

Edgar Filing: National General Holdings Corp. - Form 10-K/A

National General Holdings Corp.
Form 10-K/A
March 16, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K/A
Amendment No. 1

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2015

OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to
Commission File Number: 001-36311

NATIONAL GENERAL HOLDINGS CORP.
(Exact Name of Registrant as Specified in Its Charter)
Delaware 27-1046208
(State or Other Jurisdiction of (IRS Employer
Incorporation or Organization) Identification No.)
59 Maiden Lane, 38th Floor 10038
New York, New York
(Address of Principal Executive Offices) (Zip Code)
(212) 380-9500
(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	The NASDAQ Stock Market LLC
Series B Preferred Stock, \$0.01 par value per share	The NASDAQ Stock Market LLC

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

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

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

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

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

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

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

Non-Accelerated Filer ☐

Large Accelerated Filer ☒ Accelerated Filer ☐ (Do not check if a smaller reporting company) Smaller Reporting Company ☐

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

As of June 30, 2015, 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 \$993,681,215.

As of February 24, 2016, the number of common shares of the registrant outstanding was 105,554,501.

Documents incorporated by reference: Portions of the Proxy Statement for the 2016 Annual Meeting of Shareholders of the Registrant to be filed subsequently with the SEC are incorporated by reference into Part III of this report.

Explanatory Note

National General Holdings Corp. (the “Company,” “we,” “us,” or “our”) is filing this Amendment No. 1 on Form 10-K/A (this “Amendment”) to its annual report on Form 10-K for the fiscal year ended December 31, 2015, which was originally filed on February 29, 2016 (the “Original Filing”), to amend and revise Item 9A of Part II, “Controls and Procedures,” with respect to (1) our conclusions regarding the effectiveness of our disclosure controls and procedures and our internal control over financial reporting and (2) BDO USA, LLP’s (“BDO”) related attestation report due to a material weakness in our internal control over financial reporting (the “2015 Material Weakness”) identified subsequent to the issuance of our Original Filing. Item 15 of Part IV, “Exhibits and Financial Statement Schedules”, has also been amended to revise the reference to BDO’s opinion on our Internal Control Over Financial Reporting in its Report of Independent Registered Public Accounting Firm on our consolidated financial statements and financial statement schedule as of and for the three years in the period ended December 31, 2015.

Since December 31, 2015, the 2015 Material Weakness has been remediated, with the assistance of qualified consultants, by the development and implementation of additional documentation processes with enhanced precision and formalized review procedures. Management has concluded that the 2015 Material Weakness did not have any impact on the Company’s financial position and the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 present fairly, in all material respects, the financial position of the Company as of December 31, 2015. Accordingly, the financial statements included in this Amendment contain no changes from the financial statements included in the Original Filing.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), new certifications of our principal executive officer and principal financial officer are also being filed as exhibits to this Amendment. This Amendment should be read in conjunction with the Original Filing, which continues to speak as of the date of the Original Filing. Except as specifically noted above, this Amendment does not modify or update disclosures in the Original Filing. Accordingly, this Amendment does not reflect events occurring after the filing of the Original Filing or modify or update any related or other disclosures.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching our desired disclosure control objectives.

We carried out an evaluation under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 31, 2015, the end of the period covered by this report. Previously, based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2015. However, due to the material weakness in internal control over financial reporting described below, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of December 31, 2015.

Internal Controls Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting (Revised)

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Exchange Act Rule 13a-15(f). In connection with the Original Filing, management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on its evaluation, management concluded internal control over financial reporting was effective as of December 31, 2015.

Subsequent to that evaluation, management determined that there was a material weakness in its internal control over financial reporting as of December 31, 2015 (the "2015 Material Weakness") relating to the precision and sufficiency of formal documentation, including determining the completeness and accuracy of reports used in the operation of management's review procedures, in particular as it relates to the following areas: (i) investment accounting - the documentation of investment reconciliations and the documentation of the procedures for review of securities for other than temporary impairment and valuation of investments; (ii) accounting for acquisitions - in particular the documentation related to the opening balance sheet and documentation related to the development of assumptions used in the valuation of intangibles; (iii) accounting for income taxes - the documentation of the procedures for review of the income tax provision; and (iv) completeness and accuracy of reports used in accounting for premiums, investments and loss reserves and claims. Therefore, management concluded our internal control over financial reporting was not effective as of December 31, 2015.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Since December 31, 2015, the 2015 Material Weakness

has been remediated, with the assistance of qualified consultants, by the development and implementation of additional documentation processes with enhanced precision and formalized review procedures. Management has concluded that the 2015 Material Weakness did not have any impact on the Company's consolidated financial position and management has concluded that the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 present fairly, in all material respects, the financial position of the Company as of December 31, 2015.

Management excluded from its design and assessment of internal control over financial reporting certain lines of business which were acquired from Assurant Health on October 1, 2015, and the lender-placed insurance business which was acquired from QBE Holdings, Inc. on October 1, 2015 (collectively "the acquired businesses"). The acquired businesses combined constituted approximately 3.4% of total assets as of December 31, 2015 and 8.2% of revenues for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of the acquired businesses because of the timing of the acquisitions which were completed in the fourth quarter of 2015. Companies are allowed to exclude acquisitions from their

assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company under guidelines established by the SEC.

The foregoing has been approved by our management, including our Chief Executive Officer and Chief Financial Officer, who have been involved with the reassessment and analysis of our internal control over financial reporting.

BDO USA, LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Form 10-K/A, has issued the attestation report below regarding the Company's internal control over financial reporting.

Changes in Internal Controls Over Financial Reporting.

Except as described above, there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Attestation Report of the Independent Registered Public Accounting Firm.

Report of Independent Registered Public Accounting Firm
Board of Directors and Stockholders
National General Holdings Corp.
New York, New York

We have audited National General Holdings Corp.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). National General Holdings Corp.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

As indicated in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting, management's assessment and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of certain lines of business which were acquired from Assurant Health on October 1, 2015, and the lender-placed insurance business which was acquired from QBE Holdings, Inc. on October 1, 2015 (collectively "the acquired businesses"), and which are included in the consolidated balance sheet of National General Holdings Corp. as of December 31, 2015 and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the year then ended. The acquired businesses combined constituted approximately 3.4% of total assets as of December 31, 2015 and 8.2% of revenues for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of the acquired businesses because of the timing of the acquisitions which were completed in the fourth quarter of 2015. Our audit of internal control over financial reporting of National General Holdings Corp. also did not include an evaluation of the internal control over financial reporting of the acquired businesses.

In our report dated February 29, 2016, we expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. As described in the following paragraph, a material weakness in the Company's internal control over financial reporting was subsequently identified. Accordingly, management has revised its assessment about the effectiveness of the Company's internal control over financial reporting, and our present opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, as expressed herein, is different from that expressed in our previous report.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment: a material weakness relating to the precision and sufficiency of formal documentation, including determining the completeness and accuracy of reports used in the operation of management's review procedures, in particular as it relates to the following areas: (i) investment accounting - the documentation of investment reconciliations and the documentation of the procedures for review of securities for other than temporary impairment and valuation of investments; (ii) accounting for

acquisitions - in particular the documentation related to the opening balance sheet and documentation related to the development of assumptions used in the valuation of intangibles; (iii) accounting for income taxes - the documentation of the procedures for review of the income tax provision; and (iv) completeness and accuracy of reports used in accounting for premiums, investments and loss reserves and claims. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2015, of the Company and this report does not affect our report on such financial statements and financial statement schedule.

In our opinion, because of the effect of the material weakness identified above, the Company did not maintain effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We do not express an opinion or any other form of assurance on Management's statements referring to any corrective actions taken by the Company after the date of Management's assessment.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2015 of the Company and our report dated February 29, 2016 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ BDO USA, LLP

New York, New York

February 29, 2016 (Except as to the effect of the material weakness which is March 16, 2017)

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

(b) Exhibits: See Item 15(a).

(c) Schedules: See Item 15(a).

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

SIGNATURES

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

NATIONAL GENERAL
HOLDINGS CORP.

Dated: March 16, 2017 By: /s/ Michael Weiner

Name: Michael Weiner

Title: Chief Financial Officer

NATIONAL GENERAL HOLDINGS CORP.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
National General Holdings Corp.
New York, New York

We have audited the accompanying consolidated balance sheets of National General Holdings Corp. as of December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National General Holdings Corp. at December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National General Holdings Corp.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 29, 2016, except as to the effect of the material weakness described in Management's Annual Report on Internal Control Over Financial Reporting (Revised), which is dated March 16, 2017, which expressed an adverse opinion on the Company's internal control over financial reporting because of the material weakness.

/s/ BDO USA, LLP
New York, New York
February 29, 2016

NATIONAL GENERAL HOLDINGS CORP.

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Shares and Par Value per Share)

	December 31,	
	2015	2014
ASSETS		
Investments - NGHC		
Fixed maturities, available-for-sale, at fair value (amortized cost \$2,081,456 and \$1,330,760)	\$2,063,051	\$1,374,087
Equity securities, available-for-sale, at fair value (cost \$63,303 and \$52,272)	57,216	45,802
Short-term investments	1,528	50
Equity investment in unconsolidated subsidiaries	234,948	155,900
Other investments	13,031	4,764
Securities pledged (amortized cost \$54,955 and \$47,546)	55,394	49,456
Investments - Exchanges		
Fixed maturities, available-for-sale, at fair value (amortized cost \$244,069 and \$222,121)	238,969	222,739
Equity securities, available-for-sale, at fair value (cost \$1,501 and \$2,752)	1,574	2,817
Short-term investments	1,999	10,490
Total investments	2,667,710	1,866,105
Cash and cash equivalents (Exchanges - \$8,393 and \$9,437)	282,277	132,615
Accrued investment income (Exchanges - \$2,347 and \$1,898)	20,402	14,451
Premiums and other receivables, net (Related parties \$62,306 and \$168,134) (Exchanges - \$56,194 and \$58,238)	758,633	647,443
Deferred acquisition costs (Exchanges - \$23,803 and \$4,485)	160,531	125,999
Reinsurance recoverable on unpaid losses (Related parties - \$42,774 and \$88,970) (Exchanges - \$39,085 and \$23,583)	833,176	911,798
Prepaid reinsurance premiums (Exchanges - \$61,730 and \$26,924)	128,343	102,761
Income tax receivable (Exchanges - \$300 and \$0)	300	—
Notes receivable from related party	125,057	125,000
Due from affiliate (Exchanges - \$12,060 and \$0)	41,536	5,129
Premises and equipment, net (Exchanges - \$332 and \$0)	42,931	30,583
Intangible assets, net (Exchanges - \$4,825 and \$11,433)	348,898	248,837
Goodwill	112,414	70,764
Prepaid and other assets (Exchanges - \$93 and \$71)	41,184	43,231
Total assets	\$5,563,392	\$4,324,716
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unpaid loss and loss adjustment expense reserves (Exchanges - \$132,392 and \$111,848)	\$1,755,624	\$1,562,153
Unearned premiums (Exchanges - \$146,186 and \$119,998)	1,192,499	864,436
Unearned service contract and other revenue	12,504	8,527
Reinsurance payable (Related parties - \$31,923 and \$41,965) (Exchanges - \$14,357 and \$13,811)	69,172	111,641
Accounts payable and accrued expenses (Related parties - \$51,755 and \$68,096) (Exchanges - \$19,845 and \$17,691)	284,902	207,121
Due to affiliate (Exchanges - \$0 and \$1,552)	—	1,552
Securities sold under agreements to repurchase, at contract value	52,484	46,804
Deferred tax liability (Exchanges - \$32,724 and \$38,402)	12,247	67,535
Income tax payable (Exchanges - \$0 and \$1,059)	5,593	30,591
Notes payable (Exchanges owed to related party - \$45,476 and \$48,374)	491,537	299,082
Other liabilities (Exchanges - \$38,105 and \$5,710)	150,190	51,824

Total liabilities	4,026,752	3,251,266
Commitments and contingencies (Note 18)		

See accompanying notes to consolidated financial statements.

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NATIONAL GENERAL HOLDINGS CORP.

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Shares and Par Value per Share)

Stockholders' equity:

Common stock, \$0.01 par value - authorized 150,000,000 shares, issued and outstanding 105,554,331 shares - 2015; authorized 150,000,000 shares, issued and outstanding 93,427,382 shares - 2014	1,056	934
Preferred stock, \$0.01 par value - authorized 10,000,000 shares, issued and outstanding 2,365,000 shares - 2015; authorized 10,000,000 shares, issued and outstanding 2,200,000 shares - 2014. Aggregate liquidation preference \$220,000 - 2015, \$55,000 - 2014	220,000	55,000
Additional paid-in capital	900,114	690,736
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation adjustments	(3,780	) (4,806)
Unrealized gains (losses) on investments	(15,634	) 24,998
Total accumulated other comprehensive income (loss)	(19,414	) 20,192
Retained earnings	412,044	292,832
Total National General Holdings Corp. Stockholders' Equity	1,513,800	1,059,694
Non-controlling interest (Exchanges - \$22,619 and \$13,670)	22,840	13,756
Total stockholders' equity	1,536,640	1,073,450
Total liabilities and stockholders' equity	\$5,563,392	\$4,324,716

See accompanying notes to consolidated financial statements.

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NATONAL GENERAL HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Shares and Per Share Data)

	Years Ended December 31,		
	2015	2014	2013
Revenues:			
Premium income:			
Gross premium written	\$2,589,748	\$2,135,107	\$1,338,755
Ceded premiums (related parties - \$1,578, \$44,936 and \$501,067 in 2015, 2014 and 2013, respectively)	(403,502)	(265,083)	(659,439)
Net premium written	2,186,246	1,870,024	679,316
Change in unearned premium	(56,436)	(236,804)	8,750
Net earned premium	2,129,810	1,633,220	688,066
Ceding commission income	43,790	12,430	87,100
Service and fee income	273,548	168,571	127,541
Net investment income	75,340	52,426	30,808
Net realized loss on investments	(10,307)	(2,892)	(1,669)
Other revenue (expense)	(788)	(1,660)	16
Total revenues	2,511,393	1,862,095	931,862
Expenses:			
Loss and loss adjustment expense	1,381,641	1,053,065	462,124
Acquisition costs and other underwriting expenses	405,930	315,089	134,887
General and administrative expenses	530,347	348,762	280,552
Interest expense	28,885	17,736	2,042
Total expenses	2,346,803	1,734,652	879,605
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	164,590	127,443	52,257
Provision for income taxes	18,956	23,876	11,140
Income before equity in earnings of unconsolidated subsidiaries	145,634	103,567	41,117
Equity in earnings of unconsolidated subsidiaries	10,643	1,180	1,274
Net income	156,277	104,747	42,391
Less: Net income attributable to non-controlling interest	(14,025)	(2,504)	(82)
Net income attributable to National General Holdings Corp. ("NGHC")	\$142,252	\$102,243	\$42,309
Dividends on preferred stock	(14,025)	(2,291)	(2,158)
Net income attributable to NGHC common stockholders	\$128,227	\$99,952	\$40,151
Earnings per common share:			
Basic earnings per share	\$1.31	\$1.09	\$0.62
Diluted earnings per share	\$1.27	\$1.07	\$0.59
Dividends declared per common share	\$0.09	\$0.05	\$0.01
Weighted average common shares outstanding:			
Basic	98,241,904	91,499,122	65,017,579
Diluted	100,723,936	93,515,417	71,801,613
Net realized gain (loss) on investments:			
Other-than-temporary impairment loss	\$(15,247)	\$(2,244)	\$(2,869)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(15,247)	(2,244)	(2,869)
Other net realized gain (loss) on investments	4,940	(648)	1,200
Net realized loss on investments	\$(10,307)	\$(2,892)	\$(1,669)

See accompanying notes to consolidated financial statements.

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NATIONAL GENERAL HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Years Ended December 31,		
	2015	2014	2013
Net income	\$156,277	\$104,747	\$42,391
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	1,026	(5,171)	) 365
Gross unrealized holding gain (loss) on securities, net of tax of (\$27,621), \$10,059 and \$(16,242) in 2015, 2014 and 2013, respectively	(51,296	) 18,681	(30,164)
Reclassification adjustments for investment gain/loss included in net income:			
Other-than-temporary impairment loss, net of tax of \$5,336, \$785 and \$1,004 in 2015, 2014 and 2013, respectively	9,911	1,459	1,865
Other net realized (gain) loss on investments, net of tax of (\$1,729), \$(818) and \$1,554 in 2015, 2014 and 2013, respectively	(3,211	) (1,520	) 2,885
Other comprehensive income (loss), net of tax	(43,570	) 13,449	(25,049)
Comprehensive income	112,707	118,196	17,342
Less: Comprehensive loss (income) attributable to non-controlling interest	(10,061	) (3,186	) (82)
Comprehensive income attributable to NGHC	\$102,646	\$115,010	\$17,260

See accompanying notes to consolidated financial statements.

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NATIONAL GENERAL HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In Thousands, Except Shares)

Years Ended December 31, 2015, 2014 and 2013

	Common Stock		Preferred Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Non-controlling Interest	Total
	Shares	\$	Shares	\$						
Balance										
December 31, 2012	45,554,570	\$455	53,054	\$53,054	\$158,015	\$169,039	\$32,474	\$5		\$413,042
Net income	—	—	—	—	—	42,309	—	82		42,391
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	365	—		365
Change in unrealized loss on investments, net of tax	—	—	—	—	—	—	(25,414)	—		(25,414)
Preferred stock dividends	—	—	—	—	—	(12,202)	—	—		(12,202)
Common stock dividends	—	—	—	—	—	(1,594)	—	—		(1,594)
Conversion of preferred stock	12,295,430	123	(53,054)	(53,054)	52,931	—	—	—		—
Issuance of common stock	21,881,800	219	—	—	213,058	—	—	—		213,277
Capital contributions	—	—	—	—	10,275	—	—	—		10,275
Stock-based compensation	—	—	—	—	2,727	—	—	—		2,727
Balance										
December 31, 2013	79,731,800	797	—	—	437,006	197,552	7,425	87		642,867
Net income	—	—	—	—	—	102,243	—	2,504		104,747
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(5,171)	—		(5,171)
Change in unrealized gain on investments,	—	—	—	—	—	—	17,938	—		17,938

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net of tax									
Reciprocal									
Exchanges'									
equity on									
September 15,	—	—	—	—	—	—	—	11,165	11,165
2014, date of									
consolidation									
Preferred stock						(2,291	)	—	(2,291
dividends	—	—	—	—	—)	—	—)
Common stock						(4,672	)	—	(4,672
dividends	—	—	—	—	—)	—	—)
Issuance of	13,570,000	136	—	—	177,697	—	—	—	177,833
common stock									
Issuance of			2,200,000	55,000	(1,836	)	—	—	53,164
preferred stock	—	—)	—	—	—	
Capital					74,215	—	—	—	74,215
contributions	—	—	—	—					
Exercises of	125,582	1	—	—	795	—	—	—	796
stock options									
Stock-based	—	—	—	—	2,859	—	—	—	2,859
compensation									
Balance									
December 31,	93,427,382	934	2,200,000	55,000	690,736	292,832	20,192	13,756	1,073,450
2014									
Net income	—	—	—	—	—	142,252	—	14,025	156,277
Foreign									
currency									
translation	—	—	—	—	—	—	1,026	—	1,026
adjustment, net									
of tax									
Change in									
unrealized loss	—	—	—	—	—	—	(40,632	)	(3,964
on investments,							)	(3,964)
net of tax									
Change in									
non-controlling	—	—	—	—	—	—	—	(977)
interest								)	(977
Preferred stock	—	—	—	—	—	(14,025	)	—	(14,025
dividends)	—	—)
Common stock	—	—	—	—	—	(9,015	)	—	(9,015
dividends)	—	—)
Issuance of	11,500,000	115	—	—	210,527	—	—	—	210,642
common stock									
Issuance of			165,000	165,000	(5,448	)	—	—	159,552
preferred stock	—	—)	—	—	—	
Common stock									
issued under									
employee stock	626,949	7	—	—	(1,638)	—	—	(1,631
plans and)	—	—	—)
exercises of									
stock options									

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Stock-based compensation	—	—	—	—	5,937	—	—	—	5,937
Balance									
December 31, 2015	105,554,331	\$ 1,056	2,365,000	\$ 220,000	\$ 900,114	\$ 412,044	\$ (19,414)	\$ 22,840	\$ 1,536,640

See accompanying notes to consolidated financial statements.

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NATIONAL GENERAL HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$156,277	\$104,747	\$42,391
Reconciliation of net income to net cash provided by (used in) operating activities:			
Depreciation, amortization and goodwill impairment	49,628	43,905	21,536
Net amortization of premium on fixed maturities	5,008	2,596	3,870
Net amortization of discount on debt	(2,681)	3,774	—
Stock compensation expense	5,937	2,859	2,727
Equity in earnings of unconsolidated subsidiaries	(8,113)	(1,180)	(1,274)
Other net realized loss (gain) on investments	(4,940)	648	(2,645)
Other-than-temporary impairment loss	15,247	2,244	2,869
Realized loss (gain) on premise and equipment disposals	—	(271)	96
Bad debt expense	23,810	29,133	22,484
Foreign currency translation adjustment, net of tax	278	(1,655)	365
Changes in assets and liabilities:			
Accrued investment income	(5,649)	(2,591)	(245)
Premiums and other receivables	45,340	(236,128)	(12,980)
Deferred acquisition costs, net	(34,532)	(65,626)	122
Reinsurance recoverable on unpaid losses	79,343	78,578	40,619
Prepaid reinsurance premiums	(25,582)	13,095	3,617
Prepaid expenses and other assets	27,177	(33,663)	963
Unpaid loss and loss adjustment expense reserves	23,004	133,531	(27,289)
Unearned premiums	79,731	212,577	(12,366)
Unearned service contract and other revenue	(1,553)	1,208	3,147
Reinsurance payable	(42,469)	(17,147)	(41,426)
Accounts payable	(99,049)	148,456	(440)
Income tax payable	(25,306)	30,116	(5,960)
Deferred tax liability	(34,677)	(65,507)	(10,712)
Other liabilities	89,835	5,032	(18,966)
Net cash provided by operating activities	316,064	388,731	10,503
Cash flows from investing activities:			
Investment in unconsolidated subsidiaries	(68,975)	(21,647)	(47,729)
Purchases of other investments	(10,477)	(14,604)	(2,193)
Acquisition of consolidated subsidiaries, net of cash	162,569	(36,200)	(18,555)
Notes receivable from related party	—	(125,000)	—
Purchases of equity securities	(11,824)	(45,970)	(4,808)
Proceeds from sale of equity securities	3,951	2,829	—
Purchases of short term investments	(84,939)	—	(57,068)
Proceeds from sale of short-term investments	91,952	—	131,197
Purchases of premises and equipment	(22,669)	(15,307)	(10,873)
Proceeds from sale of premises and equipment	—	1,046	—
Purchases of fixed maturities	(1,310,560)	(746,338)	(439,673)
Proceeds from sale and maturity of fixed maturities	530,325	344,707	296,391
Net cash used in investing activities	(720,647)	(656,484)	(153,311)

See accompanying notes to consolidated financial statements.

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NATIONAL GENERAL HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

Cash flows from financing activities:			
Securities sold under agreements to repurchase, net	5,680	(62,825)	22,885
Securities sold but not yet purchased, net	—	—	(56,700)
Notes payable repayments	(631)	(84,427)	(58,435)
Proceeds from notes payable	195,400	245,077	69,463
Issuance of common stock, net (fees \$7,858 - 2015, \$12,146 - 2014 and \$1,093 - 2013)	210,642	177,833	213,277
Issuance of preferred stock, net (fees \$5,448- 2015, \$1,836 - 2014 and \$0 - 2013)	159,552	53,164	—
Exercises of stock options	2,595	796	—
Dividends paid to preferred shareholders	(10,931)	(1,260)	(12,202)
Dividends paid to common shareholders	(7,719)	(3,600)	(1,594)
Net cash provided by financing activities	554,588	324,758	176,694
Effect of exchange rate changes on cash and cash equivalents	(343)	1,787	—
Net increase in cash and cash equivalents	149,662	58,792	33,886
Cash and cash equivalents, beginning of the year	132,615	73,823	39,937
Cash and cash equivalents, end of the year	\$282,277	\$132,615	\$73,823
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	\$77,000	\$54,031	\$24,500
Cash paid for interest	21,222	17,144	1,256
Non-cash capital contributions	—	74,215	10,275
Unsettled investment security purchases	16,670	—	—
Accrued preferred stock dividends	4,125	1,031	—
Accrued common stock dividends	3,167	1,870	797

See accompanying notes to consolidated financial statements.

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NATIONAL GENERAL HOLDINGS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Shares and Per Share Data)

1. Organization

National General Holdings Corp. (the “Company” or “NGHC”) is an insurance holding company formed under the laws of the state of Delaware. The Company provides, through its wholly-owned subsidiaries, a variety of insurance products, including personal and commercial automobile, homeowners, umbrella, recreational vehicle, supplemental health, lender-placed and other niche insurance products. The insurance is sold through a network of independent agents, relationships with affinity partners, and direct-response marketing programs. The Company is licensed to operate throughout the fifty states and the District of Columbia as well as the European Union.

2. Significant Accounting Policies

Basis of Reporting

The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements. The consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015 and 2014 also include the accounts and operations of Adirondack Insurance Exchange, a New York reciprocal insurer, and New Jersey Skylands Insurance Association, a New Jersey reciprocal insurer (together with their subsidiaries, the “Reciprocal Exchanges” or “Exchanges”), following the Company’s acquisition on September 15, 2014 of two management companies that are the attorneys-in-fact for the Reciprocal Exchanges. The Company does not own the Reciprocal Exchanges but manages their business operations through its wholly-owned management companies. The results of the Reciprocal Exchanges and the management companies are included in the Company’s Property and Casualty segment.

Use of Estimates and Assumptions

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company’s principal estimates include unpaid losses and loss adjustment expense reserves; deferred acquisition costs; reinsurance recoverables, including the provision for uncollectible premiums; recording of impairment losses for other-than-temporary declines in fair value; determining the fair value of investments; determining the fair value of share-based awards for stock compensation; the valuation of intangibles and the determination of goodwill; and income taxes. In developing the estimates and assumptions, management uses all available evidence. Because of uncertainties associated with estimating the amounts, timing and likelihood of possible outcomes, actual results could differ from estimates.

Premiums and Other Receivables

The Company recognizes earned premiums on a pro rata basis over the terms of the policies, generally periods of six or twelve months. Unearned premiums represent the portion of premiums written applicable to the unexpired terms of the policies. Net premium receivables represent premiums written and not yet collected, net of an allowance for uncollectible premiums. The Company regularly evaluates premiums and other receivables and adjusts its allowance

for uncollectible amounts as appropriate. Receivables specifically identified as uncollectible are charged to expense in the year the determination is made.

Cash and Cash Equivalents

The Company considers all highly liquid investment securities with original maturities of 90 days or less to be cash equivalents. Certain securities with original maturities of 90 days or less that are held as a portion of longer-term investment portfolios are classified as short-term investments. The Company maintains cash balances at Federal Deposit Insurance Corporation ("FDIC") insured institutions. FDIC insures accounts up to \$250 at these institutions. Management monitors balances in excess of insured limits and believes that these balances do not represent a significant credit risk to the Company.

