaries and may not receive dividends in amounts necessary to pay dividends on our capital stock. As of December 31, 2012, our Insurance Subsidiaries could pay dividends to us of $403.1 million without prior regulatory approval. Any dividends paid by our subsidiaries would reduce their surplus. During 2012, our Insurance Subsidiaries paid us dividends of $7.2 million.

Share Repurchase Plan

In November 2007, our board of directors authorized us to repurchase up to three million shares of common stock in one or more transactions at prevailing prices in the open market or in privately negotiated transactions. Management plans to utilize the authority at such times and to the extent that management determines it is in our best interests. As of December 31, 2012, we have repurchased 771,287 shares related to this authorization. We did not repurchase any shares related to the above authorization during the years ended December 31, 2012 and 2011.

The following table summarizes the Company's stock repurchases for the three month period ended December 31, 2012:

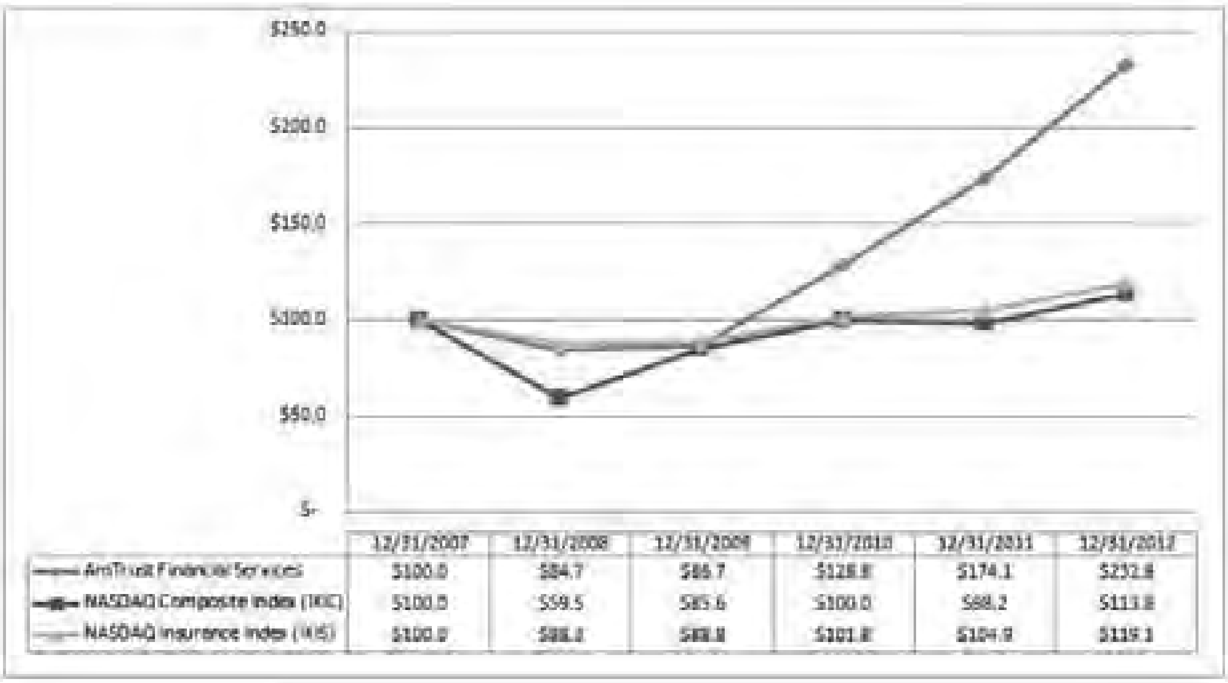
Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased Under Plan or Program
October 1 - 31, 2012	—	—	—	2,223,713
November 1 - 30, 2012	—	—	—	2,223,713
December 1 - 31, 2012	729	$ 28.66	—	2,223,713
Total	729	$ 28.66	—	2,223,713

[1] Includes 729 shares that were withheld to satisfy tax withholding amounts due from employees upon the vesting of previously issued restricted shares.

Common Stock Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return on our common stock for the period beginning December 31, 2007 and ending on December 31, 2012 with the cumulative total return on the NASDAQ Global Market Index and a peer group comprised of the NASDAQ Insurance Index. The graph shows the change in value of an initial $100 investment on December 31, 2007.

Comparative Cumulative Total Returns Since 12/31/07 for AmTrust Financial Services, Inc.: NASDAQ Composite and NASDAQ Insurance



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

Item 6. Selected Financial Data

The following tables set forth our selected historical consolidated financial and operating information for the periods ended and as of the dates indicated. The selected consolidated income statement data for the years ended December 31, 2012, 2011 and 2010 and the balance sheet data as of December 31, 2012 and 2011 are derived from our audited financial statements included elsewhere in this report, which have been audited by BDO USA, LLP, our independent auditors. These historical results are not necessarily indicative of results to be expected from any future period. You should read the following selected consolidated financial information together with the other information contained in this report, including “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included elsewhere in Part IV of this report.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Amounts in Thousands)				
Selected Income Statement Data[1]					
Gross written premium	$ 2,749,326	$ 2,150,472	$ 1,560,822	$ 1,198,946	$ 1,110,574
Ceded gross written premium	(1,101,289)	(873,875)	(733,596)	(555,520)	(555,661)
Net written premium	$ 1,648,037	$ 1,276,597	$ 827,226	$ 643,426	$ 554,913
Change in unearned premium	(229,185)	(239,736)	(81,567)	(69,544)	(115,816)
Net earned premium	$ 1,418,852	$ 1,036,861	$ 745,659	$ 573,882	$ 439,097
Ceding commission – primarily related party	196,982	153,953	138,261	113,931	115,474
Service and fee income	172,174	108,660	62,067	30,690	28,978
Net investment income	68,167	55,515	50,517	55,287	60,467
Net realized gain (loss) on investments	8,981	2,768	5,953	(33,579)	(64,585)
Other revenues	—	—	—	—	(2,900)
Total revenues	$ 1,865,156	$ 1,357,757	$ 1,002,457	$ 740,211	$ 576,531
Loss and loss adjustment expense	922,675	678,333	471,481	327,771	238,303
Acquisition costs and other underwriting expenses[2]	543,713	398,404	302,809	244,279	203,747
Other[3]	161,320	86,611	56,403	22,232	17,318
Total expenses	$ 1,627,708	$ 1,163,348	$ 830,693	$ 594,282	$ 459,368
Income before other income (expense), income taxes and equity in earnings (loss) of unconsolidated subsidiaries	$ 237,448	$ 194,409	$ 171,764	$ 145,929	$ 117,163
Other income (expense):					
Interest expense	(28,508)	(16,079)	(12,902)	(16,884)	(18,277)
Net gain on investment in life settlement contracts	13,822	46,892	11,855	—	—
Foreign currency (loss) gain	(242)	(2,418)	684	2,459	2,700
Acquisition gain on purchase	—	5,850	—	—	—
Total other income (expense)	$ (14,928)	$ 34,245	$ (363)	$ (14,425)	$ (15,577)
Income before income taxes and equity in earnings (loss) of unconsolidated subsidiaries	$ 222,520	$ 228,654	$ 171,401	$ 131,504	$ 101,586
Provision for income taxes	46,955	42,372	47,053	27,459	20,567
Income before equity in earnings (loss) of unconsolidated subsidiaries and minority interest	175,565	186,282	124,348	104,045	81,019
Equity in earnings (loss) of unconsolidated subsidiaries – related parties	9,295	4,882	23,226	(822)	(991)
Net income	184,860	191,164	147,574	103,223	80,028
Non-controlling interest	(6,873)	(20,730)	(5,109)	—	2,900
Net income attributable to AmTrust Financial Services, Inc.	$ 177,987	$ 170,434	$ 142,465	$ 103,223	$ 82,928

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Amounts in Thousands, Except Percentages and per Share Data)				
Per Share Data					
Basic Income Per Share:					
Net income allocated to AmTrust Financial Services, Inc. common shareholders – basic	$ 2.67	$ 2.58	$ 2.17	$ 1.58	$ 1.26
Basic weighted average shares outstanding	66,499	65,915	65,532	65,512	66,070
Diluted Income Per Share:					
Net income allocated to AmTrust Financial Services, Inc. common shareholders – diluted	$ 2.57	$ 2.52	$ 2.14	$ 1.56	$ 1.24
Diluted weighted average shares outstanding	68,850	67,661	66,426	66,034	66,751
Dividend declared per common share	$ 0.39	$ 0.34	$ 0.29	$ 0.23	$ 0.18
Selected Insurance Ratios and Operating Information					
Net loss ratio(4)	65.0%	65.4%	63.2%	57.1%	54.3%
Net expense ratio(5)	24.4%	23.6%	22.1%	22.7%	20.1%
Net combined ratio(6)	89.5%	89.0%	85.3%	79.8%	74.4%
Return on equity(7)	17.5%	21.2%	22.2%	21.5%	21.2%

	As of December 31,				
	2012	2011	2010	2009	2008
	(Amounts in Thousands)				
Selected Balance Sheet Data					
Cash, cash equivalents and restricted cash	$ 493,132	$ 429,951	$ 201,949	$ 233,810	$ 192,053
Investments	2,203,270	1,656,687	1,357,012	1,181,016	1,169,387
Reinsurance recoverable	1,318,395	1,098,569	775,432	643,321	584,822
Premiums receivable, net	1,251,262	932,992	727,561	495,871	419,577
Goodwill and intangibles assets	514,967	372,786	197,826	116,828	102,425
Total assets	7,417,237	5,732,518	4,182,453	3,400,364	3,143,893
Reserves for loss and loss adjustment expense	2,426,400	1,879,175	1,263,537	1,091,944	1,014,059
Unearned premiums	1,773,593	1,366,170	1,024,965	871,779	759,915
Deferred income tax asset (liability)	(225,484)	(118,396)	9,883	7,615	76,910
Note due to seller	—	7,170	14,400	21,128	27,561
Notes payable	—	—	6,667	20,000	33,333
Convertible senior notes	161,218	138,506	—	—	—
Junior subordinated debt	123,714	123,714	123,714	123,714	123,714
Common stock and additional paid in capital less treasury stock	468,226	282,805	249,086	243,930	245,460
Total equity	1,144,121	890,563	716,514	569,392	392,548

(1) Results for a number of periods were affected by our various acquisitions from 2008 to 2012.

(2) Acquisition costs and other underwriting expenses include policy acquisition expenses, commissions paid directly to producers, premium taxes and assessments, salary and benefits and other insurance general and administrative expenses which represent other costs that are directly attributable to insurance activities.

(3) Other operating expenses are those expenses including non-cash amortization of tangible and intangible assets, and non-insurance revenue generating activities in which the Company engages.

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

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

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

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

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

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

Overview

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

- Small Commercial Business. We provide workers' compensation, commercial package and other commercial insurance lines produced by wholesale agents, retail agents and brokers in the United States.
- Specialty Risk and Extended Warranty. We provide coverage for consumer and commercial goods and custom designed coverages, such as accidental damage plans and payment protection plans offered in connection with the sale of consumer and commercial goods, in the United States and Europe, and certain niche property, casualty and specialty liability risks in the United States and Europe, including general liability, employers' liability and professional and medical liability.
- Specialty Program. We write commercial insurance for narrowly defined classes of insureds, requiring an in-depth knowledge of the insured's industry segment, through general and other wholesale agents.
- Personal Lines Reinsurance. We reinsure 10% of the net premiums of the GMACI personal lines business, pursuant to the Personal Lines Quota Share with the GMACI personal lines insurance companies. See discussion below related to ACAC investment.

We transact business primarily through our eleven Insurance Subsidiaries:

Company	A.M. Best Rated	Coverage Type Offered	Coverage Market	Domiciled
Technology Insurance Company, Inc. ("TIC")	A (Excellent)	Small commercial, specialty program and specialty risk & extended warranty	United States	New Hampshire
Rochdale Insurance Company ("RIC")	A (Excellent)	Small commercial, specialty program and specialty risk & extended warranty	United States	New York
Wesco Insurance Company ("WIC")	A (Excellent)	Small commercial, specialty program and specialty risk & extended warranty	United States	Delaware
Associated Industries Insurance Company, Inc. ("AIIC")	A (Excellent)	Workers' compensation	United States	Florida
Milwaukee Casualty Insurance Co. ("MCIC")	A (Excellent)	Small Commercial Business	United States	Wisconsin
Security National Insurance Company ("SNIC")	A (Excellent)	Small Commercial Business	United States	Delaware
AmTrust Insurance Company of Kansas, Inc. ("AICK")	A (Excellent)	Small Commercial Business	United States	Kansas
AmTrust Lloyd's Insurance Company ("ALIC")	A (Excellent)	Small Commercial Business	United States	Texas
AmTrust International Underwriters Limited ("AIU")	A (Excellent)	Specialty Risk and Extended Warranty; specialty program	European Union and United States	Ireland
AmTrust Europe, Ltd. ("AEL")	A (Excellent)	Specialty Risk and Extended Warranty	European Union	England
AmTrust International Insurance Ltd. ("AII")	A (Excellent)	Reinsurance	United States and European Union	Bermuda

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

We evaluate our operations by monitoring key measures of growth and profitability, including return on equity and net combined ratio. Our return on equity was 17.5%, 21.2% and 22.2% for the years ended December 31, 2012, 2011 and 2010, respectively. Our overall financial objective is to produce a return on equity of 15.0% or more over the long term. In addition, we target a net combined ratio of 95.0% or lower over the long term, while seeking to maintain optimal operating leverage in our Insurance Subsidiaries commensurate with our A.M. Best rating objectives. Our net combined ratio was 89.5%, 89.0% and 85.3% for the years ended December 31, 2012, 2011 and 2010, respectively. A key factor in achieving our targeted net combined ratio is a continuous focus on our net expense ratio. Our strategy across our segments is to maintain premium rates, deploy capital judiciously, manage our expenses and focus on the sectors in which we have expertise, which we believe should provide opportunities for greater returns.

Investment income is also an important part of our business. Because the period of time between our receipt of premiums and the ultimate settlement of claims is often several years or longer, we are able to invest cash from premiums for significant periods of time. Our net investment income was $68.2 million, $55.5 million and $50.5 million for the years ended December 31, 2012, 2011 and 2010, respectively. We held 19.0% and 21.1% of total invested assets in cash and cash equivalents as of December 31, 2012 and 2011, respectively.

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

Acquisitions

First Nonprofit Companies, Inc.

On December 31, 2012, we completed the acquisition of First Nonprofit Companies, Inc. ("FNC") for approximately $55 million. FNC serves approximately 1,500 nonprofit and government entities covering approximately $5 billion of annual payroll. FNC offers unique services as well as insurance programs which are designed to allow nonprofit and government entities to economically manage their unemployment tax obligations. In accordance with FASB ASC 805-10 *Business Combinations*, the Company recorded a purchase price of approximately $55 million, which consisted primarily of goodwill and intangible assets of $28.2 million and $40.5 million, respectively. The intangible assets consist of customer relationships and have a life of 18 years. The goodwill and intangibles are included as a component of the Small Commercial Business segment. The acquisition of FNC had no impact on the Company's results of operations for 2012.

AHL

During 2012 and 2011, AmTrust Holdings Luxembourg S.A.R.L (“AHL”) completed a series of acquisitions described below. AHL is a holding company that purchases Luxembourg captive insurance entities that allows us to obtain the benefit of the captives’ capital and utilization of their existing and future loss reserves through a series of reinsurance arrangements with one of our subsidiaries. AHL and the result of our utilization of the captives' loss reserves are included in our Specialty Risk and Extended Warranty segment.

In December 2012, AHL acquired all the issued and outstanding stock of Inter Re S.A., a Luxembourg domiciled captive insurance company, from USG People. The purchase price of Inter Re S.A. was approximately $40.6 million. We recorded approximately $44.8 million of cash, intangible assets of $8.5 million and a deferred tax liability of $12.7 million. Inter Re S.A. subsequently changed its name to AmTrust Re Epsilon.

In December 2012, AHL acquired all the issued and outstanding stock of Socare S.A., a Luxembourg domiciled captive insurance company, from Cactus S.A. The purchase price of Socare S.A. was approximately $119.3 million. We recorded approximately $130.5 million of cash, intangible assets of $26.2 million and a deferred tax liability of $37.4 million. Socare S.A. subsequently changed its name to AmTrust Re Theta.

In December 2011, AHL acquired all the issued and outstanding stock of Reaal Reassurantie S.A., a Luxembourg domiciled captive insurance company, from SNS REAAL N.V. and REAAL N.V. The purchase price of Reaal Reassurantie S.A. was approximately $71.9 million. We recorded approximately $78.7 million of cash, intangible assets of $15 million and a deferred tax liability of $22.3 million. Reaal Reassurantie S.A. subsequently changed its name to AmTrust Re Kappa.

In December 2011, AHL acquired all the issued and outstanding stock of Vandermoortele International Reinsurance Company SA, a Luxembourg domiciled captive insurance company, from NV Vandermoortele, Vandemoortele International Finance SA and NV Safinco. The purchase price of Vandermoortele International Reinsurance Company SA was approximately $66 million. We recorded approximately $71.4 million of cash, intangible assets of $10.6 million and a deferred tax liability of $16 million. Vandermoortele International Reinsurance Company SA subsequently changed its name to AmTrust Re Zeta.

In June 2011, AHL acquired all the issued and outstanding stock of International Crédit Mutuel Reinsurance SA (“ICM Re”), a Luxembourg domiciled captive insurance company, from Assurance du Credit Mutuel IARD SA. The purchase price of ICM Re was approximately $315 million. We recorded approximately $347 million of cash, intangible assets of $55.9 million and a deferred tax liability of $87.8 million. ICM Re subsequently changed its name to AmTrust Re Alpha.

CNH Capital's Insurance Agencies

In July 2012, we completed the acquisition of CNH Capital Insurance Agency Inc. and CNH Capital Canada Insurance Agency, Ltd., collectively known as "CNH Capital Insurance Agencies," from CNH Capital, the financial services business of CNH Global N.V. The acquisition allows us to enhance and expand CNH Capital Insurance Agencies' offering of equipment extended service contracts and other insurance products to Case IH, Case Construction, New Holland Agriculture and New Holland Construction equipment dealers in the United States and Canada. Additionally, we entered into service and license agreements with CNH Capital whereby we will make future payments based on gross revenues of the CNH Capital Insurance Agencies. In accordance with FASB ASC 805, *Business Combinations*, we recorded a purchase price of $34 million, which consisted primarily of goodwill and intangible assets of approximately $21.3 million and $19.4 million, respectively. The intangible assets consist of renewal rights and licenses and have asset lives of between 5 and 10 years and are included in our Specialty Risk and Extended Warranty segment. As a result of this transaction, we recorded approximately $10 million of fee income during the year ended December 31, 2012. Additionally, we recorded approximately $30 million of written premium for the year ended December 31, 2012 related to CNH.

BTIS

In December 2011, we acquired the California-based Builders & Tradesmen's Insurance Services, Inc. ("BTIS"), an insurance wholesaler and general agent specializing in insurance policies and bonds for small artisan contractors. The purchase agreement required us to make an initial payment of $5 million on the acquisition date and pay future incentives measured primarily on the overall profitability of the business for a period of approximately 4 years. In accordance with FASB ASC 805, *Business Combinations*, we recorded a purchase price of approximately $47 million, which included goodwill and intangibles of approximately $28.3 million and $29.9 million, respectively. The intangible assets included renewal rights, distribution networks and trademarks. The trademarks were determined to have an indefinite life while the renewal rights and distribution networks were determined to have lives of 11 years and 17 years, respectively. Additionally, we recorded a liability for approximately $2.4 million related to an unfavorable lease assumed in the transaction. BTIS's revenues are included within our Small Commercial Business segment as a component of service and fee income. We recorded approximately $18 million and $2 million of fee revenue as a result of this acquisition for the years ended December 31, 2012 and 2011, respectively. Additionally, we recorded written premium of approximately $70 million for the year ended December 31, 2012 related to BTIS.

Cardinal Comp

In September 2008, we entered into a managing general agency agreement with Cardinal Comp, LLC ("Cardinal Comp"), a workers' compensation managing general agent for which we paid the agency a commission for the placement of insurance policies. The agency operated in eight states and primarily in the state of New York. In September 2011, one of our subsidiaries entered into a renewal rights and asset purchase agreement with Cardinal Comp and Cook Inlet Alternative Risk LLC. The existing managing general agency agreement entered into in 2008 was terminated as part of the new agreement and will enable us to reduce commissions on written premium generated from the renewal rights agreement. In accordance with FASB ASC 805-10 *Business Combinations*, we recorded a purchase price of $30.4 million primarily for goodwill and intangible assets consisting of distribution networks, renewal rights and a trademark. The intangible assets have a life of between 2 and 16 years and are included as a component of the Small Commercial Business segment. We recorded approximately $91 million and $84 million of written premium related to Cardinal Comp for the years ended December 31, 2012 and 2011.

Majestic

One of our subsidiaries and the Insurance Commissioner of the State of California, acting solely in the capacity as the statutory conservator (the "Conservator") of Majestic Insurance Company ("Majestic"), entered into a Rehabilitation Agreement that set forth a plan for the rehabilitation of Majestic (the "Rehabilitation Plan") by which we acquired the business of Majestic through a Renewal Rights and Asset Purchase Agreement (the "Purchase Agreement"), and a Loss Portfolio Transfer and Quota Share Reinsurance Agreement (the "Reinsurance Agreement"). On July 1, 2011, one of our subsidiaries entered into the Reinsurance Agreement, which was effective June 1, 2011, and assumed all of Majestic's liability for losses and loss adjustment expenses under workers' compensation insurance policies of approximately $331.7 million on a gross basis (approximately $183.5 million on a net basis), without any aggregate limit, and certain contracts related to Majestic's workers' compensation business, including leases for Majestic's California office space. In addition, we assumed 100% of the unearned premium reserve of approximately $26 million on all in-force Majestic policies. In connection with this transaction, we received approximately $224.5 million of cash and investments, which included $26 million for a reserve deficiency and also included the assignment of Majestic's reinsurance recoverables of approximately $51.7 million. The Reinsurance Agreement also contains a profit sharing provision whereby we will pay Majestic up to 3% of net earned premium related to current

Majestic policies that we renew in the three year period commencing on the closing date should the loss ratio on such policies for the three year period be 65% or less.

In accordance with FASB ASC 944-805 *Business Combinations*, we are required to adjust to fair value Majestic's loss and LAE reserves by taking the acquired loss reserves recorded and 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 our best estimate of the fair value of such reserves at acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves. We determined the fair value of the loss reserves to be $329 million. Accordingly, the amortization will be recorded as an expense on our income statement until fully amortized.

In consideration for our assumption of (i) Majestic's losses and loss adjustment expenses under its workers' compensation insurance policies pursuant to the Reinsurance Agreement and (ii) Majestic's leases for its California offices, pursuant to the Purchase Agreement, we acquired the right to offer, quote and solicit the renewals of in-force workers' compensation policies written by Majestic, certain assets required to conduct such business, including intellectual property and information technology, certain fixed assets, and the right to offer employment to Majestic's California-based employees.

As a result of entering into the Purchase Agreement, in accordance with FASB ASC 805 *Business Combinations*, we recorded $3.9 million of intangible assets related to distribution networks and trademarks. The distribution networks have a life of 13 years and the trademarks have a life of 2 years. Additionally, we recorded a liability for approximately $0.4 million related to an unfavorable lease assumed in the transaction and a liability for approximately $0.8 million related to the above mentioned profit sharing provision. We recorded written premium, which is included in our Small Commercial Business segment, of approximately $104 million and $43 million for the years ended December 31, 2012 and 2011, respectively.

Strategic Investments

Investment in ACAC

During 2010, we completed our strategic investment in American Capital Acquisition Corporation ("ACAC"). We formed ACAC with The Michael Karfunkel 2005 Grantor Retained Annuity Trust (the "Trust") for the purpose of acquiring from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation ("MIC", together with GMAC Insurance Holdings, Inc., "GMACI"), GMACI's U.S. consumer property and casualty insurance business (the "GMACI Business"), a writer of automobile coverages through independent agents in the United States. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the "GMACI Insurers"). Michael Karfunkel, individually, and the Trust own 100% of ACAC's common stock (subject to our conversion rights described below). Michael Karfunkel is the chairman of our board of directors and the father-in-law of Barry D. Zyskind, our chief executive officer. The ultimate beneficiaries of the Trust include Michael Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman of the Board of Directors of ACAC.

Pursuant to the Amended Stock Purchase Agreement, ACAC issued and sold to us for an initial purchase price of approximately $53 million, which was equal to 25% of the capital initially required by ACAC, 53,054,000 shares of Series A Preferred Stock, which provides an 8% cumulative dividend, is non-redeemable and is convertible, at our option, into 21.25% of the issued and outstanding common stock of ACAC (the "Preferred Stock"). We have pre-emptive rights with respect to any future issuances of securities by ACAC and our conversion rights are subject to customary anti-dilution protections. We have the right to appoint two members of ACAC's board of directors, which consists of six members. Subject to certain limitations, the board of directors of ACAC may not take any action at a meeting without at least one of our appointees in attendance and ACAC may not take certain corporate actions without the approval of a majority of its board of directors (including both of our appointees).

We, the Trust and Michael Karfunkel, individually, each will be required to make its or his proportionate share of deferred payments payable by ACAC to GMACI pursuant to the GMACI Securities Purchase Agreement, the final payment of which is payable March 1, 2013, to the extent that ACAC is unable to otherwise provide for such payments. Our proportionate share of such deferred payments will not exceed $7.5 million. In addition, in connection with our investment, ACAC granted us a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMACI. In February 2013, our obligation for any remaining deferred payment was eliminated.

In accordance with ASC 323-10-15, *Investments-Equity Method and Joint Ventures*, we account for our investment in ACAC under the equity method. We recorded $9.3 million, $4.9 million and $24.5 million of income during the years ended December 31, 2012, 2011 and 2010, respectively related to our equity investment in ACAC.

Personal Lines Quota Share

We, effective March 1, 2010, reinsure 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement ("Personal Lines Quota Share") among Integon National Insurance Company, lead insurance company on behalf of the GMACI Insurers, as cedent, and the Company, ACP Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, receive 50% of the net premium of the GMACI Insurers and assume 50% of the related net losses. We have a 20% participation in the Personal Lines Quota Share, by which we receive 10% of the net premiums of the personal lines business and assume 10% of the related net losses. The Personal Lines Quota Share, which had an initial term of three years, was renewed through March 1, 2016 and will renew automatically for successive three-year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. In addition, either party is entitled to terminate on 60 days' written 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 the GMACI Insurers, run-off, or a reduction of 50% or more of the shareholders' equity. The GMACI Insurers also may terminate on nine months' written notice following the effective date of an initial public offering or private placement of stock by ACAC or a subsidiary. The Personal Lines Quota Share, as amended on October 1, 2012 provides that the reinsurers pay a provisional ceding commission equal to 32.0% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.0% or less and a minimum of 30.0% if the loss ratio is 64.5% or higher. The Personal Lines Quota Share is subject to a premium cap that limited the premium that could be ceded by the GMACI Insurers to Technology Insurance Company, Inc. ("TIC"), one of our wholly-owned subsidiaries, to $133 million during calendar year 2012 to the extent TIC determined, in good faith, that it could not assume additional premium. The premium cap increases by 10% per annum thereafter. As a result of this agreement, we assumed $118.1 million, $102.6 million and $82.3 million of business from the GMACI Insurers during the years ended December 31, 2012, 2011 and 2010, respectively.

Master Services Agreement

We provide ACAC and its affiliates information technology development services in connection with the development and licensing of a policy management system at a cost which is currently 1.25% of gross written premium of ACAC and its affiliates plus our costs for development and support services. In addition, we provide ACAC and its affiliates printing and mailing services at a per piece cost for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies we process for ACAC and its affiliates on the policy management system. We recorded approximately $14.4 million, $4.0 million and $2.0 million of fee income for the years ended December 31, 2012, 2011 and 2010, respectively, related to this agreement.

Asset Management Agreement

We manage the assets of ACAC and its subsidiaries for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1 billion or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1 billion. We currently manage approximately $730 million of assets as of December 31, 2012 related to this agreement. As a result of this agreement, we earned approximately $1.5 million, $1.6 million and $1.5 million of investment management fees for the years ended December 31, 2012, 2011 and 2010, respectively.

As a result of the above service agreements with ACAC, we recorded fees totaling approximately $15.9 million, $5.6 million and $3.5 million for the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, the outstanding balance payable by ACAC related to these service fees and reimbursable costs was approximately $5.4 million.

Life Settlement Contracts

A life settlement contract is a contract between the owner of a life insurance policy and a third-party who obtains the ownership and beneficiary rights of the underlying life insurance policy. During 2010, we formed Tiger Capital LLC ("Tiger") with a subsidiary of ACAC for the purposes of acquiring certain life settlement contracts. In 2011, we formed AMT Capital Alpha, LLC ("AMT Alpha") with a subsidiary of ACAC and AMT Capital Holdings, S.A. ("AMTCH") with ACP Re, Ltd., an entity controlled by the Michael Karfunkel Grantor Retained Annuity Trust, for the purposes of acquiring additional life settlement contracts. We have a 50% ownership interest in each of Tiger, AMT Alpha and AMTCH (collectively, the “LSC entities”). The LSC entities may also acquire premium finance loans made in connection with the borrowers’ purchase of life insurance policies that are secured by the policy, which are in default at the time of purchase. The LSC entities acquire the underlying policies through the borrowers’ voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator of the Tiger life settlement contract portfolio, for which it receives an annual fee. The third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. We provide for certain actuarial and finance functions related to the LSC entities. Additionally, in conjunction with our 21.25% ownership percentage of ACAC, we ultimately receive 60.625% of the profits and losses of Tiger and AMT Alpha. As such, in accordance with ASC 810-10, *Consolidation,* we have been deemed the primary beneficiary and, therefore, consolidate the LSC entities.

We account for investments in life settlements in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by- instrument basis and is irrevocable. We have elected to account for these policies using the fair value method. We determine fair value on a discounted cash flow basis of anticipated death benefits, incorporating current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available.

Total capital contributions of approximately $40 million and $43 million were made to the LSC entities during the years ended December 31, 2012 and 2011, respectively, for which we contributed approximately $20 million and $22 million in those same periods. The LSC entities used a majority of the contributed capital to acquire certain life insurance policies of approximately $15.8 million and $31.0 million for the years ended December 31, 2012 and 2011, respectively. Our investments in life settlements and cash value loans were approximately $193.9 million and $136.8 million as of December 31, 2012 and 2011, respectively, and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. We recorded other income for the years ended December 31, 2012, 2011 and 2010 of approximately $13.8 million, $46.9 million and $11.9 million, respectively, related to the life settlement contracts.

Principal Revenue and Expense Items

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

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

Net Earned Premium. Net earned premium is the earned portion of our net written premiums. We earn insurance premiums on a pro rata basis over the term of the policy. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums, which are earned in subsequent periods over the remaining term of the policy. Our workers’ compensation insurance and commercial package policies typically have a term of one year. Thus, for a one-year policy written on July 1, 2012 for an employer with a constant payroll during the term of the policy, we would earn half of the premiums in 2012 and the other half in 2013. We earn our specialty risk and extended warranty coverages over the estimated exposure time period. The terms vary depending on the risk and have an average duration of approximately 24 months, but range in duration from one month to 120 months.

Ceding Commission Revenues. Ceding commission is a commission we receive from ceding gross written premium to third party reinsurers. We earn commissions on reinsurance premiums ceded in a manner consistent with the recognition of the direct acquisition costs of the underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured. In connection with the Maiden Quota Share, which is our primary source of ceding commission, the amount we receive is a blended rate based on a contractual formula contained in the individual reinsurance agreements, and the rate may not correlate specifically to the cost structure of our individual segments. As such, we allocate earned ceding commissions to our segments based on each segment’s proportionate share of total acquisition costs and other underwriting expenses recognized during the period.

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

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

- Product warranty registration and service — Our Specialty Risk and Extended Warranty business generates fee revenue for product warranty registration and claims handling services provided to unaffiliated third parties.
- Servicing carrier — We act as a servicing carrier for workers' compensation assigned risk plans in nine states. In addition, we also offer claims adjusting and loss control services for fees to unaffiliated third parties.
- Management services — We provide services to insurance consumers, traditional insurers and insurance producers by offering flexible and cost effective alternatives to traditional insurance tools in the form of various risk retention groups and captive management companies, as well as management of workers' compensation and commercial property programs.
- Installment, reinstatement and policy fees — We recognize fee income associated with the issuance of workers' compensation policies for installment fees, in jurisdictions where it is permitted and approved, and reinstatement fees, which are fees charged to reinstate a policy after it has been cancelled for non-payment, in jurisdictions where it is permitted and approved. Additionally, we recognize policy fees associated with general liability policies placed by BTIS.
- Broker services — We provide brokerage services to Maiden in connection with our reinsurance agreement for which we receive a fee.
- Asset management services — We currently manage the investment portfolios of Maiden, ACAC, and ACP Re, Ltd. for which we receive a management fee.
- Information technology services — We provide information technology services to ACAC and its affiliates for a fee.

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

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

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

- General and administrative expenses are comprised of other costs associated with our insurance activities, such as federal excise tax, postage, telephones and internet access charges, as well as legal and auditing fees and board and bureau charges.

Gain on Investment in Life Settlement Contracts. The gain on investment in life settlement contracts includes the gain on acquisition of life settlement contracts, the gain realized upon a mortality event and the change in fair value of the investments in life settlements as evaluated at the end of each reporting period. We determine fair value based upon the discounted cash flow of the anticipated death benefits, incorporating a number of factors, such as current life expectancy assumptions, expected premium payment obligations and increased cost assumptions, credit exposure to the insurance companies that issued the life insurance policies and the rate of return that a buyer would require on the policies. The gain realized upon a mortality event is the difference between the death benefit received and the recorded fair value of that particular policy. We allocate gain on investment in life settlement contracts to our segments based on net written premium by segment.

Other Expense. Other expense includes those charges that are related to the amortization of tangible and intangible assets and non-insurance fee generating activities in which we engage, including salaries and benefits expenses and other charges directly attributable to non-insurance fee generating activities, such as those generated by BTIS, CNH, Risk Services and Warrantech.

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

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

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

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

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

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

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

Critical Accounting Policies

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

We believe that the most critical accounting policies relate to the reporting of reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from third party reinsurers, assessments, deferred policy acquisition costs, deferred income taxes, the impairment of investment securities, goodwill and other intangible assets and the valuation of stock based compensation.

The following is a description of our critical accounting policies.

Premiums. We recognize insurance premiums, other than in our Specialty Risk and Extended Warranty segment, as earned on the straight-line basis over the contract period. Insurance premiums on Specialty Risk and Extended Warranty business are earned based on estimated program coverage periods. We base these estimates on the expected distribution of coverage periods by contract at inception, because a single contract may contain multiple coverage period options, and we revise these estimates based on the actual coverage periods selected by the insured. Unearned premiums represent the portion of premiums written that is applicable to the unexpired term of the contract or policy in force. We base premium adjustments on contracts and audit premiums on estimates made over the contract period. We also estimate an allowance for doubtful accounts based on a percentage of premium. We review our bad debt write-offs at least annually and adjust our premium percentage as required. Allowance for doubtful accounts were approximately $15.0 million and $11.7 million at December 31, 2012 and 2011, respectively.

