Amtrust Financial Services, Inc.
Form 10-K
March 16, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to .
Commission File Number: 001-33143

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of June 30, 2017, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the common stock held by non-affiliates was $1,691,514,138.

As of March 9, 2018, the number of common shares of the registrant outstanding was 196,256,697.

Documents incorporated by reference: Portions of the Proxy Statement for the 2018 Annual Meeting of Stockholders of the registrant to be filed subsequently with the SEC are incorporated by reference into Part III of this report.

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PART I

Note on Forward-Looking Statements

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

Item 1. Business

Legal Organization

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

Merger Agreement

On March 1, 2018, we announced that we had entered into a definitive agreement with Evergreen Parent, L.P. ("Evergreen Parent"), an entity formed by private equity funds managed by Stone Point Capital LLC ("Stone Point"), together with Barry D. Zyskind, Chairman and CEO of AmTrust, George Karfunkel and Leah Karfunkel (collectively, the "Karfunkel-Zyskind Family"), in which Evergreen Parent will acquire the approximately 45% of our issued and outstanding common shares that the Karfunkel-Zyskind Family and certain of its affiliates and related parties do not

presently own or control. The transaction values our fully diluted equity at approximately $2.7 billion, excluding our outstanding preferred stock.

Under the terms of the proposed merger, our common shareholders who are not affiliated with the Karfunkel-Zyskind Family (the "Public Shareholders") will receive $13.50 in cash for each share of AmTrust common stock they hold. The Karfunkel-Zyskind Family and certain of its affiliates and related parties will rollover their shares of common stock for interests in Evergreen Parent. Each share of our currently outstanding preferred stock will remain outstanding and it is expected that the preferred stock will continue to be listed on the New York Stock Exchange following the consummation of the transaction.

The proposed merger is anticipated to close in the second half of 2018, subject to satisfaction or waiver of the closing conditions, including approval by regulatory authorities and our shareholders, including approval by a majority of our common shares not owned or controlled by Evergreen Parent and its affiliates, the Karfunkel-Zyskind Family and its affiliates and certain related parties, and our directors and senior officers.

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Business Overview

AmTrust underwrites and provides property and casualty insurance products to niche customer groups that we believe are generally underserved within the broader insurance market. AmTrust operates in the United States ("U.S.") and internationally through three operating segments: Small Commercial Business, Specialty Risk and Extended Warranty, and Specialty Program.

Our insurance subsidiaries domiciled in the U.S. are collectively licensed to provide workers' compensation insurance and commercial property and casualty insurance, including service contract reimbursement coverages included in our Specialty Risk and Extended Warranty segment, in all 50 states, the District of Columbia and Puerto Rico.

Our product mix primarily includes workers' compensation, extended warranty and other commercial and select personal lines in property/casualty insurance. Our workers' compensation and property/casualty insurance policyholders in the U.S. are generally small and middle market businesses. Our extended warranty clients and partners include original equipment manufacturers, distributors, e-commerce and other retailers of commercial and consumer products. Key services performed on behalf of clients and policyholders include claims administration and device refurbishment, repair, recycling and logistics programs. The majority of our products are sold through independent third-party brokers, agents, retailers or administrators.

Our business model focuses on achieving industry-leading returns on equity and long-term stockholder value through operational excellence and profitable growth with the careful management of risk. We are focused on achieving excellent customer service and retention. We pursue these goals through:

- Disciplined underwriting and risk management frameworks that emphasize geographic and product diversification, and provide us with an in-depth understanding of our insured exposures.
- Targeting and reaching scale amongst the small to middle size customer segments in low to medium hazard business classes throughout the U.S., Europe and increasingly in Asia. 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, and developing new client relationships.
- Leveraging our proprietary technology platform in order 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 we believe is a competitive advantage in these high volume, lower risk classes of business by enhancing our ability to service, underwrite and adjudicate claims.

Since our inception in 1998, we have grown both organically and through strategic acquisitions. Our approach and strategy for acquisitions is to take relatively modest integration and balance sheet risk. In 2017 and early 2018, our acquisition activity slowed as we took several transformative actions to strengthen our balance sheet and capital base and focus upon our core business. We intend to achieve profitable growth and strengthen our capital base by pursuing select underwriting opportunities while maintaining or improving our A.M. Best ratings. For details of the impact of these transactions on our results of operations, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations "– Acquisitions" and "– Strategic Investments".

Business Segments

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

The following table provides our net earned premiums by segment for the years ended December 31, 2017 and 2016:

	Year Ended December 31,	
(Amounts in Thousands)	2017	2016
Small Commercial Business	$2,306,660	$2,203,469
Specialty Risk and Extended Warranty	2,009,761	1,543,899
Specialty Program	739,677	920,597
Total	$5,056,098	$4,667,965

Additional financial information regarding our segments and geographic areas is presented in Note 25. “Segments” to our consolidated financial statements appearing elsewhere in this Form 10-K.

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Small Commercial Business

The following table provides a results summary for the Small Commercial Business segment for the years ended December 31, 2017 and 2016:

	Year Ended December 31,			
	2017		2016	
(Amounts in Thousands, except percentages)	Amount	% of Net Earned Premiums	Amount	% of Net Earned Premiums
Net Earned Premiums:				
Workers' compensation	$1,409,947	61.1 %	$1,421,744	64.5 %
Warranty	—	—	10,614	0.5
Other liabilities	—	—	22,273	1.0
Commercial auto and liability, physical damage	396,245	17.2	362,774	16.5
Other	500,468	21.7	386,064	17.5
Total net earned premiums	$2,306,660	100.0 %	$2,203,469	100.0 %
Segment underwriting (loss) income (1)	$(226,058)		$150,397	
Combined ratio (2)	109.8 %		93.2 %	

(1) Segment underwriting (loss) income is equal to segment net earned premiums less loss and loss adjustment expenses and acquisition costs and other underwriting expenses.

(2) The combined ratio is equal to loss and loss adjustment expenses plus acquisition costs and other underwriting expenses divided by net earned premiums.

Products and services

Our Small Commercial Business segment provides workers’ compensation insurance to small businesses that operate in low and medium hazard classes and commercial package and other property and casualty insurance products to small businesses, with average annual premiums of less than $8,000 per policy. Commercial package and other low-hazard products provide a broad array of insurance to small businesses, including commercial property, general liability, inland marine, employment practices liability, commercial automobile, workers’ compensation and umbrella coverage.

Some of our preferred and commonly written low and medium classes of business include restaurants, hospitality, retail and wholesale stores, professional offices, artisan contractors, light manufacturing and service industries, among others.

Marketing and distribution

We are authorized to write our Small Commercial Business products in all 50 states. We primarily distribute our policies through a network of over 11,000 select retail and wholesale agents who are highly trained on AmTrust's preferred industry classes and are paid commissions based on the annual policy premiums submitted by agents that we choose to write. 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.

We are focused on continuing to broaden our market share by enhancing our current agent relationships as well as developing new agent relationships. Our on-line quoting and application submission system permits agents and

brokers to easily determine in real-time if the risk and pricing parameters for a prospective workers' compensation client meet our underwriting criteria and delivers an application for underwriting approval to us in a paperless environment. Our underwriting system will not allow business to be placed if it does not fit within our guidelines, while enabling rapid same-day binding coverage for risks that meet our criteria. 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.

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

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Percentage of Aggregate Small Commercial Business Direct Written Premiums by State

The table below identifies the top ten producing states by percentage of direct written premiums for our Small Commercial Business segment for the years ended December 31, 2017, 2016, and 2015.

	Year Ended December 31,		
State	2017	2016	2015
California	22.6 %	23.1 %	24.2 %
New York	16.2	17.7	18.7
Texas	10.6	8.9	2.9
Florida	9.5	9.3	11.7
New Jersey	7.2	7.4	7.2
Georgia	3.7	3.5	4.0
Illinois	3.6	4.2	4.6
Pennsylvania	3.3	2.1	2.5
Louisiana	2.9	2.6	1.5
Arizona	1.6	1.3	1.4
All Other States and the District of Columbia	18.8	19.9	21.3
Total	100.0%	100.0%	100.0%

Competition

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 lower average premiums needed by these types of policyholders generally do not fit the underwriting criteria of many of our competitors. Our highly customized, scalable 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.

During the years ended December 31, 2017, 2016 and 2015, we did not derive over ten percent of our Small Commercial Business revenue from any one customer.