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NATIONAL GENERAL HOLDINGS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Shares and Per Share Data)

Deferred Acquisition Costs

Deferred acquisition costs include commissions, premium taxes, payments to affinity partners, promotional fees, and other direct sales costs that vary with and are directly related to successful contract acquisition of insurance policies. These costs are deferred and amortized to the extent recoverable, over the policy period in which the related premiums are earned. The Company considers anticipated investment income in determining the recoverability of these costs. Management believes that these costs are recoverable in the near term.

Ceding Commission Revenue

Commissions on reinsurance premiums ceded are earned in a manner consistent with the recognition of the direct acquisition costs of underlying insurance policies, generally on a pro rata basis over the terms of the policies reinsured. Certain reinsurance agreements contain provisions whereby the ceding commission rates vary based on the loss experience under the agreements. The Company records ceding commission revenue based on its current estimate of subject losses. The Company records adjustments to the ceding commission revenue in the period that changes in the estimated losses are determined.

Loss and Loss Adjustment Expenses

Loss and loss adjustment expenses ("LAE") represent the estimated ultimate net costs of all reported and unreported losses incurred through the period end. The reserves for unpaid losses and LAE represent the accumulation of estimates for both reported losses and those incurred but not reported relating to direct insurance and assumed reinsurance agreements. Estimates for salvage and subrogation recoverables are recognized at the time losses are incurred and netted against the provision for losses. Reserves are established for each business at the lowest meaningful level of homogeneous data. Insurance liabilities are based on estimates, and the ultimate liability may vary from such estimates. These estimates are regularly reviewed and adjustments, which can potentially be significant, are included in the period in which they are deemed necessary.

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting, which requires the Company to record assets acquired, liabilities assumed and any non-controlling interest in the acquiree at their respective fair values as of the acquisition date. The Company accounts for the insurance and reinsurance contracts under the acquisition method as new contracts, which requires the Company to record assets and liabilities at fair value. The Company adjusts the fair value loss and LAE reserves by recording the acquired loss reserves based on the Company's existing accounting policies and then discounting them based on expected reserve payout patterns using a current risk-free rate of interest. This risk free interest rate is then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and the Company's best estimate of the fair value of such reserves at the acquisition date is recorded as either an intangible asset or another liability, as applicable and is amortized proportionately to the reduction in the related loss reserves (i.e., over the estimated payout period of the acquired loss and LAE reserves). The Company assigns fair values to intangible assets acquired based on valuation techniques including the income and market approaches. The Company records contingent consideration at fair value based on the terms of the purchase agreement with subsequent changes in fair value recorded through earnings. The determination of fair value may require management to make significant estimates and assumptions. The purchase price is the fair value of the total

consideration conveyed to the seller and the Company records the excess of the purchase price over the fair value of the acquired net assets, where applicable, as goodwill. The Company expenses costs associated with the acquisition of a business in the period incurred.

Goodwill and Intangible Assets

The Company accounts for goodwill and intangible assets in accordance with Financial Accounting Standards Board (“FASB”), Accounting Standards of Codification (“ASC”) 350, “Intangibles - Goodwill and Other.” A purchase price paid that is in excess of net assets (“goodwill”) arising from a business combination is recorded as an asset and is not amortized. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statement of income.

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NATIONAL GENERAL HOLDINGS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Shares and Per Share Data)

Equalization Reserves

The Company owns several Luxembourg-domiciled reinsurance entities. In connection with these entities, the Company acquires cash and statutory equalization reserves of the reinsurance companies. An equalization reserve is a catastrophe reserve established in excess of required reserves as required by the laws of Luxembourg. The equalization reserves were originally established by the seller of the reinsurance entities, and under Luxembourg law allowed the reinsurance company to reduce its income tax paid. Equalization reserves are required to be established for Luxembourg statutory and tax purposes, but are not recognized under U.S. GAAP. The Company establishes a deferred tax liability equal to approximately 30% of the unutilized statutory equalization reserves. The deferred tax liability is adjusted each reporting period based primarily on amounts ceded to the Luxembourg reinsurer under the intercompany reinsurance agreement.

Investments

The Company accounts for its investments in accordance with ASC 320, "Investments - Debt and Equity Securities", which requires that fixed maturities and equity securities that have readily determined fair values be segregated into categories based upon the Company's intention for those securities. The Company has classified its investments as available-for-sale. The Company may sell its available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors. Available-for-sale securities are reported at their estimated fair values based on a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of other comprehensive income in the consolidated statement of comprehensive income.

Purchases and sales of investments are recorded on a trade date basis. Realized gains and losses are determined based on the specific identification method. Net investment income is recognized when earned and includes interest and dividend income together with amortization of market premiums and discounts using the effective yield method and is net of investment management fees and other expenses. For mortgage-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the change in effective yields and maturities are recognized on a prospective basis through yield adjustments.

The Company uses a set of quantitative and qualitative criteria to evaluate the necessity of recording impairment losses for other-than-temporary declines in fair value. These criteria include:

- the current fair value compared to amortized cost;
- the length of time the security's fair value has been below its amortized cost;
- specific credit issues related to the issuer such as changes in credit rating or non-payment of scheduled interest payments;
- whether management intends to sell the security and, if not, whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis;
- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings;
- the occurrence of a discrete credit event resulting in the issuer defaulting on a material outstanding obligation or the issuer seeking protection under bankruptcy laws; and
- other items, including management, media exposure, sponsors, marketing and advertising agreements, debt restructurings, regulatory changes, acquisitions and dispositions, pending litigation, distribution agreements and general industry trends.

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. The Company immediately writes down investments that it considers to be impaired based on the above criteria collectively. For the years ended December 31, 2015, 2014 and 2013, the Company recorded an other-than-temporary impairment charge of \$15,247, \$2,244, and \$2,869, respectively.

In the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is more likely than not that such holder will be required to sell the debt security before recovery of its amortized cost basis is required to separate the decline in fair value into (a) the amount representing the credit loss and (b) the amount related to other factors. The amount of total decline in fair value related to the credit loss shall be recognized in earnings as an other-than-temporary impairment (“OTTI”) with the amount related to other factors recognized in accumulated other comprehensive income

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NATIONAL GENERAL HOLDINGS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Shares and Per Share Data)

or loss, net of tax. OTTI credit losses result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of the loss realization.

The following are the types of investments the Company has:

Short-term investments - Short-term investments are carried at amortized cost, which approximates fair value, and includes investments with maturities between 91 days and less than one year at the date of acquisition. Short-term (i) investments consist primarily of money market investments and securities purchased under agreements to resell (reverse purchase agreements).

Fixed maturities and equity securities - Fixed maturities and equity securities (common stock, mutual funds, (ii) non-redeemable preferred stock) are classified as available-for-sale and carried at fair value. Unrealized gains or losses on available-for-sale securities are reported as a component of accumulated other comprehensive income.

Mortgage and asset-backed securities - For mortgage and asset-backed securities, the Company recognizes income (iii) using the retrospective adjustment method based on prepayments and the estimated economic lives of the securities. The effective yield reflects actual payments to date plus anticipated future payments. These investments are recorded as fixed maturities on the consolidated balance sheets.

Limited partnerships - The Company uses the equity method of accounting for investments in limited partnerships in which its ownership interest enables the Company to influence the operating or financial decisions of the (iv) investee company, but the Company's interest in the limited partnership does not require consolidation. The Company's proportionate share of equity in net income of these limited partnerships is reported in net investment income, or equity in earnings of unconsolidated subsidiaries, as applicable.

Securities sold under agreements to repurchase (repurchase agreements), at contract value are accounted for as collateralized borrowing and lending transactions and are recorded at their contracted repurchase amounts, plus accrued interest. The Company minimizes the credit risk that counterparties might be unable to fulfill their contractual obligations by monitoring exposure and collateral value and generally requiring additional collateral to be deposited with the Company when necessary. Under repurchase agreements, the Company borrows cash from a (v) counterparty at an agreed-upon interest rate for an agreed-upon time frame and the Company transfers either corporate debt securities or U.S. government and government agency securities (pledged collateral). For securities repurchase agreements, the cash received is typically invested in cash equivalents, short-term investments or fixed maturities, with the offsetting obligation to repay the loan included as a liability in the consolidated balance sheets. At the end of the agreement, the counterparty returns the collateral to the Company, and the Company, in turn, repays a loan amount along with the agreed-upon interest.

Securities purchased under agreements to resell (reverse repurchase agreements) at contract value are generally treated as collateralized receivables. The Company reports receivables arising from reverse repurchase agreements in short-term investments in the consolidated balance sheets. These reverse repurchase agreements are recorded at (vi) the contracted resale amounts plus accrued interest. The Company's policy is to take possession of the securities purchased under agreements to resell. The Company minimizes the risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring the counterparty credit exposure and collateral value and generally requiring additional collateral to be deposited with the Company when necessary.

Repurchase and reverse repurchase agreements are used to earn spread income, borrow funds, or to facilitate trading activities. Securities repurchase and resale agreements are generally short-term, and therefore, the carrying amounts of these instruments approximate fair value.

Securities sold but not yet purchased - Securities sold but not yet purchased are accounted for as liabilities and are (vii) recorded at prevailing market prices. These transactions result in off-balance sheet risk because the ultimate cost to deliver the securities sold is uncertain.

Fair Value of Financial Instruments

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 820, "Fair Value Measurements and Disclosures". The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. Additionally, valuation of fixed-maturity investments is more subjective when markets are less liquid due to lack of

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NATIONAL GENERAL HOLDINGS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Shares and Per Share Data)

market-based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur. Fair values of other financial instruments approximate their carrying values.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Additionally, ASC 820 requires an entity to consider all aspects of nonperformance risk, including the entity's own credit standing, when measuring the fair value of a liability.

ASC 820 establishes a three-level hierarchy to be used when measuring and disclosing fair value. An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

Following is a description of the three hierarchy levels:

Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities as of the measurement date. Additionally, the entity must have the ability to access the active market and the quoted prices cannot be adjusted by the entity.

Level 2 - Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs that are observable or can be corroborated by observable market data by correlation or other means for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs are supported by little or no market activity. The unobservable inputs represent management's best assumptions of how market participants would price the assets or liabilities. Generally, Level 3 assets and liabilities are valued using pricing models, discounted cash flow methodologies, or similar techniques that require significant judgment or estimation.

Investments in Unconsolidated Subsidiaries

The Company uses the equity method of accounting for investments in subsidiaries in which its ownership interest enables the Company to influence operating or financial decisions of the subsidiary, but the Company's interest does not require consolidation. In applying the equity method, the Company records its investment at cost, and subsequently increases or decreases the carrying amount of the investment by its proportionate share of the net earnings or losses and other comprehensive income of the investee. Any dividends or distributions received are recorded as a decrease in the carrying value of the investment. The Company's proportionate share of net income is reported in the consolidated statement of income.

Stock Compensation Expense

The Company recognizes compensation expense for its share-based awards over the estimated vesting period based on estimated grant date fair value. Share-based payments include stock option grants and restricted stock units ("RSU") under the Company's 2010 and 2013 Equity Incentive Plans.

Advertising Costs

The Company expenses the cost of advertising as incurred. Advertising expense is included as a component of General and administrative expense in the Company's consolidated statements of income. Advertising expense was \$38,263, \$31,198 and \$31,596 for the years ended December 31, 2015, 2014 and 2013, respectively.

Earnings Per Share

Basic earnings per share are computed based on the weighted-average number of common shares outstanding. Dilutive earnings per share are computed using the weighted-average number of common shares outstanding during the period adjusted for the dilutive impact of share options, RSUs and convertible preferred stock using the treasury stock method.

Impairment of Long-lived Assets

The carrying value of long-lived assets is evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable from the estimated undiscounted future cash flows expected to result from its use and eventual disposition. Recoverability of assets to be held and used is measured by a comparison of the carrying

NATIONAL GENERAL HOLDINGS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Shares and Per Share Data)

amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is measured as the amount by which the carrying amount of the assets exceeds the fair value as estimated by discounted cash flows. No impairment was recognized in the years ended December 31, 2015, 2014 and 2013.

Income Taxes

The Company joins its subsidiaries in the filing of a consolidated Federal income tax return and is party to Federal income tax allocation agreements. Under the tax allocation agreements, the Company pays to or receives from its subsidiaries the amount, if any, by which the group's Federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated Federal return. The Reciprocal Exchanges are not party to federal income tax allocation agreements but file separate tax returns annually.

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

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

The Company recognizes tax benefits only for tax positions that are more likely than not to be sustained upon examination by taxing authorities. The Company's policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates.

Reinsurance

The Company cedes insurance risk under various reinsurance agreements. The Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk with other insurance enterprises. The Company remains liable with respect to any insurance ceded if the assuming companies are unable to meet their obligations under these reinsurance agreements.

Reinsurance premiums, losses and LAE ceded to other companies are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Earned premiums and losses and LAE incurred ceded to other companies have been recorded as a reduction of premium revenue and losses and LAE. Commissions allowed by reinsurers on business ceded have been recorded as ceding commission revenue. Reinsurance recoverables are reported based on the portion of reserves and paid losses and LAE that are ceded to other companies. Assessing whether or not a reinsurance contract meets the condition for risk transfer requires judgment. The determination of risk transfer is critical to reporting premiums and losses, and is based, in part, on the

use of actuarial and pricing models and assumptions. If the Company determines that a reinsurance contract does not transfer sufficient risk, it accounts for the contract under deposit accounting.

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Premises and Equipment

Premises and equipment are recorded at cost. Maintenance and repairs are charged to operations as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings and improvements	30 years
Leasehold improvements	Remaining lease term
Hardware and software	3 to 5 years
Furniture and equipment	3 to 10 years

The Company capitalizes costs of computer software developed or obtained for internal use that is specifically identifiable, has determinable lives and relates to future use.

Assessments

Insurance-related assessments are accrued in the period in which they have been incurred. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. The Company is subject to a variety of assessments, such as assessments by state guaranty funds used by state insurance regulators to cover losses of policyholders of insolvent insurance companies and for the operating expenses of such agencies. The Company uses estimated assessment rates in determining the appropriate assessment expense and accrual. The Company uses estimates derived from state regulators and/or National Association of Insurance Commissioners ("NAIC") Tax and Assessments Guidelines. Assessment expense for the years ended December 31, 2015, 2014 and 2013 was \$11,631, \$6,267 and \$6,866, respectively.

Non-controlling Interest and Variable Interest Entities

The ownership interest in consolidated subsidiaries of non-controlling interests is reflected as non-controlling interest. The Company's consolidation principles also consolidates entities in which the Company is deemed a primary beneficiary. Non-controlling interest income or loss represents such non-controlling interests in the earnings of that entity. The Company consolidates the Reciprocal Exchanges as it has determined that these are variable interest entities and that the Company is the primary beneficiary (see Note 3, "Reciprocal Exchanges"). All significant transactions and account balances between the Company and its subsidiaries are eliminated during consolidation.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, investments and premiums and other receivables. Investments are diversified through many industries and geographic regions through the use of an investment manager who employs different investment strategies. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and investments. At December 31, 2015 and 2014, the outstanding premiums and other receivables balance was generally diversified due to the Company's diversified customer base. To reduce credit risk, the Company performs ongoing evaluations for uncollectible amounts. The Company also has receivables from its reinsurers. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company periodically evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. It is the policy of management to review all outstanding receivables at period end as well as the bad debt write-offs experienced in the past and establish an allowance for uncollectible

accounts, if deemed necessary.

Reclassifications

Certain accounts in the prior years' consolidated financial statements have been reclassified for comparative purposes to conform to the current year's presentation. The Company adopted ASU 2015-03 on April 1, 2015 which resulted in the reclassification of \$4,923 of debt issuance costs from Prepaid and other assets to Notes payable in the Company's Consolidated Balance Sheet as of December 31, 2014 (see Note 15, "Debt"). In addition, balances of \$110,348 were reclassified from Accounts payable and accrued expenses to Premiums and other receivables, net with the right of offset in the Company's Consolidated Balance Sheet as of December 31, 2014. This did not have any impact on the net income of the Company.

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Foreign Currency Transactions

The functional currency of the Company and many of its subsidiaries is the U.S. dollar. For these companies, the Company translates monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, with the resulting foreign exchange gains and losses recognized in the consolidated statements of income. Revenues and expenses in foreign currencies are converted at average exchange rates during the year. Monetary assets and liabilities include investments, cash and cash equivalents, reinsurance balances receivable, reserve for loss and loss adjustment expenses and accrued expenses and other liabilities. Accounts that are classified as non-monetary, such as deferred commission and other acquisition expenses and unearned premiums, are not revalued.

Service and Fee Income

The Company currently generates policy service and fee income from installment fees, late payment fees, and other finance and processing fees related to policy cancellation, policy reinstatement and non-sufficient funds check returns. These fees are generally designed to offset expenses incurred in the administration of the Company's insurance business, and are generated as follows. Installment fees are charged to permit a policyholder to pay premiums in installments rather than in a lump sum. Late payment fees are charged when premiums are remitted after the due date and any applicable grace periods. Policy cancellation fees are charged to policyholders when a policy is terminated by the policyholder prior to the expiration of the policy's term or renewal term, as applicable. Reinstatement fees are charged to reinstate a policy that has lapsed, generally as a result of non-payment of premiums. Non-sufficient fund fees are charged when the customer's payment is returned by the financial institution.

All fee income is recognized as follows. An installment fee is recognized at the time each policy installment bill is due. A late payment fee is recognized when the customer's payment is not received after the listed due date and any applicable grace period. A policy cancellation fee is recognized at the time the customer's policy is cancelled. A policy reinstatement fee is recognized when the customer's policy is reinstated. A non-sufficient fund fee is recognized when the customer's payment is returned by the financial institution. The amounts charged are primarily intended to compensate the Company for the administrative costs associated with processing and administering policies that generate insurance premium; however, the amounts of fees charged are not dependent on the amount or period of insurance coverage provided and do not entail any obligation to return any portion of those funds. The direct and indirect costs associated with generating fee income are not separately tracked. The Company estimates an allowance for doubtful accounts based on a percentage of fee income.

The Company also collects service fees in the form of commission and general agent fees by selling policies issued by third-party insurance companies. The Company does not bear insurance underwriting risk with respect to these policies. Commission income and general agent fees are recognized, net of an allowance for estimated policy cancellations, at the date the customer is initially billed or as of the effective date of the insurance policy, whichever is later. The allowance for estimated third-party cancellations is periodically evaluated and adjusted as necessary.

Management fees earned by the management companies for services provided to the Reciprocal Exchanges are eliminated in consolidation.

The following table summarizes service and fee income by category:

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Year Ended December 31,	2015	2014	2013
Installment fees	\$32,404	\$30,323	\$30,666
Commission revenue	58,807	52,597	43,716
General agent fees	76,855	45,637	21,526
Late payment fees	12,210	11,658	11,240
Group health administrative fees	29,622	4,358	3,321
Finance and processing fees	52,865	13,569	11,727
Lender service fees	4,364	—	—
Other	6,421	10,429	5,345
Total	\$273,548	\$168,571	\$127,541

Recent Accounting Literature

In April 2014, the FASB issued Accounting Standards Update ("ASU") 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", to reduce diversity in practice for reporting discontinued operations. Under the previous guidance, any component of an entity that was a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group was eligible for discontinued operations presentation. The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity) and that have a major effect on a reporting entity's operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The updated guidance is effective prospectively for fiscal years beginning after December 15, 2014, and interim periods within those years. The Company adopted ASU 2014-08 on January 1, 2015 and the implementation of the standard did not have an impact on the Company's results of operations, financial position or liquidity.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. ASU No. 2014-11 requires new disclosures for certain transactions comprised of (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. Such disclosures include: (a) the carrying amount of assets derecognized (sold) as of the date of derecognition; (b) the amount of gross proceeds received by the transferor at the time of derecognition for the assets derecognized; (c) the information about the transferor's ongoing exposure to the economic return on the transferred financial assets; and (d) the amounts that are reported in the statement of financial position arising from the transaction, such as those represented by derivative contracts. ASU No. 2014-11 also requires expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. Such disclosures include: (i) a disaggregation of the gross obligation by the class of collateral pledged; (ii) the remaining contractual time to maturity of the agreements; and (iii) a discussion of the potential risks associated with the agreements and the related collateral

pledged including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed. For public entities, the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for all annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. All other amendments in this Update are effective for public entities for the first interim or annual period beginning after December 15, 2014. The disclosure requirements are not required to be presented for comparative periods before the effective date. The Company adopted ASU 2014-11 on April 1, 2015 and the effects of adoption were limited to the expanded disclosure requirements about the nature of collateral pledged in the Company's repurchase agreements which are accounted for as secured borrowings. The implementation of the standard did not have an impact on the Company's results of operations, financial position or liquidity.

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In April 2015, the FASB issued ASU 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs", as part of its initiative to reduce complexity in accounting standards. ASU 2015-03 amends the current practice where debt issuance costs were recognized as separate assets (i.e., deferred charges) on the balance sheet and were not deducted from the carrying value of the debt liability. ASU 2015-03 amends the current practice and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. The amendments in ASU 2015-03 are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments in ASU 2015-03 is permitted for financial statements that have not been previously issued. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The Company adopted ASU 2015-03 on April 1, 2015 which resulted in the reclassification of \$4,923 of debt issuance costs from Prepaid and other assets to Notes payable in the Company's Consolidated Balance Sheet as of December 31, 2014 (see Note 15, "Debt").

Recently Issued Accounting Standards Update - Not Yet Adopted

In May 2014, the FASB issued guidance on recognizing revenue in contracts with customers. The objective of the new guidance as issued by the FASB in ASU 2014-09, "Revenue from Contracts with Customers", is to remove inconsistencies and weaknesses in revenue requirements, provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, and provide for improved disclosure requirements. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. To achieve that core principle, an entity applies the following five steps: (1) identifies the contract(s) with a customer; (2) identifies the performance obligations in the contract; (3) determines the transaction price; (4) allocates the transaction price to the performance obligations in the contract; and (5) recognizes revenue when (or as) the entity satisfies the performance obligations. The new guidance also includes a comprehensive set of qualitative and quantitative disclosure requirements including information about: (i) contracts with customers-including revenue and impairments recognized, disaggregation of revenue, and information about contract balances and performance obligations; (ii) significant judgments in determining the satisfaction of performance obligations, determining the transaction price, and amounts allocated to performance obligations; and (iii) assets recognized from the costs to obtain or fulfill a contract. For a public entity, the amendments in this Update were originally effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, in August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" which defers the effective date of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" for all entities by one year. Public business entities are to apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. While the guidance specifically excludes revenues from insurance contracts, investments and financial instruments from the scope of the new guidance, the guidance will be applicable to the Company's other forms of revenue not specifically exempted from the guidance. The Company is currently evaluating the impact this guidance will have on its consolidated financial condition, results of operations, cash flows and disclosures and is currently unable to estimate the impact of adopting this guidance.

In November 2014, the FASB issued ASU 2014-16, "Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or Equity (a consensus of the FASB Emerging Issues Task Force)", to reduce diversity in practice in the accounting for hybrid financial instruments issued in the form of a share. The amendments in ASU 2014-16 do not change the current criteria in GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. An entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract, among other relevant criteria. ASU 2014-16 clarifies how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, ASU 2014-16 clarifies that an entity should consider all relevant terms and features-including the embedded derivative feature being evaluated for bifurcation-in evaluating the nature of the host contract. Furthermore, ASU 2014-16 clarifies that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. In addition, the amendments in this Update clarify that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (that is, the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. The effects of initially adopting the amendments in ASU 2014-16 are to be applied on a modified retrospective basis to existing

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hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant prior periods. The amendments in ASU 2014-16 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. If an entity early adopts the amendments in an interim period, any adjustments are to be reflected as of the beginning of the fiscal year that includes that interim period. The adoption of ASU 2014-16 is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

In January 2015, the FASB issued ASU 2015-01, "Income Statement-Extraordinary and Unusual Items (Subtopic 225-20) (simplifying income statement presentation by eliminating the concept of extraordinary items)", as part of its initiative to reduce complexity in accounting standards. ASU No. 2015-01 eliminates from GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement-Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Previously, an event or transaction was presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction met the criteria for extraordinary classification, an entity was required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also was required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. An entity has a choice of transition methods. It may apply the amendments in ASU 2015-01 either prospectively or retrospectively to all prior periods presented in the financial statements. The amendments in ASU 2015-01 are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. An entity has the option to adopt the changes earlier provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" to address concerns that GAAP might require a reporting entity to consolidate another legal entity in situations in which the reporting entity's contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity's voting rights, or the reporting entity is not exposed to a majority of the legal entity's economic benefits or obligations. Specifically, the amendments: (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU 2015-02 amends certain areas in the consolidation analysis including: (i) the effect of related parties on the primary beneficiary determination; (ii) the evaluation of fees paid to a decision maker or a service provider as a variable interest; (iii) the effect of fee arrangements on the primary beneficiary determination; and (iv) certain investment funds. The amendments in ASU 2015-02 are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. A reporting entity may apply the amendments in ASU 2015-02 using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or may apply the amendments retrospectively. The adoption of ASU 2015-02 is not expected to have a material effect on the Company's results of

operations, financial position or liquidity.

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)", which provides guidance that removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient as well as limits certain disclosure requirements only to investments for which the entity elects to measure the fair value using that practical expedient. The updated guidance is effective for reporting periods beginning after December 15, 2015, and should be applied retrospectively for all periods presented. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

In May 2015, the FASB issued ASU 2015-09, "Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts" to expand existing GAAP disclosure requirements for short-duration contracts regarding the liability for unpaid claims and claim adjustment expenses. The amendments in ASU 2015-09 are intended to increase the transparency of significant estimates made in measuring those liabilities, improve comparability by requiring consistent disclosure of information, and provide financial statement users with additional information to facilitate analysis of the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities and the development of loss reserve estimates. Specifically, the amendments require the

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following information for annual reporting periods about the liability for unpaid claims and claim adjustment expenses: (1) incurred and paid claims development information by accident year, on a net basis after risk mitigation through reinsurance, for the number of years for which claims incurred typically remain outstanding; (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses, with separate disclosure of reinsurance recoverable on unpaid claims for each period presented in the statement of financial position; (3) the total of incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses for each accident year presented of incurred claims development information, accompanied by a description of reserving methodologies (as well as any changes to those methodologies); (4) quantitative information about claim frequency (unless it is impracticable to do so) for each accident year presented of incurred claims development information, accompanied by a qualitative description of methodologies used for determining claim frequency information (as well as any changes to these methodologies); and (5) the average annual percentage payout of incurred claims by age (that is, history of claims duration) for the same number of accident years as presented in (3) and (4) above for all claims except health insurance claims. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a roll forward of the liability for unpaid claims and claim adjustment expenses. For health insurance claims, the amendments require the disclosure of the total of incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses. Additional disclosures about liabilities for unpaid claims and claim adjustment expenses reported at present value include the following: (1) the aggregate amount of discount for the time value of money deducted to derive the liability for unpaid claims and claim adjustment expenses for each period presented in the statement of financial position; (2) the amount of interest accretion recognized for each period presented in the statement of income; and (3) the line item(s) in the statement of income in which the interest accretion is classified. The amendments in ASU 2015-09 are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. In the year of initial application of the amendments in ASU 2015-09, an insurance entity need not disclose information about claims development for a particular category that occurred earlier than five years before the end of the first financial reporting year in which the amendments are first applied if it is impracticable to obtain the information required to satisfy the disclosure requirement. For each subsequent year following the year of initial application, the minimum required number of years will increase by at least 1 but need not exceed 10 years, including the most recent period presented in the statement of financial position. Early application of the amendments in ASU 2015-09 is permitted. The amendments should be applied retrospectively by providing comparative disclosures for each period presented, except for those requirements that apply only to the current period. The adoption of ASU 2015-09 is limited to disclosure requirements and will not have an effect on the Company's results of operations, financial position or liquidity.