Ceding Commission. Ceding commission is a commission we receive from ceding gross written premium to third party reinsurers. We earn commissions on reinsurance premiums ceded in a manner consistent with the recognition of the direct acquisition costs of the underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured. In connection with the Maiden Quota Share, which is our primary source of ceding commission, the amount we receive is a blended rate based on a contractual formula contained in the individual reinsurance agreements, and the rate may not correlate specifically to the cost structure of our individual segments. As such, we allocate earned ceding commissions to our segments based on each segment's proportionate share of total acquisition costs and other underwriting expenses recognized during the period.

Life Settlement profit commission. Investments in life settlements are accounted for in accordance with ASC 325-30, *Investments in Insurance Contracts*, and we have elected to account for our investment in life settlements using the fair value method. We retain a third party service provider to perform certain administration functions to effectively manage these life settlement contracts and a portion of their fee is contingent on the overall profitability of the life settlement contracts. We accrue the related profit commission on life settlements at fair value, in relation to life settlements purchased prior to December 31, 2010. This profit commission is calculated based on the discounted anticipated cash flows and the provisions of the underlying contract. In addition, we accrue a best estimate in relation to profit commission due on certain life settlement contracts acquired subsequent to December 31, 2010 as no contractual relationship currently exists.

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

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

We believe this method, by which we track the development of claims incurred in a particular time period, is the best method for projecting our ultimate liability. Loss development factors are dependent on a number of elements, including frequency and severity of claims, length of time to achieve ultimate settlement of claims, projected inflation of medical costs and wages (for workers' compensation), insurance policy coverage interpretations, judicial determinations and existing laws and regulations. The predictive ability of loss development factors is dependent on consistent underwriting, claims handling, and inflation, among other factors, and predictable legislatively and judicially imposed legal requirements. If all things remain equal, losses incurred in 2012 should develop similarly to losses incurred in 2011 and prior years. Thus, if the Net Loss Ratio for premiums written in year one is 55.0%, we expect that the Net Loss Ratio for premiums written in year two also would be 55.0%. However, due to the inherent uncertainty in the loss development factors, our actual liabilities may differ significantly from our original estimates.

Notwithstanding the inherent uncertainty, we have not experienced material variability in our loss development factors. We believe that it is reasonably likely that we could experience a 5% deviation in our loss and loss adjustment expense reserves due to changes in the elements that underlie loss development, such as claims frequency or severity. For example, as of December 31, 2012, the average cost per workers' compensation claim was $10,010, which was a 6.4% increase over the claims severity from 2001 – 2011 of $9,408. In 2012, claims frequency (number of claims per $1.0 million of payroll) decreased to .916 from .917, a decrease of 0.1%, for the period between 2001 and 2012.

In the event of a 5% increase in claims frequency as measured by our workers compensation insureds' payroll, which we believe is the most important assumption regarding our business, our loss reserves as of December 31, 2012 would be understated by $16.7 million and would result in an after tax reduction in shareholders' equity of $10.8 million. In the event of a 5% increase in claim severity, which is the average incurred loss per claim, our loss and loss adjustment expense reserves would be understated by $7.9 million and would result in an after tax reduction in shareholders' equity of $5.1 million.

On a monthly basis, we review our reserves to determine whether they are consistent with our actual results. In the event of a discrepancy, we would seek to determine the causes (underwriting, claims, inflation, regulatory) and would adjust our reserves accordingly. For example, if the development of our total incurred losses were 5% greater than the loss development factors would have predicted, we would adjust our reserves for the periods in question. In 2012, 2011 and 2010, our liabilities for unpaid losses and LAE attributable to prior years increased by $12.9 million, $12.5 million and $7.9 million, respectively, primarily as result of unfavorable loss development, in our Specialty Program segment due to higher actuarial estimates based on actual losses. We do not anticipate that we will make any material reserve adjustments, but will continue to monitor the accuracy of our loss development factors and adequacy of our reserves. Additional information regarding our reserves for loss and loss adjustment expenses can be found in "Item 1A. Risk Factors" and "Item 1. Business — Loss Reserves."

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

Deferred Policy Acquisition Costs. We defer commission expenses, premium taxes and assessments as well as certain underwriting and safety costs that vary with and are primarily related to the successful acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. We may realize deferred policy acquisition costs only if the ratio of loss and loss adjustment expense reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%, we could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve.

Assessments Related to Insurance Premiums. We are subject to various assessments and premium surcharges related to our insurance activities, including assessments and premium surcharges for state guaranty funds and second injury funds. Assessments based on premiums are generally paid within one year after the calendar year in which the policies are written. Assessments based on losses are generally paid within one year of when claims are paid by us. State insurance regulatory agencies use state guaranty fund assessments to pay claims of policyholders of impaired, insolvent or failed insurance companies and the operating expenses of those agencies. States use second injury funds to reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. In some states, these assessments and premium surcharges may be partially recovered through a reduction in future premium taxes.

Earned But Unbilled Premium. Earned but unbilled premium ("EBUB") estimates the amount of audit premium for those policies that have yet to be audited as of the date of the quarter or year end. Workers' compensation policies are subject to audit and the final premium may increase or decrease materially from the original premium due to revisions to actual payroll and/or employee classification. Based on guidance in FASB ASC 944 as well as Statement of Statutory Accounting Principles 53, we determine EBUB using statistically supported aggregate calculations based on our historical premium audit results. We have not had a material adjustment as a result of actual premium audits materially differing from the estimates used in calculating EBUB.

As of December 31, 2012, if the actual results of the future premiums audits were 1% lower than the historical results used in calculating EBUB, the result would be a decrease in EBUB and net earned premium of $5.4 million or $3.5 million after tax. If the actual results of the future premiums audits were 1% higher than the historical results used in calculating EBUB, the result would be an increase in EBUB, and net earned premium of $4.4 million or $2.9 million after tax.

In calculating EBUB, we consider our ability to collect the projected increased premium as well as those expenses associated with both the additional premium and return premium.

Cash and Cash Equivalents. Cash and cash equivalents are presented at cost, which approximates fair value. We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. We maintain our cash balances at several financial institutions. The Federal Deposit Insurance Corporation secures accounts up to $250,000 at these institutions. Management monitors balances in excess of insured limits and believes they do not represent a significant credit risk to us.

Investments. We account for our investments in accordance with ASC 320, *Debt and Equity Securities*, which requires that fixed-maturity and equity securities that have readily determined fair values be segregated into categories based upon our intention for those securities. In accordance with ASC 320, we have classified our fixed-maturity securities and equity securities as available-for-sale. We may sell our available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors.

We report fixed-maturity securities and equity securities 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. We determine realized gains and losses on the specific identification method.

Quarterly, our Investment Committee ("Committee") evaluates each security that has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment ("OTTI"). The Company generally considers an investment to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion or more) for over 24 months. In addition, the Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

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

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

Based on guidance in FASB ASC 320-10-65, in the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is not more than likely than not that such holder will be required to sell the debt security before recovery of its amortized cost basis, is required to separate the decline in fair value into (a) the amount representing the credit loss and (b) the amount related to other factors. The amount of total decline in fair value related to the credit loss shall be recognized in earnings as an OTTI with the amount related to other factors recognized in accumulated other comprehensive loss net loss, net of tax. OTTI credit losses result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of the loss realization. During 2012, 2011 and 2010, we recorded impairment write-downs of approximately $3.0 million, $4.4 million and $21.2 million, respectively after determining that certain of our investments were OTTI.

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

Business Combinations - We account for business combinations under the acquisition method of accounting, which requires us to record assets acquired, liabilities assumed and any non-controlling interest in the acquiree at their respective fair values as of the acquisition date in our consolidated financial statements. We record contingent consideration at fair value based on the terms of the purchase agreement with subsequent changes in fair value recorded through earnings. The determination of fair value may require management to make significant estimates and assumptions. The purchase price is the fair value of the total consideration conveyed to the seller and we record the excess of the purchase price over the fair value of the acquired net assets, where applicable, as goodwill. We assign fair values to intangible assets based on valuation techniques including the income and market approaches. We expense costs associated with the acquisition of a business in the period incurred. We include the results of operations of an acquired business in our consolidated financial statements from the date of the acquisition.

Goodwill and Intangible Assets — We account for goodwill and intangible assets in accordance with ASC 820, *Business Combinations* and ASC 350, *Intangibles — Goodwill and Other.* We record a purchase price paid that is in excess of net assets ("goodwill") arising from a business combination as an asset, and it is not amortized. We amortize intangible assets with a finite life over the estimated useful life of the asset. We do not amortize intangible assets with an indefinite useful life. We test goodwill and intangible assets for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statement of operations.

Income Taxes — We join our domestic subsidiaries and certain non-domestic subdivisions in the filing of a consolidated federal income tax return and are party to federal income tax allocation agreements. Under the tax allocation agreements, we pay to or receive from our subsidiaries the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return.

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

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

Results of Operations

Consolidated Results of Operations

	Year End December 31, 2012	2011	2010
	(Amounts in Thousands)		
Gross written premium	$ 2,749,326	$ 2,150,472	$ 1,560,822
Net written premium	$ 1,648,037	$ 1,276,597	$ 827,226
Change in unearned premium	(229,185)	(239,736)	(81,567)
Net earned premium	1,418,852	1,036,861	745,659
Ceding commission – primarily related party	196,982	153,953	138,261
Service and fee income (related parties – $29,041, $16,700, $12,322)	172,174	108,660	62,067
Net investment income	68,167	55,515	50,517
Net realized gain on investments	8,981	2,768	5,953
Total revenue	1,865,156	1,357,757	1,002,457
Loss and loss adjustment expense	922,675	678,333	471,481
Acquisition costs and other underwriting expenses	543,713	398,404	302,809
Other	161,320	86,611	56,403
Total expenses	1,627,708	1,163,348	830,693
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	237,448	194,409	171,764
Other income (expense):			
Interest expense	(28,508)	(16,079)	(12,902)
Net gain on investment in life settlement contracts	13,822	46,892	11,855
Foreign currency (loss) gain	(242)	(2,418)	684
Acquisition gain on purchase	—	5,850	—
Total other income (expense)	(14,928)	34,245	(363)
Income before income taxes and equity in earnings of unconsolidated subsidiaries	222,520	228,654	171,401
Provision for income taxes	46,955	42,372	47,053
Income before equity in earnings of unconsolidated subsidiaries and minority interest	175,565	186,282	124,348
Equity in earnings of unconsolidated subsidiaries – related parties	9,295	4,882	23,226
Net income	184,860	191,164	147,574
Non-controlling interest	(6,873)	(20,730)	(5,109)
Net income attributable to AmTrust Financial Services, Inc.	$ 177,987	$ 170,434	$ 142,465
Net realized gain on investments:			
Total other-than-temporary impairment losses	$ (2,965)	$ (4,411)	$ (21,196)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(2,965)	(4,411)	(21,196)
Other net realized gain on investments	11,946	7,179	27,149
Net realized investment gain	$ 8,981	$ 2,768	$ 5,953

Consolidated Results of Operations 2012 Compared to 2011

Gross Written Premium. Gross written premium increased $598.9 million, or 27.8%, to $2,749.3 million from $2,150.4 million for the years ended December 31, 2012 and 2011, respectively. The increase of $598.9 million was primarily attributable to growth in our Small Commercial Business and Specialty Program segments. The increase in Small Commercial Business resulted primarily from increases in workers' compensation policy counts, the acquisitions of Majestic in July 2011 and BTIS in December 2011 and rate increases in some of our key states. The increase in Specialty Program resulted primarily from programs developed from new underwriting teams hired in 2010 and 2011.

Net Written Premium. Net written premium increased $371.4 million, or 29.1%, to $1,648.0 million from $1,276.6 million for the years ended December 31, 2012 and 2011, respectively. The increase by segment was: Small Commercial Business — $118.7 million; Specialty Risk and Extended Warranty — $9.0 million; Specialty Program — $228.3 million; and Personal Lines — $15.4 million. Net written premium increased for the year ended December 31, 2012 compared to the same period in 2011 due to the increase in gross written premium in 2012 compared to 2011 and was partially offset by higher retention of premiums written on programs in our Specialty Program segment that are not covered by the Maiden Quota Share.

Net Earned Premium. Net earned premium increased $382.0 million, or 36.8%, to $1,418.9 million from $1,036.9 million for the years ended December 31, 2012 and 2011, respectively. The increase by segment was: Small Commercial Business — $96.3 million; Specialty Risk and Extended Warranty — $94.8 million; Specialty Program — $177.2 million; and Personal Lines — $13.7 million. The increase to Specialty Risk and Extended Warranty related to our change of reinsurers on April 1, 2011 for our European medical liability business, which resulted in an increase in our retention rate of net written premium on this business from 20% to 60% and the assumption of all remaining unearned premium on this business from the prior reinsurer on a cut off basis.

Ceding Commission. Ceding commission represents commission earned primarily through the Maiden Quota Share, whereby AmTrust receives a ceding commission between 30% and 31%, depending on the mix of business ceded, for all business except retail commercial package business, and 34.375% for retail commercial package business, for written premiums ceded to Maiden. The ceding commission earned during the years ended December 31, 2012 and 2011 was $197.0 million and $154.0 million, respectively. Ceding commission increased period over period as a result of increased premium writings. Additionally, effective April 1, 2011, we entered into a 40% quota share reinsurance agreement with Maiden covering our European medical liability business for which we receive a five percent ceding commission. Prior to April 1, 2011, we ceded this business to another reinsurer.

Service and Fee Income. Service and fee income increased $63.5 million, or 58.5%, to $172.2 million from $108.7 million for the years ended December 31, 2012 and 2011, respectively. The increase related to additional fee income of approximately $16.1 million and $9.9 million produced from the acquisitions of BTIS and CNH, respectively, higher technology fee income from ACAC of approximately $10.4 million, higher fee income of approximately $7.7 million from Warrantech from new programs and fees generated by becoming a servicing carrier for workers' compensation assigned risk plans in three additional states.

Net Investment Income. Net investment income increased $12.7 million, or 22.9%, to $68.2 million from $55.5 million for the years ended December 31, 2012 and 2011, respectively. The increase resulted primarily from having a higher average balance of fixed security investment securities during 2012 of $2.1 billion compared to $1.4 billion during 2011.

Net Realized Gains (Losses) on Investments. We had net realized gains on investments of $9.0 million and $2.8 million for the years ended December 31, 2012 and 2011, respectively. The increase in 2012 resulted from our decision to sell more positions in 2012 than in 2011 as a result of the increase in market values of our equity securities in 2012.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $244.4 million, or 36.0%, to $922.7 million for the year ended December 31, 2012 from $678.3 million for the year ended December 31, 2011. Our loss ratio for the years ended December 31, 2012 and 2011 was 65.0% and 65.4%, respectively. The decrease in the loss ratio in 2012 resulted from lower current year accident selected ultimate losses as compared to selected ultimate losses from the prior accident year.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $145.3 million, or 36.5%, to $543.7 million for the year ended December 31, 2012 from $398.4 million for the year ended December 31, 2011. The expense ratio increased to 24.4% in 2012 from 23.6% in 2011, and was driven by the Specialty Risk and Extended Warranty segment and Specialty Program segment. The increase in policy acquisition costs was the largest contributor to the increase in the expense ratio during the year ended December 31, 2012, which was the result of a change in business mix as well as the adoption of the new accounting standard for deferred acquisition costs during the first quarter of 2012.

Other. Other expenses increased $74.7 million, or 86.3%, to $161.3 million for the year ended December 31, 2012 from $86.6 million for the year ended December 31, 2011. The increase resulted primarily from the inclusion of BTIS's and CNH's operating costs for all of 2012 and six months of 2012, respectively.

Income Before Other Income (Expense), Income Taxes and Equity in Earnings of Unconsolidated Subsidiaries. Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries increased $43.0 million, or 22.1%, to $237.4 million from $194.4 million for the years ended December 31, 2012 and 2011, respectively. The change in income from 2012 from 2011 resulted primarily from the increase in underwriting income of $35.4 million and realized gains.

Interest Expense. Interest expense for the years ended December 31, 2012 and 2011 was $28.5 million and $16.1 million, respectively. The increase was primarily related to the issuance of an aggregate of $200 million of 5.50% convertible senior notes during December 2011 and January 2012.

Net Gain on Investment in Life Settlement Contracts. Gain on investment in life settlement contracts was $13.8 million compared to $46.9 million for the years ended December 31, 2012 and 2011. The gain in the year ended December 31, 2011 was generated by the purchase of a large pool of distressed life settlement contracts in 2011 and the conversion of premium finance loans acquired in 2010 into life settlement contracts in 2011. During the year ended December 31, 2012, we purchased or converted fewer contracts.

Provision for Income Tax. Income tax expense for the year ended December 31, 2012 was $47.0 million, which resulted in an effective tax rate of 21.1%. Income tax expense for the year ended December 31, 2011 was $42.4 million, which resulted in an effective tax rate of 18.5%. The increase in our effective rate for the year ended December 31, 2012 resulted primarily from earning a higher percentage of pretax income in countries with higher effective rates.

Equity in Earnings of Unconsolidated Subsidiaries — Related Parties. Equity in earnings of unconsolidated subsidiaries — related party increased by $4.4 million for the year ended December 31, 2012 to $9.3 million compared to $4.9 million for the year ended December 31, 2011. The majority of the increase period over period resulted from a negative purchase price adjustment of $3.6 million in 2011 related to ACAC's 2010 acquisition of GMACI's consumer property and casualty business.

Consolidated Results of Operations 2011 Compared to 2010

Gross Written Premium. Gross written premium increased $589.5 million, or 37.8%, to $2,150.4 million from $1,560.9 million for the years ended December 31, 2011 and 2010, respectively. The increase of $589.5 million was attributable to growth across all segments. Gross written premium increased in our Small Commercial Business segment by $143.8 million, resulting primarily from increases in policy counts, new product offerings and the Majestic acquisition. The increase in Specialty Risk and Extended Warranty business of $308.0 million resulted primarily from growth in new programs in the U.S. and Europe, as well as our European medical liability business. The increase in our Specialty Program segment of $117.4 million resulted largely from new program additions. We also benefited from participating in the Personal Lines Quota share with the GMACI Insurers for all of 2011 compared to ten months in 2010, which resulted in an additional $20.3 million of assumed gross written premium.

Net Written Premium. Net written premium increased $449.4 million, or 54.3%, to $1,276.6 million from $827.2 million for the years ended December 31, 2011 and 2010, respectively. The increase by segment was: Small Commercial Business — $112.6 million; Specialty Risk and Extended Warranty — $253.5 million; Specialty Program — $63.0 million; and Personal Lines — $20.3 million. Net written premium increased for the year ended December 31, 2011 compared to the same period in 2010 due to the increase in gross written premium in 2011 compared to 2010, as well as the reduction in the percentage of our European medical liability business ceded to reinsurers from 80% to 40%, which became effective April 1, 2011.

Net Earned Premium. Net earned premium increased $291.3 million, or 39.1%, to $1,037.0 million from $745.7 million for the years ended December 31, 2011 and 2010, respectively. The increase by segment was: Small Commercial Business — $67.9 million; Specialty Risk and Extended Warranty — $143.2 million; Specialty Program — $31.1 million; and Personal Lines — $49.1 million.

Ceding Commission. Ceding commission represents commission earned primarily through the Maiden Quota Share, whereby AmTrust receives a 30% or 34.375% ceding commission, depending on the business ceded, on ceded written premiums to Maiden. The ceding commission earned during the year ended December 31, 2011 and 2010 was $154.0 million and $138.3 million, respectively. Ceding commission increased period over period as a result of increased premium writings. Additionally, effective April 1, 2011, we entered into a 40% quota share reinsurance agreement with Maiden covering our European medical liability business by which we receive a five percent ceding commission. Prior to April 1, 2011, this business was ceded to another reinsurer.

Service and Fee Income. Service and fee income increased $46.5 million, or 74.9%, to $108.7 million from $62.1 million for the years ended December 31, 2011 and 2010, respectively. The increase was attributable primarily to incremental fees of approximately $36 million generated by Warrantech, which was acquired during the third quarter of 2010 as well as an increase of approximately $4 million in fees derived by services we provide to ACAC and Maiden.

Net Investment Income. Net investment income increased $5.0 million, or 10.0%, to $55.5 million from $50.5 million for the years ended December 31, 2011 and 2010, respectively. In the year ended December 31, 2010, investment income benefited from the inclusion of $2.6 million of interest income related to a note receivable due from Warrantech before it was acquired during the third quarter of 2010. Absent this item, investment income increased $7.6 million as a result of a higher amount of invested assets period over period, which included the cash and investments acquired in the Majestic transaction.

Net Realized Gains (Losses) on Investments. Net realized gains on investments were $2.8 million, compared to net realized gains of $5.9 million for the years ended December 31, 2011 and 2010, respectively. The decrease in realized gains of investments related to lower trading activity of equity securities in 2011 as we have deemphasized equity investments in our overall investment portfolio. The net realized gains were inclusive of non-cash impairment writedowns of $4.4 million and $21.2 million in 2011 and 2010, respectively.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $206.8 million, or 43.8%, to $678.3 million for the year ended December 31, 2011 from $471.5 million for the year ended December 31, 2010. Our loss ratio for the years ended December 31, 2011 and 2010 was 65.4% and 63.2%, respectively. The increase in the loss ratio in 2011 resulted from higher current year accident selected ultimate losses as compared to selected ultimate losses from the prior year.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $95.6 million, or 31.6%, to $398.4 million for the year ended December 31, 2011 from $302.8 million for the year ended December 31, 2010. Our expense ratio increased to 23.6% in 2011 from 22.1% in 2010 and resulted from a reduction in the percentage of Maiden ceding commission earned in 2011 which was 27.5% compared to 31.3% in 2010.

Other. Other expenses increased $30.2 million, or 53.5%, to $86.6 million for the year ended December 31, 2011 from $56.4 million for the year ended December 31, 2010. The increase was the result, primarily, of the inclusion of Warrantech's results for all of 2011 compared to five months in 2010.

Income Before Other Income (Expense), Income Taxes and Equity in Earnings of Unconsolidated Subsidiaries. Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries increased $22.6 million, or 13.1%, to $194.4 million from $171.8 million for the years ended December 31, 2011 and 2010, respectively. The increase from 2010 to 2011 resulted primarily from higher net earned premium and increased service and fee income offset, partially, by higher loss and loss adjustment expenses and other insurance general and administrative expense.

Interest Expense. Interest expense for the years ended December 31, 2011 and 2010 was $16.1 million and $12.9 million, respectively. The increase in interest expense was primarily attributable to higher average outstanding debt balances in 2011 compared to 2010. The increase in average debt balances for 2011 relate to our revolving credit facility we entered into during January 2011, which replaced our now terminated $40 million term loan, a secured loan agreement we entered into in February 2011 and the reduction of the principal amount of our $30 million promissory note.

Acquisition Gain on Purchase. We recorded a gain of $5.9 million in 2011 related to the acquisition of Majestic's workers' compensation renewal rights acquisition and loss portfolio transfer in 2011.

Net Gain on Investment in Life Settlement Contracts. Gain on investment in life settlement contracts increased $35.0 million, or 294%, to $46.9 million from $11.9 million for the years ended December 31, 2011 and 2010, respectively, and primarily resulted from the gain realized upon a mortality event in 2011 and the acquisition of a higher number of life settlement contracts that were purchased by or surrendered to us in satisfaction of premium finance loans during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

*Provision for Income Tax. I*ncome tax expense for the year ended December 31, 2011 was $42.4 million, which resulted in an effective tax rate of 18.5%. Income tax expense for the year ended December 31, 2010 was $47.1 million, which resulted in an effective tax rate of 27.5%. The decrease in our effective rate resulted primarily from increases in tax exempt interest and foreign source income not subject to tax for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Equity in Earnings of Unconsolidated Subsidiaries — Related Parties. Equity in earnings of unconsolidated subsidiaries — related parties decreased by $18.3 million for the year ended December 31, 2011 to $4.9 million. The majority of the decrease related to the initial acquisition gain on ACAC of $10.4 million we recognized during the year ended December 31, 2010 that was adjusted downward during the year ended December 31, 2011 by $3.6 million. Absent this adjustment for purchase price accounting, earnings related to ACAC decreased to $8.5 million in 2011 from $10.1 million in 2010 and resulted primarily from higher loss ratios on the GMACI Business.

Small Commercial Business Segment — Results of Operations

	Year End December 31, 2012	2011	2010
	(Amounts in Thousands)		
Gross written premium	$ 933,740	$ 609,822	$ 465,951
Net written premium	$ 474,381	$ 355,721	$ 243,146
Change in unearned premium	(57,816)	(35,455)	9,296
Net earned premium	416,565	320,266	252,442
Ceding commission revenue – primarily related party	69,896	62,093	66,282
Loss and loss adjustment expense	(270,843)	(201,921)	(154,442)
Acquisition costs and other underwriting expenses	(180,791)	(148,041)	(128,142)
	(451,634)	(349,962)	(282,584)
Underwriting income	$ 34,827	$ 32,397	$ 36,140
Key Measures:			
Net loss ratio	65.0%	63.0%	61.2%
Net expense ratio	26.6%	26.8%	24.5%
Net combined ratio	91.6%	89.9%	85.7%
Reconciliation of net expense ratio:			
Acquisition costs and other underwriting expenses	$ 180,791	$ 148,041	$ 128,142
Less: Ceding commission revenue – primarily related party	69,896	62,093	66,282
	$ 110,895	$ 85,948	$ 61,860
Net earned premium	$ 416,565	$ 320,266	$ 252,442
Net expense ratio	26.6%	26.8%	24.5%

Small Commercial Business Segment Results of Operations 2012 Compared to 2011

Gross Written Premium. Gross written premium increased $323.9 million, or 53.1%, to $933.7 million for the year ended December 31, 2012 from $609.8 million for the year ended December 31, 2011. The increase related primarily to an approximately 10.5 percent increase in policy issuance and rate increases in certain key states. In addition, approximately $104 million resulted from organic growth from Majestic, which was acquired in the third quarter of 2011. Approximately $70 million resulted from the acquisition of BTIS.

Net Written Premium. Net written premium increased $118.7 million, or 33.4%, to $474.4 million from $355.7 million for the years ended December 31, 2012 and 2011, respectively. The increase in net premium resulted from an increase in gross written premium for the year ended December 31, 2012 compared to the year ended December 31, 2011, partially offset by both an increase in our assigned risk business in 2012, for which we cede 100 percent of our gross written business, as well as an unearned premium transfer in 2011 related to Majestic acquisition.

Net Earned Premium. Net earned premium increased $96.3 million, or 30.1%, to $416.6 million for the year ended December 31, 2012 from $320.3 million for the year ended December 31, 2011. As premiums written earn ratably over an annual period, the increase in net premium earned resulted from higher net written premium for the year ended December 31, 2012 compared to the year ended December 31, 2011.

Ceding Commission. The ceding commission earned during the years ended December 31, 2012 and 2011 was $69.9 million and $62.1 million, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, which was offset by a decrease in the allocation of ceding commission to this segment. The decrease in the allocation of ceding commission to this segment resulted from the decrease in the segment's proportionate share of our overall policy acquisition expense.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $68.9 million, or 34.1%, to $270.8 million for the year ended December 31, 2012 from $201.9 million for the year ended December 31, 2011. Our loss ratio for the segment for the year ended December 31, 2012 increased to 65.0% from 63.0% for the year ended December 31, 2011. The increase in the loss ratio in the year ended December 31, 2012 resulted primarily from higher current accident year selected ultimate losses based on business mix by state as compared to selected ultimate losses in prior accident years.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $32.8 million, or 22.2%, to $180.8 million for the year ended December 31, 2012 from $148.0 million for the year ended December 31, 2011. The expense ratio decreased to 26.6% for the year ended December 31, 2012 compared to 26.8% for the year ended December 31, 2011. The decrease in the expense ratio resulted primarily from changes in business mix in 2012, partially offset by the adoption of the new accounting standard for deferred acquisition costs in 2012 on a prospective basis.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio increased to $34.8 million for the year ended December 31, 2012 compared to $32.4 million for the year ended December 31, 2011. This increase resulted primarily from higher ceding commission earned in 2012 compared to 2011, partially offset by higher loss and loss adjustment expenses during the year ended December 31, 2012 as compared to the year ended December 31, 2011.

Small Commercial Business Segment Results of Operations 2011 Compared to 2010

Gross Written Premium. Gross written premium increased $143.8 million, or 30.9%, to $609.8 million for the year ended December 31, 2011 from $466.0 million for the year ended December 31, 2010. The increase resulted primarily from new business associated with additional product offerings, workers' compensation rate increases in New York and Florida, higher overall policy counts and an increase in California workers' compensation production of approximately $43 million, as well as $26 million from the assumption of unearned premium in connection with the Majestic acquisition.

Net Written Premium. Net written premium increased $112.6 million, or 46.3%, to $355.7 million from $243.1 million for the years ended December 31, 2011 and 2010, respectively. The increase in net premium resulted from an increase in gross written premium for the year ended December 31, 2011 compared to the year ended December 31, 2010, as well as the assumption of $26 million of unearned premium from Majestic.

Net Earned Premium. Net earned premium increased $67.9 million, or 26.9%, to $320.3 million for the year ended December 31, 2011 from $252.4 million for the year ended December 31, 2010. As premiums written earn ratably over a twelve month period, the increase in net premium earned resulted from higher net premium written for the twelve months ended December 31, 2011 compared to the twelve months ended December 31, 2010, as well as the assumption of $26 million of unearned premium from Majestic in the second quarter of 2011, for which we earned approximately $24.4 million during 2011.

Ceding Commission. The ceding commission earned during the years ended December 31, 2011 and 2010 was $62.1 million and $66.3 million, respectively. The decrease related to a decline in the allocation to this segment of its proportionate share of our overall policy acquisition expense in 2011, which achieved proportionally less growth than our other segments in 2011, and from a reduction in the Maiden ceding commission percentage resulting from our amended quota share agreement, which became effective April 1, 2011.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $47.5 million, or 30.7%, to $201.9 million for the year ended December 31, 2011 from $154.4 million for the year ended December 31, 2010. Our loss ratio for the segment for the year ended December 31, 2011 increased to 63.0% from 61.2% for the year ended December 31, 2010. The increase in the loss ratio in the year ended December 31, 2011 resulted primarily from higher current accident year selected ultimate losses as compared to selected ultimate losses in prior accident years.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $19.9 million, or 15.5%, to $148.0 million for the year ended December 31, 2011 from $128.1 million for the year ended December 31, 2010. The expense ratio increased to 26.8% for the year ended December 31, 2011 compared to 24.5% for the year ended December 21, 2010. The increase in the expense ratio resulted primarily from a lower allocation of Maiden ceding commission to the segment during the year ended December 31, 2011 compared to the same period in 2010 and an increase in premium for this segment, resulting in a higher allocation of expenses to this segment.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio decreased to $32.4 million for the year ended December 31, 2011 compared to $36.1 million for the year ended December 31, 2010. This decrease resulted primarily from higher loss and loss adjustment expenses during the year ended December 31, 2011 as compared to the year ended December 31, 2010, as well as lower ceding commission earned in 2011 compared to 2010.

Specialty Risk and Extended Warranty Segment — Results of Operations

	Year End December 31,		
	2012	2011	2010
	(Amounts in Thousands)		
Gross written premium	$ 1,118,710	$ 1,056,511	$ 748,525
Net written premium	$ 624,555	$ 615,563	$ 362,100
Change in unearned premium	(82,982)	(168,798)	(58,517)
Net earned premium	541,573	446,765	303,583
Ceding commission revenue – primarily related party	65,056	57,648	48,015
Loss and loss adjustment expense	(341,196)	(297,501)	(191,149)
Acquisition costs and other underwriting expenses	(168,273)	(137,442)	(98,547)
	(509,469)	(434,943)	(289,696)
Underwriting income	$ 97,160	$ 69,470	$ 61,902
Key measures:			
Net loss ratio	63.0%	66.6%	63.0%
Net expense ratio	19.1%	17.9%	16.6%
Net combined ratio	82.1%	84.5%	79.6%
Reconciliation of net expense ratio:			
Acquisition costs and other underwriting expenses	$ 168,273	$ 137,442	$ 98,547
Less: Ceding commission revenue – primarily related party	65,056	57,648	48,015
	$ 103,217	$ 79,794	$ 50,532
Net earned premium	$ 541,573	$ 446,765	$ 303,583
Net expense ratio	19.1%	17.9%	16.6%

Specialty Risk and Extended Warranty Segment Results of Operations 2012 Compared to 2011

Gross Written Premium. Gross written premium increased $62.2 million, or 5.9%, to $1,118.7 million for the year ended December 31, 2012 from $1,056.5 million for the year ended December 31, 2011. The segment experienced growth in Europe, while U.S. business was primarily flat. The growth in Europe was partially offset by fluctuations in currency rates, particularly the Euro, which resulted in an approximately three percent decrease in our European gross written premium.

Net Written Premium. Net written premium increased $9.0 million, or 1.5%, to $624.6 million from $615.6 million for the years ended December 31, 2012 and 2011, respectively. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2012 compared to the year ended December 31, 2011, partially offset by a lower retention of gross written premium during 2012 compared to 2011.

Net Earned Premium. Net earned premium increased $94.8 million, or 21.2%, to $541.6 million for the year ended December 31, 2012 from $446.8 million for the year ended December 31, 2011. As net written premium is earned ratably over the term of a policy, which on average is 24 months, the increase resulted from growth in net written premium in 2011 and 2012. Additionally, on April 1, 2011, we changed reinsurers for our European medical liability business, which resulted in an increase in our retention rate of net written premium on this business from 20% to 60% and the assumption of all remaining unearned premium on this business from the prior reinsurer on a cut off basis.

Ceding Commission. The ceding commission earned during the years ended December 31, 2012 and 2011 was $65.1 million and $57.6 million, respectively. The increase related to the allocation to this segment of its proportionate share of our overall policy acquisition expense. Additionally, during 2012, we received a five percent ceding commission in connection with a 40% quota share arrangement with Maiden covering our European medical liability business. During the first three months of 2011, we ceded this business to another reinsurer and did not receive a ceding commission.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expense increased $43.7 million, or 14.7%, to $341.2 million for the year ended December 31, 2012 from $297.5 million for the year ended December 31, 2011. Our loss ratio for the segment for the year ended December 31, 2012 decreased to 63.0% from 66.6% for the year ended December 31, 2011. The decrease in the loss ratio for the year ended December 31, 2012 resulted primarily from lower current accident year selected ultimate losses as compared to selected ultimate losses in prior accident years and a change in business mix.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $30.9 million, or 22.4%, to $168.3 million for the year ended December 31, 2012 from $137.4 million for the year ended December 31, 2011. The expense ratio increased to 19.1% for the year ended December 31, 2012 compared to 17.9% for the year ended December 31, 2011. The increase in the expense ratio resulted primarily from changes in business mix and the adoption of the new accounting standard for deferred acquisition costs in 2012 on a prospective basis.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio increased to $97.2 million for the year ended December 31, 2012 compared to $69.5 million for the year ended December 31, 2011. The increase was attributable primarily to an improvement in the segment's loss ratio during the year ended December 31, 2012 compared to the year ended December 31, 2011, partially, offset by an increase in the segment's expense ratio.