Specialty Risk and Extended Warranty

The following table provides a results summary for the Specialty Risk and Extended Warranty segment for the years ended December 31, 2017 and 2016:

	Year Ended December 31,			
	2017		2016	
(Amounts in Thousands, except percentages)	Amount	% of Net Earned Premiums	Amount	% of Net Earned Premiums
Net Earned Premiums:				
Warranty	$970,673	48.3 %	$748,946	48.5 %
Other liabilities	176,655	8.8	140,256	9.1
Commercial auto and liability, physical damage	—	—	40,388	2.6
Medical malpractice	206,622	10.3	233,136	15.1
Other	655,811	32.6	381,173	24.7
Total net earned premiums	$2,009,761	100.0 %	$1,543,899	100.0 %
Segment underwriting (loss) income (1)	$(185,894)		$147,982	
Combined ratio (2)	109.2 %		90.4 %	

(1) Segment underwriting income is equal to segment net earned premiums less loss and loss adjustment expenses and acquisition costs and other underwriting expenses.

(2) The combined ratio is equal to loss and loss adjustment expenses plus acquisition costs and other underwriting expenses divided by net earned premiums.

Transfer of Equity Interest in U.S.-based Fee Businesses

On November 3, 2017, we and Mayfield Holdings LLC (“Mayfield”), entered into a Contribution and Stock Purchase Agreement (the “Acquisition Agreement”) with MH JV Holdings L.P. (“Investor”), a newly-formed investment vehicle owned by affiliates of Madison Dearborn Partners, related to the Investor’s acquisition of a majority interest in the portion of our U.S.-based fee businesses that (a) act as managing general agents for the distribution, underwriting and procurement of property and casualty insurance on behalf of certain our affiliates and other insurance carriers and (b) design, develop, market and act as third party administrators for programs for service contracts, limited warranties and replacement plans as further described in the Acquisition Agreement (the “U.S.-based fee business”). On February 28, 2018, we completed the transfer of the U.S.-based fee business to Mayfield and the Investor's acquisition of a majority interest in Mayfield. Additional information is presented in Note 28. “Subsequent Events” to our consolidated financial statements appearing elsewhere in this Form 10-K. The following description of our Specialty Risk and Extended Warranty segment summarizes our business as of December 31, 2017, without regard to the transfer of the U.S. -based fee business that occurred shortly before we filed this Form 10-K.

Products and services

Our Specialty Risk and Extended Warranty segment provides custom designed coverages, such as accidental damage plans, mechanical breakdown protection and payment protection plans offered in connection with the sale of consumer and commercial goods in the U.S. and Europe, and certain niche property, casualty and specialty liability risks in the U.S. and Europe, including general liability, employers’ liability and professional and medical liability. Our model is focused on developing coverage plans by evaluating and analyzing historical product and industry data to establish appropriate pricing and contract terms and enhancing the profitability of the plans by limiting the frequency and severity of losses while delivering superior customer service. We own Lloyd's property and casualty insurance

syndicates that focus on general insurance and provide access to a Lloyd's underwriting platform for brokers. We also serve as a third party administrator to provide claims handling and call center services to the consumer products and automotive industries in the U.S., Canada, Europe and Asia.

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;

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- payment protection to insureds if they become unable to meet financial obligations under finance contracts;
- guaranteed asset protection (“GAP”) to cover the difference between an insurer’s settlement and the asset value in the event of a total loss; and
- general liability, employers’ liability, public liability, negligence of advisers and liability of health care providers and medical facilities.

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

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

Marketing and distribution

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

We market our Specialty Risk and Extended Warranty products through unaffiliated third parties that, in lieu of a commission, charge an administrative fee, based on the policy amount, to the manufacturer or retailer that offers the extended warranty or accidental damage coverage plan. Accordingly, the success of our business is dependent upon our ability to motivate these third parties to sell our products and support them in their sales efforts.

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.

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 premiums we charge and drive the description of the plan coverage and exclusions. The underwriting process generally takes three months or more to complete.

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

administration services in the U.S. and internationally.

We market our extended warranty and GAP products in the U.S. and internationally primarily through brokers and third party warranty administrators, through a direct marketing group and our own warranty administrators AMT Warranty and Car Care Plan. Third party administrators generally handle claims on our policies and provide monthly loss reports. We review the monthly reports and if the losses are unexpectedly high, we generally have the right under our policies to adjust our pricing or cease underwriting new business under the coverage plan. We routinely audit the claims paid by the administrators and 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.

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During the years ended December 31, 2017, 2016 and 2015, we did not derive over ten percent of our Specialty Risk and Extended Warranty revenue from any one customer.

Percentage of Specialty Risk and Extended Warranty Direct Written Premiums by Country

The table below shows the geographic distribution of our annualized direct written premiums in our Specialty Risk and Extended Warranty segment with respect to coverage plans in effect at December 31, 2017, 2016 and 2015.

	Year Ended December 31,		
Country	2017	2016	2015
United States	41 %	41 %	39 %
United Kingdom	28	22	27
Italy	8	13	15
Sweden	5	3	3
France	3	3	4
Other	15	18	12
Total	100%	100%	100%

For a discussion of the various risks we face related to our foreign operations, see "Item 1A. Risk Factors."

Competition

We believe that our proprietary technology platform and strong industry expertise provide us a competitive advantage. We also 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 their targeted markets. Nonetheless, we face significant competition, including several internationally well-known insurers that have greater financial, marketing and management resources and experience than we have. We believe that our competitive advantages include our ownership of both a U.S. warranty provider and a U.K. warranty provider, which enables us to directly administer the business, the ability to provide technical assistance to non-affiliate warranty providers, experienced underwriting, resourceful claims management practices and good relations with warranty administrators in the European Union, Asia and the U.S.

Specialty Program

The following table provides a results summary for the Specialty Program segment for the years ended December 31, 2017 and 2016:

	Year Ended December 31,			
	2017		2016	
(Amounts in Thousands, except percentages)	Amount	% of Net Earned Premiums	Amount	% of Net Earned Premiums
Net Earned Premiums:				
Workers' compensation	$379,372	51.3 %	$530,276	57.6 %
Other liabilities	191,764	25.9	168,162	18.3
Commercial auto and liability, physical damage	116,172	15.7	130,409	14.2
Other (includes warranty)	52,369	7.1	91,750	9.9

Total net earned premiums	$739,677	100.0 %	$920,597	100.0 %
Segment underwriting loss [1]	$(238,935)		$(2,861)	
Combined ratio [2]	132.3 %		100.3 %	

(1) Segment underwriting loss is equal to segment net earned premiums less loss and loss adjustment expenses and acquisition costs and other underwriting expenses.

(2) The combined ratio is equal to loss and loss adjustment expenses plus acquisition costs and other underwriting expenses divided by net earned premiums.

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Products and services

Our Specialty Program segment provides workers' compensation, general liability, commercial auto liability, property coverage, excess and surplus lines programs and other specialty commercial property and casualty insurance to narrowly defined, homogeneous groups of small and middle market accounts 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 larger in premium size and generally covers more specialized classes than our Small Commercial Business segment. In recent years, we began re-underwriting, implementing rate changes and/or terminating certain unprofitable programs, which generated a decrease in our premium writings in this segment.

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

- retail;
- wholesale;
- service operations;
- artisan and general contracting;
- moving and storage;
- agriculture;
- professional liability; and
- healthcare

Marketing and distribution

The Specialty Program business is distributed through a limited number of qualified general and wholesale agents to whom we pay commission for the services they perform (underwriting, marketing, policy administration, etc.). We restrict our agent network to managing general agents and other wholesale agents and claims administrators who have experience underwriting certain types of risk and who, subject to our underwriting standards, originate and assist in managing a book of business and may 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.

We establish the underwriting standards used with our general 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 a general agent, we carefully monitor the loss experience of the portfolio associated with each agent on a monthly basis and conduct onsite underwriting, claims and financial audits.

During the years ended December 31, 2017 and 2016, we did not derive over ten percent of our Specialty Program revenue from any one customer. During 2015, we derived over ten percent of our Specialty Program revenue from one customer.

Percentage of Specialty Program Direct Written Premiums by State

The table below identifies the top ten producing states by percentage of direct written premiums for our Specialty Program segment for the years ended December 31, 2017, 2016, and 2015.