In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments" which applies to all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. The amendments in ASU 2015-16 require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in ASU 2015-16 require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in

ASU 2015-16 require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in ASU 2015-16 are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, and should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The only disclosures required at transition will be the nature of and reason for the change in accounting principle. An entity should disclose that information in the first annual period of adoption and in the interim periods within the first annual period if there is a measurement-period adjustment during the first annual period in which the changes are effective. The Company is currently evaluating the impact this guidance will have on its consolidated financial condition, results of operations, cash flows and disclosures and is currently unable to estimate the impact of adopting this guidance.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. The amendments in ASU 2016-01 affect

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all entities that hold financial assets or owe financial liabilities and make targeted improvements to existing GAAP by: (1) requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) requiring an entity to present separately in other comprehensive income ("OCI") the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application of the following provisions in ASU 2016-01 is permitted as of the beginning of the fiscal year of adoption: (i) the "own credit" provision, in which an organization should present separately in OCI the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; and (ii) the provision that exempts entities that are not public business entities from the requirement to apply the fair value of financial instruments disclosure guidance. Except for the early application guidance discussed above, early adoption of the amendments in ASU 2016-01 is not permitted. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The Company is currently evaluating the impact this guidance will have on its consolidated financial condition, results of operations, cash flows and disclosures and is currently unable to estimate the impact of adopting this guidance.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact this guidance will have on its consolidated financial condition, results of operations, cash flows and disclosures and is currently unable to estimate the impact of adopting this guidance.

3. Reciprocal Exchanges

As of September 15, 2014, through its wholly-owned management companies, the Company manages the business operations of the Reciprocal Exchanges and has the ability to direct their activities. The Reciprocal Exchanges are insurance carriers organized as unincorporated associations. Each policyholder insured by the Reciprocal Exchanges shares risk with the other policyholders.

In the event of dissolution, policyholders would share any residual unassigned surplus in the same proportion as the amount of insurance purchased but are not subject to assessment for any deficit in unassigned surplus of the Reciprocal Exchanges. The Company receives management fee income for the services provided to the Reciprocal Exchanges. The assets of the Reciprocal Exchanges can be used only to settle the obligations of the Reciprocal Exchanges and general creditors to their liabilities have no recourse to the Company.

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NATIONAL GENERAL HOLDINGS CORP.

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(In Thousands, Except Shares and Per Share Data)

Subsidiaries of ACP Re Ltd. ("ACP Re"), a related party, hold the surplus notes that were issued by the Reciprocal Exchanges when they were originally capitalized. The obligation to repay principal and interest on the surplus notes is subordinated to the Reciprocal Exchanges' other liabilities including obligations to policyholders and claimants for benefits under insurance policies. Principal and interest on the surplus notes are payable only with regulatory approval. The Company has no ownership interest in the Reciprocal Exchanges.

The Company determined that it holds a variable interest in each of the Reciprocal Exchanges because of the significance of the management fees paid by the Reciprocal Exchanges to the wholly-owned subsidiaries of the Company as the Reciprocal Exchanges' decision-maker and the relevance of these fees to the economic performance of the Reciprocal Exchanges. Each of the Reciprocal Exchanges qualifies as a Variable Interest Entity ("VIE") because the policyholders of the Reciprocal Exchanges lack the ability to direct the activities of the Reciprocal Exchanges that have a significant impact on the Reciprocal Exchanges' economic performance. The Company is the primary beneficiary because it, through its wholly-owned management companies, has both the power to direct the activities of the Reciprocal Exchanges that most significantly impact their economic performance and the right to economic benefits that could be potentially significant. Accordingly, the Company consolidates these Reciprocal Exchanges and eliminates all intercompany balances and transactions with the Company.

The following table presents the opening balance sheet of the Reciprocal Exchanges as of September 15, 2014:

September 15, 2014

Assets:

Cash and investments	\$235,684
Accrued investment income	1,975
Premiums receivables	62,412
Reinsurance recoverable on unpaid losses	19,137
Prepaid reinsurance premiums	27,166
Intangible assets, net	13,901
Income tax receivable	819
Other assets	124
Total assets	\$361,218

Liabilities:

Unpaid loss and loss adjustment expense reserves	\$113,828
Unearned premiums	114,786
Reinsurance payable	5,167
Accounts payable and accrued expenses	10,120
Deferred tax liability	39,238
Notes payable	44,600
Due to affiliate	17,808
Other liabilities	4,506
Total liabilities	350,053
Stockholders' equity:	
Non-controlling interest	11,165
Total stockholders' equity	11,165
Total liabilities and stockholders' equity	\$361,218

For the year ended December 31, 2015, the Reciprocal Exchanges recognized total revenues, total expenses and net income of \$203,492, \$189,599 and \$13,893, respectively. For the period from September 15, 2014 to December 31, 2014, the Reciprocal Exchanges recognized total revenues, total expenses and net income of \$54,347, \$51,841 and \$2,506, respectively.

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NATIONAL GENERAL HOLDINGS CORP.

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For the year ended December 31, 2015 and for the period from September 15, 2014 to December 31, 2014, the Company earned service and fee income from the Reciprocal Exchanges in the amount of \$39,792 and \$9,901, respectively. Such amounts are eliminated in our consolidated earnings.

4. Investments

(a) Available-for-Sale Securities

The cost or amortized cost, fair value, and gross unrealized gains and losses on available-for-sale securities were as follows:

December 31, 2015	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities:				
Common stock	\$53,356	\$ 569	\$ (6,960)	\$46,965
Preferred stock	11,448	377	—	11,825
Fixed maturities:				
U.S. Treasury	19,348	1,052	(48)	20,352
Federal agencies	1,945	7	—	1,952
States and political subdivision bonds	193,017	4,516	(609)	196,924
Foreign government	31,383	31	(352)	31,062
Corporate bonds	1,375,336	22,224	(47,902)	1,349,658
Residential mortgage-backed securities	419,293	6,254	(978)	424,569
Commercial mortgage-backed securities	135,134	720	(3,649)	132,205
Structured securities	205,024	15	(4,347)	200,692
Total	\$2,445,284	\$ 35,765	\$ (64,845)	\$2,416,204
Less: Securities pledged	54,955	439	—	55,394
Total net of Securities pledged	\$2,390,329	\$ 35,326	\$ (64,845)	\$2,360,810
NGHC	\$2,199,714	\$ 34,773	\$ (58,826)	\$2,175,661
Reciprocal Exchanges	245,570	992	(6,019)	240,543
Total	\$2,445,284	\$ 35,765	\$ (64,845)	\$2,416,204

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December 31, 2014	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities:				
Common stock	\$47,269	\$ 1,004	\$ (7,349)	\$40,924
Preferred stock	7,755	65	(125)	7,695
Fixed maturities:				
U.S. Treasury	37,446	1,536	(3)	38,979
Federal agencies	98	—	—	98
States and political subdivision bonds	172,617	4,961	(169)	177,409
Foreign government	6,194	—	(658)	5,536
Corporate bonds	839,436	36,525	(8,699)	867,262
Residential mortgage-backed securities	459,596	11,132	(92)	470,636
Commercial mortgage-backed securities	79,579	1,602	(189)	80,992
Asset-backed securities	5,461	—	(91)	5,370
Total	\$1,655,451	\$ 56,825	\$ (17,375)	\$1,694,901
Less: Securities pledged	47,546	1,910	—	49,456
Total net of Securities pledged	\$1,607,905	\$ 54,915	\$ (17,375)	\$1,645,445
NGHC	\$1,430,578	\$ 55,031	\$ (16,264)	\$1,469,345
Reciprocal Exchanges	224,873	1,794	(1,111)	225,556
Total	\$1,655,451	\$ 56,825	\$ (17,375)	\$1,694,901

The amortized cost and fair value of available-for-sale fixed maturities and securities pledged, held as of December 31, 2015, by contractual maturity, are shown in the table below. Actual maturities may differ from contractual maturities because some borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	NGHC		Reciprocal Exchanges		Total	
December 31, 2015	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value
Due in one year or less	\$28,272	\$27,853	\$175	\$178	\$28,447	\$28,031
Due after one year through five years	244,834	246,342	35,145	34,281	279,979	280,623
Due after five years through ten years	1,031,918	1,017,146	109,946	107,655	1,141,864	1,124,801
Due after ten years	330,244	321,985	45,519	45,200	375,763	367,185
Mortgage-backed securities	501,143	505,119	53,284	51,655	554,427	556,774
Total	\$2,136,411	\$2,118,445	\$244,069	\$238,969	\$2,380,480	\$2,357,414

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(b) Investment Income

The components of net investment income consisted of the following:

	Year Ended December 31,		
	2015	2014	2013
Interest			
Cash and short term investments	\$ 186	\$ 114	\$ 14
Equity securities	277	349	—
Fixed maturities	69,310	52,008	33,936
Reverse Repurchase Agreements	—	—	61
Investment Income	69,773	52,471	34,011
Investment expense	(3,529)	(2,629)	(2,927)
Repurchase Agreements interest expense	(213)	(236)	(276)
Other Income ⁽¹⁾	9,309	2,820	—
Net Investment Income	\$ 75,340	\$ 52,426	\$ 30,808
NGHC	\$ 66,429	\$ 50,627	\$ 30,808
Reciprocal Exchanges	8,911	1,799	—
Net Investment Income	\$ 75,340	\$ 52,426	\$ 30,808

⁽¹⁾ Includes interest income of approximately \$8,701 and \$2,601 for the years ended December 31, 2015 and 2014, respectively, under the ACP Re Credit Agreement (see Note 16, "Related Party Transactions").

(c) Realized Gains and Losses

Proceeds from sales of equity securities and fixed maturities during the years ended December 31, 2015, 2014 and 2013 were \$180,412, \$218,496 and \$296,391, respectively. For the years ended December 31, 2015, 2014 and 2013, the Company recognized an OTTI loss of \$15,247, \$2,244 and \$2,869, respectively, on investments based on our qualitative and quantitative review.

The tables below indicate the gross realized gains and losses (including any OTTI loss) for the years ended December 31, 2015, 2014 and 2013.

Year Ended December 31, 2015	Gross Gains	Gross Losses	Net Gains (Losses)
Equity securities	\$ 5	\$ (1,608)	\$ (1,603)
Fixed maturities	8,245	(1,702)	6,543
OTTI	—	(15,247)	(15,247)
Total gross realized gains and losses	\$ 8,250	\$ (18,557)	\$ (10,307)
NGHC	\$ 7,005	\$ (17,658)	\$ (10,653)
Reciprocal Exchanges	1,245	(899)	346
Total gross realized gains and losses	\$ 8,250	\$ (18,557)	\$ (10,307)

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Year Ended December 31, 2014	Gross Gains	Gross Losses	Net Gains (Losses)
Equity securities	\$ 34	\$(613)	\$(579)
Fixed maturities	151	(220)	(69)
OTTI	—	(2,244)	(2,244)
Total gross realized gains and losses	\$ 185	\$(3,077)	\$(2,892)
NGHC	\$ 185	\$(3,077)	\$(2,892)
Reciprocal Exchanges	—	—	—
Total gross realized gains and losses	\$ 185	\$(3,077)	\$(2,892)
Year Ended December 31, 2013	Gross Gains	Gross Losses	Net Gains (Losses)
Fixed maturities	\$8,865	\$(7,665)	\$1,200
OTTI	—	(2,869)	\$(2,869)
Total gross realized gains and losses	\$8,865	\$(10,534)	\$(1,669)

(d) Unrealized Gains and Losses

Unrealized gains (losses) on investments as of December 31, 2015, 2014 and 2013 consisted of the following:

	December 31,		
	2015	2014	2013
Net unrealized loss on common stock	\$(6,391)	\$(6,345)	\$—
Net unrealized gain (loss) on preferred stock	377	(60)	(652)
Net unrealized gain (loss) on fixed maturities	(23,066)	45,855	10,310
Net unrealized gain (loss) on other	(20)	18	—
Deferred income tax	10,185	(13,787)	(2,598)
Net unrealized gain (loss), net of deferred income tax	\$(18,915)	\$25,681	\$7,060
NGHC	\$(15,634)	\$24,998	\$7,060
Reciprocal Exchanges	(3,281)	683	—
Net unrealized gain (loss), net of deferred income tax	(18,915)	25,681	7,060
Non-controlling interest	3,281	(683)	—
NGHC net unrealized gain (loss), net of deferred income tax	\$(15,634)	\$24,998	\$7,060
Year Ended December 31,			
NGHC change for the year in net unrealized gain (loss), net of deferred income tax	\$(40,632)	\$17,938	\$(25,414)
Non-controlling interest change for the year in net unrealized loss, net of deferred income tax	\$(3,964)	\$—	\$—

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(e) Gross Unrealized Losses

The tables below summarize the gross unrealized losses on equity securities and fixed maturities by length of time the security has continuously been in an unrealized loss position as of December 31, 2015 and 2014:

December 31, 2015	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common stock	\$39,490	\$(6,932)	5	\$130	\$(28)	2	\$39,620	\$(6,960)
U.S. Treasury	7,141	(48)	5	—	—	—	7,141	(48)
States and political subdivision bonds	17,674	(501)	22	4,878	(108)	10	22,552	(609)
Foreign government	21,322	(352)	4	—	—	—	21,322	(352)
Corporate bonds	684,613	(37,919)	229	32,121	(9,983)	38	716,734	(47,902)
Residential mortgage-backed securities	102,889	(919)	23	1,655	(59)	9	104,544	(978)
Commercial mortgage-backed securities	66,222	(3,472)	30	2,364	(177)	2	68,586	(3,649)
Structured securities	153,042	(4,347)	65	—	—	—	153,042	(4,347)
Total	\$1,092,393	\$(54,490)	383	\$41,148	\$(10,355)	61	\$1,133,541	\$(64,845)
NGHC	\$988,188	\$(50,599)	284	\$28,691	\$(8,227)	34	\$1,016,879	\$(58,826)
Reciprocal Exchanges	104,205	(3,891)	99	12,457	(2,128)	27	116,662	(6,019)
Total	\$1,092,393	\$(54,490)	383	\$41,148	\$(10,355)	61	\$1,133,541	\$(64,845)
December 31, 2014	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common stock	\$33,717	\$(7,349)	3	\$—	\$—	—	\$33,717	\$(7,349)
Preferred stock	—	—	—	4,878	(125)	1	4,878	(125)
U.S. Treasury	6,343	(3)	5	—	—	—	6,343	(3)
States and political subdivision bonds	16,320	(92)	39	8,341	(77)	8	24,661	(169)
Foreign government	5,536	(658)	1	—	—	—	5,536	(658)
Corporate bonds	116,880	(5,594)	108	23,592	(3,105)	10	140,472	(8,699)
Residential mortgage-backed securities	15,598	(34)	17	1,975	(58)	3	17,573	(92)
Commercial mortgage-backed securities	33,735	(189)	10	—	—	—	33,735	(189)
Asset-backed securities	4,869	(91)	3	—	—	—	4,869	(91)
Total	\$232,998	\$(14,010)	186	\$38,786	\$(3,365)	22	\$271,784	\$(17,375)
NGHC	\$142,313	\$(12,899)	97	\$38,786	\$(3,365)	22	\$181,099	\$(16,264)
Reciprocal Exchanges	90,685	(1,111)	89	—	—	—	90,685	(1,111)
Total	\$232,998	\$(14,010)	186	\$38,786	\$(3,365)	22	\$271,784	\$(17,375)

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There were 444 and 208 securities at December 31, 2015 and 2014, respectively, that account for the gross unrealized loss, none of which are deemed by the Company to be an OTTI. At December 31, 2015, we have determined that the unrealized losses on fixed maturities were primarily due to market interest rate movements since their date of purchase. Significant factors influencing the Company's determination that none of these securities were OTTI included the magnitude of unrealized losses in relation to cost, the nature of the investment and management's intent not to sell these securities and it being more likely than not that the Company will not be required to sell these investments before anticipated recovery of fair value to the Company's cost basis.

As of December 31, 2015, of the \$10,355 of unrealized losses related to securities in unrealized loss positions for a period of twelve or more consecutive months, \$8,466 of those unrealized losses were related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost. Those unrealized losses were evaluated based on factors such as discounted cash flows and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations.

During the years ended December 31, 2015, 2014 and 2013, the Company recognized an OTTI loss of \$15,247, \$2,244 and \$2,869, respectively, on investments based on our qualitative and quantitative review. For the year ended December 31, 2015, the OTTI loss of \$15,247 related to certain investments in the energy and natural resources sectors and was based on the severity of the decline in relation to their amortized cost or cost.

(f) Credit Quality of Investments

The tables below summarize the credit quality of our fixed maturities, securities pledged and preferred securities as of December 31, 2015 and 2014, as rated by Standard & Poor's.

	NGHC		Reciprocal Exchanges					
	Cost or Amortized Cost	Fair Value	Percentage of Fixed Maturities and Preferred Securities		Cost or Amortized Cost	Fair Value	Percentage of Fixed Maturities and Preferred Securities	
December 31, 2015								
U.S. Treasury	\$13,416	\$14,448	0.7	%	\$5,932	\$5,904	2.5	%
AAA	343,128	348,073	16.4	%	39,724	38,888	16.2	%
AA, AA+, AA-	379,560	383,888	18.0	%	36,866	36,934	15.4	%
A, A+, A-	501,409	508,884	23.9	%	50,612	50,153	20.8	%
BBB, BBB+, BBB-	634,250	623,742	29.3	%	82,417	80,322	33.4	%
BB+ and lower	274,594	249,660	11.7	%	30,020	28,343	11.7	%
Total	\$2,146,357	\$2,128,695	100.0	%	\$245,571	\$240,544	100.0	%
	NGHC		Reciprocal Exchanges					
	Cost or Amortized Cost	Fair Value	Percentage of Fixed Maturities and Preferred Securities		Cost or Amortized Cost	Fair Value	Percentage of Fixed Maturities and Preferred Securities	
December 31, 2014								
U.S. Treasury	\$19,068	\$20,475	1.4	%	\$18,378	\$18,504	8.2	%
AAA	359,424	370,058	25.9	%	24,956	25,027	11.1	%

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AA, AA+, AA-	275,905	282,443	19.8	%	—	—	—	%
A, A+, A-	300,789	318,955	22.3	%	99,754	100,412	44.5	%
BBB, BBB+, BBB-	328,594	335,745	23.5	%	48,440	48,486	21.5	%
BB+ and lower	99,529	100,745	7.1	%	33,345	33,127	14.7	%
Total	\$1,383,309	\$1,428,421	100.0	%	\$224,873	\$225,556	100.0	%

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The tables below summarize the investment quality of our corporate bond holdings and industry concentrations as of December 31, 2015 and 2014.

December 31, 2015	AAA	AA+, AA, AA-	A+,A,A-	BBB+, BBB, BBB-	BB+ or Lower	Fair Value	% of Corporate Bonds Portfolio
Corporate Bonds:							
Financial Institutions	— %	2.8 %	21.2 %	12.7 %	2.1 %	\$524,250	38.8 %
Industrials	— %	3.9 %	15.4 %	32.3 %	4.6 %	757,907	56.2 %
Utilities/Other	0.4 %	— %	0.4 %	3.4 %	0.8 %	67,501	5.0 %
Total	0.4 %	6.7 %	37.0 %	48.4 %	7.5 %	\$1,349,658	100.0 %
NGHC	0.4 %	6.1 %	33.9 %	42.7 %	6.3 %	\$1,206,442	89.4 %
Reciprocal Exchanges	— %	0.6 %	3.1 %	5.7 %	1.2 %	143,216	10.6 %
Total	0.4 %	6.7 %	37.0 %	48.4 %	7.5 %	\$1,349,658	100.0 %
December 31, 2014	AAA	AA+, AA, AA-	A+,A,A-	BBB+, BBB, BBB-	BB+ or Lower	Fair Value	% of Corporate Bonds Portfolio
Corporate Bonds:							
Financial Institutions	1.4 %	3.6 %	26.9 %	8.9 %	2.5 %	\$376,236	43.3 %
Industrials	— %	2.4 %	9.4 %	31.7 %	5.9 %	427,592	49.4 %
Utilities/Other	— %	— %	2.2 %	3.1 %	2.0 %	63,434	7.3 %
Total	1.4 %	6.0 %	38.5 %	43.7 %	10.4 %	\$867,262	100.0 %
NGHC	1.4 %	6.0 %	34.0 %	38.6 %	8.3 %	\$762,822	88.3 %
Reciprocal Exchanges	— %	— %	4.5 %	5.1 %	2.1 %	104,440	11.7 %
Total	1.4 %	6.0 %	38.5 %	43.7 %	10.4 %	\$867,262	100.0 %

(g) Restricted Cash and Investments

The Company, in order to conduct business in certain states, is required to maintain letters of credit or assets on deposit to support state mandated regulatory requirements and certain third party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets held are primarily in the form of cash or certain high grade securities. The fair values of our restricted assets as of December 31, 2015 and 2014 are as follows:

December 31,	2015	2014
Restricted cash	\$13,776	\$7,937
Restricted investments - fixed maturities at fair value	40,174	56,049
Total restricted cash and investments	\$53,950	\$63,986

(h) Other

The Company enters into reverse repurchase and repurchase agreements, which are accounted for as either collateralized lending or borrowing transactions and are recorded at contract amounts, which approximate fair value. For the collateralized borrowing transactions (i.e., repurchase agreements), the Company receives cash or securities

that it invests or holds in short-term or fixed income securities.

As of December 31, 2015 and 2014, the Company had no collateralized lending transaction principal outstanding. Interest income associated with lending agreements for the years ended December 31, 2015, 2014 and 2013 was \$0, \$0 and \$61, respectively.

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As of December 31, 2015, the Company had collateralized borrowing transaction principal outstanding of \$52,484 at an interest rate of 0.80%. As of December 31, 2014, the Company had collateralized borrowing transaction principal outstanding of \$46,804 at interest rates between 0.30% and 0.35%. Interest expense associated with the repurchase borrowing agreements for the years ended December 31, 2015, 2014 and 2013 was \$213, \$236 and \$276, respectively. The Company had approximately \$55,394 and \$49,456 of collateral pledged in support for these agreements as of December 31, 2015 and 2014, respectively.

The table below summarizes the remaining contractual maturity of the Company's repurchase agreements as of December 31, 2015.

December 31, 2015 Remaining Contractual Maturity of the Repurchase Agreements				
Overnight and Continuous	Up to 30 days	30 - 90 days	Greater Than 90 days	Total
Repurchase agreements:				
Residential mortgage-backed securities	\$-\$52,484	\$	—\$	—\$52,484
Total Securities sold under agreements to repurchase, at contract value	\$-\$52,484	\$	—\$	—\$52,484

Securities sold under agreements to repurchase (repurchase agreements), at contract value are accounted for as collateralized borrowing transactions and are recorded at their contracted repurchase amounts, plus accrued interest. Under repurchase agreements, the Company borrows cash from a counterparty at an agreed-upon interest rate for an agreed-upon time frame and the Company transfers either corporate debt securities or U.S. government or government agency securities (pledged collateral). For securities repurchase agreements, the cash received is typically invested in cash equivalents, short-term investments or fixed maturities, with the offsetting obligation to repay the loan included as a liability in the consolidated balance sheets. At the end of the agreement, the counterparty returns the collateral to the Company, and the Company, in turn, repays the loan amount along with the agreed-upon interest.

There are potential risks associated with repurchase agreements and the related collateral pledged, including obligations arising from a decline in the market value of the collateral pledged. The Company is generally required to maintain collateral in the amount of 105.0% to 110.0% of the value of the securities we have sold with agreement to repurchase, which are subject to daily mark-to-market margining (i.e., if the collateral falls in value, a margin call can be triggered requiring the Company to pay cash or post extra securities to maintain the 105.0% to 110.0% threshold). Conversely, if the value of the Company's collateral pledged appreciates in value there is credit risk in that the lending counterparty could default and not return/sell the securities back.

The Company minimizes the credit risk that counterparties might be unable to fulfill their contractual obligations by monitoring its counterparty exposure and related collateral pledged. Additionally, repurchase agreements are only transacted with pre-approved counter-parties.

5. Fair Value of Financial Instruments

ASC 820, “Fair Value Measurements and Disclosures”, provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. The standard applies when GAAP requires or allows assets or liabilities to be measured at fair value; therefore, it does not expand the use of fair value in any new circumstance.

The Company utilized a pricing service to estimate fair value measurements for approximately 100.0% of its fixed maturities. For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the fair value hierarchy. The Company receives the quoted market prices from nationally recognized third-party pricing services (“pricing services”). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value. This pricing method is used, primarily, for fixed maturities. The fair value estimates provided by the pricing service are included in Level 2 of the fair value hierarchy. If the Company determines that the fair value estimate provided by the pricing service does not represent fair value or if quoted market

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prices and an estimate from pricing services are unavailable, the Company produces an estimate of fair value based on dealer quotations of the bid price for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, the Company will then determine if the estimate is in Level 2 or Level 3 of the fair value hierarchy.

The following describes the valuation techniques used by the Company to determine the fair value of financial instruments held as of December 31, 2015.

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

U.S. Treasury and Federal Agencies Comprised of primarily bonds issued by the U.S. Treasury, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, Government National Mortgage Association and the Federal National Mortgage Association. The fair values of U.S. government securities are based on quoted market prices in active markets, and are included in the Level 1 fair value hierarchy. The Company believes the market for U.S. Treasury securities is an actively traded market given the high level of daily trading volume. The fair values of U.S. government agency securities are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. government agency securities are included in the Level 2 fair value hierarchy.

States and Political Subdivision Bonds Comprised of bonds and auction rate securities issued by U.S. state and municipal entities or agencies. The fair values of municipal bonds are generally priced by pricing services. The pricing services typically use spreads obtained from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the municipal bonds are observable market inputs, these are classified within Level 2. Municipal auction rate securities are reported in the consolidated balance sheets at cost which approximates their fair value.

Foreign Government Comprised of bonds issued by foreign governments, and are generally priced by pricing services. As the significant inputs used to price foreign government bonds are observable market inputs, the fair values of foreign government bonds are included in the Level 2 fair value hierarchy.

Corporate Bonds Comprised of bonds issued by corporations and are generally priced by pricing services. The fair values of short-term corporate bonds are priced, by the pricing services, using the spread above the London Interbank Offering Rate ("LIBOR") yield curve and the fair value of long-term corporate bonds are priced using the spread above the risk-free yield curve. The spreads are sourced from broker-dealers, trade prices and the new issue market. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers. As the significant inputs used to price corporate bonds are observable market inputs, the fair values of corporate bonds are included in the Level 2 fair value hierarchy.