Specialty Risk and Extended Warranty Segment Results of Operations 2011 Compared to 2010

Gross Written Premium. Gross written premium increased $308 million, or 41.1%, to $1,056.5 million for the year ended December 31, 2011 from $749 million for the year ended December 31, 2010. A majority of the increase related to growth in new and existing programs in our European business from warranty coverage of approximately $73 million, medical liability of approximately $61 million, general liability of approximately $19 million and professional liability of approximately $16 million. Additionally, the segment benefited from the underwriting of new programs in the U.S., and the assumption of unearned premium of $19 million from a new customer.

Net Written Premium. Net written premium increased $253.5 million, or 70.0%, to $615.6 million from $362.1 million for the years ended December 31, 2011 and 2010, respectively. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2011 compared to gross written premium for the year ended December 31, 2010, as well as the reduction in the percentage of our European medical liability business ceded to reinsurers from 80% to 40% commencing in the second quarter of 2011.

Net Earned Premium. Net earned premium increased $143.2 million, or 47.2%, to $446.8 million for the year ended December 31, 2011 from $303.6 million for the year ended December 31, 2010. As net premiums written are earned ratably over the term of a policy, which on average is 23 months, the increase resulted from growth in net written premium between 2010 and 2011. In addition, net earned premium increased as a result of our new reinsurance program for our European medical liability business.

Ceding Commission. The ceding commission earned during the years ended December 31, 2011 and 2010 was $57.6 million and $48.0 million, respectively. The increase related to the allocation to this segment of its proportionate share of our overall policy acquisition expense, which achieved proportionally more growth than certain other segments in 2011. Additionally, beginning on April 1, 2011, we entered into a 40% quota share reinsurance agreement with Maiden covering our European medical liability business by which we receive a five percent ceding commission. Prior to April 1, 2011, this business was ceded to another reinsurer.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expense increased $106.4 million, or 55.7%, to $297.5 million for the year ended December 31, 2011 from $191.1 million for the year ended December 31, 2010. Our loss ratio for the segment for the year ended December 31, 2011 increased to 66.6% from 63.0% for the year ended December 31, 2010. The increase in the loss ratio in 2011 resulted primarily from higher current accident year selected ultimate losses as compared to selected ultimate losses in prior accident years, as well as a shift of business mix within the segment.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $38.9 million, or 39.5%, to $137.4 million for the year ended December 31, 2011 from $98.5 million for the year ended December 31, 2010. The expense ratio increased to 17.9% for the year ended December 31, 2011 compared to 16.6% for the year ended December 31, 2010. The increase in the expense ratio resulted primarily from the allocation of a smaller percentage of Maiden ceding commission to the segment during year ended December 31, 2011 compared to the same period in 2010 and an increase in premium for this segment, resulting in a higher allocation of expenses to this segment.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio increased to $69.5 million for the year ended December 31, 2011 compared to $61.9 million for the year ended December 31, 2010. The increase was attributable primarily to higher earned premium that was partially offset by higher loss and loss adjustment expense.

Specialty Program Segment — Results of Operations

	Year End December 31,		
	2012	2011	2010
	(Amounts in Thousands)		
Gross written premium	$ 578,735	$ 381,541	$ 264,051
Net written premium	$ 430,960	$ 202,715	$ 139,685
Change in unearned premium	(82,392)	(31,340)	568
Net earned premium	348,568	171,375	140,253
Ceding commission revenue – primarily related party	62,030	34,212	23,964
Loss and loss adjustment expense	(238,302)	(114,685)	(94,261)
Acquisition costs and other underwriting expenses	(160,445)	(81,568)	(60,071)
	(398,747)	(196,253)	(154,332)
Underwriting income	$ 11,851	$ 9,334	$ 9,885
Key measures:			
Net loss ratio	68.4%	66.9%	67.2%
Net expense ratio	28.2%	27.6%	25.7%
Net combined ratio	96.6%	94.6%	93.0%
Reconciliation of net expense ratio:			
Acquisition costs and other underwriting expenses	$ 160,445	$ 81,568	$ 60,071
Less: Ceding commission revenue – primarily related party	62,030	34,212	23,964
	$ 98,415	$ 47,356	$ 36,107
Net earned premium	$ 348,568	$ 171,375	$ 140,253
Net expense ratio	28.2%	27.6%	25.7%

Specialty Program Segment Results of Operations 2012 Compared to 2011

Gross Written Premium. Gross written premium increased $197.2 million, or 51.7%, to $578.7 million for the year ended December 31, 2012 from $381.5 million for the year ended December 31, 2011. A majority of the increase in gross written premium related to incremental growth of existing programs, particularly in commercial package policy programs. Additionally, the segment benefited from new program offerings. The overall increase was partially offset by the curtailment or termination of certain programs as a result of our continued maintenance of our pricing and administrative discipline.

Net Written Premium. Net written premium increased $228.3 million, or 112.6%, to $431.0 million for the year ended December 31, 2012 from $202.7 million for the year ended December 31, 2011. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2012 compared to the year ended December 31, 2011 as well as a reduction in the percentage of gross written premium ceded to reinsurers for programs that are not covered by in the Maiden Quota Share.

Net Earned Premium. Net earned premium increased $177.2 million, or 103.4%, to $348.6 million for the year ended December 31, 2012 from $171.4 million for the year ended December 31, 2011. As premiums written earn ratably over an annual period, the increase in net premium earned resulted from higher net written premium for 2012 compared to 2011.

Ceding Commission. The ceding commission earned during the years ended December 31, 2012 and 2011 was $62.0 million and $34.2 million, respectively. The increase in ceding commission related primarily to an increase in gross written premium in this segment relative to our other segments during the year ended December 31, 2012 and a shift in the mix of the programs written during the periods. For the year ended December 31, 2012, we wrote certain programs that have a higher percentage of policy acquisition expense to earned premium than in the year ended December 31, 2011 and, therefore, we allocated more ceding commission to the segment.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $123.6 million, or 107.8%, to $238.3 million for the year ended December 31, 2012 compared to $114.7 million for the year ended December 31, 2011. Our loss ratio for the segment for the year ended December 31, 2012 increased to 68.4% from 66.9% for the year ended December 31, 2011. The increase in the loss ratio in the year ended December 31, 2012 resulted primarily from higher current accident year selected ultimate losses as compared to selected ultimate losses from prior years.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $78.8 million, or 96.6%, to $160.4 million for the year ended December 31, 2012 from $81.6 million for the year ended December 31, 2011. The expense ratio increased to 28.2% for the year ended December 31, 2012 from 27.6% for the year ended December 31, 2011. The increase in the expense ratio resulted, primarily, from higher policy acquisition expense as a percentage of earned premium for the year ended December 31, 2012 compared to the year ended December 31, 2011 as a result of changes in business mix and the adoption of the new accounting standard for deferred acquisitions costs in 2012 on a prospective basis, partially offset by salary expense that increased at a slower rate than earned premium due to leveraging of the segment's existing employee base.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio were $11.9 million and $9.3 million for the years ended December 31, 2012 and 2011, respectively. The increase of $2.6 million resulted primarily from an increase in earned premium in 2012 compared to 2011 partially offset by a higher combined ratio in 2012 compared to 2011.

Specialty Program Segment Results of Operations 2011 Compared to 2010

Gross Written Premium. Gross written premium increased $117.4 million, or 44.5%, to $381.5 million for the year ended December 31, 2011 from $264.1 million for the year ended December 31, 2010. The increase in gross written premium related primarily to an increase in new and existing programs of approximately $192 million, including commercial auto and general liability programs, excess and surplus lines programs and public entity programs. The increases were offset by declines in other programs as a result of our maintenance of our pricing and administrative discipline, which resulted in the termination of certain programs representing approximately $73 million, of which three programs represented approximately 81% of this decrease. Additionally, we experienced a decrease of approximately $1.6 million in business we wrote on behalf of HSBC Insurance Company of Delaware pursuant to a 100% fronting arrangement we entered into in connection with our acquisition of WIC, which is now in run-off.

Net Written Premium. Net written premium increased $63.0 million, or 45.1%, to $202.7 million for the year ended December 31, 2011 from $139.7 million for the year ended December 31, 2010. The increase in net written premium resulted from an increase of gross written premium for the year ended December 31, 2011 compared to gross written premium for the year ended December 31, 2010.

Net Earned Premium. Net earned premium increased $31.1 million, or 22.2%, to $171.4 million for the year ended December 31, 2011 from $140.3 million for the year ended December 31, 2010. The segment experienced a majority of the net written premium increase in the second half of 2011. As a result, the increase in net earned premium was not in proportion to the increase in gross written premiums. As premiums earn ratably primarily over a twelve month period, the increase in net premium earned resulted from higher net premium written for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Ceding Commission. The ceding commission earned during the years ended December 31, 2011 and 2010 was $34.2 million and $24.0 million, respectively. The increase related primarily to an increase in earned premium and a shift in the mix of the programs written during the periods. The policy acquisition costs for certain programs that we wrote in 2011 are greater relative to earned premiums from programs that were in place in 2010. Therefore, we allocated more ceding commission to the segment. In addition, this segment achieved proportionally more growth as compared to certain other segments.

Loss and Loss Adjustment Expenses; Loss Ratio. Loss and loss adjustment expenses increased $20.4 million, or 21.7%, to $114.7 million for the year ended December 31, 2011 compared to $94.3 million for the year ended December 31, 2010. The loss ratio for the segment was consistent year over year and was 66.9% compared to 67.2% for the years ended December 31, 2011 and 2010, respectively. Current accident year selected ultimate losses were similar to selected ultimate losses from the prior accident years, resulting in a flat loss ratio for the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Acquisition Costs and Other Underwriting Expenses; Expense Ratio. Acquisition costs and other underwriting expenses increased $21.5 million, or 35.8%, to $81.6 million for the year ended December 31, 2011 from $60.1 million for the year ended December 31, 2010. The expense ratio increased to 27.6% for the year ended December 31, 2011 from 25.7% for the year ended December 31, 2010. The increase in the expense ratio was attributable to the allocation to this segment of a higher proportion of our unallocated expenses as a result of the increase in premium compared to the year ended December 31, 2010, but was partially offset by a decline in acquisition costs resulting from the assumption of certain business from an arrangement we fronted in 2010.

Net Earned Premium Less Expenses Included in Combined Ratio (Underwriting Income). Net earned premium less expenses included in combined ratio were $9.3 million and $9.9 million for the years ended December 31, 2011 and 2010, respectively. The majority of the decrease of $0.6 million resulted from an increase in the expense ratio.

Personal Lines Reinsurance Segment — Results of Operations

	Year End December 31,		
	2012	2011	2010
	(Amounts in Thousands)		
Gross written premium	$ 118,141	$ 102,598	$ 82,295
Net written premium	118,141	102,598	82,295
Change in unearned premium	(5,995)	(4,143)	(32,914)
Net earned premium	112,146	98,455	49,381
Ceding commission revenue – primarily related party	—	—	—
Loss and loss adjustment expense	(72,334)	(64,226)	(31,629)
Acquisition costs and other underwriting expenses	(34,204)	(31,353)	(16,049)
	(106,538)	(95,579)	(47,678)
Underwriting income	$ 5,608	$ 2,876	$ 1,703
Key measures:			
Net loss ratio	64.5%	65.2%	64.1%
Net expense ratio	30.5%	31.8%	32.5%
Net combined ratio	95.0%	97.1%	96.6%

Personal Lines Reinsurance Segment Results of Operations 2012 Compared to 2011

We assumed $118.1 million and $102.6 million of premium from the GMACI Insurers for the years ended December 31, 2012 and 2011, respectively. The increase in assumed premium in 2012 is due to increased premium writing by the GMACI Insurers. Net earned premium increased 13.9% in 2012 compared to 2011 due to the earning cycle of assumed premium written in 2011. Loss and loss adjustment expense increased 12.6% in 2012 compared to 2011 and increased proportionally with net earned premium. The decrease in the net loss ratio in 2012 from 2011 resulted primarily from lower actuarial estimates based on actual losses. The decrease in the net expense ratio in 2012 compared to 2011 resulted from the sliding scale commission structure with GMACI.

Personal Lines Reinsurance Segment Results of Operations 2011 Compared to 2010

We began assuming commercial auto business from the GMACI Insurers effective March 1, 2010 pursuant to the Personal Lines Quota Share. We assumed $102.6 million and $82.3 million of premium from the GMACI Insurers for the years ended December 31, 2011 and 2010, respectively. The increase in 2011 related primarily to assuming business for twelve months in 2011 compared to ten months in 2010. Net earned premium increased in 2011 compared to 2010 due to the earning cycle of assumed premium written in 2010 and earned in 2011. Loss and loss adjustment expense increased 103.1% in 2011 compared to 2010 and increased proportionally with net earned premium. The increase in the net loss ratio in 2011 from 2010 resulted primarily from higher actuarial estimates based on actual losses. The decrease in the net expense ratio in 2011 compared to 2010 resulted from the sliding scale commission structure, by which the ceding commission payable to GMACI decreases as the loss ratio increases.

Investment Portfolio

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

Our investment portfolio, including cash and cash equivalents but excluding life settlement contracts and other investments, increased $600.7 million, or 30.2%, to $2,589.1 million at December 31, 2012 from $1,988.4 million as of December 31, 2011. Our investment portfolio is classified as available-for-sale, as defined by ASC 320, *Investments — Debt and Equity Securities*. This increase is attributable to cash flow from operations in 2012 and the cash proceeds we received upon issuance of the overallotment of our convertible senior notes in January 2012. Our fixed maturity securities, gross, as of December 31, 2012, had a fair value of $2,065.2 million and an amortized cost of $1,947.6 million. Our equity securities are reported at fair value and were $20.5 million with a cost of $20.9 million as of December 31, 2012. Securities sold but not yet purchased represent our obligations to deliver the specified security at the contracted price and thereby create a liability to purchase the security in the market at prevailing rates. We account for sales of securities under repurchase agreements as collateralized borrowing transactions and we record these sales at their contracted amounts.

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

	December 31, 2012		December 31, 2011	
	Carrying Value	Percentage of Portfolio	Carrying Value	Percentage of Portfolio
	(Amounts in Thousands)			
Cash, cash equivalents and restricted cash	$ 493,132	19.0%	$ 429,951	21.6%
Time and short-term deposits	10,282	0.4	128,565	6.5
U.S. treasury securities	66,192	2.6	53,274	2.7
U.S. government agencies	40,301	1.6	6,790	0.3
Municipals	299,442	11.6	275,017	13.8
Commercial mortgage back securities	10,200	0.4	150	—
Residential mortgage back securities:				
Agency backed	292,614	11.3	364,000	18.3
Non-agency backed	7,063	0.2	7,664	0.4
Corporate bonds	1,349,414	52.1	687,348	34.6
Preferred stocks	5,184	0.2	4,314	0.2
Common stocks	15,281	0.6	31,286	1.6
	$ 2,589,105	100.0%	$ 1,988,359	100.0%

The table below summarizes the credit quality of our fixed maturity securities as of December 31, 2012 and 2011, as rated by Standard and Poor's.

	December 31, 2012	December 31, 2011
U.S. Treasury	1.9%	3.2%
AAA	13.8	12.5
AA	31.2	39.7
A	24.4	23.0
BBB, BBB+, BBB-	27.1	20.1
BB, BB+, BB-	1.6	0.8
B, B+, B-	—	0.4
Other (includes securities rated CC, CCC, CCC- and D)	—	0.3
Total	100.0%	100.0%

The table below summarizes the average duration by type of fixed maturity as well as detailing the average yield as of December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	Average Yield%	Average Duration in Years	Average Yield%	Average Duration in Years
U.S. treasury securities	2.18%	2.4	2.31%	3.3
U.S. government agencies	4.14	3.1	4.12	2.9
Foreign government	3.37	5.6	3.98	5.6
Corporate bonds	3.95	5.1	4.38	3.7
Municipals	4.30	6.2	4.18	5.4
Mortgage and asset backed	3.41	2.2	3.68	2.6

As of December 31, 2012, the weighted average duration of our fixed income securities was 4.7 years and had a yield of 3.9%.

Other investments represented approximately 0.4% and 0.7% of our total investment portfolio as of December 31, 2012 and 2011, respectively. At December 31, 2012, other investments consisted primarily of limited partnerships or hedge funds totaling $9.8 million and an annuity of $1.4 million. At December 31, 2011, other investments consisted primarily of limited partnerships or hedge funds totaling $13.2 million and an annuity of $1.4 million.

Quarterly, our Investment Committee ("Committee") evaluates each security that has an unrealized loss as of the end of the subject reporting period for OTTI. We generally consider an investment to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion or more) for over 24 months. In addition, the Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

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

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

The impairment charges of our fixed-maturities and equity securities for the years ended December 31, 2012, 2011 and 2010 are presented in the table below:

	2012	2011	2010
		(Amounts in Thousands)	
Equity securities	$ 2,965	$ 937	$ 10,656
Fixed maturity securities	—	3,474	10,540
	$ 2,965	$ 4,411	$ 21,196

In addition to the other-than-temporary impairment of $3.0 million recorded during the year ended December 31, 2012, 2011, we had $9.1 million of gross unrealized losses, of which $1.2 million related to marketable equity securities and $7.9 million related to fixed maturity securities as of December 31, 2012.

Corporate bonds represent 65% of the fair value of our fixed maturities and 72% of the total unrealized losses of our fixed maturities. We own 529 corporate bonds in the industrial, bank and financial and other sectors, which have a fair value of approximately 20%, 43% and 2%, respectively, and 14%, 58% and 0% of total unrealized losses, respectively, of our fixed maturities. We believe that the unrealized losses in these securities are the result, primarily, of general economic conditions and not the condition of the issuers, which we believe are solvent and have the ability to meet their obligations. Therefore, we expect that the market price for these securities should recover within a reasonable time. Additionally, we do not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost basis.

Our investment in marketable equity securities consist of investments in preferred and common stock across a wide range of sectors. We evaluated the near-term prospects for recovery of fair value in relation to the severity and duration of the impairment and have determined in each case that the probability of recovery is reasonable and we have the ability and intent to hold these investments until a recovery of fair value. We believe the gross unrealized losses of $1.2 million as of December 31, 2012 is not material to our financial position.

The table below summarizes 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, 2012:

	Less than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
				(Amounts in Thousands)				
Common and preferred stock	$ 7,643	$ (1,138)	25	$ 1,978	$ (48)	1	$ 9,621	$ (1,186)
U.S. treasury securities	997	(4)	1	—	—	—	997	(4)
Municipal bonds	63,577	(752)	19	—	—	—	63,577	(752)
Corporate bonds:								
Finance	52,398	(899)	20	95,992	(3,704)	13	148,390	(4,603)
Industrial	82,066	(881)	28	9,105	(213)	4	91,171	(1,094)
Utilities	5,860	(5)	3	—	—	—	5,860	(5)
Residential mortgage backed securities:								
Agency backed	24,554	(654)	2	—	—	—	24,554	(654)
Non-agency backed	—	—	—	7,062	(763)	2	7,062	(763)
Total temporarily impaired	$ 237,095	$ (4,333)	98	$ 114,137	$ (4,728)	20	$ 351,232	$ (9,061)

There are 118 securities at December 31, 2012 that account for the gross unrealized loss, none of which we deem to be OTTI. Significant factors influencing our determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that we will be required to sell these investments before anticipated recovery of fair value to our cost basis.

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

Liquidity and Capital Resources

We are organized as a holding company with eleven insurance company subsidiaries ("Insurance Subsidiaries"), as well as various other non-insurance subsidiaries. Our primary liquidity needs include debt payments, interest on debt, taxes and shareholder dividends. Our income is generated primarily from our Insurance Subsidiaries and investment income.

We may generate liquidity through a combination of debt or equity securities issuances, as well as financing through borrowing and sales of securities. During 2012 and 2011, we issued ten-year, $200 million convertible senior notes and in 2012 entered into a four-year, $200 million credit facility that was not utilized as of December 31, 2012.

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

The laws of the jurisdictions in which our Insurance Subsidiaries are organized regulate and restrict, under certain circumstances, their ability to pay dividends to us. As of December 31, 2012 and 2011, respectively, the Insurance Subsidiaries would have been permitted to pay dividends in the aggregate of approximately $403.1 million and $306.1 million, respectively. Our Insurance Subsidiaries paid dividends to us of $7.2 million, $5.8 million and $5.0 million of in 2012, 2011 and 2010, respectively. In addition, the terms of our debt arrangements limit our ability to pay dividends on our common stock, and future borrowings may include prohibitions and restrictions on dividends. Additional information regarding our dividends is presented in "Item 1. Business — Regulation", in "Item 1A. Risk Factors" and in "Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchase of Equity Securities — Dividend Policy" appearing elsewhere in this Form 10-K.

We forecast claim payments based on our historical trends. We seek to manage the funding of claim payments by actively managing available cash and forecasting cash flows on a short-term and long-term basis. Cash payments for claims were $691.7 million, $569.9 million and $409.6 million in 2012, 2011 and 2010, respectively. Historically, we have funded claim payments from cash flow from operations (principally premiums) net of amounts ceded to our third party reinsurers. We presently expect to maintain sufficient cash flow from operations to meet our anticipated claim obligations and operating and capital expenditure needs. Our cash and investment portfolio has increased from $1.99 billion (excluding $14.6 million of other investments) at December 31, 2011 to $2.59 billion (excluding $11.1 million of other investments) at December 31, 2012. We do not anticipate selling securities in our investment portfolio to pay claims or to fund operating expenses. Should circumstances arise that would require us to do so, we may incur losses on such sales, which would adversely affect our results of operations and financial condition and could reduce investment income in future periods.

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

Comparison of Years Ended December 31, 2012 and 2011

Net cash provided by operating activities was approximately $527.6 million for the year ended December 31, 2012, compared to $294.6 million for the same period in 2011. The increase in cash provided from operations resulted primarily from an increase in gross written premium written in 2012 compared to 2011. Additionally, we had increased cash collections in 2012 related to the earning of the tail end of premium written in 2011 for Specialty Risk and Extended Warranty segment policies that generally have a longer policy life and therefore a longer cash collection cycle.

Net cash used in investing activities was $590.1 million for the year ended December 31, 2012. Net cash used in investing activities was $97.4 million for the year ended December 31, 2011. In 2012, net cash used in investing activities primarily included approximately $418 million for the net purchase of fixed and equity securities, approximately $51 million for the acquisition of and premium payments for life settlement contracts, approximately $27 million for capital expenditures and approximately $64 million for the acquisitions of First Nonprofit Company and CNH, partially offset by the net receipt of cash of approximately $15 million obtained in the acquisition of Luxembourg captives. In 2011, net cash used in investing activities primarily included approximately $44 million for the net purchase of fixed and equity securities, approximately $53 million for the acquisition of and premium payments for life settlement contracts, approximately $39 million for capital expenditures and approximately $30 million for the Cardinal Comp acquisition, and was partially offset by the net receipt of cash in the approximate amount of $44 million obtained in the acquisition of Luxembourg captives and approximately $29 million obtained as part of the loss portfolio transfer from Majestic.

Net cash provided by financing activities was $66.8 million for the year ended December 31, 2012 compared to net cash provided by in 2011 of $19.4 million. In 2012, cash provided by financing activities primarily included the receipt of $43 million from entering into repurchase agreements, $25 million from the issuance of convertible senior notes, the contribution of approximately $23 million from non-controlling interests to our subsidiaries and the issuance of promissory notes of $13 million, partially offset by dividend payments of approximately $30 million and principal payment of debt obligations of approximately $14 million. In 2011, cash provided by financing activities primarily included the receipt of $175 million from the issuance of our convertible senior notes and the contribution of approximately $25 million from non-controlling interests to our subsidiaries partially offset by the repayment on repurchase agreements in the amount of approximately $156 million, dividend payments of approximately $20 million and principal payment of debt obligations of approximately $15 million.

Other Material Changes in Financial Position

	December 31,	
	2012	2011
	(Amounts in Thousands)	
Selected Assets:		
Fixed maturities, available-for-sale	$ 2,065,226	$ 1,394,243
Premiums receivable, net	1,251,262	932,992
Prepaid expenses and other assets	421,163	288,450
Intangible assets	285,187	196,862
Selected Liabilities:		
Loss and loss expense reserves	$ 2,426,400	$ 1,879,175
Unearned premium	1,773,593	1,366,170
Ceded reinsurance premium payable	528,322	337,508
Deferred income taxes	225,484	118,396

In 2012, fixed maturities increased $671.0 million and resulted primarily from the used of cash generated from operations. Premium receivables increased $318.3 million as a result of the increase in premium writing in 2012, related primarily to growth in our Small Commercial Business and Specialty Program segments. Prepaid expenses and other assets increased $132.7 million and resulted primarily from our continued investment in life settlement contracts and an increase in miscellaneous accounts receivable due to growth in fee related businesses. Intangible assets increased $88.3 million as a result of acquiring FNC and CNH in 2012.

Loss and loss expense reserves increased $547.2 million and unearned premium increased $407.4 million in 2012 due primarily to higher premium writings in 2012 compared to 2011. Ceded reinsurance premium payable, increased by $190.8 million in 2012 as a result of ceding a higher amount of gross written premium to Maiden in 2012 compared to 2011. Deferred income taxes increased $107.1 million as a result of the acquisition of two Luxembourg captive insurance entities and the increase in deferred acquisition costs and intangible assets.

Reinsurance

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

We purchase reinsurance on a proportional basis to cover loss frequency, individual risk severity and catastrophe exposure. Some of the proportional reinsurance agreements may have maximum loss limits, most of which are at or greater than a 500% loss ratio. We also purchase reinsurance on an excess of loss basis to cover individual risk severity and catastrophe exposure. Additionally, we may obtain facultative reinsurance protection on a single risk. The type and amount of reinsurance we purchase varies year to year based on our risk assessment, our desired retention levels based on profitability and other considerations, and the market availability of quality reinsurance at prices we consider acceptable. Our reinsurance programs renew throughout the year, and the price changes in recent years have not been material to our net underwriting results. Our reinsurance generally does not cover war or nuclear, biological, chemical or radiological terrorism risks.

In our proportional reinsurance programs, we generally receive a commission on the premium ceded to reinsurers. This compensates our insurance companies for the direct costs associated with production of the business, the servicing of the business during the term of the policies ceded, and the costs associated with placement of reinsurance that benefits the proportional programs. In addition, certain of our reinsurance treaties allow us to share in any net profits generated under such treaties with the reinsurers. Various reinsurance brokers may arrange for the placement of this reinsurance coverage on our behalf and are compensated, directly or indirectly, by the reinsurers. We also enter reinsurance relationships with third-party captives formed by agents and other business partners as a mechanism for sharing risk and profit.

In order to reduce our exposure to reinsurance credit risk, we evaluate the financial condition of our reinsurers and place our reinsurance with a diverse group of companies and syndicates that we believe to be financially sound. We carefully monitor the credit quality of our reinsurers when we place new and renewal reinsurance, as well as on an ongoing, current basis. We use objective criteria to select and retain our reinsurers, including requiring minimum surplus of $500 million and a financial strength rating of “A-” or better from A.M. Best Company, Inc. or Standard & Poor's Corporation. We approve exceptions to these criteria when warranted.

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

The following table summarizes the top ten reinsurers that account for approximately 87% of our reinsurance recoverables on paid and unpaid losses and loss adjustment expenses as of December 31, 2012:

Reinsurer	A.M. Best Rating	Amount Recoverable as of December 31, 2012
	(Amounts in Thousands)	
Maiden Insurance Company Ltd.	A-	$ 789,519
National Workers' Compensation Reinsurance Pool (NWCRP)(1)	NR	101,007
American Home Assurance Company	A	58,057
Hannover Ruckversicherungs AG(2)	A+	48,149
Trinity Universal Insurance Company(3)	A-	45,177
Twin Bridges Ltd.(2)	NR	32,448
Alterra Bermuda Limited(2)	A	29,949
Swiss Reinsurance America Corporation	A+	15,925
Lloyd's Underwriter Syn No. 2003 SIC	A	13,312
AXIS Specialty(2)	A	9,191

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

(2) At the time of the Majestic loss portfolio transfer, these entities were reinsurers of Majestic. We currently hold collateral of approximately $34 million in a trust account related to cessions for Twin Bridges and Alterra, as well as approximately $29 million of funds held.

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

Reinsurance Programs and Retentions

The following tables provide a summary of our primary reinsurance programs for 2012 for the United States and internationally:

	2012 Domestic Reinsurance Program		
Type of Reinsurance	Retention	Limits (per occurrence)	Coverage
Worker's Compensation Excess of Loss	$ 5,000,000	$ 230,000,000	100% of $225,000,000
Property, Excess of Loss	$ 2,000,000	$ 20,000,000	100% of $18,000,000
Property Catastrophe, excess	$ 5,000,000	$ 65,000,000	100% of $60,000,000
Casualty Excess of Loss	$ 2,000,000	$ 30,000,000	100% of $28,000,000
Public Entity, Pro Rata	N/A	$ 10,000,000	20% of $10,000,000
Professional Liability, Excess of Loss	$ 500,000	$ 5,000,000	100% of $4,500,000
Equipment Breakdown, Pro Rata	N/A	$ 25,000,000	100% of $25,000,000
Umbrella, Pro Rata	N/A	$ 10,000,000	85% of $10,000,000

Type of Reinsurance	2012 International Reinsurance Program Retention	Limits (per occurrence)	Coverage
Property, Excess of Loss	$ 800,000	$ 3,200,000	100% of $2,400,000
Property Catastrophe, Excess of Loss	$ 8,000,000	$ 72,000,000	100% of $64,000,000
Surety, Pro Rata and Excess of Loss	$ 4,000,000	$ 32,500,000	100% of $28,500,000
Casualty Excess of Loss	$ 1,600,000	$ 16,000,000	100% of $15,200,000
Latent Defect Excess of Loss	$ 1,300,000	$ 40,000,000	100% of $38,700,000
Accident and Health Excess of Loss	$ 800,000	$ 24,000,000	100% of $23,200,000
Medical Malpractice, Pro Rata(1)	N/A	$ 13,000,000	100% of $13,000,000

(1) Reinsurance agreement with Maiden Insurance by which we cede 40% of our European medical liability business.

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

Maiden Quota Share

In 2007, we entered into a master agreement with Maiden, as amended, by which our Bermuda subsidiary, AII, and Maiden Insurance entered into a quota share reinsurance agreement (the “Maiden Quota Share”), as amended. Under this agreement, AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by our U.S., Irish and U.K. insurance companies (the “AmTrust Ceding Insurers”), net of the cost of unaffiliated inuring reinsurance (and in the case of the Company’s U.K. insurance subsidiary, AEL, net of commissions) and 40% of losses excluding certain specialty risk programs that we commenced writing after the effective date, including the Company's European medical liability business discussed below, and risks, other than workers’ compensation risks and certain business written by the Company’s Irish subsidiary, AmTrust International Underwriters Limited (“AIU”), for which the AmTrust Ceding Insurers’ net retention exceeds $5 million (“Covered Business”).

The Maiden Quota Share, which had an initial term of three years, was renewed through June 30, 2014 and will automatically renew for successive three-year terms unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on thirty days’ notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders’ equity of Maiden Insurance or the combined shareholders’ equity of AII and the AmTrust Ceding Insurers.

The Maiden Quota Share, as amended, further provides that AII receives a ceding commission based on a percentage of ceded written premiums with respect to all Covered Business. Commencing January 1, 2012, the ceding commission with respect to all Covered Business other than the retail commercial package business is adjusted on a quarterly basis to (a) 30% of ceded premium, if the Specialty Risk and Extended Warranty subject premium, excluding ceded premium related to our medical liability business discussed below, is greater than or equal to 42% of the total subject premium, (b) 30.5% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 42% but greater than or equal to 38%, or (c) 31% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 38% of the total subject premium. The ceding commission for the retail commercial package business is 34.375% of ceded premium. The agreement also will include, subject to regulatory requirements, the premiums and losses of any Covered Business of any majority-owned insurance subsidiary that we may acquire in the future.

We recorded approximately $197 million, $154 million and $138 million of ceding commission during 2012, 2011 and 2010, respectively, as a result of the Maiden Quota Share.

Revolving Credit Agreement

On August 10, 2012, we entered into a four-year, $200 million credit agreement (the "Credit Agreement"), among JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and SunTrust Bank, as Co-Syndication Agents, Associated Bank, National Association and Lloyds Securities Inc., as Co-Documentation Agents and various lending institutions party thereto. The credit facility is a revolving credit facility with a letter of credit sublimit of $100 million and an expansion feature not to exceed $100 million. In connection with entering into the Credit Agreement, we terminated our existing $150 million credit agreement, dated as of January 28, 2011 with JPMorgan Chase Bank, N.A. Fees associated with the Credit Agreement were approximately $1.0 million. 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 us to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. We are in compliance with all covenants as of December 31, 2012.

As of December 31, 2012, we have no outstanding borrowings under this Credit Agreement. We have outstanding letters of credit in place under this Credit Agreement at December 31, 2012 for $95.8 million, which reduced the availability for letters of credit to $4.2 million as of December 31, 2012, and the availability under the facility to $104.2 million as of December 31, 2012.

Borrowings under the Credit Agreement bear interest at (x) the greatest of (a) the Administrative Agent’s prime rate, (b) the federal funds effective rate plus 0.5 percent or (c) the adjusted LIBO rate for a one month interest period on such day plus 1 percent, plus (y) a margin that is adjusted on the basis of our consolidated leverage ratio. Eurodollar borrowings under the credit agreement will bear interest at the adjusted LIBO rate for the interest period in effect plus a margin that is adjusted on the basis of our consolidated leverage ratio. The interest rate on the credit facility as of December 31, 2012 and 2011 was 2.50%. We recorded total interest expense of approximately $1.9 million and $2.7 million for the years ended December 31, 2012 and 2011, respectively, under our current or former Credit Agreement.

Fees payable by us under the Credit Agreement include a letter of credit participation fee (which is the margin applicable to Eurodollar borrowings and was 1.50% at December 31, 2012), 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 0.20% to 0.30% based on our consolidated leverage ratio and was 0.25% at December 31, 2012).

Convertible Senior Notes

In December 2011, we issued $175 million aggregate principal amount of our 5.50% convertible senior notes due 2021 (the “Notes”) to certain initial purchasers in a private placement. In January 2012, we issued an additional $25 million of the Notes to cover the initial purchasers' overallotment option. The Notes bear interest at a rate equal to 5.50% per year, payable semiannually in arrears on June 15 and December 15th of each year, beginning on June 15, 2012.

The Notes will mature on December 15, 2021 (the “Maturity Date”), unless earlier purchased by us or converted into shares of our common stock, par value $0.01 per share (the “Common Stock”). Prior to September 15, 2021, the Notes will be convertible only upon satisfaction of certain conditions, and thereafter, at any time prior to the close of business on the second scheduled trading day immediately preceding the Maturity Date. The conversion rate at December 31, 2012 is equal to 34.5759 shares of Common Stock per $1,000 principal amount of Notes, which corresponds to a conversion price of approximately $28.92 per share of Common Stock. The conversion rate is subject to adjustment upon the occurrence of certain events as set forth in the indenture governing the notes. Upon conversion of the Notes, we will, at our election, pay or deliver, as the case may be, cash, shares of Common Stock, or a combination of cash and shares of Common Stock.