State	Year Ended December 31,		
	2017	2016	2015
California	31.0 %	41.0 %	38.0 %
New York	20.0	17.6	20.0
Texas	6.9	6.0	4.0
New Jersey	4.7	5.6	6.0
Florida	4.4	4.0	5.0
Illinois	2.3	1.9	2.0
Georgia	2.2	1.6	2.0
Colorado	2.0	1.1	1.0
Washington	1.8	1.0	1.0
Arizona	1.7	1.7	2.0
All other States and the District of Columbia	23.0	18.5	19.0
Total	100.0 %	100.0 %	100.0 %

Competition

Our Specialty Program segment employs a niche strategy of targeting specialized business within the specific niche classes for each program. Our product expertise, management experience, availability of filings, efficient operations, system capabilities and speed to market helps to differentiate our offerings from those of our competitors. Our competitive A.M. Best rating and financial size allow us to compete favorably for target business.

Reinsurance

Reinsurance is a transaction between insurance companies in which the original insurer, or ceding company, remits a portion of its policy premiums to a reinsurer, or assuming company, as payment for the reinsurer assuming a portion of the insured policies' risk. Reinsurance agreements may be proportional in nature, under which the assuming company participates in the premiums and losses of the ceding company via a pro rata share. Under these "quota share reinsurance" arrangements, the ceding company transfers, or cedes, a percentage of the risk under each policy within the covered class or classes of business to the reinsurer and recovers the same percentage of the ceded loss and loss adjustment expenses. The ceding company pays the reinsurer that same percentage of the insurance premiums on the ceded policies, less a ceding commission. Reinsurance agreements may also be structured so that the assuming company indemnifies the ceding company against all or a specified portion of losses on underlying insurance policies in excess of a specified amount, which is called an "attachment level" or "retention." The assuming company provides this indemnification for a premium, usually determined as a percentage of the ceding company's insurance premiums for the covered class or classes of business. This arrangement is known as "excess of loss reinsurance." Excess of loss reinsurance may be written in layers, in which a reinsurer or group of reinsurers accepts a band of coverage up to a specified amount. Any liability exceeding the coverage limits of the reinsurance program is retained by the ceding company.

We believe reinsurance is a valuable tool to appropriately manage the risk inherent in our insurance portfolio as well as to enable us to reduce earnings volatility and generate stronger returns. We also utilize reinsurance agreements to increase our capacity to write a greater amount of profitable business. Our insurance subsidiaries utilize reinsurance

agreements to transfer portions of the underlying risk of the business we write to various affiliated and third-party reinsurance companies. Reinsurance does not discharge or diminish our obligation to pay claims covered by the insurance policies we issue; however, it does permit us to recover certain incurred losses from our reinsurers and our reinsurance recoveries reduce the total aggregate of losses that we may incur as a result of a covered loss event.

The total amount, cost and limits relating to the reinsurance coverage we purchase may vary from year to year based upon a variety of factors, including the availability of quality reinsurance at an acceptable price and the level of risk that we choose to retain for our own account. For a more detailed description of our reinsurance arrangements, including our quota share reinsurance agreement with Maiden Reinsurance Ltd. (“Maiden Reinsurance”) (the “Maiden Quota Share”), see “Reinsurance” in “Item 7.

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Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 14. "Reinsurance" to our consolidated financial statements appearing elsewhere in this Form 10-K.

Ratings

Independent rating organizations, such as A.M. Best Company ("A.M. Best"), periodically review the financial strength of insurers, including our insurance subsidiaries. The following is a summary of our principal U.S. domiciled insurance subsidiaries and their financial strength ratings assigned by A.M. Best.

Company [(1)]	Abbreviation	A.M. Best Rating
AmTrust Insurance Company of Kansas, Inc.	AICK	Au
AmTrust Title Insurance Company	ATIC	A- u
ARI Insurance Company	ARI	Au
Associated Industries Insurance Company, Inc.	AIIC	Au
CorePointe Insurance Company	CPIC	Au
Developers Surety and Indemnity Company	DSIC	Au
First Nonprofit Insurance Company	FNIC	Au
Heritage Indemnity Company	HIC	Au
Indemnity Company of California	ICC	Au
Milford Casualty Insurance Company (formally known as "Milwaukee Casualty Insurance Company")	MCIC	Au
Republic Fire & Casualty Insurance Company	RFC	Au
Republic Lloyds	RL	Au
Republic Underwriters Insurance Company	RUIC	Au
Republic-Vanguard Insurance Company	RVIC	Au
Rochdale Insurance Company	RIC	Au
Security National Insurance Company	SNIC	Au
Sequoia Indemnity Company	SID	Au
Sequoia Insurance Company	SIC	Au
Southern County Mutual Insurance Company	SCM	Au
Southern Insurance Company	SOIC	Au
Southern Underwriters Insurance Company	SUIC	Au
Technology Insurance Company, Inc.	TIC	Au
Wesco Insurance Company	WIC	Au

(1) ARI Casualty Company is not currently rated by A.M. Best, so it is not included in the above table.

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. On November 6, 2017, A.M. Best announced that it had placed the Company's ratings under review with negative implications (as denoted by the symbol "u" in the summary above), following our announcement of our entry into a definitive agreement to transfer a portion of our U.S.-based fee business and our reserve strengthening during third-quarter 2017. On March 2, 2018, after our announcements regarding the closing of the transfer of a majority interest in a portion of our U.S.-based fee business and the proposed merger, A.M. Best confirmed our ratings remained unchanged.

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 current ratings were derived from an in-depth evaluation of these subsidiaries' financial strengths, operating performances and business profiles. A.M. Best evaluates, among other factors, our capitalization,

underwriting leverage, financial leverage, asset leverage, capital structure, quality and appropriateness of reinsurance, adequacy of reserves, quality and diversification of assets, liquidity, profitability, spread of risk, revenue composition, market position, management, market risk and event risk. A.M. Best ratings are

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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 U.S. and in Europe, which for us primarily consists of the United Kingdom and Ireland, as well as in Bermuda.

United States

As of December 31, 2017, we had twenty-four operating insurance subsidiaries domiciled in the United States (the "U.S. Insurance Subsidiaries").

Holding Company Regulation

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

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

Dividends

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

Change of Control

State insurance holding company laws require advance approval by the respective state insurance departments of any change of control of an insurer. Control is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. In addition, insurance laws in many states contain provisions that require pre- and post-notification to and prior approval from the insurance departments of a change of control of certain non-domestic insurance companies

licensed in those states, as well as post-notification of a change of control of certain agencies and third party administrators. Obtaining these approvals may result in the material delay of, or deter, any such transaction. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of AmTrust, including through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

State Insurance Regulation

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

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

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

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

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

NAIC Initiatives

Over the past several years, the National Association of Insurance Commissioners (“NAIC”) has revised the U.S. insurance solvency regulatory framework to include capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. The NAIC is focused upon the concept of “enterprise risk” within an insurance company holding system and the NAIC imposes extensive informational requirements on insurers in order to protect the licensed insurance companies from enterprise risk. Additionally, the NAIC requires insurers to perform an Own Risk and Solvency Assessment (“ORSA”) and, upon request of a state, file an ORSA Summary Report with the state. Also, in 2016, the NAIC adopted the Corporate Governance Annual Filing Model Regulation and the Corporate Governance Annual Disclosure Model Act, which requires us to file a confidential report prepared by the insurer or insurance group, the purpose of which is to provide the most relevant information necessary to permit state regulators to gain an understanding of the corporate governance structure, policies and practices utilized by the insurer.

Federal 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 NAIC.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 gives the Federal Reserve supervisory authority over a number of financial services companies, including insurance companies, if they are designated by the Financial Stability Oversight Council as “systemically important.” In such a case, the Federal Reserve’s supervisory authority could include the ability to impose heightened financial regulation upon that insurance company which could impact its capital, liquidity and leverage requirements as well as its business and investment conduct. We have not been designated as "systemically important" by the Financial Stability Oversight Council.

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

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State Insurance Department Examinations

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

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

Guaranty Fund Assessments

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

Residual Market Programs

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

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

Second Injury Funds

A number of states operate trust funds that reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. These state-managed trust funds are funded through assessments against insurers and self-insurers providing workers' compensation coverage in a particular state. We received recoveries of approximately $3.3 million, $4.3 million and $6.1 million from such state-managed trust funds in 2017, 2016 and 2015, respectively. The aggregate amount of cash we paid for assessments to state-managed trust funds for the years ended December 31, 2017, 2016 and 2015 was approximately $28.8 million, $25.8 million and $23.4 million, respectively.