Mortgage, Asset-backed and Structured Securities Comprised of commercial and residential mortgage-backed and structured securities. These securities are priced by independent pricing services and brokers. The pricing provider applies dealer quotes and other available trade information, prepayment speeds, yield curves and credit spreads to the valuation. As the significant inputs used to price are observable market inputs, the fair value of these securities are included in the Level 2 fair value hierarchy.

Notes Payable - The amount reported in the accompanying consolidated balance sheets for these financial instruments represents the carrying value of the debt. As of December 31, 2015, the current fair value of the Company's 7.625% Notes, which are publicly traded, was \$98,240 and is classified as Level 1 in the fair value hierarchy. As of December 31, 2015, the current fair value of the Company's 6.75% Notes and Imperial Surplus Notes, which are not publicly traded, were \$350,000 and \$4,979, respectively. The fair value of the Company's 6.75% Notes at December 31, 2015 was determined using the direct transaction method of the Market Approach. The Company executed an arm's length private market transaction in the 6.75% Notes in the fourth quarter of 2015 which provided reasonably supportable indication of fair value for the 6.75% Notes as of December 31, 2015. Non-direct market-based metrics and the magnitude and timing of contractual interest and principal payments were analyzed

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to support the indication of fair value provided by the direct transaction method of the Market Approach as of December 31, 2015. The fair value of the Company's 6.75% Notes at December 31, 2014 was determined using market-based metrics and the magnitude and timing of contractual interest and principal payments. The fair value of the Company's 6.75% Notes as of December 31, 2015 includes an additional \$100,000 aggregate principal amount sold on October 8, 2015. The Imperial Surplus Notes were valued using the Black Derman-Toy interest rate lattice model. In addition, as of December 31, 2015, the current fair value of the Reciprocal Exchanges' Surplus Notes, which are not publicly traded, was \$50,300. The fair value of the Reciprocal Exchanges' Surplus Notes was determined by discounting the estimated interest and principal payments by an appropriate yield. As of December 31, 2014, the current fair value of the Company's 6.75% Notes and Imperial Surplus Notes, which are not publicly traded, were \$276,014 and \$4,982, respectively. In addition, as of December 31, 2014, the current fair value of the Reciprocal Exchanges' Surplus Notes, which are not publicly traded, was \$42,000. The Company's 6.75% Notes, Imperial Surplus Notes and Reciprocal Exchanges' Surplus Notes are classified as Level 3 in the fair value hierarchy. See Note 15, "Debt" for the carrying value of the Company's debt instruments.

Contingent payments - represents the fair value of the contingent payments based on discounted cash flows under the Personal Lines Master Agreement (see Note 16, "Related Party Transactions") and the ARS and HST contingent payments (see Note 18, "Commitments and Contingencies").

In accordance with ASC 820, assets and liabilities measured at fair value on a recurring basis are as follows:

December 31, 2015	Recurring Fair Value Measures			
	Level 1	Level 2	Level 3	Total
Assets				
Equity securities:				
Common stock	\$46,965	\$—	\$—	\$46,965
Preferred stock	—	11,825	—	11,825
Fixed maturities:				
U.S. Treasury	20,352	—	—	20,352
Federal agencies	1,952	—	—	1,952
States and political subdivision bonds	—	196,924	—	196,924
Foreign government	—	31,062	—	31,062
Corporate bonds	—	1,349,658	—	1,349,658
Residential mortgage-backed securities	—	424,569	—	424,569
Commercial mortgage-backed securities	—	132,205	—	132,205
Structured securities	—	200,692	—	200,692
Short term investments	—	3,527	—	3,527
Total assets	\$69,269	\$2,350,462	\$—	\$2,419,731
NGHC	\$61,413	\$2,115,776	\$—	\$2,177,189
Reciprocal Exchanges	7,856	234,686	—	242,542
Total assets	\$69,269	\$2,350,462	\$—	\$2,419,731
Liabilities				
Contingent payments	\$—	\$—	\$24,652	\$24,652
Total liabilities	\$—	\$—	\$24,652	\$24,652
NGHC	\$—	\$—	\$24,652	\$24,652
Reciprocal Exchanges	—	—	—	—

Total liabilities	\$—	\$—	\$24,652	\$24,652
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December 31, 2014	Recurring Fair Value Measures			
	Level 1	Level 2	Level 3	Total
Assets				
Equity securities:				
Common stock	\$6,535	\$—	\$34,389	\$40,924
Preferred stock	—	7,695	—	7,695
Fixed maturities:				
U.S. Treasury	38,979	—	—	38,979
Federal agencies	—	98	—	98
States and political subdivision bonds	—	177,409	—	177,409
Foreign government	—	5,536	—	5,536
Corporate bonds	—	867,262	—	867,262
Residential mortgage-backed securities	—	470,636	—	470,636
Commercial mortgage-backed securities	—	80,992	—	80,992
Asset-backed securities	—	5,370	—	5,370
Short term investments	—	10,540	—	10,540
Total assets	\$45,514	\$1,625,538	\$34,389	\$1,705,441
NGHC	\$45,514	\$1,389,492	\$34,389	\$1,469,395
Reciprocal Exchanges	—	236,046	—	236,046
Total assets	\$45,514	\$1,625,538	\$34,389	\$1,705,441
Liabilities				
Contingent payments	\$—	\$—	\$23,499	\$23,499
Total liabilities	\$—	\$—	\$23,499	\$23,499
NGHC	\$—	\$—	\$23,499	\$23,499
Reciprocal Exchanges	—	—	—	—
Total liabilities	\$—	\$—	\$23,499	\$23,499

The following tables provide a summary of changes in fair value of the Company's Level 3 financial assets and liabilities for the years ended December 31, 2015 and 2014:

	Balance as of January 1, 2015	Net income / loss	Other comprehensive income (loss)	Purchases and issuances	Payments, sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2015
Common stock	\$34,389	\$—	\$ 2,526	\$ —	\$ —	\$(36,915)	\$ —
Total assets	\$34,389	\$—	\$ 2,526	\$ —	\$ —	\$(36,915)	\$ —
Contingent payments	\$23,499	\$2,357	\$ —	\$ 8,581	\$ (9,785)	\$ —	\$ 24,652
Total liabilities	\$23,499	\$2,357	\$ —	\$ 8,581	\$ (9,785)	\$ —	\$ 24,652

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	Balance as of January 1, 2014	Net income / loss	Other comprehensive income (loss)	Purchases and issuances	Payments, sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2014
Common stock	\$	—\$	—\$ (7,328)	\$ 41,717	\$ —	\$	—\$ 34,389
Total assets	\$	—\$	—\$ (7,328)	\$ 41,717	\$ —	\$	—\$ 34,389
Contingent payments	\$	—\$	—\$ —	\$ 26,100	\$ (2,601)	\$	—\$ 23,499
Total liabilities	\$	—\$	—\$ —	\$ 26,100	\$ (2,601)	\$	—\$ 23,499

As of December 31, 2014, the fair value measurement for the Company's Level 3 common stock investment of \$34,389 was valued based on a non-binding quote received from a third-party valuation service where the inputs have not been corroborated to be market observable. The Company does not develop the unobservable inputs used in measuring fair value and uses the third-party pricing information without adjustment. As of December 31, 2015 and 2014, the fair value measurement for the Company's Level 3 ACP Re Contingent Payments of \$16,071 and \$23,499, respectively, were valued based on discounted cash flows. As of December 31, 2015, the fair value measurement for the Company's Level 3 ARS Contingent Payments and HST Contingent Payments of \$4,081 and \$4,500, respectively, were valued based on estimated earnings and projected payouts. See Note 18, "Commitments and Contingencies."

During the year ended December 31, 2015, there were no transfers between Level 1 and Level 2. During the year ended December 31, 2015, the Company transferred \$36,915 out of Level 3 and into Level 1 due to the public offering of a previously privately-placed common stock investment. During the year ended December 31, 2014, there were no transfers between Level 1 and Level 2, or Level 2 and Level 3. The Company's policy is to recognize transfers between levels as of the end of each reporting period, consistent with the date of determination of fair value.

Other than goodwill, the Company does not measure any assets or liabilities at fair value on a nonrecurring basis at December 31, 2015 and 2014. Goodwill is classified as Level 3 in the fair value hierarchy. See Note 8, "Goodwill and Intangible Assets, Net" for additional information on how the Company tested goodwill for impairment. The carrying value of the Company's cash and cash equivalents, premiums and other receivables, accrued interest and accounts payable and accrued expenses approximates fair value given the short-term nature of such items and are classified as Level 1 in the fair value hierarchy. The carrying value of the Company's securities sold under agreements to repurchase approximates fair value given the short-term nature of the agreements and are classified as Level 2 in the fair value hierarchy.

6. Equity Investments in Unconsolidated Subsidiaries

In 2010, the Company and AmTrust Financial Services, Inc. ("AmTrust") formed Tiger Capital LLC ("Tiger") for the purposes of acquiring certain life settlement contracts whereby each holds a 50% ownership interests in Tiger. In 2011, the Company, through its wholly-owned subsidiary, American Capital Acquisition Investments, Ltd. ("ACAI"), formed AMT Capital Alpha, LLC ("AMT Alpha") with AmTrust for the purposes of acquiring additional life settlement contracts.

In March 2013, the Company entered into a Stock Purchase Agreement with ACP Re to acquire 50% of the issued and outstanding shares of AMT Capital Holdings S.A. ("AMTCH"), a Luxembourg Societe Anonyme, for a cash

contribution in the amount of \$12,136. ACP Re and the Company are majority owned and controlled by a common parent and the transaction was accounted for as between entities under common control. AMTCH's primary purpose is to acquire certain life settlement contracts. AmTrust owns the remaining 50% of AMTCH. The Company accounts for AMTCH using the equity method of accounting. The Company's 50% equity interest in AMTCH at the acquisition date was approximately \$22,411. The difference between the equity interest and consideration paid was recorded as additional paid-in capital of \$10,275.

In December 2013, ACAI and AmTrust formed AMT Capital Holdings II S.A. ("AMTCH II"). The company is equally owned by both parties and was established for the purpose of acquiring additional life settlement contracts.

A life settlement contract is a contract between the owner of a life insurance policy and a third party who obtains the ownership and beneficiary rights of the underlying life insurance policy. The Company, along with AmTrust, is obligated to pay premiums on these life insurance policies as they come due. A third party serves as the administrator for two of the life settlement contract

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portfolios, for which it receives an administrative fee. The third-party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met.

Tiger, AMT Alpha, AMTCH and AMTCH II (collectively "LSC Entities") are considered to be VIEs, for which the Company is not a primary beneficiary. In determining whether it is the primary beneficiary of a VIE, the Company considered qualitative and quantitative factors, including, but not limited to, activities that most significantly impact the VIE's economic performance and which party controls such activities. The Company does not have the ability to direct the activities of the LSC Entities that most significantly impact its economic performance. The Company's maximum exposure to a loss as a result of its involvement with the unconsolidated VIE is limited to its recorded investment plus additional capital commitments. The Company uses the equity method of accounting to account for its investments in the LSC Entities.

The Company currently has a fifty percent ownership interest in the LSC Entities. AmTrust owns the remaining fifty percent interest in the LSC Entities.

The following tables present the investment activity in the LSC Entities.

Year Ended December 31,	2015	2014	2013
Balance at beginning of year	\$146,089	\$126,186	\$66,484
Distributions	(1,923)	—	—
Contributions	565	18,056	35,391
Acquisition of interest	—	—	22,411
Equity in earnings of unconsolidated subsidiaries	8,930	1,847	1,900
Change in equity method investments	7,572	19,903	59,702
Balance at end of year	\$153,661	\$146,089	\$126,186

The following tables summarize total assets and total liabilities as of December 31, 2015, 2014 and 2013 and the results of operations for the Company's unconsolidated equity method investment in the LSC Entities for the years ended December 31, 2015, 2014 and 2013.

Condensed balance sheet data

As of December 31,	2015	2014	2013
Investments in life settlement contracts at fair value	\$264,001	\$264,517	\$233,024
Total assets	334,026	318,598	270,758
Total liabilities	26,704	26,420	18,387
Members' equity	307,322	292,178	252,371
NGHC's 50% ownership interest	\$153,661	\$146,089	\$126,186

Condensed results of operations

Year Ended December 31,	2015	2014	2013
Revenue, net of commission	\$66,435	\$50,447	\$7,828
Total expenses	48,575	46,753	4,029
Net income	\$17,860	\$3,694	\$3,799
NGHC's 50% ownership interest	\$8,930	\$1,847	\$1,900

The LSC Entities account for investments in life settlements in accordance with ASC 325-30, "Investments in Insurance Contracts", which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The LSC Entities have elected to account for these policies using the fair value method.

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The fair value of life settlement contracts as well as life settlement profit commission liability is based on information available to the LSC Entities at the end of the reporting period. The LSC Entities consider the following factors in their fair value estimates: cost at date of purchase, recent purchases and sales of similar investments (if available and applicable), financial standing of the issuer, changes in economic conditions affecting the issuer, maintenance cost, premiums, benefits, standard actuarially developed mortality tables and life expectancy reports prepared by nationally recognized and independent third party medical underwriters. The LSC Entities estimate the fair value of a life insurance policy by applying an investment discount rate based on the cost of funding their life settlement contracts as compared to returns on investments in asset classes with comparable credit quality, which the LSC Entities have determined to be 7.5% to the expected cash flow generated by the policies in the life settlement portfolio (death benefits less premium payments), net of policy specific adjustments and reserves. In order to confirm the integrity of their calculation of fair value, the LSC Entities, quarterly, retain an independent third-party actuary to verify that the actuarial modeling used by the LSC Entities to determine fair value was performed correctly and that the valuation, as determined through the LSC Entities' actuarial modeling, is consistent with other methodologies. The LSC Entities consider this information in their assessment of the reasonableness of the life expectancy and discount rate inputs used in the valuation of these investments.

The LSC Entities adjust the standard mortality for each insured for the insured's life expectancy based on reviews of the insured's medical records and the independent life expectancy report based thereon. The LSC Entities establish policy specific reserves for the following uncertainties: improvements in mortality, the possibility that the high net worth individuals represented in their portfolios may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to the LSC Entities, and the future expenses related to the administration of the portfolio. The application of the investment discount rate to the expected cash flow generated by the portfolio, net of the policy specific reserves, yields the fair value of the portfolio. The effective discount rate reflects the relationship between the fair value and the expected cash flow gross of these reserves.

The following summarizes data utilized in estimating the fair value of the portfolio of life insurance policies as of December 31, 2015 and 2014 and, only includes data for policies to which the LSC Entities assigned value at those dates:

	December 31, 2015	December 31, 2014
Average age of insured	81.2 years	81.1 years
Average life expectancy, months ⁽¹⁾	114	121
Average face amount per policy	\$ 6,564	\$ 6,624
Effective discount rate ⁽²⁾	13.7	% 14.0 %

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

⁽²⁾ Effective Discount Rate ("EDR") is the LSC Entities' estimated internal rate of return on its life settlement contract portfolio and is determined from the gross expected cash flows and valuation of the portfolio. The valuation of the portfolio is calculated net of all reserves using a 7.5% discount rate. The EDR is inclusive of the reserves and the gross expected cash flows of the portfolio. The LSC Entities anticipate that the EDR's range is between 12.5% and 17.5% and reflects the uncertainty that exists surrounding the information available as of the reporting date. As the accuracy and reliability of information improves (declines), the EDR will decrease (increase). The change in the EDR

from December 31, 2014 to December 31, 2015 resulted from routine updating of life expectancies and other factors relating to operational risk.

The LSC Entities' assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The fair value measurements used in estimating the present value calculation are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonably vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value amount. If the life expectancies were increased or decreased by 4 months and the discount factors were increased or decreased by 1% while all other variables were held constant, the carrying value of the investment in life insurance policies would increase or (decrease) by the unaudited amounts summarized below as of December 31, 2015 and 2014:

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	Change in life expectancy	
	Plus 4 Months	Minus 4 Months
Investment in life policies:		
December 31, 2015	\$(37,697)	\$40,997
December 31, 2014	\$(34,686)	\$36,486

	Change in discount rate ⁽¹⁾	
	Plus 1%	Minus 1%
Investment in life policies:		
December 31, 2015	\$(26,558)	\$29,644
December 31, 2014	\$(22,705)	\$25,456

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

The Company and AmTrust are committed to providing additional capital support to the LSC Entities to keep the life settlement policies in-force. The Company and AmTrust, each, are committed to provide 50% of the additional required capital. Below is a summary of total premiums to be paid for each of the five succeeding fiscal years to keep the existing life insurance policies in force as of December 31, 2015. The actual capital commitment may differ from the amounts shown based on policy lapses and terminations, death benefits received and other operating cash flows of the LSC Entities:

	Premiums Due on Life Settlement Contracts
2016	\$ 54,540
2017	53,002
2018	41,409
2019	41,385
2020	38,627
Thereafter	487,107
Total	\$ 716,070

In August 2011, the Company formed 800 Superior, LLC with AmTrust, for the purposes of acquiring an office building in Cleveland, Ohio. The cost of the building was approximately \$7,500. AmTrust has been appointed managing member of 800 Superior, LLC. The Company and AmTrust each have a 50% ownership interest in 800 Superior, LLC for which the Company is not the primary beneficiary. Additionally, in 2012, the Company entered into an office lease with 800 Superior, LLC for approximately 134,000 square feet. The lease period is for 15 years and the Company paid 800 Superior, LLC \$2,655, \$2,243 and \$2,143 for the years ended December 31, 2015, 2014 and 2013, respectively.

The Company's equity interest in 800 Superior, LLC as of December 31, 2015 and 2014 was \$1,720 and \$2,140, respectively. For the years ended December 31, 2015, 2014 and 2013, the Company recorded equity in earnings (losses) from 800 Superior, LLC of \$(420), \$(737), and \$(558), respectively. (See Note 16, "Related Party Transactions").

In September 2012, the Company formed East Ninth & Superior, LLC and 800 Superior NMTC Investment Fund II, LLC with AmTrust (collectively "East Ninth & Superior"). The Company and AmTrust each have a 50% ownership interest in East Ninth and Superior, LLC and a 24.5% ownership interest in 800 Superior NMTC Investment Fund II, LLC for which the Company is not a primary beneficiary.

The Company's equity interest in East Ninth & Superior as of December 31, 2015 and 2014 was \$4,139 and \$4,079, respectively. For the years ended December 31, 2015, 2014 and 2013, the Company recorded equity in earnings (losses) from East Ninth & Superior of \$60, \$70, and \$(57), respectively.

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In February 2015, the Company invested \$9,714 in North Dearborn Building Company, L.P. ("North Dearborn"), a limited partnership that owns an office building in Chicago, Illinois. AmTrust is also a limited partner in North Dearborn, and the general partner is NA Advisors GP LLC ("NA Advisors"), an entity controlled by Michael Karfunkel and managed by an unrelated third party. The Company and AmTrust each received a 45% limited partnership interest in North Dearborn for their respective \$9,714 investments, while NA Advisors invested approximately \$2,200 and holds a 10% general partnership interest and a 10% profit interest, which NA Advisors pays to the unrelated third party manager. North Dearborn appointed NA Advisors as the general manager to oversee the day-to-day operations of the office building. North Dearborn is considered to be a VIE, for which the Company is not a primary beneficiary. The Company accounts for North Dearborn using the equity method of accounting. The Company's total exposure to loss is limited to its equity investment.

The Company's equity interest in North Dearborn as of December 31, 2015 was \$9,862. For the year ended December 31, 2015, the Company recorded equity in earnings (losses) from North Dearborn of \$756. The Company received distributions of \$607 for the year ended December 31, 2015. (See Note 16, "Related Party Transactions").

In August 2015, the Company formed 4455 LBJ Freeway, LLC with AmTrust, for the purposes of acquiring an office building in Dallas, Texas. The cost of the building was approximately \$21,000. AmTrust has been appointed managing member of 4455 LBJ Freeway, LLC. The Company and AmTrust each have a 50% ownership interest in 4455 LBJ Freeway, LLC. The Company accounts for 4455 LBJ Freeway, LLC using the equity method of accounting.

The Company's equity interest in 4455 LBJ Freeway, LLC as of December 31, 2015 was \$10,559. For the year ended December 31, 2015, the Company recorded equity in earnings (losses) from 4455 LBJ Freeway, LLC of \$28. (See Note 16, "Related Party Transactions").

In August 2015, the Company invested \$53,715 in Illinois Center Building, L.P. ("Illinois Center"), a limited partnership that owns an office building in Chicago, Illinois. AmTrust and ACP Re Group, Inc. ("ACP Re Group") are also limited partners in Illinois Center and the general partner is NA Advisors. The Company and AmTrust each received a 37.5% limited partnership interest in Illinois Center for their respective \$53,715 investments, while ACP Re Group invested \$21,486 for its 15.0% limited partnership interest. NA Advisors invested \$14,324 and holds a 10.0% general partnership interest and a 10.0% profit interest, which NA Advisors pays to the unrelated third party manager. Illinois Center appointed NA Advisors as the general manager to oversee the day-to-day operations of the office building. Illinois Center is considered to be a VIE, for which the Company is not a primary beneficiary. The Company accounts for Illinois Center using the equity method of accounting. The Company's total exposure to loss is limited to its equity investment.

The Company's equity interest in Illinois Center as of December 31, 2015 was \$55,007. For the year ended December 31, 2015, the Company recorded equity in earnings (losses) from Illinois Center of \$1,292. (See Note 16, "Related Party Transactions").

7. Acquisitions

On October 1, 2015, the Company closed on a master transaction agreement with QBE Investments (North America), Inc. ("QBE Parent") and its subsidiary, QBE Holdings, Inc. (together with QBE Parent, "QBE"), pursuant to which the Company acquired QBE's lender-placed insurance business ("LPI Business"), including certain of QBE's affiliates engaged in the LPI Business. The transaction included the acquisition of certain assets, including loan-tracking

systems and technology, client servicing accounts, intellectual property, and vendor relationships, as well as the assumption of the related insurance liabilities in a reinsurance transaction through which the Company received the loss reserves, unearned premium reserves, and invested assets. The aggregate consideration for the transaction was approximately \$95,726, subject to certain adjustments.

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The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the acquisition date:

October 2015

Assets

Cash and invested assets	\$290,262
Premium receivable	129,878
Premises and equipment	1,752
Intangible assets	61,645
Other assets	1,538
Total Assets	485,075

Liabilities

Unpaid loss and loss adjustment expense reserves	102,913
Accounts payable and accrued expenses	60,335
Unearned premiums	245,827
Total Liabilities	409,075
Net assets purchased	76,000
Purchase price	95,726
Goodwill recorded	\$19,726

The goodwill and intangible assets related to the acquisition of LPI Business were assigned to the Property and Casualty segment. Goodwill of \$19,726 is expected to be deductible for tax purposes. Intangible assets acquired in the acquisition of the LPI Business consisted of Agent/Customer relationships of \$50,000, Proprietary technology of \$10,000 and Other of \$1,645, with weighted average amortization lives of 15, 10 and 7 years, respectively.

As a result of this acquisition, the Company recorded approximately \$126,570 of gross premium written and \$8,584 of service and fee income related to LPI Business in 2015.

On October 1, 2015, the Company closed its acquisition of certain business lines and assets from Assurant Health, which is a business segment of Assurant, Inc. As part of the transaction, the Company acquired the small group self-funded and supplemental product lines, as well as North Star Marketing, a proprietary small group sales channel. The purchase price was an aggregate cash payment of \$14,000.

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The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the acquisition date:

October 2015

Assets

Cash and invested assets	\$43,448
Premium receivable	18,645
Intangible assets	10,493
Total Assets	72,586

Liabilities

Unpaid loss and loss adjustment expense reserves	66,344
Accounts payable and accrued expenses	281
Unearned premiums	2,505
Deferred tax liability	3,887
Other liabilities	678
Total Liabilities	73,695
Net assets purchased	(1,109)
Purchase price	14,000
Goodwill recorded	\$ 15,109

The goodwill and intangible assets related to the acquisition of the business lines and assets from Assurant Health were assigned to the Accident and Health segment. Goodwill of \$7,288 is expected to be deductible for tax purposes. As a result of this acquisition, the Company recorded approximately \$55,693 of gross premium written and \$17,881 of service and fee income in 2015.

On April 1, 2015, the Company closed on the acquisition of Assigned Risk Solutions Ltd. ("ARS"), a New Jersey based managing general agency that services assigned risk, personal auto, and commercial lines of business, for a purchase price of approximately \$48,000 in cash and potential future earnout payments ("ARS Contingent Payments"). The fair value of the ARS Contingent Payments was estimated to be \$4,081 at December 31, 2015. Goodwill recorded on the acquisition of ARS was \$14,600. No goodwill is expected to be deductible for tax purposes.

On January 23, 2015, the Company closed on the acquisition of Healthcare Solutions Team, LLC ("HST"), an Illinois-based healthcare insurance general agency. The Company paid approximately \$15,000 on the acquisition date and agreed to pay potential future earnout payments ("HST Contingent Payments") based on the overall profitability of HST and the business underwritten by the Company's insurance subsidiaries which is produced by HST. The fair value of the HST Contingent Payments was estimated to be \$4,500 at December 31, 2015. Goodwill recorded on the acquisition of HST was \$4,555. The goodwill of \$4,555 is expected to be deductible for tax purposes.

On September 15, 2014, ACP Re, a Bermuda reinsurer that is a subsidiary of the Michael Karfunkel Family 2005 Trust (the "Karfunkel Family Trust"), completed the acquisition of 100% of the outstanding stock of Tower Group International, Ltd. ("Tower") and caused its subsidiary to merge into Tower (the "Merger") pursuant to a merger agreement, dated January 3, 2014, by and between ACP Re and Tower.

In connection with the Merger, the Company acquired two management companies from ACP Re for \$7,500. The management companies (together, the "Management Companies") are the attorneys-in-fact for Adirondack Insurance Exchange, a New York reciprocal insurer, and New Jersey Skylands Insurance Association, a New Jersey reciprocal

insurer. The Company also agreed to pay ACP Re contingent consideration in the form of a three year earnout (the "ACP Re Contingent Payments") of 3% of the gross premium written of the Tower personal lines business written or assumed by the Company following the Merger, capped at payments in the amount of \$30,000 in the aggregate. The fair value of the ACP Re Contingent Payments was estimated to be \$26,100 at the acquisition date. As the Company purchased the Management Companies and renewal rights from a commonly controlled company, the excess of carryover basis of net assets acquired over the purchase price was recorded as a capital contribution.

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The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the acquisition date:

September 2014

Assets

Cash	\$70
Fee receivable	3,010
Intangible assets	144,700
Total Assets	147,780

Liabilities

Due to related party	26,100
Deferred tax liability	39,965
Total Liabilities	66,065
Net assets purchased	81,715
Purchase price	7,500
Additional paid-in capital	\$74,215

The intangible assets related to the acquisition of the Management Companies were assigned to the Property and Casualty segment. Intangible assets acquired in the acquisition of the Management Companies consisted of Management Contracts of \$118,600, with indefinite lives, and Renewal rights of \$26,100 with a weighted average amortization life of 7 years.