Upon the occurrence of a fundamental change (as defined in the indenture governing the notes) holders of the Notes will have the right to require us to repurchase their Notes for cash, in whole or in part, at 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date.

We separately allocated the proceeds for the issuance of the Notes to a liability component and an equity component, which is the embedded conversion option. The equity component was reported as an adjustment to paid-in-capital, net of tax, and is reflected as an original issue discount (“OID”). The OID of $41.7 million and deferred origination costs relating to the liability component of $4.8 million will be amortized into interest expense over the term of the loan of the Notes. After considering the contractual interest payments and amortization of the original discount, the Notes effective interest rate was

8.57%. Transaction costs of $1.3 million associated with the equity component were netted in paid-in-capital. Interest expense, including amortization of deferred origination costs, recognized on the Notes was $14.0 million for the year ended December 31, 2012.

Secured Loan Agreement

During February 2011, we entered into a seven-year secured loan agreement with Bank of America Leasing & Capital, LLC in the aggregate amount of $10.8 million to finance the purchase of an aircraft. The loan bears interest at a fixed rate of 4.45%, requires monthly installment payments of approximately $0.1 million commencing on March 25, 2011 and ending on February 25, 2018, and a balloon payment of $3.2 million at the maturity date. The Company recorded interest expense of approximately $0.4 million and $0.4 million for the years ended December 31, 2012 and 2011, respectively, related to this agreement. The loan is secured by an aircraft that one of our subsidiaries acquired in February 2011.

The agreement contains certain covenants that are similar to our revolving credit facility. Additionally, subsequent to February 25, 2012, but prior to payment in full, if the outstanding balance of this loan exceeds 90% of the fair value of the aircraft, we are required to pay the lender the entire amount necessary to reduce the outstanding principal balance to be equal to or less than 90% of the fair value of the aircraft. The agreement allows us, under certain conditions, to repay the entire outstanding principal balance of this loan without penalty.

Securities Sold (Purchased) Under Agreements to Repurchase (Sell), at Contract Value

We enter into repurchase agreements and reverse repurchase agreements. The agreements are accounted for as collateralized borrowing transactions and are recorded at contract amounts. In the case of repurchase agreements, we receive cash or securities that we invest or hold in short term or fixed income securities. As of December 31, 2012, there were $234.9 million principal amount outstanding at interest rates between 0.42% and 0.50%. Interest expense associated with these repurchase agreements for 2012 was $0.9 million of which $0 million was accrued as of December 31, 2012. We have approximately $253.1 million of collateral pledged in support of these agreements. Under reverse repurchase agreements, we lend cash or securities for a short term. During 2012, we entered into a collateralized lending transaction with a principal amount of $57 million that is included in cash and cash equivalents for the year ended December 31, 2012. We retain collateral of $57 million related to this agreement.

Note Payable — Collateral for Proportionate Share of Reinsurance Obligation

In conjunction with the Reinsurance Agreement between AII and Maiden Insurance (see Note 11. "Related Party Transactions"), AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby Maiden Insurance loaned to AII the amount equal to its quota share of the obligations of the AmTrust Ceding Insurers that AII was then obligated to secure. The loan agreement provides for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Each advance under the loan is secured by a promissory note. Advances totaled $168 million as of December 31, 2012 and December 31, 2011. Effective December 31, 2008, AII and Maiden entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Insurance is required to provide AII the assets required to secure Maiden's proportionate share of our obligations to our U.S. subsidiaries. The amount of this collateral as of December 31, 2012 was approximately $864.1 million. Maiden retains ownership of the collateral in the trust account.

Comerica Letter of Credit Facility

In connection with the Majestic acquisition, we, through one of our subsidiaries, entered into a secured letter of credit facility with Comerica Bank during 2011. We utilize the letter of credit facility to comply with the deposit requirements of the State of California and the U.S. Department of Labor as security for our obligations to workers' compensation and federal Longshore and Harbor Workers' Compensation Act policyholders. The credit limit is for $75.0 million and was utilized for $49.6 million for the year ended December 31, 2012. We are required to pay a letter of credit participation fee for each letter of credit in the amount of 0.40%.

Short-term borrowings

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

Contractual Obligations and Commitments

The following table sets forth certain of our contractual obligations as of December 31, 2012:

	Payment Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	(Amounts in Thousands)				
Loss and loss adjustment expenses(1)	$ 2,426,400	$ 1,234,949	$ 662,532	$ 245,562	$ 283,357
Loss-based insurance assessments(2)	18,045	6,262	5,777	2,236	3,770
Operating lease obligations	94,711	10,753	19,727	17,475	46,756
Purchase obligations(3)	48,950	31,032	13,183	4,735	—
Employment agreement obligations	28,538	9,753	12,421	4,758	1,606
Life insurance policy premiums related to life settlement contracts and premium finance loans(4)	722,681	29,141	64,344	85,465	543,731
Debt and interest(5)	726,588	20,821	206,729	34,934	464,104
Total	$ 4,065,913	$ 1,342,711	$ 984,713	$ 395,165	$ 1,343,324

(1) The loss and loss adjustment expense payments due by period in the table above are based upon the loss and loss adjustment expense estimates as of December 31, 2012 and actuarial estimates of expected payout patterns and are not contractual liabilities as to a time certain. Our contractual liability is to provide benefits under the policy. As a result, our calculation of loss and loss adjustment expense payments due by period is subject to the same uncertainties associated with determining the level of loss and loss adjustment expenses generally and to the additional uncertainties arising from the difficulty of predicting when claims (including claims that have not yet been reported to us) will be paid. For a discussion of our loss and loss adjustment expense estimate process, see "Item 1. Business — Loss Reserves." Actual payments of loss and loss adjustment expenses by period will vary, perhaps materially, from the table above to the extent that current estimates of loss and loss adjustment expenses vary from actual ultimate claims amounts and as a result of variations between expected and actual payout patterns. See "Item 1A. Risk Factors — Risks Related to Our Business — Our loss reserves are based on estimates and may be inadequate to cover our actual losses" for a discussion of the uncertainties associated with estimating loss and loss adjustment expenses.

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

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

(4) We currently own 256 life settlement contracts and 13 premium finance loans with a carrying value of $193.9 million. In order for us to derive the economic benefit of the face value of the policies, we are required to make these premium payments.

(5) The interest related to the debt by period is as follows: $19.8 million — less than 1 year, $36.5 million — 1 – 3 years, $32.1 million — 3 – 5 years and $120.5 million — more than 5 years. In addition, included within debt and interest is $168 million related to the Maiden collateral loan and $1.9 million of associated interest.

Inflation

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Liquidity Risk. Liquidity risk represents our potential inability to meet all payment obligations when they become due. We maintain sufficient cash and marketable securities to fund claim payments and operations. We purchase reinsurance coverage to mitigate the risk of an unexpected rise in claims severity or frequency from catastrophic events or a single large loss. The availability, amount and cost of reinsurance depend on market conditions and may vary significantly.

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

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

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

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

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

Interest Rate Risk. We had fixed maturity securities (excluding $10.3 million of time and short-term deposits) with a fair value of $2.07 billion and a amortized cost of $1.95 billion as of December 31, 2012 that are subject to interest rate risk. Interest rate risk is the risk that we may incur losses due to adverse changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of our fixed maturity securities. We manage our exposure to interest rate risk through a disciplined asset and liability matching and capital management process. In the management of this risk, the characteristics of duration, credit and variability of cash flows are critical elements. These risks are assessed regularly and balanced within the context of our liability and capital position.

The table below summarizes the interest rate risk associated with our fixed maturity securities by illustrating the sensitivity of the fair value and carrying value of our fixed maturity securities as of December 31, 2012 to selected hypothetical changes in interest rates, and the associated impact on our stockholders’ equity. We anticipate that we will continue to meet our obligations out of income. We classify our fixed securities and equity securities as available-for-sale. Temporary changes in the fair value of our fixed maturity securities impact the carrying value of these securities and are reported in our shareholders’ equity as a component of other comprehensive income, net of deferred taxes.

The selected scenarios in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the fair value and carrying value of our fixed maturity securities and on our shareholders' equity, each as of December 31, 2012.

Hypothetical Change in Interest Rates	Fair Value	Estimated Change in Fair Value	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
		(Amounts in Thousands)	
200 basis point increase	$ 1,868,507	$ (196,719)	(11.2)%
100 basis point increase	1,964,532	(100,694)	(5.7)
No change	2,065,226	—	—
100 basis point decrease	2,164,259	99,033	5.6
200 basis point decrease	2,213,796	148,570	8.4

Changes in interest rates would affect the fair market value of our fixed rate debt instruments but would not have an impact on our earnings or cash flow. We currently have $469.9 million of debt instruments of which $301.9 million are fixed rate debt instruments. A fluctuation of 100 basis points in interest on our variable rate debt instruments, which are tied to LIBOR, would affect our earnings and cash flows by $1.7 million before income tax, on an annual basis, but would not affect the fair market value of the variable rate debt.

Foreign Currency Risk. We write insurance in the United Kingdom and certain other European Union member countries through AIU and AEL. While the functional currency of AIU and AEL are, respectively, the Euro and the British Pound, we write coverages that are settled in local currencies, including, primarily, the Euro and the British Pound. We attempt to maintain sufficient local currency assets on deposit to minimize our exposure to realized currency losses. Assuming a 5% increase in the exchange rate of the local currency in which the claims will be paid and that we do not hold that local currency, we would recognize a $32.7 million before tax realized currency loss based on our outstanding foreign denominated reserves of $654.1 million at December 31, 2012.

Equity Price Risk. Equity price risk is the risk that we may incur losses due to adverse changes in the market prices of the equity securities we hold in our investment portfolio, which include common stocks, non-redeemable preferred stocks and master limited partnerships. We classify our portfolio of equity securities as available-for-sale and carry these securities on our balance sheet at fair value. Accordingly, adverse changes in the market prices of our equity securities result in a decrease in the value of our total assets and a decrease in our shareholders' equity. As of December 31, 2012, the equity securities in our investment portfolio had a fair value of $20.5 million, representing less than one percent of our total invested assets on that date.

The table below illustrates the impact on our equity portfolio and financial position given a hypothetical movement in the broader equity markets. The selected scenarios in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the carrying value of our equity portfolio and on shareholders' equity as of December 31, 2012. The hypothetical scenarios below assume that our Beta is 1 when compared to the S&P 500 index.

Hypothetical Change in S&P 500 Index	Fair Value	Estimated Change in Fair Value	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
		(Amounts in Thousands)	
5% increase	$ 21,488	$ 1,023	0.1%
No change	20,465	—	
5% decrease	19,442	(1,023)	(0.1)

Off Balance Sheet Risk. We have exposure or risk related to securities sold but not yet purchased.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Controls Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Internal Control Over Financial Reporting

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

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

Management has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2012, based on the control criteria established in a report entitled *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that our internal control over financial reporting is effective as of December 31, 2012.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AmTrust Financial Services, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, AmTrust Financial Services, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AmTrust Financial Services, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
February 28, 2013

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement for our Annual Meeting of Stockholders to be held May 23, 2013 (the "Proxy Statement") under the captions "Proposal 1: Election of Directors," "Executive Officers," "Corporate Governance — Code of Business Conduct and Ethics," "Corporate Governance — Board Committees — Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 30, 2013.

Item 11. Executive Compensation

The information required by Item 11 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions "Executive Compensation," "Compensation of Directors," "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 30, 2013.

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

A portion of the information required by Item 12 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 30, 2013.

Equity Compensation Plan Information

The table below shows information regarding awards outstanding and shares of common stock available for issuance as of December 31, 2012 under the AmTrust Financial Services, Inc. 2010 Omnibus Incentive Plan. On August 6, 2012, we announced that our Board of Directors approved a 10% stock dividend, pursuant to which stockholders of record at the close of business on September 4, 2012 received 0.10 additional shares of common stock on September 20, 2012 for every share of common stock held. In accordance with the provisions of our 2010 Omnibus Incentive Plan and as determined by our Board of Directors, the number of shares available for future issuance, the number of shares subject to outstanding equity awards and the exercise prices of outstanding stock option awards were also adjusted to equitably reflect the effect of the stock dividend.

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	4,148,900	$ 8.34	4,681,354
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	4,148,900	$ 8.34	4,681,354

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

The information required by Item 13 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions "Certain Relationships and Related Transactions" and "Corporate Governance — Independence of Directors." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 30, 2013.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the caption "Proposal 2: Ratification of Independent Registered Public Accounting Firm." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC on or before April 30, 2013.

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

(b) Exhibits: See Item 15(a).

(c) Schedules: See Item 15(a).

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

SIGNATURES

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

AMTRUST FINANCIAL SERVICES, INC.

March 1, 2013

By: /s/ Ronald E. Pipoly, Jr.

Name: Ronald E. Pipoly, Jr.
Title: Chief Financial Officer

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

Signature	Title	Date
/s/ Barry D. Zyskind Barry D. Zyskind	Chief Executive Officer, President and Director (Principal Executive Officer)	March 1, 2013
/s/ Ronald E. Pipoly, Jr. Ronald E. Pipoly, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer)	March 1, 2013
/s/ Michael Karfunkel Michael Karfunkel	Chairman of the Board	March 1, 2013
/s/ George Karfunkel George Karfunkel	Director	March 1, 2013
/s/ Donald T. DeCarlo Donald T. DeCarlo	Director	March 1, 2013
/s/ Susan Fisch Susan Fisch	Director	March 1, 2013
/s/ Abraham Gulkowitz Abraham Gulkowitz	Director	March 1, 2013
/s/ Jay J. Miller Jay J. Miller	Director	March 1, 2013

AMTRUST FINANCIAL SERVICES, INC.

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of AmTrust Financial Services, Inc. as of December 31, 2012 and 2011 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmTrust Financial Services, Inc. at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
February 28, 2013

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

	December 31, 2012	December 31, 2011
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at market value (amortized cost $1,947,644; $1,382,863)	$ 2,065,226	$ 1,394,243
Equity securities, available-for-sale, at market value (cost $20,943; $34,041)	20,465	35,600
Short-term investments	10,282	128,565
Equity investment in unconsolidated subsidiaries – related parties	96,153	83,691
Other investments	11,144	14,588
Total investments	2,203,270	1,656,687
Cash and cash equivalents	414,370	406,847
Restricted cash and cash equivalents	78,762	23,104
Accrued interest and dividends	18,536	12,644
Premiums receivable, net	1,251,262	932,992
Reinsurance recoverable (related party $789,519; $597,525)	1,318,395	1,098,569
Prepaid reinsurance premium (related party $547,128; $429,124)	754,844	584,871
Prepaid expenses and other assets (recorded at fair value $193,927; $131,387)	421,163	288,450
Federal income tax receivable	16,609	13,024
Deferred policy acquisition costs	349,126	280,991
Property and equipment, net	75,933	61,553
Goodwill	229,780	175,924
Intangible assets	285,187	196,862
	$ 7,417,237	$ 5,732,518
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss expense reserves	$ 2,426,400	$ 1,879,175
Unearned premiums	1,773,593	1,366,170
Ceded reinsurance premiums payable (related party $333,962; $222,408)	528,322	337,508
Reinsurance payable on paid losses	13,410	14,731
Funds held under reinsurance treaties	33,946	49,249
Note payable on collateral loan – related party	167,975	167,975
Securities sold but not yet purchased, at market	56,711	55,942
Securities sold under agreements to repurchase, at contract value	234,911	191,718
Accrued expenses and other current liabilities (recorded at fair value $11,750; $12,022)	406,447	311,793
Deferred income taxes	225,484	118,396
Debt	301,973	279,600
Total liabilities	6,169,172	4,772,257
Commitments and contingencies		
Redeemable non-controlling interest	600	600
Stockholders' equity:		
Common stock, $.01 par value; 100,000 shares authorized, 91,216 and 84,906 issued in 2012 and 2011, respectively; 67,192 and 60,106 outstanding in 2012 and 2011, respectively	912	849
Preferred stock, $.01 par value; 10,000 shares authorized	—	—
Additional paid-in capital	761,105	582,321
Treasury stock at cost; 24,024 and 24,800 shares in 2012 and 2011, respectively	(293,791)	(300,365)
Accumulated other comprehensive income (loss)	64,231	(9,999)
Retained earnings	611,664	617,757
Total AmTrust Financial Services, Inc. equity	1,144,121	890,563
Non-controlling interest	103,344	69,098
Total stockholders' equity	1,247,465	959,661
	$ 7,417,237	$ 5,732,518

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)

	Years Ended December 31, 2012	2011	2010
Revenues:			
Premium income:			
Net written premium	$ 1,648,037	$ 1,276,597	$ 827,226
Change in unearned premium	(229,185)	(239,736)	(81,567)
Net earned premium	1,418,852	1,036,861	745,659
Ceding commission – primarily related party	196,982	153,953	138,261
Service and fee income (related parties – $29,041, $16,700, $12,322)	172,174	108,660	62,067
Net investment income	68,167	55,515	50,517
Net realized gain on investments	8,981	2,768	5,953
Total revenues	1,865,156	1,357,757	1,002,457
Expenses:			
Loss and loss adjustment expense	922,675	678,333	471,481
Acquisition costs and other underwriting expenses	543,713	398,404	302,809
Other	161,320	86,611	56,403
Total expenses	1,627,708	1,163,348	830,693
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	237,448	194,409	171,764
Other income (expenses):			
Interest expense	(28,508)	(16,079)	(12,902)
Gain on investment in life settlement contracts net of profit commission	13,822	46,892	11,855
Foreign currency gain (loss)	(242)	(2,418)	684
Acquisition gain on purchase	—	5,850	—
Total other income (expenses)	(14,928)	34,245	(363)
Income before income taxes and equity in earnings of unconsolidated subsidiaries	222,520	228,654	171,401
Provision for income taxes	46,955	42,372	47,053
Income before equity in earnings of unconsolidated subsidiaries	175,565	186,282	124,348
Equity in earnings of unconsolidated subsidiaries – related party	9,295	4,882	23,226
Net income	184,860	191,164	147,574
Net income attributable to non-controlling interests of subsidiaries	(6,873)	(20,730)	(5,109)
Net income attributable to AmTrust Financial Services, Inc.	$ 177,987	$ 170,434	$ 142,465
Earnings per common share:			
Basic earnings per share	$ 2.67	$ 2.58	$ 2.17
Diluted earnings per share	$ 2.57	$ 2.52	$ 2.14
Dividends declared per common share	$ 0.39	$ 0.34	$ 0.29
Weighted average common shares outstanding:			
Basic	66,499	65,915	65,532
Diluted	68,850	67,661	66,426
Net realized gain on investments:			
Total other-than-temporary impairment losses	$ (2,965)	$ (4,411)	$ (21,196)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(2,965)	(4,411)	(21,196)
Other net realized gain on investments	11,946	7,179	27,149
Net realized investment gain	$ 8,981	$ 2,768	$ 5,953

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2012	**2011**	**2010**
Net income	$ 184,860	$ 191,164	$ 147,574
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	6,730	(4,815)	(4,820)
Change in fair value of interest rate swap	(733)	(2,280)	—
Unrealized gains on securities:			
Unrealized holding gains arising during period	63,917	4,518	8,414
Reclassification adjustment for gains included in net income	4,316	(7,156)	13,160
Other comprehensive income, net of tax	$ 74,230	$ (9,733)	$ 16,754
Comprehensive income	259,090	181,431	164,328
Less: Comprehensive income attributable to non-controlling interest	6,873	20,730	5,109
Comprehensive income attributable to AmTrust Financial Services, Inc.	$ 252,217	$ 160,701	$ 159,219

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)
Years Ended December 31, 2012, 2011, 2010

	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2009	842	—	$ 543,977	$ (300,889)	$ (17,020)	$ 342,482	$ 569,392
Net income	—	—	—	—	—	147,574	147,574
Foreign currency translation, net of tax	—	—	—	—	(4,820)	—	(4,820)
Unrealized holding gain on investments, net of tax	—	—	—	—	8,414	—	8,414
Reclassification adjustment for securities sold during the year, net of tax	—	—	—	—	13,160	—	13,160
Non-controlling interest in subsidiaries	—	—	—	—	—	(5,109)	(5,109)
Issuance of restricted stock	—	—	(400)	400	—	—	—
Stock option compensation	—	—	3,386	—	—	—	3,386
Exercise of stock options	2	—	1,768	—	—	—	1,770
Common stock dividend	—	—	—	—	—	(17,253)	(17,253)
Balance, December 31, 2010	844	—	548,731	(300,489)	(266)	467,694	716,514
Net income	—	—	—	—	—	191,164	191,164
Foreign currency translation, net of tax	—	—	—	—	(4,815)	—	(4,815)
Change in fair value of derivatives, net of tax	—	—	—	—	(2,280)	—	(2,280)
Unrealized holding loss on investments, net of tax	—	—	—	—	4,518	—	4,518
Reclassification adjustment for securities sold during the year, net of tax	—	—	—	—	(7,156)	—	(7,156)
Non-controlling interest in subsidiaries	—	—	—	—	—	(20,730)	(20,730)
Equity component of convertible senior notes, net of income taxes and issues costs	—	—	22,723	—	—	—	22,723
Issuance of restricted stock	—	—	(124)	124	—	—	—
Stock option compensation	—	—	5,571	—	—	—	5,571
Exercise of stock options, other	5	—	5,420	—	—	—	5,425
Common stock dividend	—	—	—	—	—	(20,371)	(20,371)
Balance, December 31, 2011	849	—	582,321	(300,365)	(9,999)	617,757	890,563
Net income	—	—	—	—	—	184,860	184,860
Foreign currency translation, net of tax	—	—	—	—	6,730	—	6,730
Change in fair value of derivative, net of tax	—	—	—	—	(733)	—	(733)
Unrealized holding gain on investments, net of tax	—	—	—	—	63,917	—	63,917
Reclassification adjustment for securities sold during the year, net of tax	—	—	—	—	4,316	—	4,316
Non-controlling interest in subsidiaries	—	—	—	—	—	(6,873)	(6,873)
Acquisition of non-controlling interest in subsidiary	—	—	6,900	—	—	—	6,900
Equity component of convertible senior notes, net of income tax and issue costs	—	—	3,306	—	—	—	3,306
Issuance of restricted stock	—	—	(2,378)	2,378	—	—	—
Stock option compensation	—	—	7,172	—	—	—	7,172
Exercise of stock options, other	2	—	4,675	4,196	—	—	8,873
Share dividend	61	—	159,109	—	—	(159,170)	—
Common stock dividend	—	—	—	—	—	(24,910)	(24,910)
Balance, December 31, 2012	912	—	$ 761,105	$ (293,791)	$ 64,231	$ 611,664	$ 1,144,121

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)
Years Ended December 31, 2012, 2011, 2010

Non-controlling interest in equity of consolidated subsidiaries:	
Balance, December 31, 2009	$ —
Capital contributions to subsidiaries	17,925
Income attributable to non-controlling interests	5,109
Balance, December 31, 2010	$ 23,034
Capital contributions to subsidiaries	25,334
Income attributable to non-controlling interests	20,730
Balance, December 31, 2011	$ 69,098
Capital contribution to subsidiaries	34,273
Acquisition of non-controlling interest in subsidiary	(6,900)
Income attributable to non-controlling interests	6,873
Balance, December 31, 2012	$ 103,344

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	$ 184,860	$ 191,164	$ 147,574
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	44,991	50,000	18,429
Equity (earnings) losses and gain on investment in unconsolidated subsidiaries	(9,295)	(4,882)	(23,226)
Gain on investment in life settlement contracts	(13,822)	(46,892)	(11,855)
Acquisition gain on purchase	—	(5,850)	—
Realized (gain) loss on marketable securities	(11,946)	(7,179)	(27,149)
Non-cash write-down of marketable securities	2,965	4,411	21,196
Discount on notes payable	2,936	462	772
Stock based compensation	7,172	5,571	3,386
Bad debt expense	11,348	7,287	6,037
Foreign currency (gain) loss	242	2,418	(684)
Changes in assets – (increase) decrease:			
Premiums and notes receivable	(329,618)	(186,721)	(208,677)
Reinsurance recoverable	(219,826)	(174,988)	(132,111)
Deferred policy acquisition costs, net	(68,135)	(56,320)	(44,492)
Prepaid reinsurance premiums	(167,747)	(99,911)	(74,407)
Prepaid expenses and other assets	(73,065)	(40,229)	(48,210)
Changes in liabilities – increase (decrease):			
Reinsurance premium payable	190,814	71,194	132,238
Loss and loss expense reserves	547,225	283,978	171,593
Unearned premiums	380,738	315,208	153,186
Funds held under reinsurance treaties	(15,303)	(5,683)	2,527
Accrued expenses and other current liabilities	67,350	44,071	(63,402)
Deferred tax asset (liability)	(4,334)	(52,551)	3,626
Net cash provided by operating activities	527,550	294,558	26,351
Cash flows from investing activities:			
Purchases of available for sale fixed maturities	(1,462,519)	(2,065,393)	(3,711,080)
Purchases of equity securities	(30,468)	(37,410)	(28,321)
Purchases of other investments	(1,884)	(611)	(5,284)
Sales of available for sale fixed maturities	905,697	2,122,923	3,573,660
Sales of equity securities	47,491	17,634	65,531
Sales of other investments	5,717	6,776	200
Net sales (purchases) of short term investments	118,283	(96,428)	(872)
Acquisition of and capitalized premiums for life settlement contracts	(51,031)	(53,363)	(14,574)
Receipt of life settlement contract proceeds	10,074	10,530	—
Acquisition of captive insurance entities, net of cash obtained	15,473	43,950	6,929
Acquisition of subsidiaries, net of cash obtained	(63,855)	—	(19,902)
Acquisition of intangible assets	—	(30,388)	—
Loss portfolio transfer, net of cash obtained	—	28,969	—

See accompanying notes to consolidated financial statements.

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

Investment in ACAC	—	—	(53,055)
Increase in restricted cash and cash equivalents	(55,658)	(5,974)	(8,180)
Purchase of property and equipment	(27,388)	(38,601)	(14,722)
Net cash (used in) provided by investing activities	(590,068)	(97,386)	(209,670)
Cash flows from financing activities:			
Repurchase agreements, net	43,193	(155,899)	174,843
Revolving credit facility borrowings	—	123,200	—
Revolving credit facility payments	—	(123,200)	—
Convertible senior notes proceeds	25,000	175,000	—
Secured loan agreement borrowings	—	10,800	—
Secured loan agreements payments	(1,021)	(782)	—
Promissory note borrowings	13,000	—	—
Promissory note payment	(12,500)	(7,500)	(7,500)
Term loan payment	—	(6,667)	(13,333)
Financing fees	(2,180)	(6,644)	—
Capital contribution to subsidiaries	22,607	25,334	11,025
Stock option exercise and other	8,873	5,425	1,770
Dividends distributed in common stock	(30,201)	(19,712)	(16,647)
Net cash provided by financing activities	66,771	19,355	150,158
Effect of exchange rate changes on cash	3,270	(2,605)	1,226
Net increase (decrease) in cash and cash equivalents	7,523	213,922	(31,935)
Cash and cash equivalents, beginning year	406,847	192,925	224,860
Cash and cash equivalents, end of year	$ 414,370	$ 406,847	$ 192,925
Supplemental Cash Flow Information			
Interest	$ 20,435	$ 12,931	$ 13,405
Income tax payments	8,414	14,158	33,480

See accompanying notes to consolidated financial statements.

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

1. Nature of Operations

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

The Company transacts business through eleven insurance company subsidiaries: Technology Insurance Company, Inc. (“TIC”), Rochdale Insurance Company (“RIC”), Wesco Insurance Company (“WIC”), Associated Industries Insurance Company, Inc. (“AIIC”), Milwaukee Casualty Insurance Company (“MCIC”), Security National Insurance Company (“SNIC”), AmTrust Insurance Company of Kansas, Inc. (“AICK”) and AmTrust Lloyd’s Insurance Company of Texas (“ALIC”), which are domiciled in New Hampshire, New York, Delaware, Florida, Wisconsin, Delaware, Kansas and Texas, respectively; and AmTrust International Insurance Ltd. (“AII”), AmTrust International Underwriters Limited (“AIU”) and AmTrust Europe, Ltd. (“AEL”), which are domiciled in Bermuda, Ireland and England, respectively.

2. Significant Accounting Policies

Basis of Reporting — The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries. The Company uses the equity method of accounting for its investment in American Capital Acquisition Corporation (“ACAC”) in which it owns a 21.25% ownership interest. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Premiums — Insurance premiums, except for certain specialty risk and extended warranty programs, are recognized as earned on the straight-line basis over the contract period. Insurance premiums on specialty risk and extended warranty programs are earned based on an estimated program coverage period. These estimates are based on the expected distribution of coverage periods by contract at inception, because a single contract may contain multiple coverage period options, these estimates are revised based on the actual coverage period selected by the insured. Unearned premiums represent the portion of premiums written which is applicable to the unexpired term of the contract or policy in force. Premium adjustments on contracts and audit premiums are based on estimates made over the contract period. Premiums earned but not yet billed to insureds are estimated and accrued, net of related costs. These estimates are subject to the effects of trends in payroll audit adjustments. Although considerable variability is inherent in such estimates, management believes that the accrual for earned but unbilled premiums is reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The Company historically has used a percentage of premium for establishing its allowance for doubtful accounts. The Company reviews its bad debt write-offs at least annually and adjusts its premium percentage as required. Allowance for doubtful accounts were approximately $14,989 and $11,682 at December 31, 2012 and 2011, respectively.

Ceding Commission Revenue — Commissions on reinsurance premiums ceded are earned in a manner consistent with the recognition of the direct acquisition costs of underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured. Certain reinsurance agreements contain provisions whereby the ceding commission rates vary based on the loss experience under the agreements. The Company records ceding commission revenue based on its current estimate of subject losses. The Company records adjustments to the ceding commission revenue in the period that changes in the estimated losses are determined.

Loss and Loss Adjustment Expenses — Loss and loss adjustment expenses (“LAE”) represent the estimated ultimate net costs of all reported and unreported losses incurred through December 31, 2012. The reserves for unpaid losses and LAE are estimated using individual case-basis valuations and statistical analyses and are not discounted. Although considerable variability is inherent in the estimates of reserves for losses and LAE, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

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

Quarterly, the Company's Investment Committee ("Committee") evaluates each security that has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment ("OTTI"). The Company generally considers an investment to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion billion or more) for over 24 months. In addition, the Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

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

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

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

The Company has the following types of investments:

(a) Short-term investments — Short term investments are carried at cost, which approximates fair value, and include investments with maturities between 91 days and less than 1 year at date of acquisition. As of December 31, 2012 and 2011, short term investments consisted primarily of money market investments.

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

(c) 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.

(d) Limited partnerships — The Company uses the equity method of accounting for investments in limited partnerships in which its ownership interest of the limited partnership enables the Company to influence the operating or financial decisions of the investee company, but the Company's interest in the limited partnership does not require consolidation. The Company's proportionate share of equity in net income of these unconsolidated affiliates is reported in net investment income.

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

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

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

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

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

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

Equity Securities. For public common and preferred stocks, the Company receives estimates from a pricing service that are based on observable market transactions and includes these estimates in Level 1 hierarchy.

Other Investments. The Company has approximately 0.4% of its investment portfolio, in limited partnerships or hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy. The Company has determined that its investments in Level 3 securities are not material to its financial position or results of operations.

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

Life Settlements — When the Company becomes the owner of a life insurance policy either by direct purchase or following a default on a premium finance loan, the life insurance premium for such policy is accounted for as an investment in life settlements. Investments in life settlements are accounted for in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these investments using the fair value method. Fair value of the investment in policies is determined using unobservable Level 3 inputs and is calculated by performing a net present value calculation of the face amount of the life policies less premiums for the total portfolio. The unobservable Level 3 inputs use new or updated information that affects our assumptions about remaining life expectancy, credit worthiness of the policy issuer, funds needed to maintain the asset until maturity, and discount rates.

Premium Finance Loans — The Company owns certain premium finance loans, in association with the acquisition of life settlement contracts. The Company records the premium finance loans initially at cost. These loans are collateralized by underlying life insurance policies and the Company is obligated to pay premiums on these policies. Interest income is not accrued on loans where management has determined that the borrowers may be unable to meet contractual obligations. Cash receipts on these loans (if any) are generally applied to the principal balance until the remaining balance is considered collectible, at which time interest income may be recognized when received. Upon default of a loan, the Company has the option to acquire the underlying collateral, if the Company believes it has the required economic value.

Warranty Fee Revenue — The Company promotes and markets extended service plans ("ESP") to consumers through retailers and certain other marketing organizations usually with terms of coverage ranging from one to three years, commencing at the expiration of the manufacturers' warranty, if applicable. The Company generally insures the obligations under ESPs through contractual liability insurance issued by one of its insurance company subsidiaries. Under the terms of service agreements with various retailers, the Company provides for marketing and administrative services related to ESP. These agreements are generally for one-year terms and can be cancelled by either party with thirty days advance notice. The Company recognizes revenue related to promotion, marketing and administration services at the time of the sale of ESP. However, the Company defers a portion of service revenue based upon an estimate of administrative services to be provided in future periods.

Deferred Policy Acquisition Costs — The Company defers commission expenses, premium taxes and assessments as well as underwriting and safety costs that vary with and are primarily related to the successful acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. The Company may realize deferred policy acquisition costs only if the ratio of loss and loss adjustment expense reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%, the Company could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve. The Company considers anticipated investment income in determining whether a premium deficiency relating to short duration contracts exists. The change in net deferred acquisition costs was $68,135, $56,320 and $44,492 for the years ended December 31, 2012, 2011 and 2010, respectively. The amortization for deferred acquisition costs was $181,737, $161,392 and $102,085 in 2012, 2011 and 2010, respectively.

(In Thousands, Except Per Share Data)

Reinsurance — Reinsurance premiums, losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums earned and losses incurred ceded to other companies have been recorded as a reduction of premium revenue and losses and LAE. Commissions allowed by reinsurers on business ceded have been recorded as ceding commission revenue. Reinsurance recoverables are reported based on the portion of reserves and paid losses and LAE that are ceded to other companies. The Company remains liable for all loss payments, notwithstanding the failure to collect from the reinsurer.

Assessments — Insurance related assessments are accrued in the period in which they have been incurred. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. The Company is subject to a variety of assessments, such as assessments by state guaranty funds and workers' compensation second injury funds. State guaranty funds assessments are used by state insurance regulators to cover losses of policyholders of insolvent insurance companies and for the operating expenses of such agencies. The Company uses estimated assessment rates in determining the appropriate assessment expense and accrual. The Company uses estimates derived from state regulators and/or National Association of Insurance Commissioners ("NAIC") Tax and Assessments Guidelines. Assessment expense for the years ended December 31, 2012, 2011 and 2010 was approximately $39,546, $8,504 and $9,220, respectively.

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

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

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

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 records contingent consideration at fair value based on the terms of the purchase agreement with subsequent changes in fair value recorded through earnings. The determination of fair value may require management to make significant estimates and assumptions. The purchase price is the fair value of the total consideration conveyed to the seller and the Company records the excess of the purchase price over the fair value of the acquired net assets, where applicable, as goodwill. The Company assigns fair values to intangible assets based on valuation techniques including the income and market approaches. The Company expenses costs associated with the acquisition of a business in the period incurred. The Company includes the results of operations of an acquired business in its consolidated financial statements from the date of the acquisition.