Risk-Based Capital Regulations

Our U.S. Insurance Subsidiaries are required to report their risk-based capital based on a formula developed and adopted by the NAIC that attempts to measure statutory capital and surplus needs based on the risks in the insurer's mix of products and investment portfolio. The formula is designed to allow insurance regulators to identify weakly-capitalized companies. Under the formula, a company determines its "risk-based capital" by taking into account certain risks related to the insurer's assets (including risks related to its investment portfolio and ceded reinsurance) and the insurer's liabilities (including underwriting risks related to the nature and experience of its insurance business). The insurance departments in our domiciliary states generally require a minimum total adjusted risk-based capital equal to 150% of an insurance company's authorized control level risk-based capital. At December 31, 2017, each of our U.S. Insurance Subsidiaries' risk-based capital levels exceeded the minimum total adjusted risk-based capital ratio.

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Insurance Regulatory Information System Ratios

The NAIC Insurance Regulatory Information System, or IRIS, is part of a collection of analytical tools designed to provide state insurance regulators with an integrated approach to screening and analyzing the financial condition of insurance companies operating in their respective states, and is intended to assist state insurance regulators in targeting resources to those insurers in greatest need of regulatory attention. IRIS generates key financial ratios results based on financial information obtained from insurers' annual statutory statements. Each ratio has an established "usual range" of results. Unusual values are viewed as part of a regulatory early monitoring system. An insurance company may fall out of the usual range for one or more ratios because of specific transactions that are in themselves immaterial or because of certain reinsurance or pooling structures or changes in such structures. Management does not anticipate regulatory action as a result of any 2017 IRIS ratio results outside the usual range for our U.S. Insurance Subsidiaries. In all instances in prior years, regulators have been satisfied upon follow-up that no regulatory action was required with respect to any ratio outside of the usual range.

Credit for Reinsurance

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

Privacy and Data Security Regulations

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

Insurance regulators have been giving increased attention to data security, and new laws and regulations that would impose new requirements and standards for protecting personally identifiable information of insurance company policyholders. For example, the New York Department of Financial Services adopted comprehensive cybersecurity requirements that became effective during 2017. The regulations require that each covered entity (which includes any entity operating under or required to operate under a license, registration, charter, certificate, permit, accreditation or similar authorization under the New York insurance law) establish a cybersecurity program under which the entity must maintain a detailed cybersecurity plan, designate a chief information security officer, enact a cybersecurity

policy and maintain a cybersecurity-related event reporting system. We established such a program in 2017. In addition, the NAIC has adopted the Cybersecurity Bill of Rights, a set of directives aimed at protecting consumer data, and is working on a new model data security law that is expected to incorporate the directives and impose additional requirements to the extent adopted by applicable states' legislation. The NAIC has also included enhanced guidance related to cybersecurity in its handbook for state insurance examiners.

We are subject to the E.U. General Data Protection Regulation ("GDPR"), which all E.U. Member States must implement by May 2018. GDPR is global in scope to the extent that it applies to all business in the E.U. and any business outside the E.U. that process E.U. personal data of individuals in the E.U. The regulation is in place to enhance the rights and protections of E.U. citizens' personal data and non-compliance can potentially lead to financial penalties. The introduction of GDPR, and any resultant changes in E.U. member states' national laws and regulations, may increase our compliance obligations and may necessitate the review and implementation of policies and processes relating to our collection and use of data. We have undertaken significant preparedness work ahead of the implementation date of May 2018.

To the best of our knowledge, we are in compliance with all applicable privacy and data security laws and regulations.

Telephone and Email Sales Regulations

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

Regulatory Coordination

State regulators in the U.S. and regulatory agencies outside the U.S. are increasingly coordinating the regulation of internationally active insurance groups through participation in supervisory colleges. A supervisory college, as defined by the International Association of Insurance Supervisors, is a forum for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of entities that belong to an insurance group; facilitating both the supervision of the group as a whole on a group-wide basis; and improving the legal entity supervision of the entities within the insurance group. Our regulators conducted a supervisory college for our insurance group in 2017.

Ireland

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

Qualifying Shareholders

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

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

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

Restrictions on Dividends

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

Bermuda

Classification

AII is registered as an insurer by the Bermuda Monetary Authority (“BMA”) under the Insurance Act 1978 of Bermuda, as amended (the “Insurance Act - Bermuda”). The BMA is responsible for the day-to-day supervision of insurers and monitors compliance with the solvency and liquidity standards imposed by the Insurance Act - Bermuda. Since January 1, 2016, AII has been registered as a Class 3B insurer. As a Class 3B 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, which broadly includes life insurance and disability insurance with terms in excess of five years.

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

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

Insurance Code of Conduct

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

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

Under the Insurance Act - Bermuda, the value of the general business assets of a registered Class 3B insurer, such as AII, must exceed the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margin. AII is required, with respect to its general business, to maintain a minimum solvency margin equal to the greatest of the following: (a) 25% of the enhanced capital requirement (“ECR”); (b) $1.0 million; (c) 20% of net

premiums written up to $6.0 million plus 15% of net premiums written over $6.0 million; or (d) 15% of loss and other insurance reserves. AII is also required to maintain available statutory capital and surplus at least equal to its ECR. The BMA has also established a target capital level ("TCL") for each insurer subject to an enhanced capital requirement equal to 120% of its ECR. Failure to maintain statutory capital at least equal to the TCL would likely result in increased regulatory oversight.

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

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

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As a registered Class C long-term insurer, AII is required to establish and maintain a long-term business fund and no payment may be made directly or indirectly from AII’s long-term business fund for any purpose other than a purpose related to AII’s long-term business, unless such payment can be made out of any surplus certified by AII’s approved actuary to be available for distribution otherwise than to policyholders. With respect to its long-term business, AII must maintain a minimum solvency margin of the greater of $0.5 million or 1.5% of assets and certain additional restrictions apply to AII’s ability to declare or pay dividends. AII’s approved actuary must certify that AII’s long-term business assets exceeds its long-term business liabilities (based on Bermuda’s Economic Balance Sheet technical provisions) by the amount of the dividend and the greater of $0.5 million or 1.5% of assets, and any such dividend shall not exceed the aggregate of such excess and other funds properly available for the payment of dividends. AII applies annually for an exemption from the Bermuda Solvency Capital Return model for a Class C insurer as AII has not written any long-term insurance business.

Minimum Liquidity Ratio

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

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

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

Insurance Manager Reporting Requirements

The BMA has regulatory oversight of insurance managers as part of Bermuda's insurance regulatory framework. The BMA introduced the Insurance Manager Code of Conduct and requires insurance managers to file specific details via an Insurance Manager's Return. The Insurance Manager's Return requires, among other things, details around directors and officers of the insurance manager, the services provided by the entity, and details of the insurers managed by the insurance manager.

United Kingdom

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

individual.

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

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Change in Control

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

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

Financial Requirements and Regulatory Guidelines

AEL, AMIL and MIC are required to maintain regulatory capital resources in accordance with the Solvency Capital Requirement ("SCR") determined under Solvency II. The SCR is the amount of funds that an insurance firm is required to hold in the European Union, which covers existing business as well as new business expected over the course of 12 months. The SCR can be calculated under either the Standard Formula approach or by using an Internal Model, which requires PRA approval. As of December 31, 2017, AEL, AMIL and MIC each use the Standard Formula approach to calculate their respective SCR and each have maintained capital resources in excess of their respective required SCR.