On July 1, 2014, the Company reacquired Agent Alliance Insurance Company ("AAIC"), an Alabama-domiciled insurer focused on private passenger auto business in North Carolina which is also licensed as a surplus lines carrier in over 30 states, from ACP Re for a purchase price equal to AAIC's capital and surplus of approximately \$17,343. Following the Company's 2012 sale of AAIC to ACP Re, the Company had continued to reinsure 100% of its existing and renewal private passenger auto insurance.

The following table summarizes the carrying value of assets acquired and liabilities assumed at the acquisition date:

July 2014

Assets

Cash and invested assets	\$15,535
Accrued interest	138
Premium receivable	992
Reinsurance recoverable	6,966
Prepaid reinsurance	1,608
Intangible assets	900
Goodwill	1,005
Income tax receivable	84
Total Assets	27,228

Liabilities

Unpaid loss and loss adjustment expense reserves	6,867
Accounts payable and accrued expenses	323
Unearned premiums	1,608
Reinsurance payable	397

Notes payable	350
Deferred tax	340
Total Liabilities	9,885
Net assets purchased	\$ 17,343

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The goodwill and intangible assets related to the acquisition of AAIC were assigned to the Property and Casualty segment. No goodwill is expected to be deductible for tax purposes.

On June 27, 2014, the Company purchased certain assets of Imperial Management Corporation ("Imperial"), including its underwriting subsidiaries Imperial Fire & Casualty Insurance Company and National Automotive Insurance Company, its retail agency subsidiary ABC Insurance Agencies, and its managing general agency subsidiary RAC Insurance Partners. The purchase price was approximately \$20,000. In connection with the Imperial transaction, the Company assumed certain debt of Imperial and Imperial Fire & Casualty Insurance Company (see Note 15, "Debt").

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the acquisition date:

June 2014

Assets	
Cash and invested assets	\$61,011
Accrued interest	484
Premium receivable	37,348
Reinsurance recoverable	13,445
Prepaid reinsurance	36,203
Premises and equipment	1,893
Intangible assets	15,100
Income tax receivable	104
Other	214
Total Assets	165,802
Liabilities	
Unpaid loss and loss adjustment expense reserves	42,796
Accounts payable and accrued expenses	17,253
Unearned premiums	50,178
Reinsurance payable	29,223
Notes payable	8,916
Total Liabilities	148,366
Net assets purchased	17,436
Purchase price	20,000
Goodwill recorded	\$2,564

The goodwill and intangible assets related to the Imperial acquisition were assigned to the Property and Casualty segment. No goodwill is expected to be deductible for tax purposes.

On April 1, 2014, the Company purchased Personal Express Insurance Company ("Personal Express"), a California domiciled personal auto and home insurer from Sequoia Insurance Company, an affiliate of AmTrust. The purchase price was \$21,496.

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The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the acquisition date:

April 2014

Assets

Cash and invested assets	\$28,725
Premium receivable	2,915
Deferred tax	119
Intangible assets	2,700
Other assets	729
Total Assets	35,188

Liabilities

Unpaid loss and loss adjustment expense reserves	4,472
Unearned premiums	8,352
Reinsurance payable	816
Accounts payable and accrued expenses	3,186
Total Liabilities	16,826
Net assets purchased	18,362
Purchase price	21,496
Goodwill recorded	\$3,134

The goodwill and intangible assets related to the Personal Express acquisition were assigned to the Property and Casualty segment. No goodwill is expected to be deductible for tax purposes.

On January 16, 2014, the Company through its wholly-owned subsidiary, National General Holdings Luxembourg, acquired a 100% equity interest of a Luxembourg reinsurer, Anticemex Reinsurance S.A., for approximately \$62,973. The entity was renamed National General Beta Re ("Beta"). Beta is a reinsurer incorporated in Luxembourg that allows the Company to obtain the benefits of its capital and utilization of its existing and future loss reserves through a series of reinsurance agreements with one of the Company's subsidiaries.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the acquisition date:

January 2014

Assets

Cash and invested assets	\$6,393
Prepaid assets	1
Loan receivable	62,973
Intangible assets	132
Total Assets	69,499

Liabilities

Accounts payable and accrued expenses	20
Deferred tax liability	19,123
Total Liabilities	19,143
Net assets purchased	50,356
Purchase price	62,973

Goodwill recorded	\$12,617
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The goodwill and intangible assets related to the Beta acquisition were assigned to the Accident and Health segment. No goodwill is expected to be deductible for tax purposes.

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No individual acquisition or acquisitions in the aggregate were materially significant that required any pro forma financial information during the years ended December 31, 2015 and 2014.

The goodwill associated with the Company's acquisitions relates to the additional benefit (i.e., expected cash flow or earnings, customer relationships) of the acquisition in excess of the fair value of the net assets acquired.

8. Goodwill and Intangible Assets, Net

Goodwill

Goodwill is calculated as the excess of purchase price over the net fair value of assets acquired. The Company performs an annual impairment analysis to identify potential goodwill impairment and measures the amount of a goodwill impairment loss to be recognized. This annual test is performed during the fourth quarter of each year, or more frequently, if events or circumstances change in a way that requires the Company to perform the impairment analysis on an interim basis. Goodwill impairment testing requires an evaluation of the estimated fair value of each reporting unit to its carrying value, including goodwill. An impairment charge is recorded if the estimated fair value is less than the carrying amount of the reporting unit.

Intangible Assets

Intangible assets consist of finite and indefinite life assets. Finite life intangible assets include customer and producer relationships and trademarks. Insurance company licenses and managements contracts are considered indefinite life intangible assets subject to annual impairment testing.

The composition of goodwill and intangible assets at December 31, 2015 and 2014 consisted of the following:

December 31, 2015	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Trademarks	\$8,200	\$ 6,744	\$ 1,456	5 years
Loss reserve discount	15,089	12,779	2,310	7 years
Agent/Customer relationships	148,419	18,562	129,857	11 - 17 years
Affinity partners	800	436	364	11 years
Renewal rights	26,100	6,375	19,725	7 years
Proprietary technology	11,800	379	11,421	3 - 10 years
Management contracts	118,600	—	118,600	indefinite life
State licenses	65,165	—	65,165	indefinite life
Goodwill	112,414	—	112,414	indefinite life
Total	\$506,587	\$ 45,275	\$461,312	
NGHC	\$501,187	\$ 44,700	\$456,487	
Reciprocal Exchanges	5,400	575	4,825	
Total	\$506,587	\$ 45,275	\$461,312	

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December 31, 2014	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Trademarks	\$8,200	\$ 5,737	\$2,463	5 years
Loss reserve discount	12,451	12,071	380	7 years
Agent/Customer relationships	43,652	9,602	34,050	11 - 17 years
Affinity partners	800	363	437	11 years
Non-compete	2,500	2,417	83	5 years
Value in policies-in-force	8,501	2,468	6,033	1 year
Renewal rights	26,100	1,474	24,626	7 years
Management contracts	118,600	—	118,600	indefinite life
State licenses	62,165	—	62,165	indefinite life
Goodwill	70,764	—	70,764	indefinite life
Total	\$353,733	\$ 34,132	\$319,601	
NGHC	\$339,831	\$ 31,663	\$308,168	
Reciprocal Exchanges	13,902	2,469	11,433	
Total	\$353,733	\$ 34,132	\$319,601	

The increase of \$41,650 and \$100,061, in goodwill and intangibles, respectively, from December 31, 2014 to December 31, 2015 was primarily due to the LPI Business acquisition, the Assurant Transaction, and the Company's HST and ARS acquisitions.

Goodwill and intangible assets are subject to annual impairment testing or on an interim basis whenever events or changes in circumstances indicate that the carrying value of a reporting unit may not be recoverable. Finite-lived intangible assets are amortized under the straight-line method, except for loss reserve discounts, which the Company amortizes using an accelerated method, which approximates underlying claim payments. The Company also uses the accelerated method of amortization for affinity partners and agents' relationships based on the estimated attrition of those relationships. For the years ended December 31, 2015, 2014 and 2013, the Company amortized approximately \$20,389, \$13,791, and \$6,420, respectively, related to its intangible assets with a finite life, which includes amortization relating to intangibles owned by the Reciprocal Exchanges of \$4,380 and \$2,468 for the year ended December 31, 2015 and for the period ended December 31, 2014, respectively. Included in the Company's amortization expense for the years ended December 31, 2015 and 2014, is an impairment charge of \$574 and \$812, respectively, related to certain agent and customer relationship intangible assets.

The estimated aggregate amortization expense for each of the next five years and thereafter is:

	NGHC	Reciprocal Exchanges	Total
Year ending			
2016	\$20,634	\$ 230	\$20,864
2017	19,083	230	19,313
2018	14,586	230	14,816
2019	13,598	230	13,828
2020	11,839	230	12,069
Thereafter	83,668	575	84,243
	\$163,408	\$ 1,725	\$165,133

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NATIONAL GENERAL HOLDINGS CORP.

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(In Thousands, Except Shares and Per Share Data)

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2015, 2014 and 2013 are as follows:

	Property and Casualty	Accident and Health	Total
Balance as of January 1, 2013	\$28,074	\$12,125	\$40,199
Goodwill additions	6,169	25,428	31,597
Impairment	(1,445)	—	(1,445)
Balance as of January 1, 2014	\$32,798	\$37,553	\$70,351
Goodwill additions	6,703	12,819	19,522
Foreign currency adjustments	—	(3,317)	(3,317)
Impairment	(9,419)	(6,373)	(15,792)
Balance as of January 1, 2015	\$30,082	\$40,682	\$70,764
Goodwill additions	39,455	19,661	59,116
Impairment	(11,222)	(6,244)	(17,466)
Balance as of December 31, 2015	\$58,315	\$54,099	\$112,414

As of December 31, 2015 the Company's gross goodwill, accumulated impairment loss and goodwill were \$151,800, \$39,386 and \$112,414, respectively. As of December 31, 2014 the Company's gross goodwill, accumulated impairment loss and goodwill were \$92,684, \$21,920 and \$70,764, respectively.

The Company performs an impairment analysis at the reporting unit level using a two-step impairment test. In evaluating goodwill for potential impairment, management compares the fair value of the reporting unit to the carrying value. If the carrying value of the reporting unit exceeds the fair value, the goodwill is considered impaired, and a second test is performed to measure the amount of impairment loss. In the case of each Luxembourg reporting unit ("RU"), a step 1 analysis was performed to determine whether impairment existed using a December 31 measurement date. Since Luxembourg reinsurers are regularly bought and sold between third parties and the transaction data information is available, the Guideline Transactions Method of the Market Approach was utilized to determine the fair value of the RU. The Guideline Transactions Method is based on valuation multiples derived from actual transactions for comparable companies and were used to develop an estimate of value for the subject company. In applying this method, valuation multiples are derived from historical data of selected transactions, then evaluated and adjusted, if necessary, based on the strengths and weaknesses of the subject company relative to the derived market data. In the case of the RU, the most appropriate multiple to utilize was determined to be a Price to Invested Assets ("P/IA") multiple, since invested assets and the corresponding regulatory reserves are metrics utilized by market participants to negotiate the purchase price of the transaction. These P/IA multiples are then applied to the appropriate invested assets of the subject company to arrive at an indication of fair value. Step 1 of the impairment test indicated that RU's carrying value exceeded its fair value. Accordingly the Company performed a Step 2 impairment test and recorded in General and administrative expenses in our Consolidated Statements of Income, non-cash goodwill impairment charges of \$17,466, \$15,792 and \$1,445 as of December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015 and 2014, approximately \$8,434 and \$25,900, respectively, of the Company's goodwill balance was related to the Company's Luxembourg reinsurer subsidiaries.

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9. Premiums and Other Receivables, Net

Premiums and other receivables, net at December 31, 2015 and 2014 consisted of the following:

December 31,	2015	2014
Premiums receivable (Related parties - \$46,565 and \$153,654)	\$652,400	\$543,574
Reinsurance recoverable on paid losses and loss adjustment expenses (Related parties - \$15,715 and \$13,459)	64,056	59,318
Commission receivables	20,337	14,234
Investment receivables	—	19,072
Other receivables (Related parties - \$26 and \$1,021)	35,273	20,973
Allowance for uncollectible amounts	(13,433)	(9,728)
Total	\$758,633	\$647,443
NGHC	\$702,439	\$589,205
Reciprocal Exchanges	56,194	58,238
Total	\$758,633	\$647,443

10. Premises and Equipment, Net

The composition of premises and equipment as of December 31, 2015 and 2014 consisted of the following:

December 31, 2015	Cost	Accumulated Depreciation	Net Value
Land	\$2,935	\$ —	\$2,935
Buildings	11,390	313	11,077
Leasehold improvements	7,343	1,529	5,814
Furniture and equipment	3,656	1,303	2,353
Hardware and software	84,880	64,128	20,752
Total	\$110,204	\$ 67,273	\$42,931
NGHC	109,479	66,880	42,599
Reciprocal Exchanges	725	393	332
Total	\$110,204	\$ 67,273	\$42,931

December 31, 2014	Cost	Accumulated Depreciation	Net Value
Land	\$287	\$ —	\$287
Buildings	4,013	208	3,805
Leasehold improvements	4,505	228	4,277
Furniture and equipment	581	133	448
Hardware and software	70,104	50,429	19,675
Work-in-process systems and software	2,091	—	2,091
Total	\$81,581	\$ 50,998	\$30,583

Depreciation and amortization expense related to premises and equipment for the years ended December 31, 2015, 2014 and 2013 was \$12,065, \$14,457 and \$13,685, respectively.

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(In Thousands, Except Shares and Per Share Data)

11. Income Taxes

The Company files a consolidated Federal income tax return. The Reciprocal Exchanges are not included in the Company's consolidated tax return as the Company does not have an ownership interest in the Reciprocal Exchanges, and they are not a part of the consolidated tax sharing agreement.

Federal income tax expense attributable to income from continuing operations consisted of the following:

	Year Ended December 31, 2015			2014			2013
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total	Total
Current expense (benefit)							
Federal	\$55,018	\$ (1,059)	\$53,959	\$86,250	\$ 1,020	\$87,270	\$18,446
Foreign	—	—	—	—	—	—	—
Total current tax expense	\$55,018	\$ (1,059)	\$53,959	\$86,250	\$ 1,020	\$87,270	\$18,446
Deferred expense (benefit)							
Federal	\$(3,019)	\$(4,890)	\$(7,909)	\$(42,301)	\$ 144	\$(42,157)	\$(5,519)
Foreign	(27,094)	—	(27,094)	(21,237)	—	(21,237)	(1,787)
Total deferred tax expense (benefit)	(30,113)	(4,890)	(35,003)	(63,538)	144	(63,394)	(7,306)
Provision for income taxes	\$24,905	\$ (5,949)	\$18,956	\$22,712	\$ 1,164	\$23,876	\$11,140

The domestic and foreign components of income before taxes and equity in earnings of unconsolidated subsidiaries for the years ended December 31, 2015, 2014 and 2013 are as follows:

	Year Ended December 31, 2015			2014			2013
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total	Total
Domestic	\$225,708	\$ 7,944	\$233,652	\$195,148	\$ 3,670	\$198,818	\$33,873
Foreign	(69,062)	—	(69,062)	(71,375)	—	(71,375)	18,384
Total	\$156,646	\$ 7,944	\$164,590	\$123,773	\$ 3,670	\$127,443	\$52,257

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Deferred income taxes are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The tax effects of temporary differences that give rise to the net deferred tax liability are presented below:

	December 31, 2015			2014		
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total
Deferred tax assets:						
Accrued expenses	\$27,675	\$ 1,551	\$29,226	\$24,772	\$ 1,915	\$26,687
Unearned premiums	68,902	6,033	74,935	50,128	6,611	56,739
Bad debt	3,692	576	4,268	3,212	90	3,302
Investments	760	—	760	—	—	—
Depreciation	1,725	—	1,725	982	—	982
Contingent commissions	10,529	—	10,529	9,102	—	9,102
Loss reserve discounting	7,244	1,393	8,637	7,310	1,233	8,543
Suspended Subpart F losses	7,364	—	7,364	34,309	—	34,309
Net operating loss carryforwards	3,309	17,758	21,067	3,042	15,159	18,201
Capital loss carryforwards	1,241	—	1,241	1,247	62	1,309
Partnership activity	—	—	—	706	—	706
Impairments	6,122	15	6,137	786	—	786
Goodwill	968	—	968	539	—	539
Unearned revenue	6,540	—	6,540	2,662	—	2,662
Unrealized capital losses	8,418	1,767	10,185	—	—	—
Foreign translation	2,035	—	2,035	—	—	—
APIC stock compensation	1,808	—	1,808	2,204	—	2,204
Alternative minimum tax credits	—	611	611	1,112	611	1,723
Other	897	104	1,001	2,174	562	2,736
Gross deferred tax assets	159,229	29,808	189,037	144,287	26,243	170,530
Less: Valuation allowance	—	(17,295)	(17,295)	—	(21,518)	(21,518)
Total deferred tax assets	159,229	12,513	171,742	144,287	4,725	149,012
Deferred tax liabilities:						
Deferred acquisition costs	47,931	8,093	56,024	42,830	1,525	44,355
Investments items	—	255	255	1,366	364	1,730
Intangible assets	71,878	2,398	74,276	69,267	2,908	72,175
Premises and equipment	4,759	—	4,759	4,759	—	4,759
Statutory equalization reserves	13,778	—	13,778	40,872	—	40,872
Unrealized capital gains	—	—	—	13,848	2,256	16,104
Surplus note interest	—	34,491	34,491	—	36,074	36,074
Other	406	—	406	478	—	478
Gross deferred tax liabilities	138,752	45,237	183,989	173,420	43,127	216,547
Deferred tax (asset) liability, net	\$(20,477)	\$ 32,724	\$ 12,247	\$29,133	\$ 38,402	\$67,535

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Excluding the Reciprocal Exchanges, there were no deferred tax asset valuation allowances at December 31, 2015 and 2014. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

For the Reciprocal Exchanges, the Company has recorded a full valuation allowance against the net deferred tax assets as of December 31, 2015 and 2014 and no tax benefit from consolidated pre-tax losses generated for the years ended December 31, 2015 and 2014 was recognized. Negative evidence in the form of a multi-year history of net operating losses for tax purposes supported the determination that the realized net deferred tax asset should be fully reserved. At December 31, 2015 and 2014, in considering the need for the full valuation allowance, the Company concluded that retaining a deferred tax liability of \$32,724 and \$38,402, respectively, associated with the indefinite long-lived intangibles was appropriate considering this liability cannot be used to offset our net deferred tax asset when determining the amount of valuation allowance required. In light of the historic and current year losses for tax purposes, we will continue to recognize a full valuation allowance until substantial positive evidence supports its reversal in future periods.

The earnings of certain of the Company's foreign subsidiaries have been indefinitely reinvested in foreign operations. Therefore, no provision has been made for any U.S. taxes or foreign withholding taxes that may be applicable upon any repatriation or disposition. At December 31, 2015, 2014 and 2013, the undistributed earnings of the Company's foreign affiliates were approximately \$23,637, \$9,966 and \$8,417, respectively. It should be noted that the total cumulative earnings for the Company's foreign subsidiaries was negative for 2015, 2014 and 2013. The determination of any unrecognized deferred tax liability for temporary differences related to investments in certain of the Company's foreign subsidiaries is not practicable.

Excluding the Reciprocal Exchanges, the Company has net operating carryforwards of \$9,453, \$8,693 and \$9,517 available for tax purposes for the years December 31, 2015, 2014 and 2013, respectively. The net operating loss carryforwards expire between December 31, 2029 and December 31, 2034.

Total income tax expense is different from the amount determined by multiplying earnings before income taxes by the statutory Federal tax rate of 35.00%. The reasons for such differences are as follows:

Year Ended December 31, 2015

	NGHC	Reciprocal Exchanges	Total	Tax Rate
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	\$156,646	\$7,944	\$164,590	
Tax rate	35.00	% 35.00	% 35.00	%
Computed "expected" tax expense	\$54,826	\$2,780	\$57,606	35.00 %
Increase (decrease) in actual tax reported resulting from:				
Tax-exempt interest	(1,354)	(165)	(1,519)	(0.92)
Non-deductible meals and entertainment	336	—	336	0.20
Exempt foreign income	(11,393)	—	(11,393)	(6.92)
Equity method income	3,726	—	3,726	2.26
Goodwill impairment	6,113	—	6,113	3.71

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Statutory equalization reserves	(27,094)	—	(27,094)	(16.46)
State tax	1,754	—	1,754	1.07
Change in valuation allowance	—	(4,025)	(4,025)	(2.45)
Other permanent items	(2,009)	(4,539)	(6,548)	(3.97)
Total income tax reported	\$24,905	\$(5,949)	\$18,956	11.52 %

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Year Ended December 31, 2014

	NGHC	Reciprocal Exchanges	Total	Tax Rate
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	\$ 123,773	\$ 3,670	\$ 127,443	
Tax rate	35.00	% 35.00	% 35.00	%
Computed "expected" tax expense	\$43,321	\$ 1,285	\$44,606	35.00 %
Increase (decrease) in actual tax reported resulting from:				
Tax-exempt interest	(978	) (86	) (1,064	) (0.83)
Non-deductible meals and entertainment	273	—	273	0.21
Exempt foreign income	(4,304	) —	(4,304	) (3.38)
Goodwill impairment	5,527	—	5,527	4.34
Statutory equalization reserves	(21,237	) —	(21,237	) (16.66)
State tax	2,453	—	2,453	1.92
Other permanent items	(2,343	) (35	) (2,378	) (1.86)
Total income tax reported	\$22,712	\$ 1,164	\$23,876	18.74 %

Year Ended December 31, 2013

	Total	Tax Rate
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	\$52,257	
Tax rate	35.00	%
Computed "expected" tax expense	\$18,290	35.00 %
Increase (decrease) in actual tax reported resulting from:		
Tax-exempt interest	(903	) (1.73)
Non-deductible meals and entertainment	129	0.25
Exempt foreign income	(4,201	) (8.04)
Goodwill impairment	413	0.79
Statutory equalization reserves	(1,787	) (3.42)
State tax	3,309	6.33
Return to provision	(2,479	) (4.74)
Other permanent items	(1,631	) (3.12)
Total income tax reported	\$11,140	21.32 %

In 2013, the Company recorded a return to provision (RTP) adjustment of \$(2,479), of which \$(2,011) was related to a true up of estimated permanent items on the Company's separate company federal tax return for its subsidiary National Health Insurance Company. The Company acquired additional information with regard to these permanent items following the completion of its 2012 financial statements. These adjustments were not material to the 2013 or 2012 financial statements.

The Company owns a number of Luxembourg licensed reinsurers. Luxembourg reinsurers record a statutory equalization reserve which is a compulsory volatility or catastrophe reserve in excess of ordinary reserves determined by a formula based on the volatility of the business ceded to the reinsurance company. Equalization reserves are required to be established for Luxembourg statutory and tax purposes, but are not recognized under U.S. GAAP. Each year, the Luxembourg reinsurer is required to adjust its equalization reserves by an amount equal to statutory net income or loss, determined based on premiums and investment income less incurred losses and operating expenses. The yearly adjustment of the equalization reserve generally results in zero pretax income on a Luxembourg statutory

and tax basis. Luxembourg does not, under laws currently in effect, impose any income, corporation or profits tax on the reinsurance company. However, if the reinsurance company were to cease reinsuring business

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without exhausting the equalization reserves, it would recognize income in the amount of the unutilized equalization reserves that would be taxed by Luxembourg at a rate of approximately 30%.

The Company establishes deferred tax liabilities equal to approximately 30% of the unutilized statutory equalization reserves carried at its Luxembourg reinsurance companies. The deferred tax liability is adjusted each reporting period based primarily on amounts ceded to the Luxembourg reinsurer under the intercompany reinsurance agreements. As the income or loss of the Luxembourg entity is primarily from intercompany activity, the impact on the consolidated pre-tax income for the consolidated group is generally zero. Accordingly, the reduction of the deferred tax liability for the utilization of equalization reserves creates a deferred tax benefit reflected in the income tax provision in the accompanying consolidated statements of income. As there is no net effect on the consolidated pre-tax income from the intercompany reinsurance activity, the impact of these transactions reduces the worldwide effective tax rate of the Company. As of December 31, 2015 and 2014, the Company had approximately \$45,927 and \$134,975 of unutilized equalization reserves and an associated deferred tax liability of approximately \$13,778 and \$40,493, respectively. For the years ended December 31, 2015, 2014 and 2013, income tax expense included a tax benefit of \$27,094, \$21,237, and \$1,787, respectively, attributable to the reduction of the deferred tax liability associated with the utilization of equalization reserves of our Luxembourg reinsurers. The effect of this tax benefit reduced the effective tax rate by 16.46%, 16.66% and 3.42% for the years ended December 31, 2015, 2014 and 2013, respectively.

As permitted by ASC 740, "Income Taxes", the Company recognizes interest and penalties, if any, related to unrecognized tax benefits in its income tax provision. The Company does not have any unrecognized tax benefits and, therefore, has not recorded any unrecognized tax benefits, or any related interest and penalties, as of December 31, 2015 and 2014. No interest or penalties have been recorded by the Company for the years ended December 31, 2015, 2014 and 2013. The Company does not anticipate any significant changes to its total unrecognized tax benefits in the next 12 months.

All tax liabilities are payable to the Internal Revenue Service ("IRS") and various state and local taxing agencies. Excluding the Reciprocal Exchanges, the Company's subsidiaries are currently open to audit by the IRS for the years ended December 31, 2012 and thereafter for Federal tax purposes. Excluding the Reciprocal Exchanges, for state and local tax purposes, the Company is open to audit for tax years ended December 31, 2010 forward, depending on jurisdiction.

12. Reinsurance

The Company's insurance subsidiaries utilize reinsurance agreements to transfer portions of the underlying risk of the business the Company writes to various affiliated and third-party reinsurance companies. Reinsurance does not discharge or diminish the Company's obligation to pay claims covered by the insurance policies it issues; however, it does permit the Company to recover certain incurred losses from its reinsurers and the Company's reinsurance recoveries reduce the maximum loss that it may incur as a result of a covered loss event. The Company believes it is important to ensure that its reinsurance partners are financially strong and they generally carry at least an A.M. Best rating of "A-" (Excellent) at the time it enters into the Company's reinsurance agreements. The Company also enters reinsurance relationships with third-party captives formed by agents as a mechanism for sharing risk and profit. The total amount, cost and limits relating to the reinsurance coverage the Company purchases 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 the Company chooses to retain for its own account.