Goodwill and Intangible Assets — The Company accounts for goodwill and intangible assets in accordance with ASC 350 *Intangibles — Goodwill and Other.* Upon the completion of an acquisition, the Company completes purchase price accounting in accordance with ASC 805, *Business Combinations,* which requires an acquirer to assign values to the acquired assets and liabilities based on their fair value. In the event that a purchase price paid is in excess of the net assets acquired, any unidentified excess is deemed to be goodwill. Goodwill is not amortized. Additionally as a result of an acquisition, the Company may obtain identifiable intangible assets. Indefinite lived intangible assets are not amortized. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statement of operations.

Income Taxes — The Company joins its domestic subsidiaries and certain non-domestic subsidiaries in the filing of a consolidated federal income tax return and is party to federal income tax allocation agreements. Under the tax allocation agreements, the Company pays to or receives from its subsidiaries the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return.

Deferred income taxes reflect the impact of "temporary differences" between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The deferred tax asset primarily consists of book versus tax differences for premiums earned, loss and loss adjustment expense reserve discounting, policy acquisition costs, earned but unbilled premiums, and unrealized holding gains and losses on marketable equity securities. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income, primarily unrealized investment gains and losses and foreign currency translation gains and losses, are recorded directly to other comprehensive income. Additionally, the use of deferred tax liabilities related to equalization reserves are netted against related amortization expense and recorded as a decrease to other underwriting expense. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense.

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that we will generate future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. If necessary, 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. Tax years 2008 through 2012 are still subject to examination. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

Foreign Currency — The Company assigns functional currencies to its foreign operations, which are generally the currencies of the local operating environment. Foreign currency amounts are remeasured to the functional currency and the resulting foreign exchange gains and losses are reflected in earnings. Functional currency amounts from the Company's foreign operations are then translated into U.S. dollars. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of accumulated other changes in equity from nonowner sources. The foreign currency remeasurement and translation are calculated using current exchange rates for the items reported on the balance sheets and average exchange rates for items recorded in earnings.

Stock Compensation Expense — The Company follows ASC 720 *Compensation — Stock Compensation* and recognizes compensation expense for its share-based payments based on the fair value of the awards. Share-based payments include restricted stock, restricted stock units, performance share units and stock option grants under the Company's 2005 Equity Incentive Plan and 2010 Omnibus Incentive Plan. ASC 720 requires share-based compensation expense recognized to be based on estimated grant date fair value.

Earnings Per Share — The Company accounts for earnings per share under the two-class method, as described in ASC 260, *Earnings Per Share*. Under the two-class method, earnings for the period are allocated between common stockholders and other stockholders based on their respective rights to receive dividends. Restricted stock awards granted to employees under the Company's 2005 Equity Incentive Plan and 2010 Omnibus Incentive Plan are considered participating securities as they receive dividends on this stock. Additionally, the Company follows the treasury stock method related to its contingently convertible debt, as the Company has the ability to settle the conversion premium in either cash or stock. The contingently convertible shares were anti-dilutive for the Company's earnings per share calculations.

Treasury Stock — The Company accounts for the treasury stock at the repurchase price as a reduction to stockholders' equity.

Concentration and Credit Risk — Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, investments and premium receivable. Investments are diversified through the types of investments, industry sectors and geographic regions. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and investments. At December 31, 2012 and 2011, the outstanding premium receivable balance is generally diversified due to the number of entities composing the Company's customer base. To reduce credit risk, the Company performs ongoing evaluations of its customers' financial condition. The Company also has receivables from its reinsurers. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company periodically evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. It is the policy of management to review all outstanding receivables at period end as well as the bad debt write-offs experienced in the past and establish an allowance for doubtful accounts, if deemed necessary.

Non-controlling Interest — The ownership interest in consolidated subsidiaries of non-controlling interests is reflected as non-controlling interest. The Company's consolidation principles would also consolidate any entity in which the Company would be deemed a primary beneficiary. Non-controlling interest expense represents such non-controlling interests' in the earnings of that entity. All significant transactions and account balances between the Company and its subsidiaries were eliminated during consolidation.

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

Reclassifications — Certain accounts in the prior years' consolidated financial statements have been reclassified for comparative purposes to conform to the current year's presentation. This did not have any impact on the net income of the Company. A summary of the major items include:

The Company paid a 10% stock dividend during the three months ended September 30, 2012. As such the weighted average number of shares used for basic and diluted earnings per share have been adjusted in prior periods. The impact on basic earnings per share was a decrease of $0.27 and $0.22 in 2011 and 2010, respectively and a decrease of diluted earnings per share of $0.25 and $0.22 for 2011 and 2010, respectively.

The Company and American Capital Acquisition Corporation ("ACAC") currently each have a 50% ownership interest in Tiger Capital LLC ("Tiger") and AMT Capital Alpha, LLC ("AMT Alpha"). The Company also has a 21.25% ownership share of ACAC. As a result, the Company ultimately receives 60.625% of the income and losses related to Tiger and AMT Alpha and therefore consolidates Tiger and AMT Alpha. Prior to January 1, 2012, the Company reported Tiger's and AMT Alpha's income and losses attributable to its 10.625% indirect ownership as a component of Equity in Earnings of Unconsolidated Subsidiaries. This amount was offset by reporting an equal amount as a component of Non-controlling interest. Effective January 1, 2012, the Company presents the impact of the 10.625% indirect ownership of Tiger and AMT Alpha on a net basis and excludes this amount from both Equity in Earnings of Unconsolidated Subsidiaries and Non-controlling Interest. All prior periods presented have been reclassed to conform to the current presentation. There was no impact on prior period Net Income Attributable to AmTrust Financial Services, Inc. The Company's equity investment in ACAC and non-controlling interest were reduced by $3,807 and $818 as of December 31, 2011 and 2010, respectively. Additionally, the non-controlling interest related to income on life settlement contracts is now presented on a pre-tax basis and the provision for income taxes has been reduced by an equivalent amount.

The Company acquired Builders & Tradesmen's Insurance Services, Inc. ("BTIS") in December of 2011. The Company completed its acquisition accounting during the fourth quarter of 2012. As such, the goodwill and intangible asset values have been retroactively adjusted to December 31, 2011. The related amortization expense for 2011 was insignificant. See Note 5 "Acquisitions" for a description of the transaction.

Recent Accounting Literature

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02, *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 supersedes and replaces the presentation requirements for the reclassifications out of accumulated other comprehensive income. None of the other requirements of the previous ASUs are affected by ASU 2013-02. ASU 2013-02 is effective on a prospective basis for interim and annual periods beginning after December 15, 2012. The Company is currently evaluating the impact of adopting this new accounting standard on the presentation of our consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles - Goodwill and Other (Topic 350) Testing Indefinite Lived Intangible Assets for Impairment*. This updated guidance regarding the impairment test applicable to indefinite-lived intangible assets is similar to the impairment guidance applicable to goodwill. Under the updated guidance, an entity may assess qualitative factors (such as changes in management, strategy, technology or customers) that may impact the fair value of the indefinite-lived intangible asset and lead to the determination that it is more likely than not that the fair value of the asset is less than its carrying value. If an entity determines that it is more likely than not that the fair value of the intangible asset is less than its carrying value, an impairment test must be performed. The impairment test requires an entity to calculate the estimated fair value of the indefinite-lived intangible asset. If the carrying value of the indefinite-lived intangible asset exceeds its estimated fair value, an impairment loss is recognized in an amount equal to the excess. The updated guidance is effective for the period ending March 31, 2013 with early adoption permitted. The adoption of this guidance is not expected to have any effect on the Company's results of operations, financial position or liquidity.

In June 2011, the FASB issued ASU No. 2011-05 *Comprehensive Income (Topic 220)*. This update requires that all non-owner charges in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-step approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The updated guidance was effective for fiscal years and interim periods beginning on or after December 15, 2011 and was to be applied on a retrospective basis to the beginning of the annual period of adoption. The new standard does not change the items that must be reported in other comprehensive income and was effective for fiscal years and interim periods within those years that begin after December 15, 2011. The Company adopted this standard on January 1, 2012. The adoption of the new standard did not have a material impact on the Company's results of operations, financial position or liquidity. Additionally, in December 2011, the FASB issued a new standard which indefinitely deferred certain provisions of ASU No. 2011-05 *Comprehensive Income (Topic 220)* that revised the manner in which companies present comprehensive income in financial statements. One of the ASU provisions required companies to present, by component, reclassification adjustments out of accumulated other comprehensive income in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This requirement was deferred until the FASB issued of ASU 2013-02 as described above.

In September 2011, the FASB issued ASU No. 2011-08 *Intangibles-Goodwill and Other (Topic 350)*. The updated guidance is intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment, using factors such as changes in management, key personnel, business strategy, technology or customers, to determine whether it should calculate the fair value of a reporting unit. Previous accounting literature required an entity to test goodwill for impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, then the second step of the test had to be performed to measure the amount of the impairment loss, if any. In the second step, the implied fair value of the reporting unit's goodwill was determined in the same manner as goodwill is measured in a business combination (by measuring the fair value of the reporting unit's assets, liabilities and unrecognized intangible assets and determining the remaining amount ascribed to goodwill) and comparing the amount of the implied goodwill to the carrying amount of the goodwill. Under the updated guidance, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that is more likely than not that its fair value is less than its carrying amount. This update was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 31, 2011. The Company adopted this standard January 1, 2012 and it did not have any material impact on its results of operations, financial position or liquidity.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820)*. The ASU generally aligns the principles for fair value measurements and the related disclosure requirements under GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. The amendment was effective on a prospective basis for interim and annual reporting periods beginning after December 15, 2011. The Company adopted this standard on January 1, 2012 and adoption of the standard did not have a material impact on the Company's consolidated financial statements.

In April 2011, the FASB amended its guidance on accounting for repurchase agreements. The amendments eliminate as a criteria for demonstrating effective control over the transferred asset whether a transferor has the ability to repurchase or redeem the financial assets. Under the amended guidance, a transferor maintains effective control over transferred financial assets (and thus accounts for the transfer as a secured borrowing) if there is an agreement that both entitles and obligates the transferor to repurchase the financial assets before maturity and if all of the following conditions previously required are met: (i) financial assets to be repurchased or redeemed are the same or substantially the same as those transferred; (ii) repurchase or redemption date before maturity at a fixed or determinable price; and (iii) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. As a result, more arrangements could be accounted for as secured borrowings rather than sales. The updated guidance was effective on a prospective basis for interim and annual reporting periods beginning on or after December 15, 2011. The Company adopted this standard January 1, 2012 and it did not have a material impact on the Company's results of operations, financial position or liquidity.

In October 2010, the FASB issued ASU No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* ("ASU 2010-26"). ASU 2010-26 modifies the types of costs that may be deferred, allowing insurance companies to only defer costs directly related to a successful contract acquisition or renewal. These costs include incremental direct costs of successful contracts, the portion of employees' salaries and benefits related to time spent on acquisition activities for successful contracts and other costs incurred in the acquisition of a contract. Additional disclosure of the type of acquisition costs capitalized is also required.

The Company adopted ASU 2010-26 prospectively on January 1, 2012. For the year ended December 31, 2012, the Company recognized approximately $7,032 of expense related to such previously deferrable costs. If the Company had adopted ASU 2010-26 retrospectively, approximately $6,802 and $15,573 of acquisition costs that were deferred would have been recognized in expense for the year ended December 31, 2011 and 2010, respectively.

3. Investments

(a) Available-for-Sale Securities

The amortized cost, estimated fair value and gross unrealized appreciation and depreciation of fixed and equity securities are presented in the tables below:

(Amounts in Thousands) As of December 31, 2012	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 5,092	$ 112	$ (20)	$ 5,184
Common stock	15,851	596	(1,166)	15,281
U.S. treasury securities	62,502	3,694	(4)	66,192
U.S. government agencies	39,594	707	—	40,301
Municipal bonds	287,361	12,833	(752)	299,442
Corporate bonds:				
Finance	830,101	68,190	(4,603)	893,688
Industrial	387,980	20,914	(1,094)	407,800
Utilities	45,320	2,611	(5)	47,926
Commercial mortgage backed securities	10,065	135	—	10,200
Residential mortgage backed securities:				
Agency backed	276,895	16,373	(654)	292,614
Non-agency backed	7,826	—	(763)	7,063
	$ 1,968,587	$ 126,165	$ (9,061)	$ 2,085,691

(Amounts in Thousands) As of December 31, 2011	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 5,091	$ —	$ (777)	$ 4,314
Common stock	28,950	5,228	(2,892)	31,286
U.S. treasury securities	50,474	3,057	(257)	53,274
U.S. government agencies	6,268	522	—	6,790
Municipal bonds	268,240	7,290	(513)	275,017
Corporate bonds:				
Finance	534,810	13,059	(31,918)	515,951
Industrial	131,489	4,392	(2,990)	132,891
Utilities	38,434	1,790	(1,718)	38,506
Commercial mortgage backed securities	150	—	—	150
Residential mortgage backed securities:				
Agency backed	345,112	18,946	(58)	364,000
Non-agency backed	7,886	—	(222)	7,664
	$ 1,416,904	$ 54,284	$ (41,345)	$ 1,429,843

Proceeds from the sale of investments in available-for-sale securities during the years ended December 31, 2012, 2011 and 2010 were approximately $953,188, $2,140,557 and $3,639,191, respectively.

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

A summary of the Company's available-for-sale fixed securities as of December 31, 2012 and 2011, 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, 2012		December 31, 2011	
(Amounts in Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 20,786	$ 21,945	$ 10,044	$ 18,661
Due after one through five years	400,865	414,016	286,007	277,959
Due after five through ten years	966,158	1,044,510	501,490	494,290
Due after ten years	265,049	274,878	228,695	231,519
Mortgage backed securities	294,786	309,877	356,627	371,814
Total fixed maturities	$ 1,947,644	$ 2,065,226	$ 1,382,863	$ 1,394,243

(b) Investment Income

Net investment income for the years ended December 31, 2012, 2011 and 2010 was derived from the following sources:

(Amounts in Thousands)	2012	2011	2010
Fixed maturity securities	$ 67,182	$ 53,595	$ 43,789
Equity securities	127	981	702
Cash and short term investments	1,778	1,966	4,042
Interest on note receivable – related party	—	—	2,612
	69,087	56,542	51,145
Less: Investment expenses and interest expense on securities sold under agreement to repurchase	(920)	(1,027)	(628)
	$ 68,167	55,515	$ 50,517

(c) Other Than Temporary Impairment

OTTI charges of our fixed-maturities and equity securities for the years ended December 31, 2012, 2011 and 2010 are presented in the table below:

(Amounts in Thousands)	2012	2011	2010
Equity securities recognized in earnings	$ 2,965	$ 937	$ 10,656
Fixed maturity securities recognized in earnings	—	3,474	10,540
	$ 2,965	$ 4,411	$ 21,196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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The tables below summarize the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized loss position as of December 31, 2012 and 2011:

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) December 31, 2012	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$ 7,643	$ (1,138)	25	$ 1,978	$ (48)	1	$ 9,621	$ (1,186)
U.S. treasury securities	997	(4)	1	—	—	—	997	(4)
Municipal bonds	63,577	(752)	19	—	—	—	63,577	(752)
Corporate bonds:								
Finance	52,398	(899)	20	95,992	(3,704)	13	148,390	(4,603)
Industrial	82,066	(881)	28	9,105	(213)	4	91,171	(1,094)
Utilities	5,860	(5)	3	—	—	—	5,860	(5)
Residential mortgage backed securities:								
Agency backed	24,554	(654)	2	—	—	—	24,554	(654)
Non-agency backed	—	—	—	7,062	(763)	2	7,062	(763)
Total temporarily impaired	$237,095	$ (4,333)	98	$114,137	$ (4,728)	20	$351,232	$ (9,061)

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) December 31, 2011	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$ 4,211	$ (648)	7	$ 4,573	$ (3,021)	17	$ 8,784	$ (3,669)
U.S. treasury securities	7,523	(257)	4	773	—	1	8,296	(257)
Municipal bonds	43,452	(452)	10	4,098	(61)	1	47,550	(513)
Corporate bonds:								
Finance	221,950	(13,250)	81	104,461	(18,668)	17	326,411	(31,918)
Industrial	35,105	(2,125)	11	2,500	(865)	1	37,605	(2,990)
Utilities	21,483	(1,261)	9	5,766	(457)	1	27,249	(1,718)
Commercial mortgage backed securities	150	—	2	—	—	—	150	—
Residential mortgage backed securities:								
Agency backed	31,986	(58)	9	—	—	—	31,986	(58)
Non-agency backed	7,641	(216)	1	22	(6)	1	7,663	(222)
Total temporarily impaired	$373,501	$ (18,267)	134	$122,193	$ (23,078)	39	$495,694	$ (41,345)

There are 118 and 173 securities at December 31, 2012 and 2011, respectively that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company's cost basis.

(d) Realized Gains and Losses

The tables below indicate the gross realized gains and losses for the years ended December 31, 2012, 2011 and 2010.

(Amounts in Thousands) Year Ended December 31, 2012	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 10,310	$ (1,066)	$ 9,244
Equity securities	7,718	(5,016)	2,702
Write-down of equity securities	—	(2,965)	(2,965)
	$ 18,028	$ (9,047)	$ 8,981

(Amounts in Thousands) Year Ended December 31, 2011	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 7,631	$ (266)	$ 7,365
Equity securities	569	(755)	(186)
Write-down of fixed maturity securities	—	(3,474)	(3,474)
Write-down of equity securities	—	(937)	(937)
	$ 8,200	$ (5,432)	$ 2,768

(Amounts in Thousands) Year Ended December 31, 2010	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 17,860	$ (4,353)	$ 13,507
Equity securities	19,656	(6,047)	13,609
Derivatives	33	—	33
Write-down of fixed maturity securities	—	(10,540)	(10,540)
Write-down of equity securities	—	(10,656)	(10,656)
	$ 37,549	$ (31,596)	$ 5,953

(e) Unrealized Gains and Losses

The net unrealized gain (loss) on available-for-sale securities were as follows:

(Amounts in Thousands) Year Ended December 31,	2012	2011	2010
Fixed maturity securities	$ 117,582	$ 11,380	$ 15,969
Equity securities	(478)	1,559	(1,165)
Total net unrealized gain (loss)	117,104	12,939	14,804
Deferred income tax benefit (expense)	(40,986)	(4,529)	(5,181)
Net unrealized gains (loss), net of deferred income tax	76,118	8,410	9,623
Increase (decrease) in net unrealized gains, net of deferred income tax	$ 67,708	$ (1,213)	$ 13,418

(f) Derivatives

The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. The Company records changes in valuation on its derivative positions not designated as a hedge as a component of net realized gains and losses.

The Company records changes in valuation on its hedged positions as a component of other comprehensive income. As of December 31, 2012, the Company had two interest rate swap agreements designated as a hedge and were recorded as a liability in the amount of $4,636 and were included as a component of accrued expenses and other liabilities.

The following table presents the notional amounts by remaining maturity of the Company's Interest Rate Swaps as of December 31, 2012:

	Remaining Life of Notional Amount(1)				
(Amounts in Thousands)	**One Year**	**Two Through Five Years**	**Six Through Ten Years**	**After Ten Years**	**Total**
Interest rate swaps	$ —	$ 70,000	$ —	$ —	$ 70,000

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

(g) Restricted Cash and Investments

The Company, in order to conduct business in certain states, is required to maintain letters of credit or assets on deposit to support state 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, 2012 and 2011 are as follows:

(Amounts in Thousands)	**2012**	**2011**
Restricted cash	$ 78,762	$ 23,104
Restricted investments	251,082	187,227
Total restricted cash and investments	$ 329,844	$ 210,331

(h) Other

Securities sold but not yet purchased, represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value and as of December 31, 2012 and 2011 was $56,700 and $55,830 for U.S. treasury bonds, respectively, and $11 and $112 for equity securities, respectively. These transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, may exceed the amount reflected at December 31, 2012. Substantially all securities owned under these arrangements are pledged to the clearing broker to sell or repledge the securities to others subject to certain limitations.

The Company entered into repurchase agreements, 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, 2012, there were $234,911 principal amount outstanding at interest rates between 0.42% and 0.50%. Interest expense associated with these repurchase agreements for the year ended December 31, 2012 was $920 of which $0 was accrued as of December 31, 2012. The Company has $253,104 of collateral pledged in support of these agreements. As of December 31, 2011, there were $191,718 principal amount outstanding at interest rates between 0.4% and 0.45%. Interest expense associated with these repurchase agreements for the year ended December 31, 2011 was $1,028 of which $0 was accrued as of December 31, 2011. The Company had $210,890 of collateral pledged in support of these agreements. Interest expense related to repurchase agreements is recorded as a component of investment income. Additionally, during the year ended December 31, 2012, the Company entered into a reverse repurchase agreement in the amount of $57,000 that is included in cash and cash equivalents as of December 31, 2012. The Company retains collateral of $56,700 related to this agreement.

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, 2012 and 2011:

(Amounts in Thousands) As of December 31, 2012	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$ 66,192	$ 66,192	$ —	$ —
U.S. government securities	40,301	—	40,301	—
Municipal bonds	299,442	—	299,442	—
Corporate bonds and other bonds:				
Finance	893,688	—	893,688	—
Industrial	407,800	—	407,800	—
Utilities	47,926	—	47,926	—
Commercial mortgage backed securities	10,200	—	10,200	—
Residential mortgage backed securities:				
Agency backed	292,614	—	292,614	—
Non-agency backed	7,063	—	7,063	—
Equity securities	20,465	20,465	—	—
Short term investments	10,282	10,282	—	—
Other investments	11,144	—	—	11,144
Life settlement contracts	193,927	—	—	193,927
	$ 2,301,044	$ 96,939	$ 1,999,034	$ 205,071
Liabilities:				
Equity securities sold but not yet purchased, market	$ 11	$ 11	$ —	$ —
Fixed maturity securities sold but not yet purchased, market	56,700	56,700	—	—
Securities sold under agreements to repurchase, at contract value	234,911	—	234,911	—
Life settlement contract profit commission	11,750	—	—	11,750
Derivatives	4,636	—	4,636	—
	$ 308,008	$ 56,711	$ 239,547	$ 11,750

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

(Amounts in Thousands) As of December 31, 2011	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$ 53,274	$ 53,274	$ —	$ —
U.S. government securities	6,790	—	6,790	—
Municipal bonds	275,017	—	275,017	—
Corporate bonds and other bonds:				
Finance	515,951	—	515,951	—
Industrial	132,891	—	132,891	—
Utilities	38,506	—	38,506	—
Commercial mortgage backed securities	150	—	150	—
Residential mortgage backed securities:				
Agency backed	364,000	—	364,000	—
Non-agency backed	7,664	—	7,664	—
Equity securities	35,600	35,600	—	—
Short term investments	128,565	128,565	—	—
Other investments	14,588	—	—	14,588
Life settlement contracts	131,387	—	—	131,387
	$ 1,704,383	$ 217,439	$ 1,340,969	$ 145,975
Liabilities:				
Equity securities sold but not yet purchased, market	$ 112	$ 112	$ —	$ —
Fixed maturity securities sold but not yet purchased, market	55,830	55,830	—	—
Securities sold under agreements to repurchase, at contract value	191,718	—	191,718	—
Life settlement contract profit commission	12,022	—	—	12,022
Derivatives	3,508	—	—	3,508
	$ 263,190	$ 55,942	$ 191,718	$ 15,530

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets for the years ended December 31, 2012 and 2011:

(Amounts in Thousands)	Balance as of January 1, 2012	Net income (loss)	Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2012
Other investments	$ 14,588	$ (3,705)	$ 4,094	$ 1,884	$ (5,717)	$ —	$ 11,144
Life settlement contracts	131,387	56,804	—	15,810	(10,074)	—	193,927
Life settlement contract profit commission	(12,022)	272	—	—	—	—	(11,750)
Derivatives	(3,508)	—	(1,465)	—	—	4,973	—
Total	$ 130,445	$ 53,371	$ 2,629	$ 17,694	$ (15,791)	$ 4,973	$ 193,321

(Amounts in Thousands)	Balance as of January 1, 2011	Net income (loss)	Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2011
Other investments	$ 21,514	$ 883	$ (1,644)	$ 611	$ (6,776)	$ —	$ 14,588
Life settlement contracts	22,155	80,523	—	39,239	(10,530)	—	131,387
Life settlement contract profit commission	(4,711)	(7,311)	—	—	—	—	(12,022)
Derivatives	—	—	(3,508)	—	—	—	(3,508)
Total	$ 38,958	$ 74,095	$ (5,152)	$ 39,850	$ (17,306)	$ —	$ 130,445

The Company transferred its derivatives from Level 3 to Level 2 during the year ended December 31, 2012. The Company had no transfers between levels during 2011.

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

- *Equity and Fixed Income Investments:* Fair value disclosures for these investments are disclosed elsewhere in Note 2. "Significant Accounting Policies". The carrying values of cash, short term investments and investment income accrued approximate their fair values and are classified as Level 1 in the financial hierarchy.
- *Premiums Receivable:* 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.
- *Subordinated Debentures and Debt:* The current fair value of the Company's convertible senior notes and subordinated debentures was $248,000 and $58,300 as of December 31, 2012, respectively. These financial liabilities are classified as Level 3 in the financial hierarchy. The fair value of the convertible senior notes was determined using a binomial lattice model. The fair value of the subordinated debentures was determined using the Black-Derman-Troy interest rate lattice model.
- *Other investments:* The Company has less than one percent of its investment portfolio and consists of limited partnerships and hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy. Additionally, the Company has an investment in a Lloyd's syndicate that is valued on a cost basis. The Company has determined thats its investments in these securities are not material to its financial position or results of operations.
- *Derivatives:* The Company classifies interest rate swaps as Level 2 hierarchy. The Company uses these interest rate swaps to hedge floating interest rates on its debt, thereby changing the variable rate exposure to a fixed rate exposure for interest on these obligations. The estimated fair value of the interest rate swaps, which is obtained from a third

(In Thousands, Except Per Share Data)

party pricing service, is measured using discounted cash flow analysis that incorporates significant observable inputs, including the LIBOR forward curve and a measurement of volatility.

The fair value of life settlement contracts as well as life settlement profit commission is based on information available to the Company at the end of the reporting period. The Company considers the following factors in its fair value estimates: cost at date of purchase, recent purchases and sales of similar investments, financial standing of the issuer, and changes in economic conditions affecting the issuer, maintenance cost, premiums, benefits, standard actuarially developed mortality tables and industry life expectancy reports. The fair value of a life insurance policy is estimated using present value calculations based on the data specific to each individual life insurance policy. The following summarizes data utilized in estimating the fair value of the portfolio of life insurance policies for the years ended December 31, 2012 and 2011 and, as described in Note 6 "Investments in Life Settlements", only includes data for policies to which the Company assigned value at those dates:

	2012	2011
Average age of insured	79	77
Average life expectancy, months [1]	139	155
Average face amount per policy	$ 6,770,000	$ 6,703,000
Fair value discount rate	7.5%	7.5%
Internal rate of return [2]	17.7%	14.1%

(1) Standard life expectancy as adjusted for insured's specific circumstances
(2) Internal rate of return includes a risk premium which represents risk adjustments applied to the estimated present value of cash flows based on the following factors: (i) the volatility in life expectancy of insureds and the associated level of future premium payments and (ii) the projected risk of non-payment, including the financial health of the insurance carrier, the possibility of legal challenges from the insurance carrier or others and the possibility of regulatory changes that may affect payment.

These 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 reasonable 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, 2012 and 2011:

	Change in life expectancy	
	Plus 4 Months	Minus 4 Months
Investment in life policies:		
December 31, 2012	$ (27,160)	$ 29,285
December 31, 2011	$ (18,778)	$ 20,785

	Change in discount rate	
	Plus 1%	Minus 1%
Investment in life policies:		
December 31, 2012	$ (17,591)	$ 19,926
December 31, 2011	$ (13,802)	$ 15,804

5. Acquisitions

The following acquisitions occurred during the years ended December 31, 2012 and 2011. 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.

First Nonprofit Companies, Inc.

On December 31, 2012, the Company completed the acquisition of First Nonprofit Companies, Inc. ("FNC") for approximately $55,000. FNC serves approximately 1,500 nonprofit and government entities covering approximately $5,000 of annual payroll. FNC offers unique services as well as insurance programs that are designed to allow nonprofit and government entities to economically manage their unemployment tax obligations. In accordance with FASB ASC 805-10 *Business Combinations*, the Company recorded a purchase price of approximately $55,000, which consisted primarily of goodwill and intangible assets of $28,210 and $40,500, respectively. The intangible assets consist of relationships and have a life of 18 years. The goodwill and intangibles are included as a component of the Small Commercial Business segment. The acquisition of FNC had no impact on the Company's results of operations for 2012.

AHL

During 2012 and 2011, AmTrust Holdings Luxembourg ("AHL") completed a series of acquisitions described below. AHL is a holding company that purchases Luxembourg captive insurance entities that allows the Company to obtain the benefit of the captives' capital and utilization of their existing and future loss reserves through a series of reinsurance arrangements with one of the Company's subsidiaries. AHL and the result of the Company's utilization of the captives' loss reserves are included in our Specialty Risk and Extended Warranty segment.

In December 2012, AHL acquired all the issued and outstanding stock of Inter Re S.A., a Luxembourg domiciled captive insurance company, from USG People. The purchase price of Inter Re S.A. was approximately $40,600. The Company recorded approximately $44,800 of cash, intangible assets of $8,500 and a deferred tax liability of $12,700. Inter Re S.A. subsequently changed its name to AmTrust Re Epsilon.

In December 2012, AHL acquired all the issued and outstanding stock of Socare S.A., a Luxembourg domiciled captive insurance company, from Cactus S.A. The purchase price of Socare S.A. was approximately $119,300. The Company recorded approximately $130,500 of cash, intangible assets of $26,200 and a deferred tax liability of $37,400. Socare S.A. subsequently changed its name to AmTrust Re Theta.

In December 2011, AHL acquired all the issued and outstanding stock of Reaal Reassurantie S.., a Luxembourg domiciled captive insurance company, from SNS REAAL N.V. and REAAL N.V. The purchase price of Reaal Reassurantie S.A. was approximately $71,900. The Company recorded approximately $78,700 of cash, intangible assets of $15,500 and a deferred tax liability of $22,300. Reaal Reassurantie S.A. subsequently changed its name to AmTrust Re Kappa.

In December 2011, AHL acquired all the issued and outstanding stock of Vandermoortele International Reinsurance Company SA, a Luxembourg domiciled captive insurance company, from NV Vandermoortele, Vandemoortele International Finance SA and NV Safinco. The purchase price of Vandermoortele International Reinsurance Company SA was approximately $66,000. The Company recorded approximately $71,400 of cash, intangible assets of $10,600 and a deferred tax liability of $16,000. Vandermoortele International Reinsurance Company SA subsequently changed its name to AmTrust Re Zeta.

In June 2011, AHL acquired all the issued and outstanding stock of International Crédit Mutuel Reinsurance SA ("ICM Re"), a Luxembourg domiciled captive insurance company, from Assurance du Credit Mutuel IARD SA. The purchase price of ICM Re was approximately $315,000. The Company recorded approximately $347,000 of cash, intangible assets of $55,900 and a deferred tax liability of $87,800. ICM Re subsequently changed its name to AmTrust Re Alpha.

CNH Capital's Insurance Agencies

In July 2012, the Company completed the acquisition of CNH Capital Insurance Agency Inc. and CNH Capital Canada Insurance Agency, Ltd., collectively known as "CNH Capital Insurance Agencies," from CNH Capital, the financial services business of CNH Global N.V., for approximately $34,000. The acquisition allows the Company to enhance and expand CNH Capital Insurance Agencies' offering of equipment extended service contracts and other insurance products to Case IH, Case Construction, New Holland Agriculture and New Holland Construction equipment dealers in the United States and Canada. Additionally, the Company entered into service and license agreements with CNH Capital whereby the Company will make future payments based on gross revenues of the CNH Capital Insurance Agencies. In accordance with FASB ASC 805-10, Business Combinations, the Company recorded a purchase price of $34,000, which consisted primarily of goodwill and intangible assets of approximately $21,340 and $19,400, respectively. The intangible assets consist of renewal rights and licenses and have asset lives of between 5 and 10 years. The goodwill and intangibles are included as a component of the Specialty Risk and Extended Warranty segment. As a result of this transaction, the Company recorded approximately $9,800 of fee income during the year ended December 31, 2012. Additionally, the Company recorded approximately $29,644 of written premium for the year ended December 31, 2012 related to CNH.

BTIS

In December 2011, the Company acquired the California-based BTIS, an insurance wholesaler and general agent specializing in insurance policies and bonds for small artisan contractors. The purchase agreement required the Company to make an initial payment of $5,000 on the acquisition date and pay future incentives measured primarily on the overall profitability of the business for a period of approximately 4 years. In accordance with FASB ASC 805, *Business Combinations,* the Company recorded a purchase price of approximately $47,000, which included goodwill and intangibles of approximately of $28,270 and $29,900, respectively . The intangible assets included renewal rights, distribution networks and trademarks. The trademarks were determined to have an indefinite life while the renewal rights and distribution networks were determined to have lives of 11 years and 17 years, respectively. Additionally, the Company recorded a liability for approximately $2,410 related to an unfavorable lease assumed in the transaction. BTIS's revenues are included within the Company's Small Commercial Business segment as a component of service and fee income. The Company recorded approximately $18,100 and $2,002 of fee revenue as a result of this acquisition for the years ended December 31, 2012 and 2011, respectively. Additionally, the Company recorded written premium of approximately $70,107 for the year ended December 31, 2012 related to BTIS.

Cardinal Comp

In September 2008, the Company entered into a managing general agency agreement with Cardinal Comp, LLC (“Cardinal Comp”), a workers’ compensation managing general agent for which the Company paid the agency a commission for the placement of insurance policies. The agency operated in eight states and primarily in the state of New York. In September 2011, the Company, through one of its subsidiaries, entered into a renewal rights and asset purchase agreement with Cardinal Comp and Cook Inlet Alternative Risk LLC. The purchase price was approximately $30,388. The existing managing general agency agreement entered into in 2008 was terminated as part of the new agreement and will enable the Company to reduce commissions on written premium generated from the renewal rights agreement. In accordance with FASB ASC 805-10 *Business Combinations*, the Company recorded a purchase price of $30,388, which consisted primarily of goodwill and intangible assets of $5,250 and $24,750, respectively. The intangible assets consist of distribution networks, renewal rights and a trademark and have asset lives of between 2 and 16 years. The goodwill and intangibles are included as a component of the Small Commercial Business segment. The Company recorded approximately $90,886 and $84,000 of written premium related to Cardinal Comp for the years ended December 31, 2012 and 2011, respectively.