Restrictions on Dividends

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

Lloyd's

We participate in the Lloyd’s market through our ownership of AmTrust Syndicates Limited, a managing agent for syndicates 1206, 44, 2526, 1861, 5820 and 779 (the "Lloyd’s managing agent"). The Lloyd’s managing agent is dual-regulated by the FCA and PRA. The Society of Lloyd’s, the FCA and the PRA have statutory responsibilities, including under the Lloyd’s Acts 1871 - 1982 and FSMA, in relation to the supervision of insurance business underwritten in the Lloyd’s markets and the supervision of managing agents operating in the market at Lloyd’s.
The FCA, the PRA and Lloyd's have complementary objectives in ensuring that the Lloyd's market is appropriately regulated. To minimize duplication, there are arrangements between them for co-operation on supervision and enforcement.
Our Lloyd’s operations are also governed by The Council of Lloyd’s, which, through the Lloyd’s Franchise Board, is responsible for regulating and directing the business of insurance at Lloyd’s in line with its statutory powers, subject to its bylaws and in furtherance of the objects of Lloyd’s. Lloyd’s prescribes, in respect of its managing agents and corporate members, certain minimum standards relating to their management and control, solvency and various other requirements. By entering into a membership agreement with Lloyd’s, our Lloyd’s managing agent undertook to comply with Lloyd’s bylaws and regulations as well as the provisions of the Lloyd’s Acts and the Financial Services and Markets Act that are applicable to it. The operation of syndicates 1206, 44, 2526, 1861, 5820 and 779, as well as

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

The Council of Lloyd's has wide discretionary powers to regulate members' underwriting at Lloyd's. It may, for instance, change the basis on which syndicate expenses are allocated or vary the FAL ratio or the investment criteria applicable to the

provision of FAL. Exercising any of these powers might affect the return on an investment of the corporate member in a given underwriting year. Further, the annual business plans of a syndicate are subject to the review and approval of the Lloyd's Franchise Board, which is responsible for setting risk management and profitability targets for the Lloyd's market and operates a business planning and monitoring process for all syndicates.

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

Solvency II

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

For additional information about capital requirements for our U.S. and international statutory subsidiaries, see Note 24. "Statutory Financial Data, Risk Based Capital and Dividend Restrictions" to our consolidated financial statements appearing elsewhere in this Form 10-K.

Offices

Our principal executive offices are located at 59 Maiden Lane, 43rd Floor, New York, New York 10038, and our telephone number at that location is (212) 220-7120. Our website is www.amtrustfinancial.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, 2017, we had approximately 9,300 employees worldwide.

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

Available Information

Our internet website address is www.amtrustfinancial.com. You can 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 filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such reports or amendments with, or furnish them to, the Securities and Exchange Commission (the "SEC"). We may use our website as a distribution channel of material company information. Information included on our website is not part of this Form 10-K.

Item 1A. Risk Factors

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

Risks Related to Our Business

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

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

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

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

Our estimated unpaid losses are material ($12.1 billion at December 31, 2017), so even small percentage increases to the aggregate liability estimate can result in materially lower future periodic reported earnings. An increase in reserves could result in a reduction in our surplus, which could result in a downgrade in our A.M. Best rating. Such a downgrade could, in turn, adversely affect our ability to sell insurance policies.

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

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

adversely affect our financial condition or results of operations.

Property and casualty insurers are subject to claims arising from catastrophes. Catastrophes can cause losses in multiple property and casualty lines, including property and workers' compensation. Workers' compensation constitutes approximately 35% of our business and we write commercial property insurance in all three of our segments. In addition, we issue policies that cover crop-related revenue shortfalls or production losses due to natural causes and other perils such as drought, excessive moisture, hail, wind, frost, insects, and disease. The incidence and severity of catastrophes, such as those due to natural disasters and also large-scale terrorist attacks, are inherently unpredictable, and our losses from catastrophes could be substantial.

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

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In addition, it is possible that we may experience an unusual frequency of smaller losses in a particular period, which could cause substantial volatility in our financial condition or results of operations for any fiscal quarter or year, which could have a material adverse effect on our financial condition or results of operations and our ability to write new business. For example, during the third quarter of 2017, we experienced net catastrophe losses of $54.2 million, primarily as a result of Hurricanes Maria, Irma and Harvey, as well as the Mexico City earthquake. Although we attempt to manage our exposure to these types of catastrophic and cumulative losses, including through the use of reinsurance, the severity or frequency of these types of losses may exceed our expectations as well as the limits of our reinsurance coverage.

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

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

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

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

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

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

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

Parent may terminate the proposed merger (discussed below) if certain of our insurance subsidiaries fail to have a Financial Strength Rating of at least “A” from A.M. Best or if A.M. Best provides any oral or written notice to us, Evergreen Parent or any of its related parties, or any of such insurance subsidiaries that any such rating has been or will be downgraded, suspended, withdrawn or retracted (provided that a status of “under review with negative implications” or “under review with developing implications” will not alone constitute a termination right) and Evergreen Parent provides us with written notice of termination of the proposed merger no later than the forty-fifth day following the date of such downgrade, suspension, withdrawal or retraction.

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

As part of our overall risk and capacity management strategy, we purchase quota share reinsurance and excess of loss and catastrophe reinsurance. The Maiden Quota Share and our reinsurance agreement with Maiden Reinsurance for our European medical liability business represent our most significant reinsurance arrangements. We provide details on the financial impact of these two reinsurance agreements in Note 15. "Related Party Transactions" to our consolidated financial statements appearing elsewhere in this Form 10-K. In addition, we purchase reinsurance on an excess of loss and catastrophe basis for protection against catastrophic events and other large losses. The Maiden Quota Share was renewed through June 30, 2019 and our excess of loss and catastrophe reinsurance facilities are generally subject to annual renewal.

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

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

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

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

Reinsurance does not discharge our obligations under the insurance policies we write; it merely provides us with a contractual right to seek reimbursement on certain claims. We remain liable to our policyholders even if we are unable to make recoveries that we are entitled to receive under our reinsurance contracts. As a result, we are subject to credit risk with respect to our reinsurers. Losses are recovered from our reinsurers after underlying policy claims are paid. The creditworthiness of our reinsurers may change before we recover amounts to which we are entitled. Therefore, if a reinsurer were unable to meet its obligations to us, we would be responsible for claims and claim settlement expenses for which we would have otherwise received payment from the reinsurer. If we were unable to collect these amounts from our reinsurers, our costs would increase and our financial condition would be adversely affected. As of December 31, 2017, we had an aggregate amount of approximately $6.1 billion of recoverables from third-party reinsurers on paid and unpaid losses.

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

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

relationships with Maiden and NGHC, see the discussion found in Note 15. “Related Party Transactions” to our consolidated financial statements appearing elsewhere in this Form 10-K.

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

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We receive significant ceding commission from Maiden.

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

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

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

We receive significant service and fee income from NGHC and Maiden through a series of agreements described in Note 15. "Related Party Transactions" to our consolidated financial statements appearing elsewhere in this Form 10-K. During the third quarter of 2017, we sold the personal lines policy management system we had developed for NGHC, and terminated the master services agreement with NGHC by which we provided these information technology services. For this reason, we expect the service and fee income derived from these services to significantly decrease going forward. We may be unable to maintain our remaining arrangements with NGHC and Maiden. If we no longer provide services to Maiden and NGHC and do not replace them with services provided to other parties on equally favorable terms and at similar levels, our service and fee income would decline, which may adversely affect our results of operations and financial condition.

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

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

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

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

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

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

Any inability to successfully keep pace with technological changes could affect our business.

Our industry is becoming increasingly subject to rapid changes in technologies, which are altering historical methods of doing business. Companies offering new applications and insurance-related services based on artificial intelligence are becoming more

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competitive with more traditional insurance company sales methods. The lower cost and higher speed nature of these new applications and services can be especially attractive to technologically adept purchasers. As technology continues to evolve, more tasks currently performed by people may be replaced by automation, machine learning and other advances outside of our control. If we are not able to successfully keep pace with these technological advances, our business may be adversely impacted.

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

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

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

Increasing regulatory focus on privacy issues and expanding laws could impact our business model and expose us to increased liability.

The regulatory environment surrounding information security and privacy is increasingly demanding. We are subject to numerous U.S. federal and state laws and non-U.S. regulations governing the protection of personal and confidential information of our clients or employees. On March 1, 2017, new cybersecurity rules took effect for financial institutions, insurers and certain other companies, like us, supervised by the New York Department of Financial Services (the “NYDFS Cybersecurity Regulation”). The NYDFS Cybersecurity Regulation imposes

significant new regulatory burdens intended to protect the confidentiality, integrity and availability of information systems. For additional information, see “Business - Regulation - Privacy and Data Security Regulations.”

In addition, the European General Data Protection Regulation (the “GDPR”) will be directly applicable in all E.U. member states from May 25, 2018 and will regulate our ability to market to current and prospective customers and our obligations to respond to customer requests under the law, and will impact our business models. As the E.U. states reframe their national legislation to prepare for and harmonize with the GDPR, we will need to monitor compliance with all relevant E.U. member states’ laws and regulations, including where permitted derogations from the GDPR are introduced. The introduction of the GDPR, and any resultant changes in E.U. member states’ national laws and regulations, may increase our compliance obligations and may necessitate the review and implementation of policies and processes relating to our collection and use of data. The costs of compliance with the GDPR and the potential for fines and penalties in the event of a breach may have an adverse impact on our business, financial condition or results of operations.