The Company assumes and cedes insurance risks under various reinsurance agreements, on both a pro rata basis and excess of loss basis. The Company purchases reinsurance to mitigate the volatility of direct and assumed business, which may be caused by the aggregate value or the concentration of written exposures in a particular geographic area or business segment and may arise from catastrophes or other events. The Company pays a premium as consideration for ceding the risk. The following is a summary of effects of reinsurance on premiums and losses for the years ended December 31, 2015, 2014 and 2013:

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	Year Ended December 31, 2015		2014		2013	
	Written	Earned	Written	Earned	Written	Earned
Premium:						
Direct	\$2,234,976	\$2,052,880	\$1,558,612	\$1,496,709	\$1,315,162	\$1,325,251
Assumed	354,772	454,851	576,495	414,410	23,593	25,870
Total Gross Premium	2,589,748	2,507,731	2,135,107	1,911,119	1,338,755	1,351,121
Ceded	(403,502)	(377,921)	(265,083)	(277,899)	(659,439)	(663,055)
Net Premium	\$2,186,246	\$2,129,810	\$1,870,024	\$1,633,220	\$679,316	\$688,066

	Year Ended December 31, 2015		2014		2013	
	Assumed	Ceded	Assumed	Ceded	Assumed	Ceded
Loss and LAE	\$283,568	\$254,924	\$229,013	\$211,433	\$14,154	\$442,251

	As of December 31, 2015		2014	
	Assumed	Ceded	Assumed	Ceded
Unpaid Loss and LAE reserves	\$252,661	\$833,176	\$106,568	\$911,798
Unearned premiums	309,202	128,343	160,984	102,761

The Company's reinsurance transactions include premiums written under state-mandated involuntary plans for commercial vehicles and premiums ceded to state-provided reinsurance facilities such as Michigan Catastrophic Claims Association ("MCCA") and North Carolina Reinsurance Facility ("NCRF" or "the Facility") (collectively, "State Plans"), for which it retains no loss indemnity risk. Prepaid reinsurance premiums are earned on a pro rata basis over the period of risk, based on a daily earnings convention, which is consistent with premiums written.

MCCA is a reinsurance mechanism that covers no-fault first party medical losses of retentions in excess of \$545 in 2015. The Company currently has claims with retentions from \$250 to \$545. All automobile insurers doing business in Michigan are required to participate in MCCA. Insurers are reimbursed for their covered losses in excess of this threshold, which increased from \$460 to \$480 on July 1, 2010, and increased to \$500 in 2011 and remained at this amount until June 30, 2013. Policies effective after July 1, 2013 have a threshold of \$530. For policies effective after July 1, 2015 through June 30, 2017, the retention will be \$545. Funding for MCCA comes from assessments against automobile insurers based upon their share of insured automobiles in the state. Insurers are allowed to pass along this cost to Michigan automobile policyholders.

The following is a summary of premiums and losses ceded to MCCA for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,		
	2015	2014	2013
Ceded earned premiums	\$12,146	\$12,968	\$12,882
Ceded Loss and LAE	15,482	12,529	9,037

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Reinsurance recoverables from MCCA as of December 31, 2015, and 2014 are as follows:

	As of December 31,	
	2015	2014
Reinsurance recoverable on paid losses	\$6,986	\$8,482
Reinsurance recoverable on unpaid losses	656,904	689,202

NCRF is a mechanism for pooling of insurance risks for insureds who cannot obtain coverage by ordinary methods. Under the Facility law, licensed and writing carriers and agents must accept and insure any eligible applicant for coverages and limits which may be ceded to the Facility. The Facility accepts cession of bodily injury and property damage liability, medical payments, and uninsured and combined uninsured/underinsured motorist's coverages. Funding for the NCRF comes from collected premiums from automobile insurers based upon the provided coverage of the insured automobiles in the state. The following is a summary of premiums and losses ceded to NCRF for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,		
	2015	2014	2013
Ceded earned premiums	\$158,613	\$151,744	\$138,473
Ceded Loss and LAE	144,350	130,265	111,185

Reinsurance recoverables from NCRF as of December 31, 2015 and 2014 are as follows:

	As of December 31,	
	2015	2014
Reinsurance recoverable on paid losses	\$26,228	\$22,050
Reinsurance recoverable on unpaid losses	86,941	84,152

The Company believes that it is unlikely to incur any material loss as a result of non-payment of amounts owed to the Company by MCCA and NCRF because (i) the payment obligations are extended over many years, resulting in relatively small current payment obligations, (ii) both MCCA and NCRF are supported by assessments permitted by statute, and (iii) the Company has not historically incurred losses as a result of non-payment. Because MCCA and NCRF are supported by assessments permitted by statute, and there have been no significant and uncollectible balances from NCRF and MCCA, the Company believes that it has no significant exposure to uncollectible reinsurance balances from these entities.

In addition to the reinsurance programs described above, until July 31, 2013, the Company used the Personal Lines Quota Share reinsurance arrangement to limit maximum loss, provide greater diversification of risk and minimize exposure on larger risks. For further discussion on the Personal Lines Quota Share arrangement (see Note 16, "Related Party Transactions").

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The Company has a concentration of credit risk associated with MCCA and NCRF, related to risks ceded in accordance with Michigan insurance law and the Company's market share in North Carolina, respectively, and the reinsurance under the Personal Lines Quota Share arrangement. Reinsurance recoverables on unpaid losses at December 31, 2015 and 2014 are as follows:

	As of December 31,	
	2015	2014
MCCA	\$656,904	\$689,202
NCRF	86,941	84,152
Maiden Insurance Company	21,075	44,205
ACP Re	12,645	26,523
Technology Insurance Company, Inc.	8,430	17,682
Other reinsurers' balances - each less than 5% of total	8,096	26,451
Subtotal	\$794,091	\$888,215
Reciprocal Exchanges	39,085	23,583
Total	\$833,176	\$911,798

The Company also has unauthorized reinsurance with ACP Re and Maiden Insurance Company Ltd. ("Maiden Insurance Company") that requires the reinsurers to provide collateral to mitigate any risk of default.

As of July 1, 2015, the Company's new reinsurance program went into effect with respect to excess of loss catastrophic and casualty reinsurance for protection against catastrophic and other large losses. The property catastrophe program provides a total of \$450,000 in coverage in excess of a \$50,000 retention, with one reinstatement. The Company also purchased drop-down coverage to reduce the retention to \$35,000 for Texas and Louisiana. The casualty program provides \$45,000 in coverage in excess of a \$5,000 retention.

As of July 1, 2015, a reinsurance property catastrophe excess of loss program went into effect protecting the Reciprocal Exchanges against accumulations of losses resulting from a catastrophic event. The program provides a total of \$355,000 in coverage in excess of a \$20,000 retention, with one reinstatement.

13. Other Liabilities

Other liabilities at December 31, 2015 and 2014 consisted of the following:

December 31,	2015	2014
Bank overdrafts	\$57,971	\$29,265
Advance premiums	9,242	8,046
Deferred revenue	65,186	11,354
Premium and other taxes and assessments	17,791	3,159
Total	\$150,190	\$51,824
NGHC	\$112,085	\$46,114
Reciprocal Exchanges	38,105	5,710
Total	\$150,190	\$51,824

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14. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2015 and 2014 consisted of the following:

December 31,	2015	2014
Escheats payable	\$10,982	\$8,720
Accrued expenses related to employees	30,224	16,029
Accounts payable related to commissions	36,160	6,824
Premiums payable	—	3,324
Information technology payable	16,570	1,190
Payable to carrier	34,460	—
Deferred purchase price	8,581	15,325
Dividends payable	7,292	2,901
Marketing accruals	4,918	1,153
Refundable tax credits	—	3,360
Loss reserve fair value	1,785	4,013
Investments payable	16,670	33,517
Interest payable	10,907	3,834
Other	54,598	38,835
Subtotal	233,147	139,025
Related Parties:		
Accounts payable related to commissions	—	30,229
License fee payable	12,905	9,148
Information technology payable	16,622	1,312
Printing fee payable	3,892	3,100
Renewal rights	16,071	23,499
Other	2,265	808
Subtotal	51,755	68,096
Total	\$284,902	\$207,121
NGHC	\$265,057	\$189,430
Reciprocal Exchanges	19,845	17,691
Total	\$284,902	\$207,121

15. Debt

7.625% Subordinated Notes due 2055

On August 18, 2015, the Company sold \$100,000 aggregate principal amount of the Company's 7.625% subordinated notes due 2055 (the "7.625% Notes") in a public offering. The net proceeds the Company received from the issuance was approximately \$96,550, after deducting the underwriting discount, commissions and expenses.

The 7.625% Notes bear interest at a rate equal to 7.625% per year, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, beginning on December 15, 2015. The 7.625% Notes are the Company's subordinated unsecured obligations and rank (i) senior in right of payment to any future junior subordinated debt, (ii) equal in right of payment with any unsecured, subordinated debt that the Company incurs in the future that ranks

equally with the 7.625% Notes, and (iii) subordinate in right of payment to any of the Company's existing and future senior debt, including amounts outstanding under the Company's revolving credit facility, the Company's 6.75% Notes and certain of the Company's other obligations. In addition,

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the 7.625% Notes are structurally subordinated to all existing and future indebtedness, liabilities and other obligations of the Company's subsidiaries. The 7.625% Notes mature on September 15, 2055, unless earlier redeemed or purchased by the Company. Interest expense on the 7.625% Notes for the year ended December 31, 2015 was \$2,967.

The indenture contains customary covenants, such as reporting of annual and quarterly financial results, and restrictions on certain mergers and consolidations. The indenture also includes covenants relating to the incurrence of debt if the Company's consolidated leverage ratio would exceed 0.35 to 1.00, a limitation on liens, a limitation on the disposition of stock of certain of the Company's subsidiaries and a limitation on transactions with certain of the Company's affiliates. The Company was in compliance with all of the covenants contained in the indenture as of December 31, 2015.

6.75% Notes due 2024

On May 23, 2014, the Company sold \$250,000 aggregate principal amount of the Company's 6.75% notes due 2024 (the "6.75% Notes") to certain purchasers in a private placement. The net proceeds the Company received from the issuance was approximately \$245,000, after deducting the issuance expenses.

The 6.75% Notes bear interest at a rate equal to 6.75% per year, payable semiannually in arrears on May 15 and November 15 of each year, beginning on November 15, 2014. The 6.75% Notes are the Company's general unsecured obligations and rank equally in right of payment with its other existing and future senior unsecured indebtedness and senior in right of payment to any of its indebtedness that is contractually subordinated to the 6.75% Notes. The 6.75% Notes are also effectively subordinated to any of the Company's existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness and are structurally subordinated to the existing and future indebtedness of the Company's subsidiaries (including trade payables). The 6.75% Notes mature on May 15, 2024, unless earlier redeemed or purchased by the Company.

On October 8, 2015, the Company sold an additional \$100,000 aggregate principal amount of the Company's 6.75% Notes to certain purchasers in a private placement. The additional 6.75% Notes bear interest at a rate equal to 6.75% per year, payable semiannually in arrears on May 15 and November 15 of each year, beginning on November 15, 2015. The additional 6.75% Notes mature on May 15, 2024, unless earlier redeemed or purchased by the Company. The net proceeds the Company received from the issuance was approximately \$98,850, after deducting the estimated issuance expenses payable by the Company. The Company intends to use the net proceeds from the issuance for general corporate purposes, including strategic acquisitions and to support its current and future policy writings. The additional 6.75% Notes were issued under the same indenture as the original 6.75% Notes. Interest expense on the 6.75% Notes, including the additional issuance, for the years ended December 31, 2015 and 2014 was \$18,428 and \$10,218, respectively.

The indenture contains customary covenants, such as reporting of annual and quarterly financial results, and restrictions on certain mergers and consolidations. The indenture also includes covenants relating to the incurrence of debt if the Company's consolidated leverage ratio would exceed 0.35 to 1.00, a limitation on liens, a limitation on the disposition of stock of certain of the Company's subsidiaries and a limitation on transactions with certain of the Company's affiliates. The Company was in compliance with all of the covenants contained in the indenture as of December 31, 2015.

Revolving Credit Agreement

On May 30, 2014, the Company entered into a \$135,000 credit agreement (the “Credit Agreement”), among JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association as Syndication Agent, and Associated Bank, National Association and First Niagara Bank, N.A., as Co-Documentation Agents. The credit facility is a revolving credit facility with a letter of credit sublimit of \$10,000 and an expansion feature not to exceed \$50,000.

The Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. There are also financial covenants that require the Company to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. The Credit Agreement also provides for customary events of default, with grace periods where customary, including failure to pay principal when due, failure to pay interest or fees within three business days after becoming due, failure to comply with covenants, breaches of representations and warranties, default under certain other indebtedness, certain insolvency or receivership events affecting the Company and its subsidiaries, the occurrence of certain material judgments, or a change in control of the Company. Upon the occurrence and during the continuation of an event of default, the administrative agent, upon

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the request of the requisite percentage of the lenders, may terminate the obligations of the lenders to make loans and to issue letters of credit under the Credit Agreement, declare the Company's obligations under the Credit Agreement to become immediately due and payable and/or exercise any and all remedies and other rights under the Credit Agreement. The Credit Agreement had a maturity date of May 30, 2018.

Borrowings under the Credit Agreement bear interest at either the Alternate Base Rate ("ABR") or LIBOR. ABR borrowings (which are borrowings bearing interest at a rate determined by reference to the ABR) under the Credit Agreement will bear interest at (x) the greatest of (a) the prime rate in effect on such day, (b) the federal funds effective rate on such day plus 0.5 percent or (c) the adjusted LIBOR for a one-month interest period on such day plus 1 percent, plus (y) a margin that is adjusted on the basis of the Company's consolidated leverage ratio. Eurodollar borrowings under the Credit Agreement will bear interest at the adjusted LIBOR for the interest period in effect plus a margin that is adjusted on the basis of the Company's consolidated leverage ratio. Fees payable by the Company under the Credit Agreement include a letter of credit participation fee (the margin applicable to Eurodollar borrowings), a letter of credit fronting fee with respect to each letter of credit (0.125%) and a commitment fee on the available commitments of the lenders (a range of 0.20% to 0.30% based on the Company's consolidated leverage ratio, and which rate was 0.25% as of December 31, 2015).

As of December 31, 2015 and 2014, there was no outstanding balance on the line of credit. Interest expense for the Company's existing and repaid lines of credit for the years ended December 31, 2015, 2014 and 2013 was \$0, \$1,162 and \$1,254, respectively.

The Company was in compliance with all of the covenants under the Credit Agreement as of December 31, 2015.

See also Note 28, "Subsequent Events" for information on the New Credit Agreement.

Imperial-related Debt

The Company's subsidiary, Imperial Fire and Casualty Insurance Company is the issuer of \$5,000 principal amount of Surplus Notes due 2034 ("Imperial Surplus Notes"). The notes bear interest at an annual rate equal to LIBOR plus 4.05%, payable quarterly. The notes are redeemable by the Company at a redemption price equal to 100% of their principal amount. Interest expense on the Imperial Surplus Notes for the years ended December 31, 2015 and 2014, was \$220 and \$110, respectively. (See Note 7, "Acquisitions").

Reciprocal Exchanges' Surplus Notes

ACP Re (or subsidiaries thereof), a related party, holds the surplus notes issued by the Reciprocal Exchanges ("Reciprocal Exchanges' Surplus Notes") when they were originally capitalized. The obligation to repay principal and interest on these surplus notes is subordinated to the Reciprocal Exchanges' other liabilities, including obligations to policyholders and claimants for benefits under insurance policies. Principal and interest on these surplus notes are payable only with regulatory approval. Interest expense on the Reciprocal Exchanges' Surplus Notes for the year ended December 31, 2015 and for the period ended December 31, 2014, was \$4,656 and \$5,724, respectively, which includes amortization of \$(2,023) and \$3,774, respectively. (See Note 16, "Related Party Transactions").

Maturities of the Company's debt for the five years subsequent to December 31, 2015 are as follows:

December 31,	2016	2017	2018	2019	2020	Thereafter	Total
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7.625% Notes	\$	—	\$	—	\$	—	\$	—	\$	—	\$ 100,000	\$ 100,000
6.75% Notes	—	—	—	—	—	—	—	—	—	—	350,000	350,000
Imperial Surplus Notes	—	—	—	—	—	—	—	—	—	—	5,000	5,000
Reciprocal Exchanges' Surplus Notes	—	—	—	—	—	—	—	—	—	—	45,476	45,476
Total principal amount of debt	\$	—	\$	—	\$	—	\$	—	\$	—	\$ 500,476	\$ 500,476
Less: Unamortized debt issuance costs and unamortized discount												(8,939)
Carrying amount of debt												\$ 491,537

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As of December 31, 2015 and 2014, the Company had outstanding letters of credit of approximately \$0 and \$12,142, respectively.

16. Related Party Transactions

The founding and significant shareholder of the Company has an ownership interest in AmTrust, Maiden Holdings Ltd. ("Maiden") and ACP Re. The Company provides and receives services from these related entities as follows:

Agreements with AmTrust and Affiliated Entities

Asset Management Agreement

Pursuant to an Asset Management Agreement among NGHC and AII Insurance Management Limited ("AIIM"), a subsidiary of AmTrust, the Company pays AIIM a fee for managing the Company's investment portfolio. Pursuant to the asset management agreement, AIIM provides investment management services for a quarterly fee of 0.05% of the average value of assets under management if the average value of the account for the previous calendar quarter is less than or equal to \$1 billion, and 0.0375% of the average value of assets under management if the average value of the account for the previous calendar quarter is greater than \$1 billion. Following the initial one-year term, the agreement may be terminated upon 30 days written notice by either party. The amounts charged for such expenses were \$2,384, \$1,916 and \$1,612 for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015 and 2014, there was a payable to AIIM related to these services in the amount of \$1,909 and \$564, respectively.

Master Services Agreement

AmTrust provides postage and billing services to the Company for premiums written on the Company's new policy system pursuant to a Master Services Agreement with National General Management Corp., a wholly owned subsidiary of the Company. The agreement is effective for ten years from the acceptance of all phases of the initial work statement and can be automatically renewed thereafter for subsequent five-year terms. The agreement is cancellable for material breach of contract that is not cured within thirty days, if either party fails to perform obligations under contract, if either party is declared bankrupt or insolvent, and in the event of a proposed change of control by either party to a competitor. The services are charged on a work-per-piece basis and are billed to the Company at cost. The Company has the right to audit the books and records as appropriate. AmTrust also provides the Company information technology development services in connection with the development of a policy management system at cost pursuant to a Master Services Agreement with National General Management Corp. In addition, as consideration for a license for the Company to use that system, AmTrust receives a license fee in the amount of 1.25% of gross premium of NGHC and its affiliates written on the system plus the costs for support services. In 2014, AmTrust also began providing the Company services in managing the premium receipts from its lockbox facilities at a fixed cost per item processed.

The Company recorded expenses and capitalized costs related to the Master Services Agreement of \$36,742, \$27,072 and \$22,598 for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015 and 2014, there was a payable related to the services received under this agreement in the amount of \$30,122 and \$13,621, respectively.

Reinsurance Agreements

On July 1, 2012, a wholly-owned subsidiary of the Company, Integon National, entered into an agreement with an AmTrust subsidiary, Risk Services, LLC (“RSL”). RSL provides certain consulting and marketing services to promote the Company’s captive insurance program to potential agents. RSL receives 1.5% of all net premiums written generated to the program. The amounts charged for such fees for the years ended December 31, 2015, 2014 and 2013 were \$145, \$99 and \$134, respectively. As of December 31, 2015 and 2014, there was a payable for these services in the amount of \$34 and \$31, respectively.

On March 22, 2012, Integon National entered into a reinsurance agreement with an AmTrust subsidiary, Agent Alliance Reinsurance Company (“AARC”), whereby the Company cedes 25% of the business written by certain agents who are members of the Company’s captive agent program along with 25% of any related losses. The Company receives a ceding commission of 25% of the associated ceded premiums. Each party may terminate the agreement by providing 90 days written notice.

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On January 1, 2013, the Company entered into a quota share agreement with Wesco Insurance Company (“Wesco”), a subsidiary of AmTrust, to assume 100% of the accident and health business written before January 1, 2013. The Company reinsures 100% of the existing obligations with respect to the accident and health program, including a loss portfolio transfer of 100% of loss and LAE reserves and unearned premium as of the effective date in exchange for an amount equal to 100% of the loss and LAE reserves and unearned premium reserves related to the existing contracts and 100% of the business fronted by Wesco on behalf of the Company after the effective date less the fronted ceded commission of 5% of premiums written, plus the related fronting acquisition costs and fronting inuring reinsurance costs, both meaning the actual costs paid by Wesco to the third parties with respect to those transactions.

On November 9, 2012, Integon National entered into a reinsurance agreement with an affiliated company, AAIC, whereby AAIC cedes 100% of the total written premiums, acquisition costs and incurred losses and LAE on business with effective dates before and after November 9, 2012. The agreement had an indefinite term. In July 2014, the Company reacquired AAIC from ACP Re.

The amounts related to these reinsurance treaties are as follows:

	Recoverable (Payable)	Commission Receivable	Premium Receivable (Payable)
December 31, 2015	on Paid and Unpaid Losses and LAE		
Wesco	\$ (45)	\$ —	\$ —
AARC	829	107	(395)
December 31, 2014	Recoverable (Payable)	Commission Receivable	Premium Receivable (Payable)
	on Paid and Unpaid Losses and LAE		
Wesco	\$ (3,987)	\$ —	\$ (638)
AARC	706	94	(350)
Year Ended December 31, 2015	Assumed (Ceded) Earned Premiums	Commission Income (Expense)	Assumed (Ceded) Losses and LAE
Wesco	\$ 69	\$ 212	\$ (414)
AARC	(1,504)	470	(814)
Year Ended December 31, 2014	Assumed (Ceded) Earned Premiums	Commission Income (Expense)	Assumed (Ceded) Losses and LAE
Wesco	\$ 17,843	\$ (4,134)	\$ 14,852
AARC	(1,317)	369	(811)
Year Ended December 31, 2013			

	Assumed (Ceded) Earned Premiums	Commission Income (Expense)	Assumed (Ceded) Losses and LAE
AAIC	\$ 4,103	\$ (631)	\$ 2,445
Wesco	14,681	(4,175)	8,556
AARC	(1,197)	390	(750)

NGHC Quota Share Agreement

The Company participated in a quota share reinsurance treaty with the related entities listed below whereby it ceded 50% of the total net earned premiums and net incurred losses and LAE on business with effective dates after March 1, 2010 ("NGHC Quota Share").

On August 1, 2013, the Company provided notice to parties of the NGHC Quota Share agreement that it was terminating the agreement. The Company no longer cedes any net earned premiums and net incurred losses and LAE on business with effective dates after July 31, 2013. The termination was on a run-off basis, meaning the Company continued to cede 50% of the net premiums

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and the related net losses with respect to policies in force as of July 31, 2013 through the expiration of such policies, the last of which expired on July 31, 2014.

The NGHC Quota Share provided that the reinsurers pay a provisional ceding commission equal to 32.5% of ceded earned premium, net of premiums ceded by the Company for inuring reinsurance, subject to adjustment. The ceding commission is subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.0% or less and a minimum of 30.5% if the loss ratio is 64.5% or greater. Effective October 1, 2012, the parties amended the NGHC Quota Share to decrease the provisional ceding commission from 32.5% to 32.0% of ceded earned premium, net of premiums ceded by the Company for inuring reinsurance, subject to adjustment. The ceding commission is subject to adjustment to a minimum of 30.0% (changed from 30.5%), if the loss ratio is 64.5% or greater. The Company believes that the terms, conditions and pricing of the NGHC Quota Share were determined by arm's length negotiations and reflect market terms and conditions.

The percentage breakdown by reinsurer of such 50% is as follows:

Name of Insurer	Quota Share Percentage
ACP Re	15%
Maiden Insurance Company, a subsidiary of Maiden	25%
Technology Insurance Company, Inc., a subsidiary of AmTrust	10%

The amounts related to this reinsurance treaty are as follows:

Year Ended December 31, 2015	Ceded Earned Premiums	Ceding Commission Income (Expense)	Ceded Losses and LAE
ACP Re	\$	—\$ (1,226)	\$3,657
Maiden Insurance Company	—	(2,057)	6,109
Technology Insurance Company, Inc.	—	(804)	2,425
Total	\$	—\$ (4,087)	\$12,191
Year Ended December 31, 2014	Ceded Earned Premiums	Ceding Commission Income	Ceded Losses and LAE
ACP Re	\$ 12,850	\$ 3,703	\$11,486
Maiden Insurance Company	21,416	6,115	19,130
Technology Insurance Company, Inc.	8,567	2,455	7,671
Total	\$ 42,833	\$ 12,273	\$38,287
Year Ended December 31, 2013	Ceded Earned Premiums	Ceding Commission Income	Ceded Losses and LAE
ACP Re	\$ 149,954	\$ 46,943	\$94,802
Maiden Insurance Company	249,924	78,224	158,004
Technology Insurance Company, Inc.	99,970	31,181	63,201
Total	\$ 499,848	\$ 156,348	\$316,007

Included in ceding commission income was \$0, \$5,076 and \$86,514 for the years ended December 31, 2015, 2014 and 2013, respectively, which represented recovery of successful acquisition cost of the reinsured contracts. These amounts have been netted against acquisition costs and other underwriting expenses in the accompanying consolidated statements of income.

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	Reinsurance Recoverable on Paid and Unpaid Losses and LAE	Ceded Commission Payable	Ceded Premium Payable
December 31, 2015			
ACP Re	\$ 17,298	\$	—\$ 9,025
Maiden Insurance Company	28,830	—	15,041
Technology Insurance Company, Inc.	11,532	—	6,016
Total	\$ 57,660	\$	—\$ 30,082
December 31, 2014			
ACP Re	\$ 30,517	\$ 3	\$ 7,792
Maiden Insurance Company	50,861	5	12,987
Technology Insurance Company, Inc.	20,345	2	5,195
Total	\$ 101,723	\$ 10	\$ 25,974

The Company nets the ceded commission receivable against ceded premium payable in the consolidated balance sheets as the NGHC Quota Share Agreement allows for net settlement. The agreement also stipulates that if the Company would be denied full statutory credit for reinsurance ceded pursuant to the credit for reinsurance laws or regulations in any applicable jurisdiction, the reinsurers will secure an amount equal to that obligation through a letter of credit; assets held in trust for the benefit of the Company or cash. ACP Re and Maiden Insurance Company held assets in trust in the amount of \$18,677 and \$30,797, respectively, as of December 31, 2015 and \$31,044 and \$58,513, respectively, as of December 31, 2014.

The Company and AmTrust have formed the LSC Entities for the purposes of acquiring certain life settlement contracts. For further discussion on the LSC Entities' arrangements (see Note 6, "Equity Investments in Unconsolidated Subsidiaries").

800 Superior, LLC

As described in Note 6, "Equity Investments in Unconsolidated Subsidiaries", the Company formed 800 Superior, LLC along with AmTrust, whereby each entity owns a 50% interest. In 2012, the Company also entered into a lease agreement with 800 Superior, LLC for a period of 15 years whereby the Company leased approximately 134,000 square feet. The Company paid 800 Superior, LLC \$2,655, \$2,243 and \$2,143 for the years ended December 31, 2015, 2014 and 2013, respectively.

The Company's equity interest in 800 Superior, LLC as of December 31, 2015 and 2014 was \$1,720 and \$2,140, respectively. For the years ended December 31, 2015, 2014 and 2013, the Company recorded equity in earnings (losses) from 800 Superior, LLC of \$(420), \$(737), and \$(558), respectively.