Majestic

The Company, through certain of its subsidiaries and the Insurance Commissioner of the State of California acting solely in the capacity as the statutory conservator (the "Conservator") of Majestic Insurance Company ("Majestic"), entered into a Rehabilitation Agreement that set forth a plan for the rehabilitation of Majestic (the "Rehabilitation Plan") by which the Company acquired the business of Majestic through a Renewal Rights and Asset Purchase Agreement (the "Purchase Agreement"), and a Loss Portfolio Transfer and Quota Share Reinsurance Agreement (the "Reinsurance Agreement"). On July 1, 2011, the Company, through one of its subsidiaries, entered into the Reinsurance Agreement, which was effective June 1, 2011, and assumed all of Majestic's liability for losses and loss adjustment expenses under workers' compensation insurance policies of approximately $331,660 on a gross basis (approximately $183,511 on a net basis), without any aggregate limit, and certain contracts related to Majestic's workers" compensation business, including leases for Majestic's California office space. In addition, the Company assumed 100% of the unearned premium reserve of approximately $25,997 on all in-force Majestic policies. In connection with this transaction, the Company received approximately $224,532 of cash and investments, which included $26,000 for a reserve deficiency and also included the assignment of Majestic's reinsurance recoverables of approximately $51,715. The Reinsurance Agreement also contains a profit sharing provision whereby the Company pays Majestic up to 3% of net earned premium related to current Majestic policies that are renewed by the Company in the three year period commencing on the closing date should the loss ratio on such policies for the three year period be 65% or less. The insurance premiums, which are included in the Company's Small Commercial Business segment, have been recorded since the acquisition date and were approximately $104,443 for the year ended December 31, 2012.

In accordance with FASB ASC 944-805 *Business Combinations*, the Company is required to adjust to fair value Majestic's loss and LAE reserves by taking the acquired loss reserves recorded and discounting them based on expected reserve payout patterns using a current risk-free rate of interest. This risk free interest rate was then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and the Company's best estimate of the fair value of such reserves at acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves. The Company determined the fair value of the loss reserves to be $328,905. Accordingly, the amortization will be recorded as an expense on the Company's income statement until fully amortized.

In consideration for the Company's assumption of (i) Majestic's losses and loss adjustment expenses under its workers' compensation insurance policies pursuant to the Reinsurance Agreement and (ii) Majestic's leases for its California offices, a Company subsidiary, pursuant to the Purchase Agreement, acquired the right to offer, quote and solicit the renewals of in-force workers' compensation policies written by Majestic, certain assets required to conduct such business, including intellectual property and information technology, certain fixed assets, and the right to offer employment to Majestic's California-based employees.

As a result of entering into the Purchase Agreement, the Company, in accordance with FASB ASC 805 *Business Combinations,* recorded $3,870 of intangible assets related to distribution networks and trademarks. The distribution networks have a life of 13 years and the trademarks have a life of 2 years. Additionally, the Company recorded a liability for approximately $390 related to an unfavorable lease assumed in the transaction and a liability for approximately $815 related to the above-mentioned profit sharing provision. During the three months ended December 31, 2012, this aforementioned profit sharing provision value was estimated to not be material.

As a result, the Company recorded an acquisition gain of $5,850 related to the entire Majestic purchase during the year ended December 31, 2011. A summary of the assets acquired and liabilities assumed for Majestic are as follows:

(Amounts in Thousands)		
Assets		
Cash and investments	$	224,532
Premium receivables		25,997
Reinsurance recoverables		148,149
Other assets		11,124
Intangible assets		6,625
Total assets	$	416,427
Liabilities		
Loss and loss expense reserves	$	331,660
Funds held under reinsurance treaties		51,715
Unearned premium		25,997
Accrued expenses and other current liabilities		1,205
Total liabilities	$	410,577
Acquisition gain	$	5,850

The Company has recorded written premium, which is included in the Company's Small Commercial Business segment, of approximately $104,443 and $42,882 for the years ended December 31, 2012 and 2011, respectively.

Warrantech

In August 2010, the Company, through its wholly-owned subsidiary AMT Warranty Corp., acquired 100% of the issued and outstanding capital stock of Warrantech Corporation and its subsidiaries (“Warrantech”) from WT Acquisition Holdings, LLC for approximately $7,500 in cash and an earnout payment to the sellers of a minimum of $2,000 and a maximum and $3,000 based on AMT Warranty Corp.’s EBITDA over the three-year period from January 1, 2011 through December 31, 2013. AMT Warranty Corp. issued 20% of its issued and outstanding common stock to the Chairman of Warrantech, which had a fair value of $6,900 as determined using both a market and an income approach. In 2012, the Company acquired the remaining 20% interest of AMT Warranty. The purchase price for the non-controlling interest was not material to the Company. Additionally, the Company settled its contingent consideration associated with the purchase of Warrantech acquisition for approximately $400.

6. Investment in Life Settlements

A life settlement contract is a contract between the owner of a life insurance policy and a third-party who obtains the ownership and beneficiary rights of the underlying life insurance policy. During 2010, the Company formed Tiger Capital LLC (“Tiger”) with a subsidiary of ACAC for the purposes of acquiring life settlement contracts. In 2011, the Company formed AMT Capital Alpha, LLC (“AMT Alpha”) with a subsidiary of ACAC and AMT Capital Holdings, S.A. (“AMTCH”) with ACP Re, Ltd., an entity controlled by the Michael Karfunkel Grantor Retained Annuity Trust, for the purposes of acquiring additional life settlement contracts. The Company has a fifty percent ownership interest in each of Tiger, AMT Alpha and AMTCH (collectively, the “LSC entities”). The LSC entities may also acquire premium finance loans made in connection with the borrowers’ purchase of life insurance policies that are secured by the policies, which are in default at the time of purchase. The LSC entities acquire the underlying policies through the borrowers’ voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator of the Tiger life settlement contract portfolio, for which it receives an annual fee. The third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. The Company provides certain actuarial and finance functions related to the LSC entities. Additionally, in conjunction with the Company’s 21.25% ownership percentage of ACAC, the Company ultimately receives 60.625% of the profits and losses of Tiger and AMT Alpha. As such, in accordance with ASC 810-10, *Consolidation,* the Company has been deemed the primary beneficiary and, therefore, consolidate the LSC entities.

The Company accounts for investments in life settlements in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these policies using the fair value method. The Company determines fair value on a discounted cash flow basis of anticipated death benefits, incorporating current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available.

Total capital contributions of $40,062 and $43,000 were made to the LSC entities during the years ended December 31, 2012 and 2011, respectively, for which the Company contributed approximately $20,100 and $21,500 in those same periods. The LSC entities used a majority of the contributed capital to acquire certain life insurance policies of approximately $15,810 and $31,000 for the years ended December 31, 2012 and 2011, respectively, as well as pay premiums on existing policies and premium finance loans. The Company’s investments in life settlements and cash value loans were approximately $193,927 and $136,800 as of December 31, 2012 and 2011, respectively and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. The Company recorded a gain on investment in life settlement contracts net of profit commission for the years ended December 31, 2012, 2011 and 2010 of approximately $13,822, $46,900 and $11,855, respectively, related to the life settlement contracts.

In addition to the 256 and 237 policies disclosed in the table below as of December 31, 2012 and 2011, respectively, Tiger owned 13 and 36 premium finance loans as of December 31, 2012 and 2011, respectively, which were secured by life insurance policies and were carried at a value of $0 and $5,391 as of December 31, 2012 and 2011, respectively. As of December 31, 2012, the face value amount of the related 256 life insurance policies and 13 premium finance loans were approximately $1,672,909 and $0, respectively. All of the premium finance loans are in default and Tiger is enforcing its rights in the collateral. Upon the voluntary surrender of the underlying life insurance policy in satisfaction of the loan or foreclosure, Tiger will become the owner of and beneficiary under the underlying life insurance policy and will have the option to continue to make premium payments on the policies or allow the policies to lapse. If a policyholder wishes to cure his or her default and repay the loan, Tiger will be repaid the total amount due under the premium finance loans, including all premium payments made by Tiger to maintain the policy in force since its acquisition of the loan.

The following tables describe the Company's investment in life settlements as of December 31, 2012 and 2011:

(Amounts in thousands, except Life Settlement Contracts) Expected Maturity Term in Years	Number of Life Settlement Contracts	Fair Value (1)	Face Value
As of December 31, 2012			
0 – 1	—	$ —	$ —
1 – 2	6	27,511	58,000
2 – 3	4	13,678	25,000
3 – 4	1	4,775	10,000
4 – 5	2	6,004	20,000
Thereafter	243	141,959	1,559,909
Total	256	$ 193,927	$ 1,672,909
As of December 31, 2011			
0 – 1	—	$ —	$ —
1 – 2	—	—	—
2 – 3	1	6,665	10,000
3 – 4	1	2,703	5,000
4 – 5	2	9,630	20,000
Thereafter	233	112,389	1,483,183
Total	237	$ 131,387	$ 1,518,183

(1) The Company determined the fair value as of December 31, 2012 based on 173 policies out of 256 policies, as the Company assigned no value to 83 of the policies. The Company determined the fair value as of December 31, 2011 based on 135 policies out of 237 policies, as the Company assigned no value to 102 of the policies. The Company estimated the fair value of a policy using present value calculations. If the estimate fair value is determined to be less than zero, then no value is assigned to that policy.

Premiums to be paid for each of the five succeeding fiscal years to keep the life insurance policies in force as of December 31, 2012, are as follows:

(Amounts in Thousands)	Premiums Due on Life Settlement Contracts	Premiums Due on Premium Finance Loans	Total
2013	$ 28,397	$ 744	$ 29,141
2014	30,569	876	31,445
2015	31,831	1,068	32,899
2016	42,049	1,749	43,798
2017	40,479	1,188	41,667
Thereafter	523,385	20,346	543,731
	$ 696,710	$ 25,971	$ 722,681

7. Intangible Assets and Goodwill

The composition of the intangible assets is summarized as follows:

(Amounts in Thousands) As of December 31, 2012	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$ 229,780	$ —	$ 229,780	Indefinite Life
Renewal rights	30,880	7,373	23,507	7 – 17 years
Covenant not to compete	7,756	6,629	1,127	3 – 9 years
Distribution networks	96,586	20,748	75,838	10 – 20 years
Software	2,293	2,052	241	20 years
Customer relationships	63,595	6,085	57,510	5 – 18 years
Trademarks	5,193	3,615	1,578	2 – 15 years
Trademarks	5,033	—	5,033	Indefinite Life
Licenses	12,608	1,255	11,353	5 - 50 years
Licenses	14,340	—	14,340	Indefinite Life
Contractual use rights	132,991	51,997	80,994	Specific use
Preemptive use rights	11,868	—	11,868	Indefinite Life
Other	2,755	957	1,798	4 years
Total	$ 615,678	$ 100,711	$ 514,967	10 years average

(Amounts in Thousands) As of December 31, 2011	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$ 175,924	$ —	$ 175,924	Indefinite Life
Renewal rights	21,480	3,150	18,330	7 – 17 years
Covenant not to compete	7,756	4,569	3,187	3 – 9 years
Distribution networks	85,042	14,754	70,288	10 – 20 years
Software	2,305	2,028	277	20 years
Customer relationships	23,263	4,595	18,668	5 – 10 years
Trademarks	5,124	2,105	3,019	2 – 15 years
Trademarks	5,033	—	5,033	Indefinite Life
License	408	27	381	50 years
Licenses	14,340	—	14,340	Indefinite Life
Contractual use rights	98,306	37,405	60,901	Specific use
Other	2,755	317	2,438	4 years
Total	$ 441,736	$ 68,950	$ 372,786	10 years average

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2012 and 2011 are as follows:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Total
Balance as of January 1, 2011	$ 47,688	$ 53,212	$ 5,320	$ 106,220
Goodwill additions	38,124	23,288	8,300	69,712
Foreign currency translation	—	(8)	—	(8)
Balance as of January 1, 2012	$ 85,812	$ 76,492	$ 13,620	$ 175,924
Goodwill additions	30,460	21,340	2,200	54,000
Foreign currency translation	—	(144)	—	(144)
Balance as of December 31, 2012	$ 116,272	$ 97,688	$ 15,820	$ 229,780

Goodwill added during 2012 resulted primarily from the acquisition of FNC in the Small Commercial Business segment and the CNH Capital Insurance Agencies in the Specialty Risk and Extended Warranty segment. Goodwill added during 2011 resulted primarily from the acquisitions of BTIS and Cardinal Comp and other adjustments for deferred tax liabilities in the Small Commercial Business segment, the finalization of acquisition adjustments for Warrantech in the Specialty Risk and Extended Warranty segment and contingent consideration related to a Specialty Program business.

Goodwill and intangible assets are subject to annual impairment testing. No impairment was recorded during the years ended December 31, 2012, 2011 and 2010. Finite lived intangible assets are amortized under the straight-line method, except for renewal rights, which the Company amortizes using a 125% accelerated method, and contractual use rights, which are amortized based on actual use. Amortization expense for 2012, 2011 and 2010 was $31,761, $40,194 and $14,305, respectively. The estimated aggregate amortization expense for each of the next five years is:

(Amounts in Thousands)	
2013	$ 37,120
2014	33,319
2015	30,520
2016	27,009
2017	23,517

8. Property and Equipment, Net

(Amounts in Thousands) As of December 31,	2012	2011
Land	$ 7,593	$ 7,593
Building	21,636	21,516
Software	41,915	26,428
Computer equipment	17,384	15,471
Other equipment	18,059	17,239
Leasehold improvements	10,596	1,335
	117,183	89,582
Less: Accumulated depreciation and amortization	(41,250)	(28,029)
	$ 75,933	$ 61,553

Depreciation expense was $13,221, $9,806 and $6,039 for the years ended December 31, 2012, 2011 and 2010.

9. Liability for Unpaid Loss and LAE

The following table provides a reconciliation of the beginning and ending balances for unpaid losses and LAE, reported in the accompanying consolidated balance sheets as of December 31, 2012, 2011 and 2010:

(Amounts in Thousands)	2012	2011	2010
Unpaid losses and LAE, gross of related reinsurance recoverables at beginning of year	$ 1,879,175	$ 1,263,537	$ 1,091,944
Less: Reinsurance recoverables at beginning of year	972,392	670,877	561,874
Net balance, beginning of year	906,783	592,660	530,070
Incurred related to:			
Current year	909,818	665,812	463,535
Prior year	12,857	12,521	7,946
Total incurred losses during the year	922,675	678,333	471,481
Paid losses and LAE related to:			
Current year	(406,238)	(390,267)	(222,593)
Prior year	(285,479)	(179,721)	(187,012)
Total payments for losses and LAE	(691,717)	(569,988)	(409,605)
Commuted loss reserves	91,529	—	1,350
Net balance, December 31	1,229,270	701,005	593,296
Acquired outstanding loss and loss adjustment reserve	13,137	209,651	—
Effect of foreign exchange rates	3,781	(3,873)	(636)
Plus reinsurance recoverables at end of year	1,180,212	972,392	670,877
Unpaid losses and LAE, gross of related reinsurance recoverables at end of year	$ 2,426,400	$ 1,879,175	$ 1,263,537

In 2012, various subsidiaries of the Company participated in a commutation related to quota share reinsurance agreements with National Indemnity Company covering the 2009 and 2010 European medical liability program. The amount of the commutation was approximately $91,529. The commutation did not have any impact on the Company's results of operations for 2012.

In 2012, 2011 and 2010, the Company’s liabilities for unpaid losses and LAE attributable to prior years increased by $12,857, $12,521 and $7,946, respectively, primarily as a result of unfavorable loss development in its Specialty Program segment due to higher actuarial estimates based on actual losses.The percentage of the Company's unpaid losses and LAE related to IBNR was 34.5%, 40.3% and 45.1% as of December 31, 2012, 2011 and 2010, respectively. The reduction in IBNR as a percentage of overall loss reserves within this segment is a result of redefining IBNR within our European operations, which lead to the classification of a greater percentage of those reserves as case reserves as opposed to IBNR. 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 than the industry, as a whole, the Company’s liabilities for unpaid losses and LAE should decrease. Management believes that its use of both its historical experience and industry-wide loss development factors provide a reasonable basis for estimating future losses. As the Company has written more business and developed more credible data, the Company has assigned more weight to its historical experience than to industry-wide results. 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.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated changes in claim costs due to inflation are considered 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. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and are modified if necessary.

10. Accrued Expenses and Other Liabilities

(Amounts in Thousands) As of December 31,	2012	2011
Premium taxes, assessments and surcharges payable	$ 110,540	$ 67,138
Commissions payable	65,708	43,923
Deferred warranty revenue	62,721	51,011
Due to sellers	48,950	58,059
Other accrued expenses	43,394	29,518
Deposits from customers	30,996	17,396
Claims payable	23,313	18,005
Accounts payable	11,098	8,464
Premiums collected in advance	9,727	18,279
	$ 406,447	$ 311,793

11. Debt

The Company’s borrowings consisted of the following at December 31, 2012 and 2011:

(Amounts in Thousands) As of December 31,	2012	2011
Revolving credit facility	$ —	$ —
Subordinated debentures	123,714	123,714
Convertible senior notes	161,218	138,506
Secured loan agreements	9,041	10,018
Promissory notes	8,000	7,362
	$ 301,973	$ 279,600

Aggregate scheduled maturities of the Company’s borrowings at December 31, 2012 are:

(Amounts in Thousands)	
2013	$ 1,021
2014	1,068
2015	1,116
2016	1,167
2017	1,220
Thereafter	296,381 (1)

(1) Amount reflected in balance sheet for convertible senior notes is net of unamortized original issue discount of $38,782.

Revolving Credit Agreement

On August 10, 2012, the Company entered into a four-year, $200,000 credit agreement (the "Credit Agreement"), among JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and SunTrust Bank, as Co-Syndication Agents, Associated Bank, National Association and Lloyds Securities Inc., as Co-Documentation Agents and various lending institutions party thereto. The credit facility is a revolving credit facility with a letter of credit sublimit of $100,000 and an expansion feature not to exceed $100,000. In connection with entering into the Credit Agreement, the Company terminated its existing $150,000 credit agreement, dated as of January 28, 2011 with JPMorgan Chase Bank, N.A. Fees associated with the Credit Agreement were approximately $989. 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 the Company to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. The Company was in compliance with all of its covenants as of December 31, 2012.

As of December 31, 2012, the Company had no outstanding borrowings under this Credit Agreement. The Company had outstanding letters of credit in place under this Credit Agreement at December 31, 2012 for $95,807, which reduced the availability for letters of credit to $4,193 as of December 31, 2012, and the availability under the facility to $104,193 as of December 31, 2012.

Borrowings under the Credit Agreement bear interest at (x) the greatest of (a) the Administrative Agent's prime rate, (b) the federal funds effective rate plus 0.5 percent or (c) the adjusted LIBO rate for a one month interest period on such day plus 1 percent, plus (y) a margin that is adjusted on the basis of the Company's consolidated leverage ratio. Eurodollar borrowings under the credit agreement will bear interest at the adjusted LIBO rate for the interest period in effect plus a margin that is adjusted on the basis of the Company's consolidated leverage ratio. The interest rate on the credit facility as of December 31, 2012 and 2011 was 2.50%. The Company recorded total interest expense of approximately $1,884 and $2,697 for the years ended December 31, 2012 and 2011, respectively, under the Credit Agreements.

Fees payable by the Company under the Credit Agreement include a letter of credit participation fee (which is the margin applicable to Eurodollar borrowings and was 1.50% at December 31, 2012), 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 0.20% to 0.30% based on the Company's consolidated leverage ratio and was 0.25% at December 31, 2012).

Junior Subordinated Debt

The Company has established four special purpose trusts for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in junior subordinated debentures issued by the Company. In accordance with FASB ASC 810-10-25, the Company does not consolidate such special purpose trusts, as the Company is not considered to be the primary beneficiary. The equity investment, totaling $3,714 as of December 31, 2012 on the Company's consolidated balance sheet, represents the Company's ownership of common securities issued by the trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on the Company's common stock under certain circumstances, including default of payment. The Company incurred $2,605 of placement fees in connection with these issuances which is being amortized over thirty years. The Company recorded $8,297, $9,871 and $10,209 of interest expense for the years ended December 31, 2012, 2011 and 2010, respectively, related to these trust preferred securities.

The table below summarizes the Company's trust preferred securities as of December 31, 2012:

(Amounts in Thousands) Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate of Notes
AmTrust Capital Financing Trust I	$ 25,000	$ 774	$ 25,774	3/17/2035	8.275% (1)
AmTrust Capital Financing Trust II	25,000	774	25,774	6/15/2035	7.710 (1)
AmTrust Capital Financing Trust III	30,000	928	30,928	9/15/2036	3.608 (2)
AmTrust Capital Financing Trust IV	40,000	1,238	41,238	3/15/2037	3.308 (3)
Total trust preferred securities	$ 120,000	$ 3,714	$ 123,714		

(1) The interest rate will change to three-month LIBOR plus 3.40% after the tenth anniversary in 2015.
(2) The interest rate is LIBOR plus 3.30%.
(3) The interest rate is LIBOR plus 3.00%.

The Company entered into two interest rate swap agreements related to these junior subordinated debentures, which effectively convert the interest rate on the trust preferred securities from a variable rate to a fixed rate. Each agreement is for a period of five years and commenced on September 15, 2011 for tranche III and March 15, 2012 for tranche IV.

Convertible Senior Notes

In December 2011, the Company issued $175,000 aggregate principal amount of its 5.50% convertible senior notes due 2021 (the “Notes”) to certain initial purchasers in a private placement. In January 2012, the Company issued an additional $25,000 of the Notes to cover the initial purchasers' overallotment option. The Notes bear interest at a rate equal to 5.50% per year, payable semiannually in arrears on June 15 and December 15th of each year, beginning on June 15, 2012.

The Notes will mature on December 15, 2021 (the “Maturity Date”), unless earlier purchased by the Company or converted into shares of the Company’s common stock, par value $0.01 per share (the “Common Stock”). Prior to September 15, 2021, the Notes will be convertible only upon satisfaction of certain conditions, and thereafter, at any time prior to the close of business on the second scheduled trading day immediately preceding the Maturity Date. The conversion rate at December 31, 2012 is equal to 34.5759 shares of Common Stock per $1,000 principal amount of Notes, which corresponds to a conversion price of approximately $28.92 per share of Common Stock. The conversion rate is subject to adjustment upon the occurrence of certain events as set forth in the indenture governing the notes. Upon conversion of the Notes, the Company will, at its election, pay or deliver, as the case may be, cash, shares of Common Stock, or a combination of cash and shares of Common Stock.

Upon the occurrence of a fundamental change (as defined in the indenture governing the notes) involving the Company, holders of the Notes will have the right to require the Company to repurchase their Notes for cash, in whole or in part, at 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date.

The Company separately allocated the proceeds for the issuance of the Notes to a liability component and an equity component, which is the embedded conversion option. The equity component was reported as an adjustment to paid-in-capital, net of tax, and is reflected as an original issue discount (“OID”). The OID of $41,679 and deferred origination costs relating to the liability component of $4,750 will be amortized into interest expense over the term of the loan of the Notes. After considering the contractual interest payments and amortization of the original discount, the Notes effective interest rate was 8.57%. Transaction costs of $1,250 associated with the equity component were netted in paid-in-capital. Interest expense, including amortization of deferred origination costs, recognized on the Notes was $14,031 and $524 for the years ended December 31, 2012 and 2011, respectively.

The following table shows the amounts recorded for the Notes as of December 31, 2012 and 2011:

(Amounts in Thousands)	December 31, 2012	December 31, 2011
Liability component		
Outstanding principal	$ 200,000	$ 175,000
Unamortized OID	(38,782)	(36,494)
Liability component	$ 161,218	$ 138,506
Equity component, net of tax	$ 27,092	$ 23,785

Secured Loan Agreement

During February 2011, the Company, through a wholly-owned subsidiary, entered into a seven year secured loan agreement with Bank of America Leasing & Capital, LLC in the aggregate amount of $10,800 to finance the purchase of an aircraft. The loan bears interest at a fixed rate of 4.45%, requires monthly installment payments of approximately $117 commencing on March 25, 2011 and ending on February 25, 2018, and a balloon payment of $3,240 at the maturity date. The Company recorded interest expense of approximately $432 and $402 for the years ended December 31, 2012 and 2011, respectively, related to this agreement. The loan is secured by the aircraft.

The agreement contains certain covenants that are similar to the Company’s revolving credit facility. Additionally, subsequent to February 25, 2012, but prior to payment in full, if the outstanding balance of this loan exceeds 90% of the fair value of the aircraft, 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 90% of the fair value of the aircraft. The agreement allows the Company, under certain conditions, to repay the entire outstanding principal balance of this loan without penalty.

Promissory Notes

In September 2012, as part of its participation in the New Market Tax Credit Program discussed in Note 20. "New Market Tax Credit", the Company entered into two promissory notes totaling $8,000. The loans are for a period of 15 years and have an average interest rate of 1.7% per annum. The Company recorded interest expense of approximately $100 for the year ended December 31, 2012 related to the notes. Additionally, the Company recorded approximately $1,430 of deferred financing fees.

Comerica Letter of Credit Facility

In connection with the Majestic acquisition discussed in Note 5 "Acquisitions," the Company, through one of its subsidiaries, entered into a secured letter of credit facility with Comerica Bank during the three months ended September 30, 2011. The Company utilizes this letter of credit facility to comply with the deposit requirements of the State of California and the U.S. Department of Labor as security for the Company's obligations to workers' compensation and Federal Longshore and Harbor Workers' Compensation Act policyholders. The credit limit is for $75,000 and was utilized for $49,634 as of December 31, 2012. The Company is required to pay a letter of credit participation fee for each letter of credit in the amount of 0.40%.

Other Letters of Credit

As of December 31, 2012, the Company, through certain subsidiaries, has additional existing stand-by letters of credit in the amount of $7,377 outstanding, which reduced the availability on the letters of credit to $11 as of December 31, 2012.

12. Reinsurance

The Company structures its reinsurance programs by analyzing its threshold for risk in each line of business and on an overall consolidated basis, based on a number of factors, including market conditions, pricing, competition and the inherent risks associated with each business type. Based on its analysis of these factors, the Company may determine not to purchase reinsurance for some lines of business. 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 retain 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 limits are within its risk tolerance.

The Company purchases reinsurance on a proportional basis to cover loss frequency, individual risk severity and catastrophe exposure. Some of the proportional reinsurance agreements may have maximum loss limits, most of which are at or greater than a 500% loss ratio. The Company also purchases 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, and 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 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 enters reinsurance relationships with third-party captives formed by agents and other business partners as a mechanism for sharing risk and profit.

In order to reduce its exposure to reinsurance credit risk, the Company evaluates the financial condition of its reinsurers and places its reinsurance with a diverse group of companies and syndicates that it believes to be financially sound. The

Company carefully monitors the credit quality of its reinsurers when the Company places new and renewal reinsurance, as well as on an ongoing, current basis. The Company uses objective criteria to select and retain its reinsurers, including requiring minimum surplus of $500,000 and a financial strength rating of “A-” or better from A.M. Best Company, Inc. or Standard & Poor's Corporation. The Company approves exceptions to these criteria when warranted.

The Company monitors its financial exposure to the reinsurance market and takes necessary actions in an attempt to mitigate its exposure to possible loss. The Company limits its liquidity exposure for uncollected recoverables by holding funds, letters of credit or other security, such 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 for 2012 for the United States and internationally:

(Amounts in Thousands)	2012 Domestic Reinsurance Program		
Type of Reinsurance	Retention	Limits (per occurrence)	Coverage
Worker's Compensation Excess of Loss	$ 5,000	$ 230,000	100% of $225,000
Property, Excess of Loss	$ 2,000	$ 20,000	100% of $18,000
Property Catastrophe, excess	$ 5,000	$ 65,000	100% of $60,000
Casualty Excess of Loss	$ 2,000	$ 30,000	100% of $28,000
Public Entity, Pro Rata	N/A	$ 10,000	20% of $10,000
Professional Liability, Excess of Loss	$ 500	$ 5,000	100% of $4,500
Equipment Breakdown, Pro Rata	N/A	$ 25,000	100% of $25,000
Umbrella, Pro Rata	N/A	$ 10,000	85% of $10,000

(Amounts in Thousands)	2012 International Reinsurance Program		
Type of Reinsurance	Retention	Limits(per occurrence)	Coverage
Property, Excess of Loss	$ 800	$ 3,200	100% of $2,400
Property Catastrophe, Excess of Loss	$ 8,000	$ 72,000	100% of $64,000
Surety, Pro Rata and Excess of Loss	$ 4,000	$ 32,500	100% of $28,500
Casualty Excess of Loss	$ 1,600	$ 16,000	100% of $15,200
Latent Defect Excess of Loss	$ 1,300	$ 40,000	100% of $38,700
Accident and Health Excess of Loss	$ 800	$ 24,000	100% of $23,200
Medical Malpractice, Pro Rata(1)	N/A	$ 13,000	100% of $13,000

(1) Reinsurance agreement with Maiden Insurance by which we cede 40% of our European medical liability business. For a description of this agreement, see Note 13. “Related Party Transactions.”

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

Company incurs a property catastrophe loss, it is required to pay the reinsurers a reinstatement premium equal to the full amount of the original premium.

During the third quarter of 2007, the Company entered into a master agreement with Maiden, as amended, by which its Bermuda subsidiary, AII, and Maiden Insurance entered into a quota share reinsurance agreement, as amended (the "Maiden Quota Share"). For a description of this agreement, see Note 13. "Related Party Transactions."

The effect of reinsurance with unrelated companies on premiums and losses for 2012, 2011 and 2010 are as follows:

	Year Ended December 31,					
	2012		2011		2010	
(Amounts in Thousands)	Written	Earned	Written	Earned	Written	Earned
Premiums:						
Direct	$ 2,494,846	$ 2,067,635	$ 1,843,185	$ 1,553,878	$ 1,375,993	$ 1,220,164
Assumed	254,480	270,008	307,287	265,258	184,829	160,285
Ceded	(1,101,289)	(918,791)	(873,875)	(782,275)	(733,596)	(634,790)
	$ 1,648,037	$ 1,418,852	$ 1,276,597	$ 1,036,861	$ 827,226	$ 745,659

	As of December 31,					
	2012		2011		2010	
(Amounts in Thousands)	Assumed	Ceded	Assumed	Ceded	Assumed	Ceded
Loss and LAE reserves	$ 503,174	$ (1,185,056)	$ 547,127	$ (972,392)	$ 129,066	$ (670,877)
Unearned premiums	108,679	(754,844)	124,207	(584,871)	77,548	(484,960)
Loss and LAE expense incurred	166,191	(638,595)	222,859	(575,794)	105,501	(441,106)

The Company continuously updates the reserves on these lines of business based on information available from the ceding insurers. During 2012 and 2011, the Company had no commutations related to workers' compensation that were included in ceded reinsurance treaties.

13. Related Party Transactions

Maiden

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, the principal shareholders, and, respectively, the chairman of the board of directors, a director, and the chief executive officer and director of the Company. As of December 31, 2012, our principal shareholders, Michael Karfunkel, Leah Karfunkel (wife of Michael Karfunkel and sole trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust), George Karfunkel and Barry Zyskind, own or control approximately 5.4%, 7.6%, 9.4% and 5.1%, respectively, of the issued and outstanding capital stock of Maiden. Mr. Zyskind serves as the non-executive chairman of the board of Maiden’s board of directors. Maiden Insurance Company, Ltd (“Maiden Insurance”), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer. The following section describes the agreements in place between the Company and its subsidiaries and Maiden and its subsidiaries.

Reinsurance Agreements with Maiden Holdings, Ltd.

In 2007, the Company and Maiden entered into a master agreement, as amended, by which the parties caused the Company’s Bermuda subsidiary, AmTrust International Insurance, Ltd. (“AII”) and Maiden Insurance to enter into a quota share reinsurance agreement (the “Maiden Quota Share”), as amended, by which AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by the Company’s U.S., Irish and U.K. insurance companies (the “AmTrust Ceding Insurers”), net of the cost of unaffiliated inuring reinsurance (and in the case of the Company’s U.K. insurance subsidiary, AmTrust Europe Ltd., net of commissions) and 40% of losses excluding certain specialty risk programs that the Company commenced writing after the effective date, including the Company's European medical liability business discussed below, and risks, other than workers’ compensation risks and certain business written by the Company’s Irish subsidiary, AmTrust International Underwriters Limited (“AIU”), for which the AmTrust Ceding Insurers’ net retention exceeds $5,000 (“Covered Business”).

The Maiden Quota Share, which had an initial term of three years, was renewed through June 30, 2014 and will automatically renew for successive three-year terms unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on thirty days’ notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders’ equity of Maiden Insurance or the combined shareholders’ equity of AII and the AmTrust Ceding Insurers.

The Maiden Quota Share, as amended, further provides that AII receives a ceding commission based on a percentage of ceded written premiums with respect to all Covered Business. Commencing January 1, 2012, the ceding commission with respect to all Covered Business other than the retail commercial package business is adjusted on a quarterly basis to (a) 30% of ceded premium, if the Specialty Risk and Extended Warranty subject premium, excluding ceded premium related to our medical liability business discussed below, is greater than or equal to 42% of the total subject premium, (b) 30.5% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 42% but greater than or equal to 38%, or (c) 31% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 38% of the total subject premium. The ceding commission for the retail commercial package business is 34.375% of ceded premium. From April 1, 2011 until December 31, 2011, AII received a ceding commission of 30% of ceded written premium with respect to all Covered Business other than the retail commercial package business, for which the ceding commission was 34.375%. Prior to April 1, 2011, AII received a ceding commission of 31% of ceded premiums with respect to all Covered Business other than the retail commercial package business, for which ceding commission was 34.375%.

Effective April 1, 2011, the Company, through its subsidiaries AEL and AIU, entered into a reinsurance agreement with Maiden Insurance by which the Company cedes to Maiden Insurance 40% of its European medical liability business, including business in force at April 1, 2011. The quota share had an initial term of one year and was renewed through March 31, 2014. The agreement can be terminated by either party on four months’ prior written notice. Maiden Insurance 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%.

Effective September 1, 2010, the Company, through its subsidiary, Security National Insurance Company ("SNIC"), entered into a reinsurance agreement with Maiden Reinsurance Company and an unrelated third party. Under the agreement, which had an initial term of one year and has been extended to August 31, 2013, SNIC cedes 80% of the gross liabilities produced under the Southern General Agency program to Maiden Reinsurance Company and 20% of the gross liabilities produced to the unrelated third party. SNIC receives a five percent commission on ceded written premiums.

The following is the effect on the Company's results of operations for the years ended December 31, 2012, 2011 and 2010 related to the Maiden Quota Share agreement:

(Amounts in Thousands)	2012	2011	2010
Results of operations:			
Premium written – ceded	$ (846,491)	$ (703,175)	$ (463,042)
Change in unearned premium – ceded	116,168	143,553	21,771
Earned premium – ceded	$ (730,323)	$ (559,622)	$ (441,271)
Ceding commission on premium written	$ 223,111	$ 182,316	$ 144,598
Ceding commission – deferred	(26,129)	(28,363)	(6,487)
Ceding commission – earned	$ 196,982	$ 153,953	$ 138,111
Incurred loss and loss adjustment expense – ceded	$ 526,210	$ 401,822	$ 295,469

Fronting Arrangement with Maiden Specialty Insurance Company

Effective September 1, 2010, the Company, through its subsidiary Technology Insurance Company. Inc. ("TIC"), entered into a quota share reinsurance agreement with Maiden Specialty Insurance Company ("Maiden Specialty") by which TIC assumes a portion (generally 90%) of premiums and losses with respect to certain surplus lines programs written by Maiden Specialty on behalf of the Company (the "Surplus Lines Facility"). The Surplus Lines Facility enables the Company to write business on a surplus lines basis throughout the United States. Currently, the Company is utilizing the Surplus Lines Facility for two programs for which Maiden Specialty receives a five percent ceding commission on all premiums ceded by Maiden Specialty to TIC. The Surplus Lines Facility shall remain continuously in force until terminated. The Company has surplus lines authority for two of its insurance company subsidiaries, which has significantly decreased the need for the Surplus Lines Facility. As a result of this agreement, the Company assumed approximately $524 and $18,000 of written premium during the years ended December 31, 2012 and 2011, respectively. The Company recorded earned premium of approximately $7,507 and $10,400 and incurred losses of approximately $4,552 and $6,500 for the years ended December 31, 2012 and 2011, respectively. The Company did not enter into any material transactions related to this agreement during 2010.