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

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

If the growth and profitability of our lines of business vary from our projections, we may be required to recognize an impairment of our goodwill or intangible assets, which could have a material adverse effect on our results of operations and financial condition.

We review our finite-lived intangible assets for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable from estimated future cash flows. We test goodwill and intangible assets with indefinite lives for impairment at least annually and sometimes more often, such as in November 2017 in connection with our entry into a definitive agreement to sell certain of our U.S.-based managing general agencies and warranty third-party administrators. If we determined that such goodwill or intangible assets has or have been impaired, we would be required to write down the goodwill or the intangible asset by the amount of the impairment, with a corresponding charge to net income. Such write downs could have a material adverse effect on our results of operations or financial position.

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

We have a significant amount of indebtedness. As of December 31, 2017, our total consolidated indebtedness was approximately $1.3 billion, which does not include approximately $168.0 million aggregate principal amount of a loan made by Maiden Reinsurance to us in connection with a reinsurance agreement between AII and Maiden Reinsurance that requires Maiden Reinsurance to provide sufficient collateral to secure its proportionate share of AII's obligations. This amount is accounted for as a note payable on our balance sheet. We may incur additional indebtedness to meet future financing needs. Our indebtedness could have significant negative consequences for our business, results of operations and financial condition, including increasing our vulnerability to adverse economic and industry conditions, limiting our ability to obtain additional financing, requiring the dedication of portions of our cash flow from operations to service our indebtedness, thereby reducing the amount of our cash flow available for other purposes, limiting our flexibility in planning for, or reacting to, changes in our business, restricting our operational flexibility due to restrictive covenants that will limit our ability to explore certain business opportunities, dispose of assets and take other actions and placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

As of December 31, 2017, our annual debt service obligation on our outstanding indebtedness was approximately $68.8 million. We may be unable to maintain sufficient cash reserves, our business may not generate cash flow from operations at levels sufficient to permit us to pay principal, premium, if any, and interest on our indebtedness, or our cash needs may increase. If we were unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we failed to comply with the various requirements of any indebtedness that we have

incurred or may incur in the future, we would be in default, which would permit the holders of the affected indebtedness to accelerate the maturity of such indebtedness and could cause us to default under our other indebtedness. Any default under any indebtedness that we have incurred or may incur in the future could have a material adverse effect on our business, results of operations and financial condition.

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

Our future capital requirements will depend on many factors, including regulatory requirements, the financial stability of our reinsurers, future acquisitions and our ability to write new business and establish premium rates sufficient to cover our estimated claims. We may need to raise additional capital or curtail our growth to support future operating requirements or cover claims. If we have to raise additional capital, equity or debt financing may not be available to us or may be available only on terms that are not favorable, such as terms resulting in dilution to our stockholders, or the securities sold may have rights, preferences and privileges senior to our currently issued and outstanding common stock. In addition, under certain circumstances, we may sell our

common stock, or securities convertible or exchangeable into shares of our common stock, at a price per share less than the market value of our common stock. If we cannot obtain adequate additional capital on favorable terms or at all, we may be unable to support future growth or operating requirements and, as a result, our business, financial condition and results of operations could be adversely affected.

Our failure to prepare and timely file our periodic reports with the SEC limits our access to the public markets to raise debt or equity capital.

We did not file our Annual Report on Form 10-K for the year ended December 31, 2016 within the timeframe required by the SEC, meaning we had not remained current in our reporting requirements with the SEC. This limits our ability to access the public markets to raise debt or equity capital, which could prevent us from pursuing transactions or implementing business strategies that we might otherwise believe are beneficial to our business. Though we have regained and maintained compliance with our SEC reporting obligations, we are not yet eligible to use a short-form registration statement on Form S-3 that would allow us to incorporate by reference our SEC reports into the registration statement, or to use “shelf” registration statements, until approximately one year from the date we regained and maintained status as a current filer (August 2018). If we wish to pursue a public offering now, we would be required to file a long-form registration statement on Form S-1 and have it reviewed and declared effective by the SEC. Doing so would likely take significantly longer than using a short-form registration statement on Form S-3, increase transaction costs and adversely impact our ability to raise capital or complete acquisitions of other companies in a timely manner.

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

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

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

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

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

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

Our investment portfolio consists substantially of fixed maturity securities. As of December 31, 2017, our investment in fixed maturity securities was approximately $7.5 billion, or 92% 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 maturity securities generally decreases as interest rates rise. Conversely, if interest rates decline, the fair market value of fixed maturity securities generally increases. However, investment income earned from future investments in fixed maturity securities will decrease due to being reinvested at lower interest rates. In addition, some fixed maturity 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, 2017, a 100 basis point increase in interest rates would result in a decrease in the fair value of our investments of approximately $350.8 million.

The value of investments in fixed maturity securities, and particularly our investments in high-yield securities, is subject to impairment as a result of deterioration in the credit worthiness of the issuer or increases in market interest rates. Our investments are subject to losses as a result of a general decrease in commercial and economic activity for an industry sector in which we invest, as well as risks inherent in particular securities. These conditions could result in lower than expected yields on our fixed securities and short term investment portfolio.

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

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

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

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

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

The United Kingdom held a referendum on June 23, 2016, in which a majority voted for the U.K.’s exit from the European Union (E.U.), commonly referred to as “Brexit.” The U.K.'s departure from the E.U. is currently scheduled to take place on March 29, 2019. The E.U. and the U.K. continue to have negotiations regarding the terms of the U.K.'s withdrawal from the E.U., as well as the future terms of its relationship with the E.U. The effects of Brexit will depend on any agreements made during these negotiations, and as a result, our U.K. insurers and Lloyd’s syndicates face potential uncertainty regarding, among other things, the ability to transact business in E.U. countries (if the “passporting” regime currently enjoyed by U.K. insurance companies is withdrawn without something similar being negotiated) and the free movement of goods and people between the U.K. and the E.U. In addition, Brexit could adversely affect European or worldwide political, economic or market conditions and could lead to instability in global financial markets. The announcement of Brexit caused significant volatility in global stock markets and

currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. Brexit could also lead to legal uncertainty and differing national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. In addition, Brexit may lead other E.U. member countries to consider referendums regarding their membership in the E.U. Any of these potential effects of Brexit, and others we cannot anticipate, could adversely affect our business, business opportunities, results of operations, financial condition and cash flows. Until Brexit takes effect on March 29, 2019 (or later if the official exit date is extended), the U.K. remains a full member of the E.U. and our U.K. insurers and Lloyd’s syndicates retain their access to transact business in other E.U. countries.

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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.

Tax laws, including tax rates, in the jurisdictions in which we operate may change as a result of macroeconomic, political or other factors, and such changes could have a negative impact on our profitability. For example, the U.S. Congress, the Organization for Economic Co-operation and Development ("OECD") and other government agencies have had an extended focus on issues related to the taxation of multinational corporations. One example is in the area of "base erosion and profit shifting." The G20 finance ministers have endorsed a comprehensive plan set forth by the OECD to create an agreed set of international rules for fighting base erosion and profit shifting. As a result, the tax laws in the U.S., the United Kingdom, Ireland and other countries in which we operate could change on a prospective or retroactive basis, and any such changes could adversely affect our financial results.

On December 22, 2017, a law commonly known as the Tax Cuts and Jobs Act ("TCJA") was enacted in the U.S. Among other things, the TCJA reduces the U.S. corporate income tax rate to 21% and implements a new system of taxation for non-U.S. earnings, including imposition of a one-time tax on the deemed repatriation of undistributed earnings of non-U.S. subsidiaries. While we are currently evaluating the effects of the TCJA, including the one-time deemed repatriation tax and the re-measurement of our deferred tax assets and liabilities, we expect that the TCJA will have a favorable impact on our financial results beginning in 2018. In the absence of guidance on various uncertainties and ambiguities in the application of certain provisions of the TCJA, we have used what we believe are reasonable interpretations and assumptions in applying the TCJA, but it is possible that the IRS could issue subsequent guidance or take positions on audit that differ from our prior interpretations and assumptions, which could have a material adverse effect on our cash tax liabilities, results of operations, and financial condition. For a discussion of the impact of the TCJA on our 2017 financial statements, see Note. 18 "Income Taxes" to our consolidated financial statements appearing elsewhere in this Form 10-K.

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

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

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

executive officers or other employees.