In September 2012, 800 Superior, LLC received \$19,400 in net proceeds from a financing transaction the Company and AmTrust entered into with Key Community Development Corporation (“KCDC”) related to a capital improvement project for the office building in Cleveland, Ohio owned by 800 Superior, LLC. The Company, AmTrust and KCDC collectively made capital contributions (net of allocation fees) and loans to 800 Superior NMTC Investment Fund II and 800 Superior NMTC Investment Fund I LLC (collectively, the “Investment Funds”) under a qualified New Markets Tax Credit (“NMTC”) program. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (the “Act”) and is intended to induce capital investment in qualified lower income communities. The Act permits taxpayers to claim credits against their Federal income taxes for up to 39% of qualified investments in the equity of community development entities (“CDEs”). CDEs are privately managed investment institutions that are certified to make qualified low-income community investments (“QLICs”).

In addition to the capital contributions and loans from the Company, AmTrust and KCDC, as part of the transaction, the Investment Funds received, directly and indirectly, proceeds of approximately \$8,000 through two loans originating from state and local governments of Ohio. These loans are each for a period of 15 years and have an average interest rate of 1.7% per annum.

The Investment Funds then contributed the loan proceeds and capital contributions of \$19,400 to two CDEs, which, in turn, loaned the funds on similar terms to 800 Superior, LLC. The proceeds of the loans from the CDEs (including loans representing

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the capital contribution made by KCDC, net of allocation fees) will be used to fund the capital improvement project. As collateral for these loans, the Company has granted a security interest in the assets acquired with the loan proceeds.

The Company and AmTrust are each entitled to receive an equal portion of 49% of the benefits derived from the NMTCs generated by 800 Superior Investment Fund II LLC, while KCDC is entitled to the remaining 51%. The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. During this seven years compliance period, the entities involved are required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in the projected tax benefits not being realized and, therefore, could require the Company to indemnify KCDC for any loss or recapture of NMTCs related to the financing until such time as the obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement. In addition, this transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase KCDC's interest in the Investment Funds in September 2019 at the end of the recapture period. Management believes that KCDC will exercise its put option and, therefore, attributed an insignificant value to the put/call.

East Ninth & Superior, LLC

In September 2012, the Company formed East Ninth & Superior. The Company and AmTrust each have a 50% ownership interest in East Ninth and Superior, LLC and a 24.5% ownership interest in 800 Superior NMTC Investment Fund II, LLC for which the Company is not a primary beneficiary.

The Company's equity interest in East Ninth & Superior as of December 31, 2015 and 2014 was \$4,139 and \$4,079, respectively. For the years ended December 31, 2015, 2014 and 2013, the Company recorded equity in earnings (losses) from East Ninth & Superior of \$60, \$70, and \$(57), respectively.

North Dearborn Building Company, L.P.

In February 2015, the Company invested \$9,714 in North Dearborn, a limited partnership that owns an office building in Chicago, Illinois. AmTrust is also a limited partner in North Dearborn, and the general partner is NA Advisors, an entity controlled by Michael Karfunkel and managed by an unrelated third party. The Company and AmTrust each received a 45% limited partnership interest in North Dearborn for their respective \$9,714 investments, while NA Advisors invested approximately \$2,200 and holds a 10% general partnership interest and a 10% profit interest, which NA Advisors pays to the unrelated third party manager. North Dearborn appointed NA Advisors as the general manager to oversee the day-to-day operations of the office building. North Dearborn is considered to be a VIE, for which the Company is not a primary beneficiary. The Company accounts for North Dearborn using the equity method of accounting. The Company's total exposure to loss is limited to its equity investment.

The Company's equity interest in North Dearborn as of December 31, 2015 was \$9,862. For the year ended December 31, 2015, the Company recorded equity in earnings (losses) from North Dearborn of \$756. The Company received distributions of \$607 for the year ended December 31, 2015.

4455 LBJ Freeway, LLC

In August 2015, the Company formed 4455 LBJ Freeway, LLC with AmTrust, for the purposes of acquiring an office building in Dallas, Texas. The cost of the building was approximately \$21,000. AmTrust has been appointed

managing member of 4455 LBJ Freeway, LLC. The Company and AmTrust each have a 50% ownership interest in 4455 LBJ Freeway, LLC. The Company accounts for 4455 LBJ Freeway, LLC using the equity method of accounting.

The Company's equity interest in 4455 LBJ Freeway, LLC as of December 31, 2015 was \$10,559. For the year ended December 31, 2015, the Company recorded equity in earnings (losses) from 4455 LBJ Freeway, LLC of \$28.

Illinois Center Building, L.P.

In August 2015, the Company invested \$53,715 in Illinois Center, a limited partnership that owns an office building in Chicago, Illinois. AmTrust and ACP Re Group are also limited partners in Illinois Center and the general partner is NA Advisors. The Company and AmTrust each received a 37.5% limited partnership interest in Illinois Center for their respective \$53,715 investments, while ACP Re Group invested \$21,486 for its 15.0% limited partnership interest. NA Advisors invested \$14,324 and holds a 10.0% general partnership interest and a 10.0% profit interest, which NA Advisors pays to the unrelated third party manager.

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Illinois Center appointed NA Advisors as the general manager to oversee the day-to-day operations of the office building. Illinois Center is considered to be a VIE, for which the Company is not a primary beneficiary. The Company accounts for Illinois Center using the equity method of accounting. The Company's total exposure to loss is limited to its equity investment.

The Company's equity interest in Illinois Center as of December 31, 2015 was \$55,007. For the year ended December 31, 2015, the Company recorded equity in earnings (losses) from Illinois Center of \$1,292.

Agreements with ACP Re and Affiliated Entities

In connection with the acquisition of Tower by ACP Re, the Company entered into the agreements described below.

Personal Lines Master Agreement

On July 23, 2014, the Company and ACP Re entered into the Amended and Restated Personal Lines Master Agreement (the "Master Agreement"). The Master Agreement provided for the implementation of the various transactions associated with the acquisition of Tower by ACP Re. In addition, the Master Agreement requires the Company to pay ACP Re contingent consideration in the form of a three-year earnout (the "ACP Re Contingent Payments") of 3% of gross premium written of the Tower personal lines business written or assumed by the Company following the Merger. The ACP Re Contingent Payments are subject to a maximum of \$30,000, in the aggregate, over the three-year period. During the year ended December 31, 2015 and 2014, the ACP Re Contingent Payments made by the Company were \$9,785 and \$2,601, respectively. The expected remaining ACP Re Contingent Payments as of December 31, 2015 are \$17,614. The fair value of the ACP Re Contingent Payments as of December 31, 2015 and 2014 was \$16,071 and \$23,499, respectively.

PL Reinsurance Agreement and the Personal Lines Cut-Through Quota Share Reinsurance Agreement

Integon National entered into the Personal Lines Quota Share Reinsurance Agreement (the "PL Reinsurance Agreement"), with Tower's ten statutory insurance companies (collectively, the "Tower Companies"), pursuant to which Integon National reinsures 100% of all losses under the Tower Companies' new and renewal personal lines business written after September 15, 2014. The ceding commission payable by Integon National under the PL Reinsurance Agreement is equal to the sum of (i) reimbursement of the Tower Companies' acquisition costs in respect of the business covered, including commission payable to National General Insurance Marketing, Inc., a subsidiary of the Company ("NGIM"), pursuant to the PL MGA Agreement (as defined below), and premium taxes and (ii) 2% of gross premium written (net of cancellations and return premiums) collected pursuant to the PL MGA Agreement. In connection with the execution of the PL Reinsurance Agreement, the Personal Lines Cut-Through Quota Share Reinsurance Agreement, dated January 3, 2014, by and among the Tower Companies and Integon National (the "Cut-Through Reinsurance Agreement"), was terminated on a run-off basis, with the reinsurance of all policies reinsured under such agreement remaining in effect.

As of December 31, 2015 and 2014, there was a net receivable due from the Tower Companies of \$46,565 and \$43,998, respectively. As a result of the PL Reinsurance Agreement and the Cut-Through Reinsurance Agreement, for the years ended December 31, 2015 and 2014, the Company assumed \$144,497 and \$439,578, respectively, of premium from the Tower Companies and recorded \$38,550 and \$110,490, respectively, of ceding commission expense. For the years ended December 31, 2015 and 2014, the Company earned premium of \$248,544 and \$284,480, respectively, under these reinsurance agreements. For the years ended December 31, 2015 and 2014, the Company

incurred losses and loss adjustment expenses of \$159,814 and \$154,577, respectively, under these reinsurance agreements.

PL MGA Agreement

NGIM produces and manages all new and renewal personal lines business of the Tower Companies pursuant to a Personal Lines Managing General Agency Agreement (the "PL MGA Agreement"). As described above, all post-September 15, 2014 personal lines business written by the Tower Companies is reinsured by Integon National pursuant to the PL Reinsurance Agreement. The Tower Companies pay NGIM a 10% commission on all business written pursuant to the PL MGA Agreement. All payments by the Tower Companies to NGIM pursuant to the PL MGA Agreement are netted out of the ceding commission payable by Integon National to the Tower Companies pursuant to the PL Reinsurance Agreement. The Company recorded \$12,428 and \$8,826, respectively, of commission income for the years ended December 31, 2015 and 2014 as a result of the PL MGA Agreement.

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PL Administrative Services Agreement

National General Management Corp., a subsidiary of the Company ("NGMC"), the Tower Companies and an affiliated company, CastlePoint Reinsurance Company, Ltd ("CP Re"), entered into the Personal Lines LPTA Administrative Services Agreement (the "PL Administrative Agreement"), pursuant to which NGMC administers the run-off of CP Re's and the Tower Companies' personal lines business written prior to September 15, 2014 at cost. CP Re and the Tower Companies reimburse NGMC for its actual costs, including costs incurred in connection with claims operations, out-of-pocket expenses, costs incurred in connection with any required modifications to NGMC's claims systems and an allocated portion of the claims service expenses paid by Integon National to the Tower Companies pursuant to the Cut-Through Reinsurance Agreement. As a result of the PL Administrative Agreement, the Company was reimbursed \$3,379 and \$0 for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, there was a receivable related to the PL Administrative Agreement of \$11,795 and \$1,546, respectively.

Stop-Loss and Retrocession Agreements

National General Re, Ltd., a subsidiary of the Company ("NG Re Ltd."), along with AmTrust International Insurance, Ltd., an affiliate of the Company ("AII"), as reinsurers, entered into a \$250,000 Aggregate Stop Loss Reinsurance Agreement (the "Stop-Loss Agreement") with CP Re. NG Re Ltd. and AII also entered into an Aggregate Stop Loss Retrocession Contract (the "Retrocession Agreement") with ACP Re pursuant to which ACP Re is obligated to reinsure the full amount of any payments that NG Re Ltd. and AII are obligated to make to CP Re under the Stop-Loss Agreement. Pursuant to the Stop-Loss Agreement, each of NG Re Ltd. and AII provide, severally, \$125,000 of stop loss coverage with respect to the run-off of the Tower business written on or before September 15, 2014. The reinsurers' obligation to indemnify CP Re under the Stop-Loss Agreement will be triggered only at such time as CP Re's ultimate paid net loss related to the run-off of the pre-September 15, 2014 Tower business exceeds a retention equal to the Tower Companies' loss and loss adjustment reserves and unearned premium reserves as of September 15, 2014, which, the parties to the Loss Portfolio Transfer Agreement have agreed will be established upon reevaluation as of December 31, 2015. CP Re will pay AII and NG Re Ltd. total premium of \$56,000 on the fifth anniversary of the Stop-Loss Agreement. The premium payable by NG Re Ltd. and AII to ACP Re pursuant to the Retrocession Agreement will be \$56,000 in the aggregate, less a ceding commission of 5.5% to be retained by NG Re Ltd. and AII. The Company will record this reinsurance transaction under the deposit method of accounting.

Credit Agreement

On September 15, 2014, NG Re Ltd. entered into a credit agreement (the "ACP Re Credit Agreement") by and among AmTrust, as Administrative Agent, ACP Re and London Acquisition Company Limited, a wholly owned subsidiary of ACP Re, as the borrowers (collectively, the "Borrowers"), ACP Re Holdings, LLC, as Guarantor, and AII and NG Re Ltd., as Lenders, pursuant to which the Lenders made a \$250,000 loan (\$125,000 made by each Lender) to the Borrowers on the terms and conditions contained within the ACP Re Credit Agreement.

The ACP Re Credit Agreement has a maturity date of September 15, 2021. Outstanding principal under the ACP Re Credit Agreement bears interest at a fixed annual rate of seven percent (7%), payable semi-annually on the last day of January and July. The obligations of the Borrowers are secured by (i) a first-priority pledge of 100% of the stock of ACP Re and certain of ACP Re's U.S. subsidiaries and 65% of the stock of certain of ACP Re's foreign subsidiaries and (ii) a first-priority lien on the assets of the Borrowers and Guarantor and certain of the assets of ACP Re's subsidiaries (other than the Tower Companies).

The Company recorded interest income of approximately \$8,701 and \$2,601 for the years ended December 31, 2015 and 2014, respectively, under the ACP Re Credit Agreement.

Surplus Notes of the Reciprocal Exchanges

ACP Re, an affiliate of the Company, holds the surplus notes carried at \$45,476 and \$48,374 as of December 31, 2015 and 2014, respectively, issued by the Reciprocal Exchanges. The obligation to repay principal and interest on the Reciprocal Exchanges' Surplus Notes is subordinated to the Reciprocal Exchanges' other liabilities. Principal and interest on the Reciprocal Exchanges' Surplus Notes are payable only with regulatory approval (see Note 15, "Debt").

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Investments

In the fourth quarter of 2015, NG Re Ltd. purchased from Tower entities two investments in limited partnership interests for an aggregate amount of approximately \$5,115.

AIBD Health Plan

On September 1, 2012 the Company purchased The Association Benefits Solution companies, a group of companies affiliated with the accident and health insurance industry. As part of the purchase, the Company is now affiliated with AIBD Health Plan which is a welfare benefit plan for several member groups. As of December 31, 2015 and 2014, the Company had a receivable of \$5,418 and \$5,377, respectively. Also, as part of this plan, the Company utilizes an employer trust to administer additional claims. As of December 31, 2015 and 2014, the Company had a receivable to the employer trust in the amount of \$2,950 and \$605, respectively.

17. Unpaid Losses and Loss Adjustment Expenses

Activity in the reserves for unpaid losses and LAE is presented below:

	Year Ended December 31, 2015			2014			2013
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total	Total
Unpaid losses and LAE, gross of related reinsurance recoverable at beginning of the year	\$1,450,305	\$111,848	\$1,562,153	\$1,259,241	\$—	\$1,259,241	\$1,286,533
Less: Reinsurance recoverables at beginning of the year	(888,215)	(23,583)	(911,798)	(950,828)	—	(950,828)	(991,447)
Net balance at beginning of the year	562,090	88,265	650,355	308,413	—	308,413	295,086
Incurred losses and LAE related to:							
Current year	1,265,702	100,255	1,365,957	1,008,406	25,382	1,033,788	456,039
Prior year	18,378	(2,694)	15,684	17,941	1,336	19,277	6,085
Total incurred	1,284,080	97,561	1,381,641	1,026,347	26,718	1,053,065	462,124
Paid losses and LAE related to:							
Current year	(835,854)	(37,018)	(872,872)	(645,826)	(20,715)	(666,541)	(265,907)
Prior year	(347,912)	(55,501)	(403,413)	(187,010)	(12,429)	(199,439)	(182,890)
Total paid	(1,183,766)	(92,519)	(1,276,285)	(832,836)	(33,144)	(865,980)	(448,797)
Acquired outstanding loss and loss adjustment reserve	169,257	—	169,257	66,066	94,691	160,757	—
	(2,520)	—	(2,520)	(5,900)	—	(5,900)	—

Effect of foreign exchange rates							
Net balance at end of the year	829,141	93,307	922,448	562,090	88,265	650,355	308,413
Plus reinsurance recoverables at end of the year	794,091	39,085	833,176	888,215	23,583	911,798	950,828
Gross balance at end of the year	\$ 1,623,232	\$ 132,392	\$ 1,755,624	\$ 1,450,305	\$ 111,848	\$ 1,562,153	\$ 1,259,241

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These revised reserve estimates are generally the result of ongoing analysis of recent loss development trends and emerging historical experience. Original estimates are increased or decreased as additional information becomes known regarding individual claims. In setting its reserves, the Company reviews its loss data to estimate expected loss development. Management believes that its use of sound actuarial methodology applied to its analyses of its historical experience provides a reasonable estimate of future losses. However, actual future losses may differ from the Company's estimate, and future events beyond the control of management, such as changes in law, judicial interpretations of law and inflation, may favorably or unfavorably impact the ultimate settlement of the Company's loss and LAE.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. In addition to inflation, the average severity of claims is affected by a number of factors that may vary by types and features of policies written. Future average severities are projected from historical trends, adjusted for implemented changes in underwriting standards and policy provisions, and general economic trends. These estimated trends are monitored and revised as necessary based on actual development.

18. Commitments and Contingencies

Lease Commitments

The Company is obligated under approximately 49 leases for office space expiring at various dates through 2026. The lease expense for the years ended December 31, 2015, 2014 and 2013 was \$14,310, \$12,131, and \$11,958, respectively. Future minimum lease commitments as of December 31, 2015 under non-cancellable operating leases for each of the next five years and thereafter are as follows:

Year Ending December 31,	
2016	\$ 16,147
2017	15,744
2018	14,758
2019	13,860
2020	10,565
Thereafter	32,227
Total	\$ 103,301

Litigation

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

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Employment Agreements

The Company has entered into employment agreements with certain individuals. The employment agreements provide for option awards, executive benefits and severance payments under certain circumstances. Amounts payable under these agreements for the next five years are as follows:

Year Ending December 31,	
2016	\$3,653
2017	949
2018	500
2019	500
2020	29
Total	\$5,631

Personal Lines Master Agreement

On July 23, 2014, the Company and ACP Re entered into the Amended and Restated Personal Lines Master Agreement (the "Master Agreement"). The Master Agreement provides for the implementation of the various transactions associated with the acquisition of Tower by ACP Re. In addition, the Master Agreement requires the Company to pay ACP Re contingent consideration in the form of a three-year earnout (the "ACP Re Contingent Payments") of 3% of gross premium written of the Tower personal lines business written or assumed by the Company following the Merger. The ACP Re Contingent Payments are subject to a maximum of \$30,000, in the aggregate, over the three-year period. During the year ended December 31, 2015 and 2014, the ACP Re Contingent Payments made by the Company were \$9,785 and \$2,601, respectively. The expected remaining ACP Re Contingent Payments as of December 31, 2015 are \$17,614. (See Note 16, "Related Party Transactions").

ARS Contingent Payments

On April 1, 2015, the Company closed on the acquisition of ARS, a New Jersey based managing general agency that services assigned risk, personal auto, and commercial lines of business, for a purchase price of approximately \$48,000 in cash and potential future earnout payments ("ARS Contingent Payments"). The fair value of the ARS Contingent Payments was estimated to be \$4,081 at December 31, 2015.

HST Contingent Payments

On January 23, 2015, the Company closed on the acquisition of HST, an Illinois based healthcare insurance general agency. The Company paid approximately \$15,000 on the acquisition date and agreed to pay potential future earnout payments ("HST Contingent Payments") based on the overall profitability of HST and the business underwritten by the Company's insurance subsidiaries which is produced by HST. The fair value of the HST Contingent Payments was estimated to be \$4,500 at December 31, 2015.

19. Stockholders' Equity

In 2010, the Company issued to AmTrust for an initial purchase consideration of approximately \$53,053, which was equal to 25% of the capital initially required by the Company, 53,054 shares of Series A Preferred Stock (the

“Preferred Stock”). The Preferred Stock provided an 8% cumulative dividend, was non-redeemable and was convertible, at the holders’ option, into 21.25% of the issued and outstanding common stock of the Company. On June 5, 2013, the Company converted the issued and outstanding 53,054 shares of Series A Preferred Stock into 12,295,430 shares of common stock (giving effect to a 286.22 to 1 stock split). Upon the conversion of the Preferred Stock, the Company paid AmTrust all undeclared cumulative dividends totaling \$12,202.

On June 6, 2013, the Company sold 21,850,000 shares of common stock in a private placement in reliance on exemptions from registration under the Securities Act of 1933. The shares of common stock were sold to investors at a price of \$10.50 per share, except for 485,532 shares that were sold to FBR Capital Markets & Co. (“FBR”) and an affiliate of FBR, which were sold

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at a price of \$9.765 per share representing the offering price per share sold to other investors less the amount of the initial purchaser discount or placement agent fee per share in the private placement. The cost of issuance of stock of approximately \$1,093 was charged directly to additional paid-in capital. The net proceeds to the Company after expenses were approximately \$213,277.

On February 19, 2014, the Company sold an additional 13,570,000 shares of common stock in a private placement in reliance on exemptions from registration under the Securities Act of 1933 at a price of \$14.00 per share, subject to a placement fee of \$0.840 per share. The Company recorded the cost of obtaining new capital as a reduction of the related proceeds. The cost of issuance of stock of approximately \$12,146 was charged directly to additional paid-in capital. The net proceeds to the Company after expenses were approximately \$177,833.

On June 25, 2014, the Company issued 2,200,000 shares of 7.50% Non-Cumulative Preferred Stock ("Series A Preferred Stock") in a public offering. Dividends on the Series A Preferred Stock when, as and if declared by the Company's Board of Directors (the "Board") or a duly authorized committee of the Board, will be payable on the liquidation preference amount of \$25.00 per share, on a non-cumulative basis, quarterly in arrears on the 15th day of January, April, July and October of each year (each, a "dividend payment date"), commencing on October 15, 2014, at an annual rate of 7.50%. Dividends on the Series A Preferred Stock are not cumulative. Accordingly, in the event dividends are not declared on the Series A Preferred Stock for payment on any dividend payment date, then those dividends will not accumulate and will not be payable. If the Company has not declared a dividend before the dividend payment date for any dividend period, the Company will have no obligation to pay dividends for that dividend period, whether or not dividends on the Series A Preferred Stock are declared for any future dividend payment. The net proceeds the Company received from the issuance was approximately \$53,164, after deducting the underwriting discount and issuance expenses.

On March 27, 2015, the Company completed a public offering of 6,000,000 of its depositary shares, each representing a 1/40th interest in a share of its 7.50% Non-Cumulative Preferred Stock, Series B, \$0.01 par value per share (the "Series B Preferred Stock"), with a liquidation preference of \$1,000 per share (equivalent to \$25 per depositary share). Each depositary share entitles the holder to a proportional fractional interest in all rights and preferences of the Series B Preferred Stock represented thereby (including any dividend, liquidation, redemption and voting rights). Dividends on the Series B Preferred Stock represented by the depositary shares will be payable on the liquidation preference amount, on a non-cumulative basis, when, as and if declared by the Company's Board of Directors, at a rate of 7.50% per annum, quarterly in arrears, on January 15, April 15, July 15, and October 15 of each year, beginning on July 15, 2015, from and including the date of original issuance. The Series B Preferred Stock represented by the depositary shares is not redeemable prior to April 15, 2020. After that date, the Company may redeem at its option, in whole or in part, the Series B Preferred Stock represented by the depositary shares at a redemption price of \$1,000 per share (equivalent to \$25 per depositary share) plus any declared and unpaid dividends for prior dividend periods and accrued but unpaid dividends (whether or not declared) for the then current dividend period. A total of 6,000,000 depositary shares (equivalent to 150,000 shares of Series B Preferred Stock) were issued. Net proceeds from this offering were \$145,275. The Company incurred \$4,975 in underwriting discount, commissions and expenses, which were recognized as a reduction to additional paid-in capital.

On April 6, 2015, the underwriters exercised their over-allotment option with respect to an additional 600,000 depositary shares (equivalent to 15,000 shares of Series B Preferred Stock), on the same terms and conditions as the original March 27, 2015 issuance. Net proceeds from this additional offering were \$14,527. The Company incurred an additional \$473 in underwriting discount and commissions, which were recognized as a reduction to additional paid-in capital.

On August 18, 2015, the Company issued 11,500,000 shares of common stock in a public offering, including 1,500,000 shares issued pursuant to the underwriters' over-allotment option. The common stock offering was priced to the public at \$19.00 per share, resulting in net proceeds of \$210,853, after deducting underwriting discount, but before expenses. The cost of issuance of stock of approximately \$7,858 was charged directly to additional paid-in capital. The net proceeds to the Company after underwriting discount, commissions and expenses were approximately \$210,642.

20. Benefits Plan

A significant number of the Company's employees participate in a defined contribution plan. Employer contributions vary based on criteria specific to the plan. Contribution expense was \$3,729, \$2,265 and \$1,816 for the years ended December 31, 2015, 2014 and 2013, respectively.

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21. Statutory Financial Data

Applicable insurance department regulations require the Company's insurance subsidiaries to prepare statutory financial statements in accordance with Statutory Accounting Practices ("SAP") prescribed or permitted by the Department of Insurance of the state of domicile. Statutory net income (loss) for the years ended December 31, 2015, 2014 and 2013 and statutory capital and surplus as per the annual financial statements of the Company's insurance subsidiaries as of December 31 were as follows:

Year Ended December 31, 2015	Statutory Capital and Surplus	Required Statutory Capital and Surplus	Statutory Net Income (Loss)
Integon Indemnity Corporation	\$37,316	\$ 2,759	\$(2,195)
National General Insurance Company	26,294	450	378
Integon Preferred Insurance Company	6,769	126	324
Integon National Insurance Company	448,339	123,839	(9,995)
MIC General Insurance Corporation	19,042	451	(52)
National General Assurance Company	16,819	255	130
Integon Casualty Insurance Company	6,269	54	120
New South Insurance Company	7,632	71	203
Integon General Insurance Corporation	6,305	160	493
National General Insurance Company Online, Inc.	11,340	67	218
National Health Insurance Company	13,796	746	893
Personal Express Insurance Company	16,155	167	667
Imperial Fire and Casualty Insurance Company	40,572	366	3,021
National Automotive Insurance Company	7,103	100	544
Agent Alliance Insurance Company	48,811	681	387
National General Re Ltd.	601,276	298,795	163,872
National General Insurance Luxembourg, S.A.	32,922	26,491	925
National General Life Insurance Europe, S.A.	28,770	21,571	7,346

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Year Ended December 31, 2014	Statutory Capital and Surplus	Required Statutory Capital and Surplus	Statutory Net Income (Loss)
Integon Indemnity Corporation	\$ 32,879	\$ 2,228	\$ 18
National General Insurance Company	27,923	261	527
Integon Preferred Insurance Company	9,324	173	(66)
Integon National Insurance Company	332,405	98,974	11,397
MIC General Insurance Corporation	19,800	222	50
National General Assurance Company	17,490	891	195
Integon Casualty Insurance Company	11,453	178	135
New South Insurance Company	6,890	101	321
Integon General Insurance Corporation	11,310	261	353
National General Insurance Company Online, Inc.	10,878	106	(53)
National Health Insurance Company	11,536	161	1,169
Personal Express Insurance Company	15,520	65	789
Imperial Fire and Casualty Insurance Company	41,018	6,599	178
National Automotive Insurance Company	7,013	487	1,502
Agent Alliance Insurance Company	16,464	321	(147)
National General Re Ltd.	442,400	112,810	54,688
National General Insurance Luxembourg, S.A.	14,638	2,500	402
National General Life Insurance Europe, S.A.	15,000	3,700	(354)
Year Ended December 31, 2013	Statutory Capital and Surplus	Required Statutory Capital and Surplus	Statutory Net Income (Loss)
Integon Indemnity Corporation	\$ 32,767	\$ 2,787	\$ 2,967
National General Insurance Company	25,800	370	4,498
Integon Preferred Insurance Company	8,394	127	1,482
Integon National Insurance Company	159,752	61,897	(33,202)
MIC General Insurance Corporation	20,234	369	1,086
National General Assurance Company	15,764	183	2,017
Integon Casualty Insurance Company	10,256	192	1,550
New South Insurance Company	15,621	288	4,091
Integon General Insurance Corporation	10,555	246	4,895
National General Insurance Company Online, Inc.	9,939	49	1,294
National Health Insurance Company	10,340	698	(1,246)
National General Re Ltd.	133,088	40,389	4,232

For the Company's U.S. insurance subsidiaries, the required statutory capital and surplus amount is equal to 1.5 times of authorized control level of risk based capital as defined by NAIC or the minimum amount required to avoid regulatory oversight. For National General Re Ltd., the required statutory capital and surplus (known as the "Target Capital Level") amount is equal to 1.2 times the enhanced Capital Requirement based on a level of risk based capital compared to 2014. The Company maintained the minimum capital required by the Bermuda Monetary Authority.