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

In conjunction with the Maiden Quota Share, as described above, AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby Maiden Insurance loaned to AII the amount equal to its quota share of the obligations of the AmTrust Ceding Insurers that AII was then obligated to secure. The loan agreement provides for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Advances under the loan are secured by a promissory note and totaled $167,975 as of December 31, 2012 and 2011. The Company recorded $1,951, $1,925 and $982 of interest expense during the years ended December 31, 2012, 2011 and 2010, respectively. Effective December 1, 2008, AII and Maiden Insurance entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Insurance is required to provide AII the assets required to secure Maiden's proportionate share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral as of December 31, 2012 was approximately $864,101. Maiden retains ownership of the collateral in the trust account.

Reinsurance Brokerage Agreement

Effective July 1, 2007, the Company, through a subsidiary, entered into 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 $8,759, $8,082 and $5,841 of brokerage commission (recorded as a component of Service and fee income) during the years ended December 31, 2012, 2011 and 2010, respectively.

Asset Management Agreement

Effective July 1, 2007, the Company, through a subsidiary, entered into an asset management agreement with Maiden, pursuant to which it provides investment management services to Maiden and its affiliates. The Company currently manages approximately $2,800,000 of assets related to this agreement. The investment management services fee is an annual rate of 0.20% for periods in which average assets are $1,000,000 or less and an annual rate of 0.15% for periods in which the average invested assets exceed $1,000,000. As a result of this agreement, the Company earned approximately $3,697, $3,046 and $2,693 of investment management fees (recorded as a component of service and fee income) for the years ended December 31, 2012, 2011 and 2010, respectively.

Senior Notes

In June 2011, the Company, through a subsidiary, participated as a purchaser in a registered public offering by Maiden Holdings North America, Ltd., a subsidiary of Maiden, for $12,500 of an aggregate $107,500 principal amount of 8.25% Senior Notes due 2041 (the "Notes") that are fully and unconditionally guaranteed by Maiden. The Notes are redeemable for cash, in whole or in part, on or after June 15, 2016, at 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but not including, the redemption date. The Company had an unrealized gain of $446 on the senior notes for the year ended December 31, 2012.

American Capital Acquisition Corporation

During the three months ended March 31, 2010, the Company completed its strategic investment in American Capital Acquisition Corporation ("ACAC"). ACAC was formed by The Michael Karfunkel 2005 Grantor Retained Annuity Trust (the "Trust") and the Company for the purpose of acquiring from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation ("MIC", together with GMAC Insurance Holdings, Inc., "GMACI"), GMACI's U.S. consumer property and casualty insurance business (the "GMACI Business"), a writer of automobile coverages through independent agents in the United States. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the "GMACI Insurers"). Michael Karfunkel, individually, and the Trust own 100% of ACAC's common stock (subject to the Company's conversion rights described below). Michael Karfunkel is the chairman of the board of directors of the Company and the father-in-law of Barry D. Zyskind, the chief executive officer of the Company. The ultimate beneficiaries of the Trust include Michael Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman of the Board of Directors of ACAC.

Pursuant to the Amended Stock Purchase Agreement, ACAC issued and sold to the Company for an initial purchase price of approximately $53,000, which was equal to 25% of the capital initially required by ACAC, $53,054 shares of Series A Preferred Stock, which provides an 8% cumulative dividend, is non-redeemable and is convertible, at the Company's option, into 21.25% of the issued and outstanding common stock of ACAC (the "Preferred Stock"). The Company has pre-emptive rights with respect to any future issuances of securities by ACAC and the Company's conversion rights are subject to customary anti-dilution protections. The Company has the right to appoint two members of ACAC's board of directors, which consists of six members. Subject to certain limitations, the board of directors of ACAC may not take any action at a meeting without at least one of the Company's appointees in attendance and ACAC may not take certain corporate actions without the approval of a majority of its board of directors (including the Company's two appointees).

The Company, the Trust and Michael Karfunkel, individually, each shall be required to make its or his proportionate share of deferred payments payable by ACAC to GMACI pursuant to the GMACI Securities Purchase Agreement, the final payment of which is payable March 1, 2013, to the extent that ACAC is unable to otherwise provide for such payments. The Company's proportionate share of such deferred payments as of December 31, 2012 will not exceed $7,500. In addition, in connection with the Company's investment, ACAC granted the Company a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMACI. In February 2013, the Company's obligation for any remaining deferred payment was eliminated.

In accordance with ASC 323-10-15, *Investments-Equity Method and Joint Ventures*, the Company accounts for its investment in ACAC under the equity method. The Company recorded $9,295, $4,882 and $24,514 of income during the years ended December 31, 2012, 2011 and 2010, respectively related to its equity investment in ACAC.

Personal Lines Quota Share

The Company, effective March 1, 2010, reinsures 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement ("Personal Lines Quota Share") among Integon National Insurance Company, lead insurance company on behalf of the GMACI Insurers, as cedent, and the Company, ACP Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, receive 50% of the net premium of the GMACI Insurers and assume 50% of the related net losses. The Company has a 20% participation in the Personal Lines Quota Share, by which it receives 10% of the net premiums of the personal lines business and assumes 10% of the related net losses. The Personal Lines Quota Share, which had an initial term of three years was renewed through March 1, 2016 and will renew automatically for successive three-year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. In addition, either party is entitled to terminate on 60 days' written 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 the GMACI Insurers, run-off, or a reduction of 50% or more of the shareholders' equity. The GMACI Insurers also may terminate on nine months' written notice following the effective date of an initial public offering or private placement of stock by ACAC or a subsidiary. The Personal Lines Quota Share, as amended on October 1, 2012, provides that the reinsurers pay a provisional ceding commission equal to 32.0% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.0% or less and a minimum of 30.0% if the loss ratio is 64.5% or higher. The Personal Lines Quota Share is subject to a premium cap that limited the premium that could be ceded by the GMACI Insurers to TIC to $133,100 during calendar year 2012 to the extent TIC determined, in good faith, that it could not assume additional premium. The premium cap increases by 10% per annum thereafter. As a result of this agreement, the Company assumed $118,141, $102,598 and $82,295 of business from the GMACI Insurers during the years ended December 31, 2012, 2011 and 2010, respectively.

Master Services Agreement

The Company provides ACAC and its affiliates information technology development services in connection with the development and licensing of a policy management system at a cost that is currently 1.25% of gross premiums written of ACAC and its affiliates plus the Company's costs for development and support services. In addition, the Company provides ACAC and its affiliates printing and mailing services at a per piece cost for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies the Company processes for ACAC and its affiliates on the policy management system. The Company recorded approximately $14,444, $4,022 and $2,022 of fee income for the years ended December 31, 2012, 2011 and 2010, respectively, related to this agreement.

Asset Management Agreement

The Company manages the assets of ACAC and its subsidiaries for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1,000,000 or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1,000,000. The Company currently manages approximately $730,000 of assets as of December 31, 2012 related to this agreement. As a result of this agreement, the Company earned approximately $1,503, $1,550 and $1,456 of investment management fees for the years ended December 31, 2012, 2011 and 2010, respectively.

As a result of the above service agreements with ACAC, the Company recorded fees totaling approximately $15,947, $5,572 and $3,478 for the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, the outstanding balance payable by ACAC related to these service fees and reimbursable costs was approximately $5,391.

800 Superior LLC

In August 2011, the Company formed 800 Superior, LLC with a subsidiary of ACAC for the purposes of acquiring an office building in Cleveland, Ohio. The Company and ACAC each have a fifty percent ownership interest in 800 Superior, LLC. The cost of the building was approximately $7,500. The Company has been appointed managing member of the LLC. Additionally in conjunction with the Company's 21.25% ownership percentage of ACAC, the Company ultimately receives 60.6% of the profits and losses of the LLC. As such, in accordance with ASC 810-10, *Consolidation*, the Company has been deemed the primary beneficiary and, therefore, consolidates this entity.

Additionally in 2012, ACAC entered into an office lease with 800 Superior, LLC for approximately 134,000 square feet. The lease period is for 15 years and ACAC paid 800 Superior, LLC $1,391 for the year ended December 31, 2012. Lastly, as discussed in Note 20. "New Market Tax Credit," 800 Superior, LLC, the Company and ACAC participated in a financing transaction related to capital improvements on the office building. As part of that transaction, ACAC and the Company entered into an agreement related to the payment and performance guaranties provided by the Company to the various parties to the financing transaction whereby ACAC has agreed to contribute 50% toward any payments the Company is required to make pursuant to the guaranties.

Lease Agreements

In January 2008, the Company entered into an amended agreement for its office space at 59 Maiden Lane in New York, New York from 59 Maiden Lane Associates, LLC, an entity that is wholly-owned by Michael Karfunkel and George Karfunkel. The lease was amended such that it increased the leased space to 14,807 square feet and extended the lease through December 31, 2017. The Company's Audit Committee reviewed and approved the extension of the lease. The Company paid approximately $733, $665 and $689 for the lease for the years ended December 31, 2012, 2011 and 2010, respectively.

In January 2011, the Company entered into an amended agreement to lease 9,030 square feet of office space in Chicago, Illinois from 33 West Monroe Associates, LLC, an entity that is wholly-owned by entities controlled by Michael Karfunkel and George Karfunkel. The Company paid approximately $223, $285 and $257 for the years ended December 31, 2012, 2011 and 2010, respectively, pursuant to this lease. This agreement was terminated in November 2012 when the Company entered into a new agreement to lease 15,765 square feet of office space at a different location in Chicago, Illinois. This new lease is with 135 LaSalle Property, LLC, another entity that is wholly-owned by entities controlled by Michael Karfunkel and George Karfunkel. The lease extends through November 30, 2022. The Company did not make any payments during the year ended December 31, 2012 pursuant to this new lease agreement.

Management Agreement with ACP Re, Ltd.

The Company provides investment management services and accounting and administrative services to ACP Re, Ltd. for a monthly fee of $10 and (i) an annual rate of 0.20% of the average value of ACP Re, Ltd.'s invested assets for the preceding calendar quarter if the average value of such assets for the quarter was $1,000,000 or less, or (ii) an annual rate of 0.15% of the average value of ACP Re, Ltd.'s invested assets for the preceding calendar quarter if the average value of such assets for the quarter was greater than $1,000,000. The Company currently manages approximately $260,000 of assets as of December 31, 2012. The Company entered into this management agreement in March 2012, and it covers all services rendered prior to the execution of the agreement. The Company recorded approximately $638 for these services for the year ended December 31, 2012.

Use of Company Aircraft

The Company's wholly-owned subsidiary, AmTrust Underwriters, Inc. ("AUI"), is a party to an aircraft time share agreement with each of Maiden and ACAC. The agreements provide for payment to AUI for usage of its company-owned aircraft and covers actual expenses incurred and permissible under federal aviation regulations, including travel and lodging expenses of the crew, in-flight catering, flight planning and weather contract services, ground transportation, fuel, landing and hanger fees, airport taxes, among others. AUI does not charge Maiden or ACAC for the fixed costs that would be incurred in any event to operate the aircraft (for example, aircraft purchase costs, insurance and flight crew salaries). During the years ended December 31, 2012 and 2011, Maiden paid AUI $59 and $74, respectively, and ACAC paid AUI $165 and $185, respectively, for the use of AUI's aircraft under these agreements.

In addition, for personal travel, Mr. Zyskind, the Company's President and Chief Executive Officer and Michael Karfunkel, the Chairman of the Board, each entered into an aircraft reimbursement agreement with AUI and, since entering into such agreement, has fully reimbursed AUI for the incremental cost billed by AUI for their personal use of AUI's aircraft. During the years ended December 31, 2012 and 2011, Mr Zyskind reimbursed the Company $192 and $200, respectively. Mr. Karfunkel did not use the aircraft for personal use during the year ended December 31, 2012. During the year ended December 31, 2011, Mr. Karfunkel reimbursed the Company $30.

14. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses:

(Amounts in Thousands)	2012	2011	2010
Policy acquisition expenses	$ 375,615	$ 256,464	$ 180,757
Salaries and benefits	155,441	119,171	97,934
Other insurance general and administrative expense	12,657	22,769	24,118
	$ 543,713	$ 398,404	$ 302,809

15. Share Based Compensation

The Company's 2010 Omnibus Incentive Plan (the "Plan"), which permits the Company to grant to officers, employees and non-employee directors incentive compensation directly linked to the price of the Company's stock, authorizes up to an aggregate of 6,650,062 shares of Company stock for awards of options to purchase shares of the Company's common stock, restricted stock, restricted stock units ("RSU"), performance share units ("PSU") or appreciation rights. Shares used may be either newly issued shares or treasury shares or both. The aggregate number of shares of common stock for which awards may be issued may not exceed 6,650,062 shares, subject to the authority of the Company's board of directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting the Company's common stock. As of December 31, 2012, approximately 5,000,000 shares of Company common stock remained available for grants under the Plan.

The Company recognizes compensation expense under FASB ASC 718-10-25 for its share-based payments based on the fair value of the awards. The Company grants stock options at prices equal to the closing stock price of the Company's stock on the dates the options are granted. The options have a term of 10 years from the date of grant and vest primarily in equal annual installments over the four years period following the date of grant for employee options. The Company uses the simplified method in determining the expected life. Employees have three months after the employment relationship ends to exercise all vested options. The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. The Company grants restricted shares, RSUs and PSUs with a grant date value equal to the closing stock price of the Company's stock on the dates the shares or units are granted and the restricted shares and RSUs vest over a period of two to four years, while PSUs vest based on terms of the awards.

The Company paid a ten percent stock dividend during 2012. At the dividend date, all options outstanding were adjusted by ten percent and their respective exercise prices were reduced by ten percent, which ultimately resulted in each outstanding share having the same fair value immediately prior to and subsequent to the dividend date. Therefore, the Company did not record any additional compensation expense as a result of the stock dividend. The Company also adjusted outstanding RSUs, unvested restricted stock and PSUs, resulting in no additional compensation expense.

(In Thousands, Except Per Share Data)

The following information and tables below for stock options, restricted stock and RSUs have been adjusted retroactively in all periods presented. The following schedule shows all options granted, exercised, and expired under the Plan for the years ended December 31, 2012, 2011 and 2010:

	2012		2011		2010	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,136,466	$ 9.96	4,572,557	$ 9.48	4,644,300	$ 9.18
Granted	41,800	25.99	258,500	15.30	303,878	12.95
Exercised	(749,800)	8.75	(578,162)	8.36	(221,003)	7.36
Forfeited	(86,923)	12.99	(116,429)	10.87	(154,618)	10.34
Outstanding at end of year	3,341,543	$ 10.35	4,136,466	$ 9.96	4,572,557	$ 9.48

The fair value was estimated at the date of grant with the following weighted average assumptions for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Volatility	32.68%	32.75%	31.43%
Risk-free interest rate	0.73%	2.11%	1.92%
Weighted average expected lives in years	6.25	6.25	6.25
Dividend rate	1.37%	1.65%	1.98%
Forfeiture rate	0.50%	0.50%	0.50%

The weighted average grant date fair value of options granted was $8.51, $6.07 and $3.60 during 2012, 2011 and 2010, respectively. As of December 31, 2012 and 2011, all option grants outstanding had an approximate weighted average remaining life of 4.9 and 5.8 years, respectively. As of December 31, 2012 and 2011, there were approximately 3,091,000 shares and 3,471,000 shares, respectively, with a weighted average exercise price of $9.89 and $9.33, respectively, which were exercisable.

A summary of the Company’s restricted stock and RSU activity for the years ended December 31, 2012, 2011 and 2010 is shown below:

	2012		2011		2010	
	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value
Non-vested at beginning of year	320,351	$ 16.65	153,332	$ 12.76	—	$ —
Granted	580,103	25.35	224,704	18.53	154,916	12.76
Vested	(92,412)	16.17	(48,651)	12.80	—	—
Forfeited	(685)	22.94	(9,034)	18.17	(1,584)	12.65
Non-vested at end of year	807,357	$ 22.95	320,351	$ 16.65	153,332	$ 12.76

The Company's Compensation Committee granted 250,000 PSUs during 2012. PSUs are conditional grants of a specified maximum number of common shares. In general, grants are earned, subject to the attainment of pre-specified performance goals at the end of a pre-determined period. Results that significantly exceed pre-specified targets can result in a performance share payout of up to 150% of granted shares whereas results significantly below the target result in no payout. The performance period for this grant is the two-year period ended December 31, 2013. If earned, the shares will vest 50% on December 31, 2014 and 50% on December 31, 2015. The fair value of these PSUs on the date of grant was $7,365.

Compensation expense for all share-based payments under ASC 718-10-30 was approximately $7,172, $5,571 and $3,386 for the years ended December 31, 2012, 2011 and 2010, respectively. The Company had approximately $20,665, $5,346 and $4,189 of unrecognized compensation cost related to all share based compensation as of December 31, 2012, 2011 and 2010, respectively.

The intrinsic value of stock options exercised during 2012, 2011 and 2010 was $13,615, $6,957 and $1,286, respectively. The intrinsic value of stock options that were outstanding as December 31, 2012 and 2011 was $61,273 and $48,247, respectively.

Cash received from options exercised was $8,873, $5,425 and $1,770 during 2012, 2011 and 2010 respectively.The excess tax benefit from award exercises was approximately $2,500 and $700 for the years ended December 31, 2012 and 2011.

16. Income Taxes

The provision for income taxes consists of the following for the years ended December 31, 2012, 2011 and 2010:

(Amounts in Thousands) Income Tax Provision (Benefit)	**2012**	**2011**	**2010**
Current expense (benefit)			
Federal	$ 6,718	$ 11,147	$ 20,693
Foreign	30,034	21,345	9,165
Total current tax expense	36,752	32,492	29,858
Deferred expense (benefit)			
Federal	$ 9,603	$ 40,462	$ 35,623
Foreign	600	(30,582)	(18,428)
Total deferred tax expense	10,203	9,880	17,195
Total income tax expense	$ 46,955	$ 42,372	$ 47,053

The following table is a reconciliation of the Company's statutory income tax expense to its effective tax rate for the years ended December 31, 2012, 2011 and 2010:

(Amounts in Thousands)	**2012**	**2011**	**2010**
Income before equity in earnings (loss) of unconsolidated subsidiaries	$ 222,520	$ 228,654	$ 171,401
Tax at federal statutory rate of 35%	$ 77,882	$ 80,029	$ 59,990
Tax effects resulting from:			
Net income of non-includible foreign subsidiaries	(27,643)	(28,202)	(19,730)
Other, net	(3,284)	(9,455)	6,793
	$ 46,955	$ 42,372	$ 47,053
Effective tax rate	21.1%	18.5%	27.5%

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of December 31, 2012 and 2011 are shown below:

(Amounts in Thousands)	2012	2011
Deferred tax assets:		
Unearned premiums	$ 67,163	$ 55,140
Ceding commission	63,939	49,882
Other	33,401	10,624
Deferred compensation	6,217	4,837
Bad debt	5,726	4,904
Net operating loss carryforward	2,282	14,579
Unrealized loss on investments	—	5,384
	$ 178,728	$ 145,350
Deferred tax liabilities:		
Deferred acquisition costs	$ (186,133)	$ (147,819)
Losses and LAE reserves	(90,174)	(56,869)
Intangible assets	(43,556)	(27,640)
Unrealized gain on investments	(34,586)	—
Other	(22,797)	(6,299)
Depreciation	(21,021)	(12,379)
Equity results which cannot be liquidated tax free	(2,038)	(8,796)
Accrual market discount	(1,968)	(2,062)
Cash surrender value on insurance	(1,939)	(1,882)
	(404,212)	(263,746)
Deferred tax liability, net	$ (225,484)	$ (118,396)

The Company’s management believes that it will realize the benefits of its deferred tax assets, which are included as a component of the Company's net deferred tax liability, and accordingly, no valuation allowance has been recorded for the periods presented. 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, 2012 and 2011, the financial reporting basis in excess of the tax basis for which no deferred taxes have been recognized was approximately $296,000 and $223,300, respectively. The deferred tax liability related to loss and LAE reserves of $90,174 includes a deferred tax liability of $123,699 for equalization reserves which were acquired as part of the AmTrust Re 2007, AmTrust Re Alpha, AmTrust Re Kappa, AmTrust Re Zeta, AmTrust Re Theta and AmTrust Re Epsilon acquisitions.

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 limitation is open for tax years ended December 31, 2008 and forward. As permitted by FASB ASC 740-10, the Company adopted an accounting policy to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. Previously, the Company’s policy was to classify interest and penalties as an operating expense in arriving at pre-tax income. At December 31, 2012, the Company does not have any accrued interest and penalties related to unrecognized tax benefits in accordance with FASB ASC 740-10.

A reconciliation of the total amounts of gross unrecognized tax benefits is as follows:

(Amounts in Thousands)	2012	2011
Gross unrecognized tax benefit as of January 1	$ —	$ 1,017
Decreases in tax positions for prior years	—	(1,017)
Increases in tax positions for prior years	—	—
Decreases in tax positions for current year	—	—
Increases in tax positions for current year	—	—
Lapse in statute of limitations	—	—
Settlements	—	—
Gross unrecognized tax benefits as of December 31	$ —	$ —

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

	Open Tax Years
Major tax jurisdictions:	
United States	2009-2012
United Kingdom	2010-2012
Ireland	2008-2012

17. Employee Benefit Plans

The Company sponsors a defined contribution pension plan. Participation in this plan is available to a majority of employees. Contributions to this plan were based on a percentage of employee contributions. The cost of this plan for the Company was approximately $1,919, $1,397 and $1,172 for the years ended December 31, 2012, 2011 and 2010, respectively.

18. Earnings per Share

Effective January 1, 2009, the Company adopted ASC subtopic 260-10, *Determining Whether Instruments Granted in Share-Based Payments Transactions Are Participating Securities*. ASC 260-10 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and are to be included in the computation of earnings per share under the two-class method. The Company's unvested restricted shares contain rights to receive nonforfeitable dividends and are participating securities, requiring the two-class method of computing earnings per share.

The Company paid a ten percent stock dividend during year ended December 31, 2012. As such, the weighted average number of shares used for basic and diluted earnings per share have been adjusted retroactively for all periods presented.

The following, is a summary of the elements used in calculating basic and diluted earnings per share for the years ended December 31, 2012, 2011 and 2010:

(Amounts in Thousands, except for earnings per share)	2012	2011	2010
Basics earnings per share:			
Net income attributable to AmTrust Financial Services, Inc. shareholders	$ 177,987	$ 170,434	$ 142,465
Less: Net income allocated to participating securities and redeemable non-controlling interest	706	111	81
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$ 177,281	$ 170,323	$ 142,384
Weighted average shares outstanding – basic	66,764	65,954	65,570
Less: Weighted average participating shares outstanding	265	39	38
Weighted average common shares outstanding – basic	66,499	65,915	65,532
Net income per AmTrust Financial Services, Inc. common shares – basic	$ 2.67	$ 2.58	$ 2.17
Diluted earnings per share:			
Net income attributable to AmTrust Financial Services, Inc. shareholders	$ 177,987	$ 170,434	$ 142,465
Less: Net income allocated to participating securities and redeemable non-controlling interest	706	111	81
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$ 177,281	$ 170,323	$ 142,384
Weighted average common shares outstanding – basic	66,499	65,915	65,532
Plus: Dilutive effect of stock options, other	2,351	1,746	894
Weighted average common shares outstanding – dilutive	68,850	67,661	66,426
Net income per AmTrust Financial Services, Inc. common shares – diluted	$ 2.57	$ 2.52	$ 2.14

As of December 31, 2012, there were less than 10,000 anti-dilutive securities excluded from diluted earnings per share.

19. Accumulated Other Comprehensive Income (Loss)

(Amounts in Thousands)	Foreign Currency Items	Unrealized Gains (Losses) on Investments	Interest Rate Swap Hedge	Accumulated Other Comprehensive Income
Balance, December 31, 2009	$ (7,456)	$ (9,564)	$ —	$ (17,020)
Current period change	(7,415)	33,191	—	25,776
Income tax benefit (expense)	2,595	(11,617)	—	(9,022)
Balance, December 31, 2010	(12,276)	12,010	—	(266)
Current period change	(7,407)	(4,058)	(3,507)	(14,972)
Income tax benefit	2,592	1,420	1,227	5,239
Balance, December 31, 2011	(17,091)	9,372	(2,280)	(9,999)
Current period change	10,353	104,973	(1,128)	114,198
Income tax benefit (expense)	(3,623)	(36,740)	395	(39,968)
Balance, December 31, 2012	$ (10,361)	$ 77,605	$ (3,013)	$ 64,231

20. New Market Tax Credit

In September 2012, the Company's subsidiary, 800 Superior, LLC (an entity owned equally by the Company and ACAC) received $19,400 in net proceeds from a financing transaction the Company and ACAC entered into with Key Community Development Corporation (“KCDC”) related to a capital improvement project for an office building in Cleveland, Ohio owned by 800 Superior, LLC. The Company, ACAC and KCDC collectively made capital contributions (net of allocation fees) and loans to 800 Superior NMTC Investment Fund II and 800 Superior NMTC Investment Fund I LLC (collectively, the “Investment Funds”) under a qualified New Markets Tax Credit (“NMTC”) program. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (the “Act”) and is intended to induce capital investment in qualified lower income communities. The Act permits taxpayers to claim credits against their federal income taxes for up to 39% of qualified investments in the equity of community development entities (“CDEs”). CDEs are privately managed investment institutions that are certified to make qualified low-income community investments (“QLICIs”).

In addition to the capital contributions and loans from the Company, ACAC and KCDC, as part of the transaction, the Investment Funds received, directly and indirectly, proceeds of approximately $8,000 through two loans originating from state and local governments of Ohio. These loans are each for a period of 15 years and have an average interest rate of 1.7% per annum.

The Investment Funds then contributed the loan proceeds and capital contributions of $19,400 to two CDEs, which, in turn, loaned the funds on similar terms to 800 Superior, LLC. The proceeds of the loans from the CDEs (including loans representing the capital contribution made by KCDC, net of allocation fees) will be used to fund the capital improvement project. As collateral for these loans, the Company has granted a security interest in the assets acquired with the loan proceeds.

The Company and ACAC are each entitled to receive an equal portion of 49% of the benefits derived from the NMTCs generated by 800 Superior Investment Fund II LLC, while KCDC is entitled to the remaining 51%. The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. During this seven years compliance period, the entities involved are required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in the projected tax benefits not being realized and, therefore, could require the Company to indemnify KCDC for any loss or recapture of NMTCs related to the financing until such time as the obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement. In addition, this transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase KCDC's interest in the Investment Funds in September 2019 at the end of the recapture period. The Company believes that KCDC will exercise its put option and, therefore, attributed an insignificant value to the put/call.

The Company has determined that the Investment Funds are variable interest entities (“VIEs”). The ongoing activities of the Investment Funds - collecting and remitting interest and fees and NMTC compliance - were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the Investment Funds. When determining whether to consolidate the Investment Funds, Company management considered the contractual arrangements that obligate it to deliver tax benefits and provide various other guarantees to the structure, KCDC's lack of a material interest in the underling economics of the project, and the fact that the Company is obligated to absorb losses of the Investment Funds. Also, the Company has a 21.25% ownership in ACAC. The Company concluded that it was the primary beneficiary and consolidated the Investment Funds, as VIEs, in accordance with the accounting standard for consolidation. KCDC's contribution, net of syndication fees, is included as an accrued liability in the accompanying condensed consolidated balance sheets. Direct costs incurred in structuring the financing arrangement are deferred and will be recognized as expense over the term of the loans. Incremental costs to maintain the structure during the compliance period are recognized as incurred.

21. Commitments and Contingencies

Litigation

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

As previously described in the Company's periodic reports, the Company's subsidiary Warrantech Corporation (“Warrantech”) was involved in a number of disputes that related to U.S. Fidelis, a direct marketer of vehicle service contracts that filed a petition for Chapter 11 bankruptcy protection in 2010 in United States Bankruptcy Court (the “Bankruptcy Proceeding”). In connection with the plan of liquidation for U.S. Fidelis (the “Plan”), Warrantech, the Unsecured Creditors Committee of U.S. Fidelis, Mepco Finance Corporation (“Mepco”), and four states, by and through the offices of their respective Attorneys General, each agreed to support the Plan throughout the Bankruptcy Proceeding and to cooperate to the fullest extent in obtaining confirmation of the Plan. In 2012, the Bankruptcy Court entered an order approving the Plan with an effective date of September 12, 2012. Upon confirmation, Warrantech became obligated to pay $4,800 to Mepco, $1,400 to the liquidating trustee and $1,100 to the U.S. Fidelis Consumer Restitution Fund (as described in the Plan). The Plan also provided the Warrantech Released Parties (as described in the Plan) with releases from certain consumer claims and claims by States Attorneys General and Governmental Units (as described in the Plan).

As of December 31, 2012, the Company is not involved presently in any material litigation nor, to our knowledge, is any material litigation threatened against us or our properties.

Lease Commitments

The Company is obligated under approximately 51 leases for office space expiring at various dates through 2032. Future minimum lease payments as of December 31, 2012 under non-cancellable operating leases for each of the next five years are approximately as follows:

(Amounts in Thousands)		
2013	$	10,753
2014		10,200
2015		9,527
2016		8,973
2017		8,502
2018 and Thereafter		46,756
	$	94,711

Rent expense for the years ended December 31, 2012, 2011 and 2010 was $11,518, $10,451 and $8,490, respectively.

Employment Agreements

The Company has employment agreements with approximately 28 of its key executives and employees. The agreements terminate on varying dates through 2020, contain annual minimum levels of compensation, and contain bonuses based on the Company's achieving certain financial targets. The annual future minimums in the aggregate are as follows through 2020:

(Amounts in Thousands)		
2013	$	9,753
2014		7,656
2015		4,765
2016		3,206
2017		1,552
2018 and Thereafter		1,606
	$	28,538

22. 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 or foreign insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between domestic and foreign jurisdictions. The principal differences relate to (1) acquisition costs incurred in connection with acquiring new business which are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) limitation on net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and loss expense, and unearned premium reserves are presented gross of reinsurance with a corresponding asset recorded; and (4) fixed maturity portfolios that are carried at fair value and changes in fair value are reflected directly in unassigned surplus, net of related deferred taxes.

Property and casualty insurance companies in the United States are subject to certain Risk-Based Capital ("RBC") requirements as specified by the National Association of Insurance Commissioners. Under such requirements, the amount of Statutory Capital and Surplus maintained by a property and casualty insurance company is to be determined on various risk factors. As of December 31, 2012 and 2011, the Statutory Capital and Surplus of the Company's eight insurance subsidiaries domiciled in the United States exceeded the RBC requirements.

Statutory capital and surplus and required statutory capital and surplus for the Company's insurance subsidiaries as reported to regulatory authorities as of December 31, 2012 and 2011 were approximately as follows:

	2012		2011	
(Amounts in Thousands)	Statutory Capital and Surplus	Required Statutory Capital and Surplus [1]	Statutory Capital and Surplus	Required Statutory Capital and Surplus [1]
TIC (domestic)	206,770	79,825	193,036	84,795
RIC (domestic)	49,165	18,018	46,107	14,082
WIC (domestic)	114,503	56,120	82,580	38,591
AIIC (domestic)	69,314	14,421	72,034	11,523
SNIC (domestic)	51,194	18,307	31,493	9,262
MCIC (domestic)	13,420	2,363	12,512	1,957
ALIC (domestic)	2,125	304	2,128	324
AICK (domestic)	12,987	4,397	12,852	4,094
AEL (United Kingdom)	197,543	157,246	132,082	110,654
AIU (Ireland)	136,437	38,020	105,196	28,093
AII (Bermuda)	498,589	140,500	369,336	105,510

[1] For the Company's U.S. insurance companies and AIU, the amount is equal to 1.5 times of authorized control level risk based capital as defined by NAIC or the minimum amount required to avoid regulatory oversight. For AEL and AII, the amount is equal to the minimum capital required by their respective country's regulatory authority.

Statutory net income for the insurance subsidiaries for the years ended December 31, 2012, 2011 and 2010 as reported to regulatory authorities were approximately as follows:

(Amounts in Thousands)	2012	2011	2010
TIC (domestic)	$ 45,621	$ 1,721	$ 11,473
RIC (domestic)	1,129	903	4,445
WIC (domestic)	9,263	5,590	5,234
AIIC (domestic)	5,570	13,546	10,988
SNIC (domestic)	10,624	3,338	1,372
MCIC (domestic)	1,519	936	793
ALIC (domestic)	15	—	8
AICK (domestic)	1,198	22	836
AEL (United Kingdom)	54,967	34,944	14,161
AIU (Ireland)	20,767	39,927	22,117
AII (Bermuda)	107,980	120,904	52,312

The Company’s insurance subsidiaries are subject to statutory and regulatory restrictions applicable to insurance companies, and imposed by the states of domicile, which limit the amount of cash dividends or distributions that they may pay to approximately $403,100 and $306,100 as of December 31, 2012 and 2011, respectively. During 2012, 2011 and 2010, the Company received a dividend of approximately $7,200, $5,800 and $5,000, respectively, from one of its subsidiaries. In addition to the restrictions on the insurance subsidiaries, there are also restrictions in the Parent company's debt instruments, which require dividends to be limited to an amount that, after giving immediate effect to such dividend payments on a pro forma basis, would allow the Company to remain in compliance with its debt covenants. There were no other material restrictions on net assets in place as of December 31, 2012. Accordingly, the total amount of unrestricted net assets for consolidated subsidiaries as of December 31, 2012 is $403,100.

23. Geographic Information

Three of the Company’s insurance subsidiaries (AII, AIU and AEL) operate outside the United States. Their assets and liabilities are located principally in the countries where the insurance risks are written or assumed. For 2012, 29% of the Company’s gross written premiums related to foreign risks, of which 38% were written from Italy. For both 2011 and 2010, 34% of the Company's gross written premiums related to foreign risks, of which 37% were written from the United Kingdom. As of December 31, 2012 and 2011, approximately 50% and 46%, respectively, of the Company's consolidated assets were located outside the United States. For the years ended 2012, 2011 and 2010, approximately 75%, 76% and 70%, respectively, of the consolidated revenues earned by the Company were located in or derived from foreign countries.