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

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

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Payment of dividends by our insurance subsidiaries is restricted by insurance laws of various states, and the laws of certain foreign countries in which we do business (primarily Ireland, United Kingdom and Bermuda), including laws establishing minimum solvency and liquidity thresholds. As a result, at times, we may not be able to receive dividends from our insurance subsidiaries, which would affect our ability to pay dividends on our common stock and preferred stock, as discussed below, and to pay principal and interest on our outstanding indebtedness. As of December 31, 2017, our insurance subsidiaries collectively could pay dividends to us of $824.0 million without prior regulatory approval. Any dividends paid by our subsidiaries would reduce their surplus. The inability of our operating subsidiaries to pay dividends and other permitted payments in an amount sufficient to enable us to meet our cash requirements at the holding company level would have a material adverse effect on our operations.

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

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

In connection with our most recent year-end assessment of internal control over financial reporting, we identified material weaknesses in our internal control over financial reporting as of December 31, 2017. For a discussion of our internal control over financial reporting and a description of the identified material weaknesses, see “Controls and Procedures” in Part II, Item 9A of this Report.

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

We are subject to legal and litigation risk, including a consolidated securities class action lawsuit and state law derivative actions, which could adversely affect us.

Three federal securities class action lawsuits, which have been consolidated, were filed against us and certain of our officers and directors, and state law derivative actions were filed in our name against our directors. We are unable, at this time, to estimate our potential liability in these matters, but we may be required to pay judgments, settlements or other penalties and incur other costs and expenses in connection with the consolidated federal securities class action lawsuit and the state law derivative actions, which could have a material adverse effect on our business, results of operations and financial condition. In addition, responding to requests for information in the federal and state lawsuits may divert internal resources away from managing our business. For further detail on this litigation, see Item 3. "Legal Proceedings."

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 35% 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 one of our larger markets were to enact legislation to increase the scope or amount of benefits for employees under workers' compensation insurance policies without related premium increases or loss control measures, this could negatively affect the workers' compensation insurance industry. Negative developments in the workers' compensation insurance industry could have a greater effect on us than on more diversified insurance companies that also sell many other types of insurance.

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

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

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

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

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

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

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

U.S. insurers are required by state and federal law to offer coverage for terrorism in certain commercial lines, including workers' compensation. As discussed under "Item 1. Business – Regulation – United States – Federal and State Legislative and Regulatory Changes," the Terrorism Risk Insurance Act, or TRIA, as extended by the Terrorism Risk Insurance Program

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Reauthorization Act of 2015, or TRIPRA, requires commercial property and casualty insurance companies to offer coverage for acts of terrorism, whether foreign or domestic, and established a federal assistance program through the end of 2020 to help cover claims related to future terrorism-related losses. The impact of any terrorist act is unpredictable, and the ultimate impact on us would depend upon the nature, extent, location and timing of such an act. Although we reinsure a portion of the terrorism risk we retain under TRIPRA, our terrorism reinsurance does not provide full coverage for an act stemming from nuclear, biological or chemical terrorism.

The effects of customer litigation on our business are uncertain.

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

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

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

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

- actual or anticipated variations in our quarterly results of operations;
- changes to our earnings estimates or publications of research reports about us or the industry;
- rising levels of claims costs, changes in the frequency or severity of claims or new types of claims and new or changing judicial interpretations relating to the scope of insurance company liability;
- the financial stability of our third-party reinsurers, changes in the level of reinsurance capacity, termination of reinsurance arrangements and changes in our capital capacity;
- increases in market interest rates that may lead purchasers of common or preferred stock to demand a higher yield;
- changes in market valuations of other insurance companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- fluctuations in interest rates or inflationary pressures and other changes in the investment environment that affect returns on invested assets;
- changes to our credit worthiness or A.M. Best rating;
- the market for similar securities;
- additions or departures of key personnel;
- reaction to the sale or purchase of company stock by our principal stockholders or our executive officers, including reaction to the offer from equity funds managed by Stone Point Capital LLC and the Karfunkel-Zyskind Family to acquire all of our outstanding shares of common stock not already owned or controlled by the Karfunkel-Zyskind Family;
- 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 and the impact of the TCJA;
- speculation in the press or investment community; and

- general market, economic and political conditions.

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

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

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

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

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

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

Based on the number of shares outstanding as of December 31, 2017, Barry D. Zyskind, Leah Karfunkel and George Karfunkel, directly or indirectly, collectively own or control approximately 43% of our outstanding common stock. As a result, these stockholders, acting together, have the ability to control all matters requiring approval by our stockholders, including the election and removal of directors, amendments to our certificate of incorporation and bylaws, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. These stockholders may have interests that are different from other stockholders.

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

transactions may adversely affect our results of operations or financial condition.

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

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

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

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

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

Our shares of Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares are equity interests and do not constitute indebtedness. As such, the Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares rank junior to all of our indebtedness and other non-equity claims of our creditors with respect to assets available to satisfy our claims, including our liquidation, dissolution and winding up. As of December 31, 2017, our total consolidated debt was $1.3 billion (which does not include approximately $168.0 million aggregate principal amount of a loan made by Maiden Reinsurance to us in connection with a reinsurance agreement between AII and Maiden Reinsurance that requires Maiden Reinsurance to provide sufficient collateral to secure its proportionate share of AII's obligations) and our total consolidated liabilities were approximately $21.8 billion. We may incur additional debt and liabilities in the future. Our existing and future indebtedness may restrict payments of dividends on the Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares. Additionally, unlike indebtedness, where principal and interest would customarily be payable on specified due dates, in the case of the Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares, dividends are payable only if declared by our Board of Directors (or a duly authorized committee of the Board of Directors). Our ability to pay dividends on the Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares may be limited by the terms of our agreements governing our existing and future indebtedness and by the provisions of other existing and future agreements.

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

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

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

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

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

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

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

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

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

Certain provisions in our convertible senior notes could make it more difficult or more expensive for a third party to acquire us. For example, if an acquisition event constitutes a fundamental change within the meaning of our outstanding convertible senior notes, holders of our convertible senior notes will have the right to require us to purchase their notes in cash. In addition, if an acquisition event constitutes a make-whole fundamental change within the meaning of our outstanding convertible senior notes, we may be required to increase the conversion rate for holders who convert their notes in connection with such make-whole fundamental change. In any of these cases, and in other cases, our obligations under the convertible senior notes as well as provisions of our organizational documents and other agreements could increase the cost of acquiring us or otherwise discourage a third party from acquiring us or removing incumbent management. For additional information, see " – Risks Related to the Merger – We have agreed in the Merger Agreement to take certain actions with respect to the convertible senior notes if Evergreen Parent requests that we do so."

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

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

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

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Risks Related to the Merger

The pendency of the proposed Merger and the related diversion of our management's attention from the operation of our business may adversely affect our business and results of operations.

On March 1, 2018, we entered into a Merger Agreement, which, subject to stockholder approval and various other conditions, would result in our being acquired by Evergreen Parent, an entity formed by private equity funds managed by Stone Point Capital LLC, together with Barry Zyskind, George Karfunkel and Leah Karfunkel (the "Karfunkel-Zyskind Family"). A more detailed description of the merger can be found in Note 28. "Subsequent Events" to our consolidated financial statements appearing elsewhere in this Form 10-K. Our management and Board of Directors have devoted and will continue to devote a significant amount of time and attention to the proposed Merger. In addition, in connection with the proposed Merger, we have incurred and will continue to incur expenses, which could prove to be significant. Our business and our operating and financial results may be materially adversely affected by the diversion of management's time and attention and the expenses incurred in connection with the proposed Merger.

The Merger Agreement contains provisions that could discourage or make it difficult for a third party to acquire us prior to the completion of the proposed Merger.

The Merger Agreement contains certain customary provisions that restrict our ability to solicit, or engage in discussions or negotiations regarding, alternative acquisition proposals from third parties prior to the completion of the proposed Merger. The Merger Agreement entitles Evergreen Parent to receive a termination fee of $33.0 million (the "Termination Fee") from us if Evergreen Parent terminates the Merger Agreement following (a) an adverse company recommendation or (b) our failure to call or hold our stockholders meeting as required by the Merger Agreement or the willful breach of our material obligations under the terms of the Merger Agreement with respect to our "no shop" and related covenants. The Merger Agreement also requires us to reimburse Evergreen Parent for transaction expenses up to a maximum of $5.0 million if the Merger Agreement is terminated in specified circumstances. These provisions might discourage an otherwise-interested third party from considering or proposing an acquisition of us, even one that may be of greater value to our stockholders than the proposed Merger. Furthermore, even if a third party elects to propose an acquisition, our obligation to reimburse Evergreen Parent for transaction expenses may result in that third party offering a lower value to our stockholders than the third party might otherwise have offered.

Failure to complete the proposed Merger could negatively affect our business, financial condition, results of operations or stock price.

The completion of the proposed Merger is subject to customary conditions, such as approval by regulatory authorities and our shareholders (including a majority of our shares not owned or controlled by Evergreen Parent and its affiliates, the Karfunkel-Zyskind Family and its affiliates and certain related parties, and our directors and senior officers), and there can be no assurance that these conditions will be satisfied or that the proposed Merger will otherwise occur. If the proposed Merger is not completed, we will be subject to several risks, including that:

- customers, agents or other parties with which we maintain business relationships may experience uncertainty about our future and seek alternative relationships with other parties or seek to alter their business relationships with us;
- our employees may experience uncertainty about their future roles with us, which might adversely affect our ability to retain and hire key personnel;
- we expect to incur transaction costs in connection with the proposed Merger regardless of whether the proposed Merger is completed, and such costs could prove to be significant;
- we may not realize any of the anticipated benefits of having completed the proposed Merger;

- under the Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to completing the proposed Merger, which restrictions could adversely affect our ability to realize certain of our business opportunities regardless of whether the Merger is consummated; and
- if the Merger Agreement is terminated and there are no other parties willing and able to acquire us at a price of $13.50 per share or higher and on other terms acceptable to us, the market price of our shares of common stock may decline.

We have agreed in the Merger Agreement to take certain actions with respect to the convertible senior notes if Evergreen Parent requests that we do so.

We have agreed in the Merger Agreement to take certain actions with respect to the convertible senior notes if Evergreen Parent requests that we do so, including:

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- Commence a revocable and conditional offer to purchase any and all of the convertible senior notes on such terms and conditions, including pricing terms, as are specified by Evergreen Parent and in compliance with all applicable terms and conditions of the convertible senior notes;
- Commence a consent solicitation to eliminate, waive or revise such sections in the indenture with respect to the convertible senior notes as Evergreen Parent shall determine; and/or
- Commence a change of control offer to purchase all of the convertible senior notes in accordance with the requirements of the indenture and at the price required pursuant to the indenture. (Consummation of the proposed Merger would be a fundamental change as defined in the indenture.)

Any such offer to purchase, consent solicitation or change of control offer to purchase would be subject to consummation of the proposed Merger. Evergreen Parent has agreed to provide, or cause to be provided, immediately available funds for the full payment for convertible senior notes properly tendered and not withdrawn pursuant to the terms of the debt tender offer and/or the change of control offer. However, we cannot assure you that Evergreen Parent will have sufficient funds at the time we are required to purchase the convertible senior notes surrendered and we may not be able to arrange necessary financing on acceptable terms, if at all.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

All of our properties are owned or leased by us or our subsidiaries and are used for office functions (corporate, claims, underwriting, business units) or as call centers. We own 19 properties worldwide, the majority of which consist of commercial office space. Our properties are not segregated by segment. We own significant properties in the U.S. in the states of California, Colorado, Connecticut, Florida, Ohio and Texas and internationally in the United Kingdom.

We lease approximately 1,170,500 square feet throughout the U.S. and internationally. These leases are generally short-term to medium-term leases for commercial office space. For additional information about these leases, see Note 23. "Commitments and Contingencies" to our consolidated financial statements appearing elsewhere in this Form 10-K.

Item 3. Legal Proceedings

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

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

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

Three derivative suits have also been filed in the U.S. District Court for the District of Delaware. On April 19, 2017, one of our stockholders, Lily Ding, filed a derivative action in the District of Delaware against the Company, as nominal defendant, and against our board of directors as defendants, but this stockholder subsequently voluntarily dismissed her suit (Ding v. Zyskind et al.). On May 11, 2017, one of our stockholders, West Palm Beach Police Pension Fund, filed suit (West Palm Beach Police Pension Fund v. Zyskind et al.), and on June 28, 2017, two of our stockholders, City of Lauderhill Police Officers Retirement Plan and Pompano Beach Police & Firefighters Retirement System, filed suit (City of Lauderhill Police Officers Retirement Plan and Pompano Beach Police & Firefighters Retirement System et al. v. Zyskind et al.). These two Delaware derivative actions (West Palm Beach Police Pension Fund and Lauderhill-Pompano Beach) have been consolidated under the case name In re AmTrust Financial Services, Inc. Derivative Litigation. The stockholders purport to bring the derivative actions on our behalf, and raise claims that primarily involve our recent restatement of our financial statements and the identification of material weaknesses in our internal control over financial reporting. The In re AmTrust Derivative Litigation complaint alleges violations of Sections

10(b), 14(a), 20A, and 29(b) of the Exchange Act, breaches of fiduciary duties, unjust enrichment, and waste of corporate assets. The In re AmTrust Derivative Litigation complaint also seeks reform of our governance practices, contribution and indemnification, and both sets of stockholders seek damages.

We believe the allegations in these pending derivative actions to be unfounded and are vigorously pursuing our defenses.

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

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

Item 4. Mine Safety Disclosures

None.

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PART II

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

Stockholders

Our common stock trades on the Nasdaq Global Market under the symbol “AFSI”. We have one class of authorized common stock for 500,000,000 shares at a par value of $0.01 per share. As of March 9, 2018, there were 151 registered record holders of our common stock. This figure does not include beneficial owners who hold shares in nominee names.

Common Stock Performance Graph

Set forth below is a line graph comparing the cumulative total stockholder return on our common stock for the period beginning December 31, 2012 and ending on December 31, 2017 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, 2012.

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

Price Range of Common Stock

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

2017	High	Low	Dividends Declared
First quarter	$27.93	$16.58	$ 0.17
Second quarter	$22.63	$11.80	$ 0.17
Third quarter	$16.37	$11.36	$ 0.17
Fourth quarter	$14.35	$8.80	$ 0.17

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2016	High	Low	Dividends Declared
First quarter	$30.90	$24.20	$ 0.15
Second quarter	$27.00	$23.55	$ 0.15
Third quarter	$27.14	$23.73	$ 0.17
Fourth quarter	$28.48	$24.80	$ 0.17

On March 9, 2018, the closing price per share for our common stock was $12.70.

Dividend Policy

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

We are a holding company that transacts business through our operating subsidiaries. Our primary assets are the capital stock of these operating subsidiaries. Payments from our insurance subsidiaries pursuant to management agreements and tax sharing agreements, as well as fee income we generate from providing services discussed throughout this report, are our primary source of funds to pay our direct expenses. We anticipate that such payments, together with dividends paid to us by our subsidiaries, will continue to be the primary source of funds. Our ability to pay dividends to our stockholders depends, in part, upon the surplus and earnings of our subsidiaries and their ability to pay dividends to us. Payment of dividends by our insurance subsidiaries is regulated by insurance laws of various states, and the laws of certain foreign countries in which we do business, including laws establishing minimum solvency and liquidity thresholds. In addition, the terms of our junior subordinated debentures, revolving credit facility, convertible senior notes and the proposed merger limit, in the event of certain circumstances or without prior consent, 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, 2017, our insurance subsidiaries could pay dividends to us of $824.0 million without prior regulatory approval. Any dividends paid by our subsidiaries would reduce their surplus. During 2017, our insurance subsidiaries paid dividends of $586.0 million, which were subsequently contributed to certain of our other insurance subsidiaries.

Share Repurchase Plan

In December 2013, our Board of Directors approved a $150 million share repurchase program. In 2016, we entered into an amendment to our $350 million credit facility that expanded the restrictive covenant related to our repurchase of shares of our outstanding common stock. In connection with the amendment, our Board of Directors approved an increase of $200 million to our existing stock repurchase authorization. The Board of Directors may suspend, modify or terminate the repurchase program at any time without prior notice. Under this repurchase program, we are not obligated to repurchase any particular number of shares. Unless terminated earlier by resolution of our Board of Directors, the program will expire when we have repurchased the full value of the shares authorized. We did not repurchase any shares of our common stock during the year ended December 31, 2017. As of December 31, 2017, we had approximately $137.9 million remaining in our share repurchase program.

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Item 6. Selected Financial Data