The domestic and foreign components of Income before income tax and equity in earnings (loss) of unconsolidated subsidiaries for the years ended December 31, 2012, 2011 and 2010 are as follows:

(Amounts in Thousands)	2012	2011	2010
Domestic	$ 79,638	$ 24,328	$ 65,882
Foreign	142,882	204,326	105,519
	$ 222,520	$ 228,654	$ 171,401

The following table summarizes the Company’s operations by major geographic segment:

(Amounts in Thousands)	Domestic	Bermuda	Other Foreign
December 31, 2012:			
Revenue	$ 468,130	$ 1,175,423	$ 221,603
Property and equipment	72,899	—	3,034
December 31, 2011:			
Revenue	$ 323,089	$ 865,262	$ 169,406
Property and equipment	58,682	—	2,871
December 31, 2010:			
Revenue	$ 299,339	$ 603,827	$ 99,291
Property and equipment	30,340	—	549

24. Segments

The Company currently operates four business segments, Small Commercial Business; Specialty Risk and Extended Warranty; Specialty Program and Personal Lines Reinsurance. The “Corporate & Other” segment represents the activities of the holding company as well as a portion of service and fee revenue. In determining total assets (excluding cash and invested assets) by segment, the Company identifies those assets that are attributable to a particular segment such as deferred acquisition cost, reinsurance recoverable, goodwill, intangible assets and prepaid reinsurance while the remaining assets are allocated based on gross written premium by segment. In determining cash and invested assets by segment, the Company matches certain identifiable liabilities such as unearned premium and loss and loss adjustment expense reserves by segment. The remaining cash and invested assets are then allocated based on gross written premium by segment. Investment income and realized gains (losses) are determined by calculating an overall annual return on cash and invested assets and applying that overall return to the cash and invested assets by segment. Ceding commission revenue is allocated to each segment based on that segment’s proportionate share of the Company's overall acquisition costs. Interest expense is allocated based on gross written premium by segment. Income taxes are allocated on a pro-rata basis based on the Company's effective tax rate. Additionally, management reviews the performance of underwriting income in assessing the performance of and making decisions regarding the allocation of resources to the segments. Underwriting income excludes, primarily, service and fee revenue, investment income and other revenues, other expenses, interest expense and income taxes. Management believes that providing this information in this manner is essential to providing Company's shareholders with an understanding of the Company's business and operating performance.

During the years ended December 31, 2012 and 2011, the Company' Specialty Risk and Extended Warranty segment derived over ten percent of its total revenue from one broker. In 2012, the Company' Specialty Program segment derived over ten percent of its total revenue from two brokers and in 2011 and 2010, the segment derived over ten percent of its total revenue from one broker.

The following tables summarize business segments as follows for 2012, 2011 and 2010:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Year Ended December 31, 2012:						
Gross premium written	$ 933,740	$ 1,118,710	$ 578,735	$ 118,141	—	$ 2,749,326
Net premium written	$ 474,381	$ 624,555	$ 430,960	$ 118,141	$ —	$ 1,648,037
Change in unearned premium	(57,816)	(82,982)	(82,392)	(5,995)	—	(229,185)
Net earned premium	416,565	541,573	348,568	112,146	—	1,418,852
Ceding commission – primarily related party	69,896	65,056	62,030	—	—	196,982
Loss and loss adjustment expense	(270,843)	(341,196)	(238,302)	(72,334)	—	(922,675)
Acquisition costs and other underwriting expenses	(180,791)	(168,273)	(160,445)	(34,204)	—	(543,713)
	(451,634)	(509,469)	(398,747)	(106,538)	—	(1,466,388)
Underwriting income	34,827	97,160	11,851	5,608	—	149,446
Service, fee and other revenues	53,886	86,672	1,342	—	30,274	172,174
Investment income and realized gain (loss)	27,217	30,952	16,362	2,617	—	77,148
Other expenses	(54,788)	(65,642)	(33,958)	(6,932)	—	(161,320)
Interest expense	(9,682)	(11,600)	(6,001)	(1,225)	—	(28,508)
Foreign currency loss	—	(242)	—	—	—	(242)
Gain on life settlement contracts	4,694	5,624	2,910	594	—	13,822
Provision for income taxes	(11,374)	(28,950)	1,518	(134)	(8,015)	(46,955)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	—	9,295	9,295
Non-controlling interest	(2,334)	(2,797)	(1,447)	(295)	—	(6,873)
Net income attributable to AmTrust Financial Services, Inc.	$ 42,446	$ 111,177	$ (7,423)	$ 233	$ 31,554	$ 177,987

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

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Year Ended December 31, 2011:						
Gross premium written	$ 609,822	$ 1,056,511	$ 381,541	$ 102,598	—	$ 2,150,472
Net premium written	$ 355,721	$ 615,563	$ 202,715	$ 102,598	$ —	$ 1,276,597
Change in unearned premium	(35,455)	(168,798)	(31,340)	(4,143)	—	(239,736)
Net earned premium	320,266	446,765	171,375	98,455	—	1,036,861
Ceding commission – primarily related party	62,093	57,648	34,212	—	—	153,953
Loss and loss adjustment expense	(201,921)	(297,501)	(114,685)	(64,226)	—	(678,333)
Acquisition costs and other underwriting expenses	(148,041)	(137,442)	(81,568)	(31,353)	—	(398,404)
	(349,962)	(434,943)	(196,253)	(95,579)	—	(1,076,737)
Underwriting income	32,397	69,470	9,334	2,876	—	114,077
Service, fee and other revenues	20,887	67,312	17	—	20,444	108,660
Investment income and realized gain (loss)	23,385	22,708	10,104	2,086	—	58,283
Other expenses	(25,000)	(43,354)	(15,143)	(3,114)	—	(86,611)
Interest expense	(4,641)	(8,049)	(2,811)	(578)	—	(16,079)
Foreign currency gain	—	(2,418)	—	—	—	(2,418)
Gain on life settlement contracts	13,535	23,472	8,199	1,686	—	46,892
Acquisition gain on purchase	5,850	—	—	—	—	5,850
Provision for income taxes	(12,050)	(23,431)	(1,760)	(536)	(4,595)	(42,372)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	—	4,882	4,882
Non-controlling interest	(5,984)	(10,377)	(3,624)	(745)	—	(20,730)
Net income attributable to AmTrust Financial Services, Inc.	$ 48,379	$ 95,333	$ 4,316	$ 1,675	$ 20,731	$ 170,434

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Year Ended December 31, 2010:						
Gross premium written	$ 465,951	$ 748,525	$ 264,051	$ 82,295	$ —	$ 1,560,822
Net premium written	$ 243,146	$ 362,100	$ 139,685	$ 82,295	$ —	$ 827,226
Change in unearned premium	9,296	(58,517)	568	(32,914)	—	(81,567)
Net earned premium	252,442	303,583	140,253	49,381		745,659
Ceding commission – primarily related party	66,282	48,015	23,964	—	—	138,261
Loss and loss adjustment expense	(154,442)	(191,149)	(94,261)	(31,629)	—	(471,481)
Acquisition costs and other underwriting expenses	(128,142)	(98,547)	(60,071)	(16,049)	—	(302,809)
	(282,584)	(289,696)	(154,332)	(47,678)		(774,290)
Underwriting income	36,140	61,902	9,885	1,703	—	109,630
Service, fee and other revenues	19,696	29,729	—	—	12,642	62,067
Investment income and realized gain (loss)	21,950	20,339	11,617	2,564	—	56,470
Other expenses	(17,966)	(24,443)	(10,397)	(3,597)	—	(56,403)
Interest expense	(4,110)	(5,591)	(2,378)	(823)	—	(12,902)
Foreign currency gain	—	684	—	—	—	684
Gain on life settlement contracts	3,776	5,138	2,185	756	—	11,855
Provision for income taxes	(14,382)	(21,216)	(2,638)	(146)	(8,671)	(47,053)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	—	23,226	23,226
Non-controlling interest	(1,627)	(2,214)	(942)	(326)	—	(5,109)
Net income attributable to AmTrust Financial Services, Inc.	$ 43,477	$ 64,328	$ 7,332	$ 131	$ 27,197	$ 142,465

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and other	Total
As of December 31, 2012:						
Fixed assets	$ 25,789	$ 30,897	$ 15,984	$ 3,263	$ —	$ 75,933
Goodwill and intangible assets	245,330	245,139	24,498	—	—	514,967
Total assets	2,778,136	3,127,543	1,330,005	181,553	—	7,417,237
As of December 31, 2011:						
Fixed assets	$ 17,767	$ 30,811	$ 10,762	$ 2,213	$ —	$ 61,553
Goodwill and intangible assets	182,146	167,782	22,858	—	—	372,786
Total assets	2,204,595	2,482,018	912,476	133,429	—	5,732,518

25. Equity Investment in Unconsolidated Subsidiary

The following table summarizes total assets and total liabilities as of December 31, 2012 and 2011, and the results of operations for the Company's unconsolidated equity method investment in ACAC for the years ended December 31, 2012, 2011 and 2010:

	As of December 31,	
(Amounts in Thousands)	**2012**	**2011**
Balance sheet data:		
Investments	$ 798,562	$ 782,711
Premiums and other receivables	518,399	441,817
Reinsurance recoverable – unpaid loss	991,837	775,444
Total assets	2,778,030	2,403,477
Reserve for insurance loss and loss adjustment expenses	1,284,075	1,053,137
Unearned insurance premiums and revenue	488,598	449,598
Total liabilities	2,343,317	2,026,179

(Amounts in Thousands)	2012	2011	2010
Results of operations:			
Gross written premium	$ 1,334,493	$ 1,172,686	$ 904,553
Net earned premium	574,251	498,205	560,917
Income from continuing operations	42,731	54,046	70,034
Net income	42,731	54,046	119,211

26. Quarterly Financial Data (Unaudited)

The Company paid a ten percent stock dividend during the three months ended September 30, 2012. As such, the weighted average number of shares used for basic and diluted earnings per share have been adjusted retroactively for all periods presented and the prior quarter's basic and diluted earnings per share has been adjusted.

The following is a summary of the unaudited quarterly results of operations:

	2012			
(Amounts in Thousands)	**March 31,**	**June 30,**	**September 30,**	**December 31,**
Earned premium	$ 314,024	$ 333,994	$ 387,447	$ 383,387
Investment income	14,518	16,344	18,429	18,876
Net income	39,220	40,640	45,893	59,107
Income attributable to Common Shareholders	39,086	40,358	43,230	55,313
Basic EPS	$0.59	$0.60	$0.69	$0.82
Diluted EPS	$0.57	$0.59	$0.66	$0.79

	2011			
(Amounts in Thousands)	**March 31,**	**June 30,**	**September 30,**	**December 31,**
Earned premium	$ 200,338	$ 248,282	$ 288,848	$ 299,393
Investment income	14,192	13,167	14,456	13,700
Net income	53,322	59,918	40,182	37,742
Income attributable to Common Shareholders	45,183	50,162	37,166	37,923
Basic EPS	$0.69	$0.76	$0.60	$0.57
Diluted EPS	$0.67	$0.74	$0.58	$0.56

	2010			
(Amounts in Thousands)	**March 31,**	**June 30,**	**September 30,**	**December 31,**
Earned premium	$ 148,100	$ 196,261	$ 190,885	$ 210,413
Investment income	13,599	14,686	10,952	11,280
Net income	38,700	30,823	44,405	33,646
Income attributable to Common Shareholders	38,700	30,823	39,296	33,646
Basic EPS	$0.59	$0.47	$0.59	$0.52
Diluted EPS	$0.58	$0.46	$0.58	$0.51

27. Subsequent Event

Acquisition of Car Care Plan (Holdings) Limited

On October 31, 2012, the Company, through its wholly-owned subsidiary IGI Group Limited, entered into a purchase agreement with Ally Insurance Holdings, Inc. (“Ally”), pursuant to which the Company would acquire all of the issued and outstanding shares of capital stock of Car Care Plan (Holdings) Limited (“CCPH”), a wholly-owned subsidiary of Ally. CCPH is an administrator, insurer and provider of auto extended warranty, guaranteed asset protection, Wholesale Floorplan Insurance and other complementary insurance products. CCPH underwrites its products and the products of third-party administrators through its subsidiary Motors Insurance Company Limited, a U.K. insurer authorized by the Financial Services Authority. CCPH is headquartered in Thornbury, West Yorkshire in England with operations in the United Kingdom, Europe, China, North America and Latin America.

On February 28, 2013, the Company completed the purchase of CCPH for approximately $70,000, which represented the consolidated tangible book value of CCPH as of the closing, subject to certain adjustments, including reduction for costs relating to the transfer and reorganization of certain foreign subsidiaries, liabilities of CCPH in respect of certain pension plans maintained by CCPH, and costs relating to the transfer and maintenance of information technology. Ally agreed to a three-year non-compete and non-solicit, subject to certain limited exceptions, and will provide additional indemnity for liabilities of CCPH for certain pension plans previously maintained by affiliates of CCPH, tax liabilities and other matters. In addition, the parties have entered into other agreements, including a Transition Services Agreement, pursuant to which Ally will provide certain transitional services to IGI Group Limited and the Company, and two Reinsurance Agreements, pursuant to which affiliates of the Seller will reinsure certain insurance contracts of such affiliates with affiliates of IGI Group Limited.

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Schedule I

SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES

At December 31, 2012 Type of Investment	Cost[1]	Value	Amount at which Shown in the Balance Sheet
		(In Thousands)	
Fixed Maturities:			
Bonds:			
United States government and government agencies & authorities	$ 353,616	$ 372,511	$ 372,511
States, municipalities and political subdivisions	287,361	299,442	299,442
Foreign governments	25,375	26,596	26,596
Public utilities	45,320	47,927	47,927
Convertibles and bonds with warrants attached	—	—	—
All other corporate bonds	1,235,972	1,318,750	1,318,750
Certificates of deposit	—	—	—
Redeemable preferred stock	—	—	—
Total fixed maturities	1,947,644	2,065,226	2,065,226
Equity securities:			
Common stocks:			
Public utilities Banks, trust and insurance companies	13,774	13,330	13,330
Industrial, miscellaneous and all other Nonredeemable preferred stocks	7,169	7,135	7,135
Total equity securities	20,943	20,465	20,465
Short-term investments, at cost (approximates market value)	10,282	10,282	10,282
Other invested assets (approximates market value)	11,144	11,144	11,144
Total investments	$ 1,990,013	$ 2,107,117	$ 2,107,117

(1) Original cost of equity securities and, as to fixed maturities, original cost reduced by repayments and adjusted for amortization of premiums or accrual of discounts.

Schedule II

AMTRUST FINANCIAL SERVICES
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEET — PARENT COMPANY ONLY

	December 31, 2012	December 31, 2011
	(In Thousands)	
Assets:		
Cash	$ 6,877	$ —
Invested assets	1,184	9
Carrying value of subsidiaries, at equity	1,470,637	1,107,857
Other assets	223,082	142,090
Total Assets	1,701,780	1,249,956
Liabilities:		
Due to affiliates – net	222,176	42,654
Notes payable	—	7,362
Convertible senior notes	161,218	138,506
Junior subordinated debt	123,714	123,714
Other liabilities	50,551	47,157
Total Liabilities	557,659	359,393
Stockholders' Equity		
Common stock	912	849
Paid-in and contributed capital	761,105	582,321
Treasury shares	(293,791)	(300,365)
Accumulated other comprehensive income	64,231	(9,999)
Retained earnings	611,664	617,757
Total Shareholders' Equity	1,144,121	890,563
Total Liabilities and Shareholders' Equity	$ 1,701,780	$ 1,249,956

STATEMENT OF INCOME — PARENT COMPANY ONLY

	Year Ended December 31, 2012	2011	2010
		(In Thousands)	
Income:			
Investment income	$ 227	$ 294	$ 2,900
Equity in undistributed net income of consolidated subsidiaries and partially-owned companies	218,123	209,937	161,384
Miscellaneous income (expense)	12	63	120
Total Income	218,362	210,294	164,404
Expenses:			
Interest expense	16,159	3,861	1,725
Federal tax (benefit) expense	(1,099)	—	4,746
Other expenses from operations	18,442	15,269	10,359
Total Expenses	33,502	19,130	16,830
Net Income	$ 184,860	$ 191,164	$ 147,574

The condensed financial statements should be read in conjunction with consolidated financial statements and notes thereto.

AMTRUST FINANCIAL SERVICES
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF CASH FLOWS — PARENT COMPANY ONLY

	December 31,		
	2012	2011	2010
		(In Thousands)	
Cash flows from operating activities:			
Net income	$ 184,860	$ 191,164	$ 147,574
Depreciation and amortization	830	948	1,197
Stock option compensation	7,172	5,571	3,386
Discount on note	(2,150)	462	771
Adjustments to reconcile net income to net cash changes in assets (increase) decrease:			
Carrying value of equity interest in subsidiaries	(227,632)	(221,166)	(73,544)
Equity (earnings) losses and gain on investments in unconsolidated subsidiaries	(9,295)	(4,882)	(23,226)
Other assets	(80,993)	(28,246)	20,589
Changes in liabilities increase (decrease):			
Due to affiliates	179,522	(107,548)	13,536
Other liabilities	3,397	27,772	8,449
Net cash provided by (used in) operating activities	55,711	(135,925)	98,732
Cash flows from investing activities:			
Capital expenditures	(107)	(20)	(299)
Investment in subsidiary	(1,455)	(4,027)	—
Investment in unconsolidated subsidiary	—	—	(53,055)
Acquisition of subsidiary companies, net of cash acquired	(42,694)	—	(11,295)
Net cash used in investing activities	(44,256)	(4,047)	(64,649)
Cash flows from financing activities:			
Issuance of debt	25,000	298,200	—
Payment of debt	(7,500)	(137,367)	(20,833)
Financing fees	(750)	(6,574)	—
Net, issuance (repurchase) of common stock	8,873	5,425	1,770
Dividends paid	(30,201)	(19,712)	(16,647)
Net cash (used in) provided by financing activities	(4,578)	139,972	(35,710)
Net increase (decrease) in cash and cash equivalents	6,877	—	(1,627)
Cash and cash equivalents, beginning of the year	—	—	1,627
Cash and cash equivalents, end of period	$ 6,877	$ —	$ —

The condensed financial statements should be read in conjunction with consolidated financial statements and notes thereto.

AMTRUST FINANCIAL SERVICES, INC.
AND SUBSIDIARIES SUPPLEMENTARY INSURANCE INFORMATION

At December 31, 2012, 2011 and 2010 and for the years then ended:

Segment	Deferred Policy Acquisition Costs	Reserves for Losses and Loss Expenses, Future Policy Benefits	Reserves for Unearned Premiums	Premium Revenue	Net Investment Income	Losses and Loss Expenses Incurred, Benefits	Amortization of Deferred Policy Acquisition Costs	Other Operating Expenses	Net Premiums Written
					(In Thousands)				
2012									
Small Commercial Business	$ 58,690	$ 1,266,261	$ 413,707	$ 416,565	$ 24,049	$ 270,843	$ 43,256	$ 137,535	$ 474,381
Specialty Risk and Extended Warranty	234,490	605,366	1,063,999	541,573	27,349	341,196	94,687	73,586	624,555
Specialty Program	42,468	524,928	252,835	348,568	14,457	238,302	32,258	128,187	430,960
Personal Lines Reinsurance	13,478	29,845	43,052	112,146	2,312	72,334	11,536	22,668	118,141
Total	$ 349,126	$ 2,426,400	$1,773,593	$1,418,852	$ 68,167	$ 922,675	$ 181,737	$ 361,976	$1,648,037
2011									
Small Commercial Business	$ 43,605	$ 1,163,618	$ 281,863	$ 320,266	$ 22,274	$ 201,921	$ 40,281	$ 107,760	$ 355,721
Specialty Risk and Extended Warranty	193,401	323,900	880,586	446,765	21,630	297,501	84,371	53,071	615,563
Specialty Program	32,449	368,358	166,665	171,375	9,624	114,685	25,820	55,748	202,715
Personal Lines Reinsurance	11,536	23,299	37,056	98,455	1,987	64,226	10,920	20,433	102,598
Total	$ 280,991	$ 1,879,175	$1,366,170	$1,036,861	$ 55,515	$ 678,333	$ 161,392	$ 237,012	$1,276,597
2010									
Small Commercial Business	$ 40,281	$ 766,998	$ 224,490	$ 252,442	$ 19,636	$ 154,442	$ 43,097	$ 85,045	$ 243,146
Specialty Risk and Extended Warranty	147,650	167,517	653,138	303,583	18,195	191,149	36,404	62,143	362,100
Specialty Program	25,820	318,187	114,423	140,253	10,392	94,261	22,584	37,487	139,685
Personal Lines Reinsurance	10,920	10,835	32,914	49,381	2,294	31,629	—	16,049	82,295
Total	$ 224,671	$ 1,263,537	$1,024,965	$ 745,659	$ 50,517	$ 471,481	$ 102,085	$ 200,724	$ 827,226

See accompanying notes to financial statements.

AMTRUST FINANCIAL SERVICES, INC.
AND SUBSIDIARIES REINSURANCE

At December 31, 2012, 2011 and 2010 and for the years then ended:

	Gross Amount	Ceded to Other Companies	Amount from Other Companies	Net Amount	Percent of Amount Assumed to Net
			(Amounts in Thousands)		
2012					
Premiums:					
General Insurance	$ 2,494,846	$ 1,101,289	$ 254,480	$ 1,648,037	15.4%
2011					
Premiums:					
General Insurance	$ 1,843,185	$ 873,875	$ 307,287	$ 1,276,597	24.1%
2010					
Premiums:					
General Insurance	$ 1,375,993	$ 733,596	$ 184,829	$ 827,226	22.3%

See accompanying notes to financial statements.

Schedule V

AMTRUST FINANCIAL SERVICES, INC.
CONSOLIDATED SUPPLEMENTARY PROPERTY
AND CASUALTY INSURANCE INFORMATION
(In Thousands)

	Losses and Loss Adjustment Expenses Incurred Related to		Paid Losses and Loss Adjustment Expenses
Year Ended December 31,	Current Year	Prior Years	
2012	$ 909,818	$ 12,857	$ 691,717
2011	$ 665,812	$ 12,521	$ 569,988
2010	$ 463,535	$ 7,946	$ 409,605

See accompanying notes to financial statements.

INDEX TO EXHIBITS

The following documents are filed as exhibits to this report:

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 333-134960) filed on June 12, 2006)
3.2	Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 333-134960) filed on June 12, 2006)
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (No. 333-134960) filed on June 12, 2006)
4.2	Form of 5.50% Convertible Senior Notes due 2021 (incorporated by reference to Exhibit 4.3 to the Company's Form 8-K (No. 001-33143) filed on December 21, 2011)
4.3	Indenture, dated as of December 21, 2011, by and between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K (No. 001-33143) filed on December 21, 2011)
4.4	First Supplemental Indenture, dated as of December 21, 2011, by and between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K (No. 001-33143) filed on December 21, 2011)
4.5	The Company will file with the SEC upon request, pursuant to the requirements of Item 601(b)(4) of Regulation S-K, documents (other than Exhibits 4.2, 4.3 and 4.4) defining rights of holders of the Company's long-term indebtedness
10.1*	2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-134960) filed on June 12, 2006)
10.2*	AmTrust Financial Services, Inc. 2010 Omnibus Incentive Plan, as amended (incorporated by reference to Appendix A to the Company's definitive proxy statement on Schedule 14A filed on April 5, 2012)
10.3*	Employment Agreement, dated as of January 1, 2005, by and between the Company and Barry D. Zyskind (incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (No. 333-134960) filed on June 12, 2006)
10.4*	Amendment to Employment Agreement, dated October 6, 2010, by and between the Company and Barry D. Zyskind (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on October 7, 2010)
10.5*	Employment Agreement, dated November 22, 2010, by and between the Company and Max G. Caviet (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on November 23, 2010)
10.6*	Employment Agreement, dated as of March 1, 2010, by and between the Company and Christopher M. Longo (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (No. 001-33143) filed on March 5, 2010)
10.7*	Amendment No. 1 to Employment Agreement, dated November 3, 2010, by and between the Company and Christopher M. Longo (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on November 9, 2010)
10.8*	Amendment No. 2 to Employment Agreement, dated March 1, 2012, by and between the Company and Christopher M. Longo (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (No. 001-33143) filed on March 5, 2012)
10.9*	Employment Agreement, dated as of March 1, 2010, by and between the Company and Ronald E. Pipoly, Jr. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on March 5, 2010)
10.10*	Amendment No. 1 to Employment Agreement, dated March 1, 2012, by and between the Company and Ronald E. Pipoly, Jr. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-33143) filed on March 5, 2012)
10.11*	Employment Agreement, dated as of March 1, 2010, by and between the Company and Michael J. Saxon. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-33143) filed on March 5, 2010)
10.12*	Amendment No. 1 to Employment Agreement, dated November 3, 2010, by and between the Company and Michael J. Saxon (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on November 9, 2010)
10.13*	Amendment No. 2 to Employment Agreement, dated March 1, 2012, by and between the Company and Michael J. Saxon (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on March 5, 2012)

Exhibit No.	Description
10.14	Form of Indemnification Agreement between the Company and its officers and directors (incorporated by reference to Exhibit 10.12 to the Company’s Registration Statement on Form S-1 (No. 333-134960) filed on June 12, 2006)
10.15	Tax Assurance from the Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966, as amended, of Bermuda, issued to AmTrust International Insurance, Ltd., AmTrust Equity Solutions Ltd., Agent Alliance Reinsurance Company, Ltd., AII Investment Holdings Ltd., AII Insurance Management Limited and AII Reinsurance Broker Limited (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K (No. 001-33143) filed March 15, 2012)
10.16	Master Agreement dated July 3, 2007 between AmTrust Financial Services, Inc. and Maiden Holdings, Ltd. (incorporated by reference to Exhibit 2.2 to the Company’s Quarterly Report on Form 10-Q (No. 001-33143) filed on August 14, 2007)
10.17	First Amendment to Master Agreement dated September 17, 2007 between AmTrust Financial Services, Inc. and Maiden Holdings, Ltd. (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K (No. 001-33143) filed on September 19, 2007)
10.18	Amended and Restated Quota Share Reinsurance Agreement between AmTrust International Insurance, Ltd. and Maiden Insurance Company, Ltd. (incorporated by reference to Exhibit 10.27 to the Company’s Annual Report on Form 10-K (No. 001-33143) filed on March 16, 2009)
10.19	Endorsement No. 1 to the Amended and Restated Quota Share Reinsurance Agreement, dated July 26, 2011, between AmTrust International Insurance, Ltd. and Maiden Reinsurance Company Ltd. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on August 4, 2011)
10.20	Quota Share Reinsurance Agreement, dated April 1, 2011, among AmTrust Europe Ltd., AmTrust International Underwriters Limited, and Maiden Insurance Company Ltd., as amended by Endorsement No. 1 to the Quota Share Reinsurance Agreement, dated July 26, 2011, among AmTrust Europe Ltd., AmTrust International Underwriters Limited, and Maiden Insurance Company Ltd. (incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q (No. 001-33143) filed on August 4, 2011)
10.21	Endorsement No. 2 to the Quota Share Reinsurance Agreement among AmTrust Europe Ltd., AmTrust International Underwriters Limited, and Maiden Insurance Company Ltd. (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on August 9, 2012)
10.22	Stock Purchase Agreement dated as of October 16, 2009 by and among, the Company, American Capital Acquisition Corporation (“ACAC”) and The Michael Karfunkel 2005 Grantor Retained Annuity Trust (incorporated by reference to Exhibit 10.29.1 to the Company’s Annual Report on Form 10-K (No. 001-33143) filed on March 16, 2010)
10.23	Joinder & Amendment No. 1 to Stock Purchase Agreement dated October 16, 2009 with ACAC, Michael Karfunkel and The Michael Karfunkel 2005 Grantor Retained Annuity Trust (incorporated by reference to Exhibit 10.29.2 to the Company’s Annual Report on Form 10-K (No. 001-33143) filed on March 16, 2010)
10.24	Stockholders Agreement dated as of October 16, 2009 by and among the Company, ACAC and The Michael Karfunkel 2005 Grantor Retained Annuity Trust (incorporated by reference to Exhibit 10.30.1 to the Company’s Annual Report on Form 10-K (No. 001-33143) filed on March 16, 2010)
10.25	Joinder Agreement dated as of February 26, 2010 to Stockholder Agreement by and among, the Company, ACAC, Michael Karfunkel and The Michael Karfunkel 2005 Grantor Retained Annuity Trust (incorporated by reference to Exhibit 10.30.2 to the Company’s Annual Report on Form 10-K (No. 001-33143) filed on March 16, 2010)
10.26	Amendment No. 1 to the Stockholders Agreement, dated August 4, 2010, by and among the Company, ACAC, The Michael Karfunkel 2005 Grantor Retained Annuity Trust and Michael Karfunkel (incorporated by reference to Exhibit 10.6 to the Company’s Quarterly Report on Form 10-Q (No. 001-33143) filed on August 9, 2010)
10.27*	Amended and Restated AmTrust Financial Services, Inc. 2007 Executive Performance Plan (incorporated by reference to Appendix A to the Company’s definitive proxy statement on Schedule 14A filed on April 1, 2010)
10.28*	Form of Incentive Stock Option Agreement, amended and restated effective November 1, 2011 (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q (No. 001-33143) filed on November 9, 2011)
10.29*	Form of Non-qualified Stock Option Agreement for Non-Employee Directors, amended and restated effective November 1, 2011 (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q (No. 001-33143) filed on November 9, 2011)
10.30*	Form of Restricted Stock Agreement, amended and restated effective November 1, 2011 (incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q (No. 001-33143) filed on November 9, 2011)

Exhibit No.	Description
10.31*	Form of Restricted Stock Unit Agreement, amended and restated effective November 1, 2011 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q (No. 001-33143) filed on November 9, 2011)
10.32*	Performance Share Award Agreement for Barry D. Zyskind, dated March 26, 2012 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-33143) filed on May 29, 2012)
10.33	Credit Agreement, dated August 10, 2012, among the Company, JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and SunTrust Bank, as Co-Syndication Agents, Associated Bank, National Association and Lloyds Securities Inc., as Co-Documentation Agents and the various lending institutions party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on August 10, 2012)
10.34	Personal and Commercial Automobile Quota Share Reinsurance Agreement between Integon National Insurance Company and Technology Insurance Company, Inc., Maiden Insurance Company Ltd., and ACP Re, Ltd., effective March 1, 2010 (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K (No. 001-33143) filed on March 15, 2011)
10.35	Addendum No. 1 to Personal and Commercial Automobile Quota Share Reinsurance Agreement between Integon National Insurance Company and Technology Insurance Company, Inc., Maiden Insurance Company Ltd., and ACP Re, Ltd., effective October 1, 2012 (filed herewith)
10.36	Master Services Agreement between AmTrust North America, Inc. and GMAC Insurance Management Corporation, dated February 22, 2012 (incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K (No. 001-33143) filed March 15, 2012)
10.37	Sale and Purchase Agreement among Ally Insurance Holdings, Inc., I.G.I. Group Limited and Ally Financial Inc., dated October 31, 2012, relating to the sale of Car Care Plan (Holdings) Limited (filed herewith)
12.1	Computation of Ratio of Earnings to Fixed Charges (filed herewith)
21.1	List of subsidiaries of the Company (filed herewith)
23.1	Consent of BDO USA, LLP, Independent Registered Public Accounting Firm relating to the Financial Statements of the Company (filed herewith)
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.SC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.SC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
101.1	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets as of December 31, 2012 and 2011; (ii) the Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010; (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2012, 2011 and 2010; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010; and (vi) the Notes to the Consolidated Financial Statements (submitted electronically herewith). In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101.1 to this Annual Report on Form 10-K shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

* Indicates management contract or compensatory plan, contract or arrangement in which one or more directors or executive officers of the Company may be participants.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

AmTrust Financial Services, Inc.
New York, New York

We hereby consent to the incorporation by reference in the Registration Statements on Form S-1 (No. 333-134960), Form S-8 (No. 333-147867), Form S-8 (No. 333-166943) and Form S-3 (No. 333-169520) of AmTrust Financial Services, Inc. of our report dated February 28, 2013, relating to the consolidated financial statements, the effectiveness of AmTrust Financial Services, Inc.'s internal control over financial reporting and financial statement schedules, which appears in this Form 10-K.

/s/ BDO USA, LLP
New York, New York
February 28, 2013

EXHIBIT 31.1

CERTIFICATION

I, Barry Zyskind, certify that:

1. I have reviewed this Annual Report on Form 10-K of AmTrust Financial Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 1, 2013

By: /s/ Barry Zyskind

Barry Zyskind
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Ronald Pipoly, certify that:

1. I have reviewed this Annual Report on Form 10-K of AmTrust Financial Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: March 1, 2013

By: /s/ Ronald Pipoly

Ronald Pipoly
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I Barry Zyskind, President and Chief Executive Officer (Principal Executive Officer) of AmTrust Financial Services, Inc. (the "Company"), hereby certify, that, to my knowledge:

1. The Annual Report on Form 10-K for the year ended December 31, 2012 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2013

By: /s/ Barry Zyskind

Barry Zyskind
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I Ronald Pipoly, Chief Financial Officer (Principal Financial and Accounting Officer) of AmTrust Financial Services, Inc. (the "Company"), hereby certify, that, to my knowledge:

1. The Annual Report on Form 10-K for the year ended December 31, 2012 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2013

By: /s/ Ronald Pipoly

Ronald Pipoly
Chief Financial Officer
(Principal Financial and Accounting Officer)

MANAGEMENT AND BOARD OF DIRECTORS

Max G. Caviet
President of AmTrust International Insurance, Ltd. and Chief Executive Officer of AmTrust Europe, Ltd.

Donald T. DeCarlo
Director

Susan C. Fisch
Director

Abraham Gulkowitz
Director

George Karfunkel
Director

Michael Karfunkel
Chairman of the Board

Christopher M. Longo
Chief Information Officer

Jay J. Miller
Director

Ronald E. Pipoly, Jr
Chief Financial Officer

David H. Saks
Chief Legal Officer

Michael J. Saxon
Chief Operating Officer

Harry C. Schlachter
Treasurer

Stephen B. Ungar
General Counsel and Secretary

Barry D. Zyskind
Chief Executive Officer, President and Director

CORPORATE INFORMATION

Corporate Office
AmTrust Financial Services, Inc.
59 Maiden Lane
New York, NY 10038
212.220.7120
www.amtrustgroup.com

Common Stock
The Company's common stock trades on the NASDAQ Global Market under the symbol "AFSI."

Transfer Agent and Registrar
American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
800.937.5449 or 718.921.8124

Form 10-K/Investor Contact
A copy of the AmTrust Financial Services, Inc. 2012 Annual Report on Form 10-K as filed with the Securities and Exchange Commission is available on the Company's website at www.amtrustgroup.com. It is also available from the Company upon request at no charge. These requests and other investor contacts should be directed to Investor Relations at the Company's corporate office.

Annual Meeting
Thursday, May 23, 2013 at 10 a.m.
AmTrust Financial Services, Inc.
59 Maiden Lane
New York, NY 10038

Independent Auditors
BDO USA, LLP
New York, NY

AmTrust
FINANCIAL

Corporate Headquarters

AmTrust Financial Services, Inc.
59 Maiden Lane
New York, NY 10038

ph: 212.220.7120
fx: 212.220.7130

www.amtrustgroup.com