Reciprocal Exchanges

The Reciprocal Exchanges prepare their statutory basis financial statements in accordance with SAP.

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For the years ended December 31, 2015 and 2014, the Reciprocal Exchanges had combined SAP net income (loss) of \$23,346 and \$(3,646), respectively. At December 31, 2015 and 2014, the Reciprocal Exchanges had combined statutory capital and surplus of \$119,330 and \$74,952, respectively.

The Reciprocal Exchanges are required to maintain minimum capital and surplus in accordance with regulatory requirements. As of December 31, 2015 and 2014, the capital and surplus levels of the Reciprocal Exchanges exceeded such required levels.

The Reciprocal Exchanges are not owned by the Company, but managed through management agreements. Accordingly, the Reciprocal Exchanges' net assets are not available to the Company. In addition, no dividends can be paid from the Reciprocal Exchanges to the Company.

22. Dividend Restrictions

The Company's insurance subsidiaries are subject to statutory and regulatory restrictions, applicable to insurance companies, imposed by the states of domicile, which limit the amount of cash dividends or distributions that they may pay unless special permission is received from the state of domicile. This limit was approximately \$360,070 and \$286,346 as of December 31, 2015 and 2014, respectively. During the years ended December 31, 2015, 2014 and 2013, there were \$23,751, \$12,000 and \$24,015 of dividends and return of capital paid by the insurance subsidiaries to the parent company, respectively. The Company obtained permission from the states of domicile before the dividends were paid. Thereafter, the parent company paid \$160,300, \$141,566 and \$54,105 in the form of a capital contribution to its subsidiary, Integon National Insurance Company as of December 31, 2015, 2014 and 2013, respectively. During 2013, National Health Insurance Company received a capital contribution from its parent Integon Indemnity Corporation of \$3,000.

23. Risk-Based Capital

Property and casualty insurance companies in the United States are subject to certain risk-based capital ("RBC") requirements as specified by the National Association of Insurance Commissioners. Under such requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined on various risk factors. As of December 31, 2015 and 2014, the capital and surplus of the Company's insurance subsidiaries exceeded the RBC requirements.

24. Share-Based Compensation

The Company currently has two equity incentive plan (the "Plans"). The Plans authorize up to an aggregate of 7,435,000 shares of Company stock for awards of options to purchase shares of the Company's common stock, stock appreciation rights, restricted stock, restricted stock units ("RSU"), unrestricted stock and other performance awards. The aggregate number of shares of common stock for which awards may be issued may not exceed 7,435,000 shares, subject to the authority of the Company's Board of Directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting the Company's common stock. As of December 31, 2015, approximately 1,768,870 shares of Company common stock remained available for grants under the Plans.

The Company recognizes compensation expense under ASC 718-10-25 for its share-based payments based on the fair value of the awards. The Company grants stock options at exercise prices equal to the fair market value of the Company's stock on the dates the options are granted. The options have a maximum term of ten years from the date of grant and vest primarily in equal annual installments over a range of one to five years period following the date of grant for employee options. If a participant's employment relationship ends, the participant's vested awards will remain exercisable for the shorter of a period of 30 days or the period ending on the latest date on which such award could have been exercisable. The fair value of each option grant is separately estimated for each grant date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. The Company grants RSUs with a grant date value equal to the closing stock price of the Company's stock on the dates the units are granted and the RSUs generally vest over a period of three or four years.

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The fair value for stock options was estimated at the date of grant with the following assumptions for the years ended December 31, 2015, 2014 and 2013:

	2015 ⁽¹⁾		2014		2013	
	Low-End	High-End	Low-End	High-End	Low-End	High-End
Volatility	— %	— %	27.00 %	35.00 %	36.00 %	39.00 %
Risk-free interest rate	— %	— %	1.74 %	2.26 %	0.95 %	2.27 %
Weighted average expected life in years	0.00	0.00	5.50	7.00	6.25	6.50
Forfeiture rate	— %	— %	10.00 %	10.00 %	19.00 %	19.20 %
Dividend rate	— %	— %	0.40 %	0.40 %	— %	— %

⁽¹⁾ There were no options granted for the year ended December 31, 2015.

Expected Price Volatility - this is a measure of the amount by which a price has fluctuated or is expected to fluctuate. For the year ended December 31, 2013, it was not possible to use actual experience to estimate the expected volatility of the price of the common shares in estimating the value of the options granted because the Company's common shares were not traded on a public exchange. As a substitute for such estimate, the Company used a set of comparable companies in the industry in which the Company operates.

Risk-Free Interest Rate - this is the U.S. Treasury rate for the week of the grant having a term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Expected Lives - this is the period of time over which the options granted are expected to remain outstanding giving consideration to vesting schedules, historical exercise and forfeiture patterns. The Company uses the simplified method outlined in SEC Staff Accounting Bulletin No. 107 to estimate expected lives for options granted during the period as historical exercise data is not available and the options meet the requirements set out in the Bulletin. Options granted have a maximum term of ten years. An increase in the expected life will increase compensation expense.

Forfeiture Rate - this is the estimated percentage of options granted that are expected to be forfeited or cancelled before becoming fully vested. An increase in the forfeiture rate will decrease compensation expense.

Dividend Yield - this is calculated by dividing the expected annual dividend by the share price of the Company at the valuation date. An increase in the dividend yield will decrease compensation expense.

A summary of the Company's stock option activity for the years ended December 31, 2015, 2014 and 2013 is shown below:

	Year Ended December 31, 2015		2014		2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	5,110,593	\$ 8.88	5,058,363	\$ 8.48	2,339,601	\$ 5.89
Granted	—	—	195,000	17.63	2,990,353	10.33
Exercised	(584,296)	6.31	(125,582)	6.43	—	—
Forfeited	(30,759)	8.26	(17,188)	7.52	(271,591)	6.69
Withheld ⁽¹⁾	(371,729)	6.97	—	—	—	—

Outstanding at end of year	4,123,809	\$ 9.31	5,110,593	\$ 8.88	5,058,363	\$ 8.48
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⁽¹⁾ Represents shares withheld by the Company to satisfy income tax withholding liability and exercise price in connection with certain exercises.

The weighted average grant date fair value of options granted was \$0.00, \$6.76 and \$4.20 in 2015, 2014 and 2013, respectively.

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The Company had approximately \$9,069 and \$5,999 of unrecognized compensation cost related to unvested stock options as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, all option grants outstanding had an approximate weighted average remaining life of 6.8 and 7.9 years, respectively. As of December 31, 2015 and 2014, options exercisable had an approximate weighted average remaining life of 6.7 and 7.5 years, respectively. As of December 31, 2015 and 2014, there were approximately 2,686,762 and 2,347,412 exercisable shares with a weighted-average exercise price of \$8.31 and \$7.81, respectively.

The intrinsic value of stock options exercised during the years ended December 31, 2015, 2014 and 2013 was \$7,973, \$1,325 and \$0, respectively. The intrinsic value of stock options that were outstanding as of December 31, 2015 and 2014 was \$52,261 and \$49,727, respectively. The intrinsic value of stock options that were exercisable as of December 31, 2015 and 2014 was \$36,396 and \$20,736, respectively.

Cash received from options exercised was \$2,595, \$796 and \$0 during the years ended December 31, 2015, 2014 and 2013, respectively. The excess tax benefit from award exercises was approximately \$0, \$0 and \$0 for the years ended December 31, 2015, 2014 and 2013, respectively.

A summary of the Company's RSU activity for the years ended December 31, 2015, 2014 and 2013 is shown below:

	Year Ended December 31,					
	2015		2014		2013	
	RSUs	Weighted Average Grant Date Fair Value	RSUs	Weighted Average Grant Date Fair Value	RSUs	Weighted Average Grant Date Fair Value
Non-vested at beginning of year	327,555	\$ 17.44	—	\$ —	—	—
Granted	216,910	20.34	330,555	17.45	—	—
Vested	(42,653)	17.31	—	—	—	—
Forfeited	(115,551)	17.57	(3,000)	18.02	—	—
Withheld ⁽¹⁾	(23,587)	17.30	—	—	—	—
Non-vested at end of year	362,674	\$ 19.16	327,555	\$ 17.44	—	—

⁽¹⁾ Represents shares withheld by the Company to satisfy income tax withholding liability and exercise price in connection with RSU vesting.

Compensation expense for all share-based compensation under ASC 718-10-30 was \$5,937, \$2,859 and \$2,727 during 2015, 2014 and 2013, respectively.

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25. Earnings Per Share

The following is a summary of the elements used in calculating basic and diluted earnings per common share:

	Year Ended December 31,		
	2015	2014	2013
Net income attributable to common NGHC stockholders - basic	\$ 128,227	\$ 99,952	\$ 40,151
Effect of potentially dilutive securities:			
Convertible preferred stock dividends	—	—	2,158
Net income attributable to common NGHC stockholders - diluted	\$ 128,227	\$ 99,952	\$ 42,309
Weighted average number of common shares outstanding – basic	98,241,904	91,499,122	65,017,579
Potentially dilutive securities:			
Share options	2,119,358	1,868,171	1,495,315
Restricted stock units	362,674	148,124	—
Convertible preferred stock	—	—	5,288,719
Weighted average number of common shares outstanding – diluted	100,723,936	93,515,417	71,801,613
Basic earnings per share attributable to	\$ 1.31	\$ 1.09	\$ 0.62

NGHC common
stockholders
Diluted earnings
per share
attributable to
NGHC common
stockholders

\$	1.27	\$	1.07	\$	0.59
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As of December 31, 2015, 2014 and 2013, 2,432,421, 2,674,014 and 3,643,552 share options, respectively, were excluded from diluted earnings per common share as they were anti-dilutive.

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NATIONAL GENERAL HOLDINGS CORP.

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26. Segment Information

The Company currently operates two business segments, Property and Casualty and Accident and Health. The “Corporate and Other” column represents the activities of the holding company, as well as income from the Company’s investment portfolio. The Company evaluates segment performance based on segment profit separately from the results of our investment portfolio. Other operating expenses allocated to the segments are called General and Administrative expenses which are allocated on an actual basis except salaries and benefits where management’s judgment is applied. In determining total assets by segment, the Company identifies those assets that are attributable to a particular segment such as deferred acquisition cost, reinsurance recoverable, goodwill, intangible assets and prepaid reinsurance while the remaining assets are allocated to Corporate and Other.

The Property and Casualty segment, which includes the Reciprocal Exchanges and the Management Companies, reports the management fees earned by NGHC from the Reciprocal Exchanges for underwriting, investment management and other services as service and fee income for the Company. The effects of these management fees between NGHC and the Reciprocal Exchanges are eliminated in consolidation to derive consolidated net income.

The following tables summarize the underwriting results of the Company’s operating segments:

Year Ended December 31, 2015	Property and Casualty	Accident and Health	Corporate and Other	Total
Underwriting revenue:				
Gross premium written	\$2,337,826	\$251,922	\$—	\$2,589,748
Ceded premiums	(367,533)	(35,969)	—	(403,502)
Net premium written	1,970,293	215,953	—	2,186,246
Change in unearned premium	(51,784)	(4,652)	—	(56,436)
Net earned premium	1,918,509	211,301	—	2,129,810
Ceding commission income	42,699	1,091	—	43,790
Service and fee income	174,738	98,810	—	273,548
Total underwriting revenue	2,135,946	311,202	—	2,447,148
Underwriting expenses:				
Loss and loss adjustment expense	1,210,319	171,322	—	1,381,641
Acquisition costs and other underwriting expenses	339,931	65,999	—	405,930
General and administrative expenses	448,236	82,111	—	530,347
Total underwriting expenses	1,998,486	319,432	—	2,317,918
Underwriting income (loss)	137,460	(8,230)	—	129,230
Net investment income	—	—	75,340	75,340
Net realized loss on investments	—	—	(10,307)	(10,307)
Other revenue (expense)	—	—	(788)	(788)
Equity in earnings of unconsolidated subsidiaries	—	—	10,643	10,643
Interest expense	—	—	(28,885)	(28,885)
Provision for income taxes	—	—	(18,956)	(18,956)
Net loss (income) attributable to non-controlling interest	—	—	(14,025)	(14,025)
Net income (loss) attributable to NGHC	\$137,460	\$(8,230)	\$13,022	\$142,252
NGHC	\$134,117	\$(8,230)	\$16,365	\$142,252
Reciprocal Exchanges	3,343	—	(3,343)	—

Net income (loss) attributable to NGHC	\$137,460	\$(8,230)	\$13,022	\$142,252
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Year Ended December 31, 2014	Property and Casualty	Accident and Health	Corporate and Other	Total
Underwriting revenue:				
Gross premium written	\$ 1,994,708	\$ 140,399	\$ —	\$ 2,135,107
Ceded premiums	(264,686)	(397)	—	(265,083)
Net premium written	1,730,022	140,002	—	1,870,024
Change in unearned premium	(217,278)	(19,526)	—	(236,804)
Net earned premium	1,512,744	120,476	—	1,633,220
Ceding commission income	12,430	—	—	12,430
Service and fee income	110,114	58,457	—	168,571
Total underwriting revenue	1,635,288	178,933	—	1,814,221
Underwriting expenses:				
Loss and loss adjustment expense	967,176	85,889	—	1,053,065
Acquisition costs and other underwriting expenses	260,397	54,692	—	315,089
General and administrative expenses	292,145	56,617	—	348,762
Total underwriting expenses	1,519,718	197,198	—	1,716,916
Underwriting income (loss)	115,570	(18,265)	—	97,305
Net investment income	—	—	52,426	52,426
Net realized loss on investments	—	—	(2,892)	(2,892)
Other revenue (expense)	—	—	(1,660)	(1,660)
Equity in earnings of unconsolidated subsidiaries	—	—	1,180	1,180
Interest expense	—	—	(17,736)	(17,736)
Provision for income taxes	—	—	(23,876)	(23,876)
Net loss (income) attributable to non-controlling interest	—	—	(2,504)	(2,504)
Net income (loss) attributable to NGHC	\$ 115,570	\$(18,265)	\$ 4,938	\$ 102,243
NGHC	\$ 107,975	\$(18,265)	\$ 4,938	\$ 94,648
Reciprocal Exchanges	7,595	—	—	7,595
Net income (loss) attributable to NGHC	\$ 115,570	\$(18,265)	\$ 4,938	\$ 102,243

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Year Ended December 31, 2013	Property and Casualty	Accident and Health	Corporate and Other	Total
Underwriting revenue:				
Gross premium written	\$1,305,254	\$33,501	\$—	\$1,338,755
Ceded premiums	(659,154)	(285)	—	(659,439)
Net premium written	646,100	33,216	—	679,316
Change in unearned premium	8,749	1	—	8,750
Net earned premium	654,849	33,217	—	688,066
Ceding commission income	87,100	—	—	87,100
Service and fee income	82,752	44,789	—	127,541
Total underwriting revenue	824,701	78,006	—	902,707
Underwriting expenses:				
Loss and loss adjustment expense	435,989	26,135	—	462,124
Acquisition costs and other underwriting expenses	110,509	24,378	—	134,887
General and administrative expenses	252,345	28,207	—	280,552
Total underwriting expenses	798,843	78,720	—	877,563
Underwriting income (loss)	25,858	(714)	—	25,144
Net investment income	—	—	30,808	30,808
Net realized loss on investments	—	—	(1,669)	(1,669)
Other revenue (expense)	—	—	16	16
Equity in earnings of unconsolidated subsidiaries	—	—	1,274	1,274
Interest expense	—	—	(2,042)	(2,042)
Provision for income taxes	—	—	(11,140)	(11,140)
Net loss (income) attributable to non-controlling interest	—	—	(82)	(82)
Net income (loss) attributable to NGHC	\$25,858	\$(714)	\$17,165	\$42,309

The following tables summarize the financial position of the Company's operating segments as of December 31, 2015 and 2014:

December 31, 2015	Property and Casualty	Accident and Health	Corporate and Other	Total
Premiums and other receivables, net	\$684,857	\$73,776	\$—	\$758,633
Deferred acquisition costs	153,767	6,764	—	160,531
Reinsurance recoverable on unpaid losses	832,593	583	—	833,176
Prepaid reinsurance premiums	128,343	—	—	128,343
Goodwill and Intangible assets, net	366,021	95,291	—	461,312
Corporate and other assets	—	—	3,221,397	3,221,397
Total assets	\$2,165,581	\$176,414	\$3,221,397	\$5,563,392

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December 31, 2014	Property and Casualty	Accident and Health	Corporate and Other	Total
Premiums and other receivables, net	\$576,980	\$70,463	\$—	\$647,443
Deferred acquisition costs	119,167	6,832	—	125,999
Reinsurance recoverable on unpaid losses	911,790	8	—	911,798
Prepaid reinsurance premiums	102,761	—	—	102,761
Goodwill and Intangible assets, net	260,739	58,862	—	319,601
Corporate and other assets	—	—	2,217,114	2,217,114
Total assets	\$1,971,437	\$136,165	\$2,217,114	\$4,324,716

The following table shows an analysis of the Company's gross and net premiums written and net earned premium by geographical location for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31, 2015			2014			2013
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total	Total
Gross premium written - North America	\$2,217,844	\$283,582	\$2,501,426	\$1,965,942	\$70,042	\$2,035,984	\$1,338,755
Gross premium written - Europe	88,322	—	88,322	99,123	—	99,123	—
Total	\$2,306,166	\$283,582	\$2,589,748	\$2,065,065	\$70,042	\$2,135,107	\$1,338,755
Net premium written - North America	\$922,386	\$126,091	\$1,048,477	\$927,760	\$53,076	\$980,836	\$382,358
Net premium written - Bermuda	1,009,447	—	1,009,447	750,065	—	750,065	267,263
Net premium written - Europe	128,322	—	128,322	139,123	—	139,123	29,695
Total	\$2,060,155	\$126,091	\$2,186,246	\$1,816,948	\$53,076	\$1,870,024	\$679,316
Net earned premium - North America	\$862,034	\$134,709	\$996,743	\$715,906	\$47,622	\$763,528	\$391,108
Net earned premium - Bermuda	1,009,447	—	1,009,447	750,065	—	750,065	267,263
Net earned premium - Europe	123,620	—	123,620	119,627	—	119,627	29,695
Total	\$1,995,101	\$134,709	\$2,129,810	\$1,585,598	\$47,622	\$1,633,220	\$688,066

NATIONAL GENERAL HOLDINGS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Shares and Per Share Data)

The following tables show an analysis of the Company's gross premium written, net premium written and net earned premium by product type for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,		
Gross Premium Written	2015	2014	2013
Property and Casualty			
Personal Auto	\$1,240,224	\$1,241,575	\$1,016,728
Homeowners	327,299	366,997	1,389
RV/Packaged	154,929	153,553	158,300
Commercial Auto	187,686	146,124	116,774
Lender-placed insurance	126,570	—	—
Other	17,536	16,417	12,063
Property and Casualty Total	\$2,054,244	\$1,924,666	\$1,305,254
Accident and Health Total	251,922	140,399	33,501
NGHC Total	\$2,306,166	\$2,065,065	\$1,338,755

Reciprocal Exchanges

Personal Auto	\$88,494	\$32,436	\$—
Homeowners	168,015	33,028	—
Other	27,073	4,578	—
Reciprocal Exchanges Total	\$283,582	\$70,042	\$—

Total	\$2,589,748	\$2,135,107	\$1,338,755
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	Year Ended December 31,		
Net Premium Written	2015	2014	2013
Property and Casualty			
Personal Auto	\$1,070,852	\$1,047,795	\$487,311
Homeowners	309,775	333,586	1,389
RV/Packaged	153,501	148,456	88,553
Commercial Auto	170,720	132,002	61,163
Lender-placed insurance	125,693	—	—
Other	13,661	15,107	7,684
Property and Casualty Total	\$1,844,202	\$1,676,946	\$646,100
Accident and Health Total	215,953	140,002	33,216
NGHC Total	\$2,060,155	\$1,816,948	\$679,316

Reciprocal Exchanges

Personal Auto	\$50,686	\$32,075	\$—
Homeowners	58,012	17,127	—
Other	17,393	3,874	—
Reciprocal Exchanges Total	\$126,091	\$53,076	\$—

Total	\$2,186,246	\$1,870,024	\$679,316
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NATIONAL GENERAL HOLDINGS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Shares and Per Share Data)

	Year Ended December 31,		
	2015	2014	2013
Net Earned Premium			
Property and Casualty			
Personal Auto	\$1,054,529	\$979,082	\$502,160
Homeowners	286,920	204,285	444
RV/Packaged	150,290	147,587	88,494
Commercial Auto	154,565	118,759	54,913
Lender-placed insurance	123,274	—	—
Other	14,222	15,409	8,838
Property and Casualty Total	\$1,783,800	\$1,465,122	\$654,849
Accident and Health Total	211,301	120,476	33,217
NGHC Total	\$1,995,101	\$1,585,598	\$688,066
Reciprocal Exchanges			
Personal Auto	\$74,477	\$28,405	\$—
Homeowners	45,354	15,779	—
Other	14,878	3,438	—
Reciprocal Exchanges Total	\$134,709	\$47,622	\$—
Total	\$2,129,810	\$1,633,220	\$688,066

27. Condensed Quarterly Financial Data (Unaudited)

The following tables summarize the Company's quarterly financial data:

	2015			
	March 31,	June 30,	September 30,	December 31,
Total revenues	\$557,695	\$553,653	\$590,039	\$810,006
Net income	42,928	36,326	44,701	32,322
Net income attributable to NGHC common shareholders	41,737	33,783	38,988	13,719
Comprehensive income (loss) - attributable to NGHC shareholders	55,259	20,837	30,566	(4,016)
Basic earnings per common share attributable to NGHC shareholders	\$0.45	\$0.36	\$0.39	\$0.13
Diluted earnings per common share attributable to NGHC shareholders	\$0.43	\$0.35	\$0.38	\$0.13

NATIONAL GENERAL HOLDINGS CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Shares and Per Share Data)

	2014			
	March 31,	June 30,	September 30,	December 31,
Total revenues	\$409,149	\$442,930	\$496,463	\$513,553
Net income	26,424	30,296	32,550	15,477
Net income attributable to NGHC common shareholders	26,392	30,334	32,060	11,166
Comprehensive income - attributable to NGHC shareholders	34,566	46,597	22,330	11,517
Basic earnings per common share attributable to NGHC shareholders	\$0.31	\$0.32	\$0.34	\$0.12
Diluted earnings per common share attributable to NGHC shareholders	\$0.30	\$0.32	\$0.33	\$0.12

28. Subsequent Events

Century-National Purchase Agreement

On January 22, 2016, the Company entered into a securities purchase agreement (the "Purchase Agreement") with Kramer-Wilson Company, Inc., a Delaware corporation, pursuant to which, subject to the satisfaction or waiver of the conditions set forth in the Purchase Agreement, the Company agreed to purchase all of the issued and outstanding shares of capital stock (the "Century-National Transaction") of Century-National Insurance Company, a California domiciled property and casualty company ("Century-National") and Western General Agency, Inc., a California corporation ("Western General," and together with Century-National, the "Acquired Companies").

The aggregate purchase price (the "Purchase Price") for the Century-National Transaction is equal to the sum of the tangible book value of the Acquired Companies as of the closing date ("TBV") and a \$50,000 premium (the "Premium"). On the closing date of the Century-National Transaction, the Company will make an initial payment of the Purchase Price that is an estimate of one-third of the TBV (subject to adjustment upon receipt of a closing audit of the Acquired Companies by independent auditors) plus the Premium. With respect to the remainder of the Purchase Price, the Company will enter into a promissory note upon closing, payable over a period of two years.

On January 22, 2016, the Company deposited \$10,000 into an escrow account, refundable in the event that regulatory approval of the Century-National Transaction is not received. The Century-National Transaction is subject to approval of governmental authorities and other customary closing conditions. The Century-National Transaction is expected to close in the second quarter of 2016.

New Credit Agreement

On January 25, 2016, the Company entered into a \$225,000 credit agreement (the "New Credit Agreement"), among JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association as Syndication Agent, and Associated Bank, National Association and First Niagara Bank, N.A., as Co-Documentation Agents, and the various lending institutions party thereto. The credit facility is a revolving credit facility with a letter of credit sublimit of \$25,000 and an expansion feature not to exceed \$50,000. Proceeds of borrowings under the New Credit Agreement may be used for working capital, acquisitions and general corporate purposes. The New Credit Agreement has a maturity date of January 25, 2020. All of the commitments to extend credit under that certain Credit Agreement, dated as of May 30, 2014, by and between the Company, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent, were terminated pursuant to the terms of the New Credit Agreement.

Standard Mutual Insurance Company Purchase Agreement

On January 27, 2016, the Company entered into a definitive agreement to acquire Standard Mutual Insurance Company, an Illinois based property and casualty insurance underwriter (“SMIC”), following the completion of the conversion of SMIC to a stock company from a mutual company (the “SMIC Transaction”). The SMIC Transaction is subject to approval of governmental authorities and other customary closing conditions. The SMIC Transaction is expected to close in the second quarter of 2016.

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Schedule I

NATIONAL GENERAL HOLDINGS CORP.

SUMMARY OF INVESTMENTS

OTHER THAN INVESTMENTS IN RELATED PARTIES

(In Thousands)

December 31, 2015	Cost ⁽¹⁾	Value	Amount at which shown in the Balance Sheet
Fixed Maturities:			
Bonds:			
U.S. government and government agencies and authorities	\$21,293	\$22,304	\$22,304
States, municipalities and political subdivisions	193,017	196,924	196,924
Foreign governments	31,383	31,062	31,062
Public utilities	71,244	62,222	62,222
Convertibles and bonds with warrants attached	—	—	—
All other corporate bonds ⁽²⁾	2,063,543	2,044,902	2,044,902
Certificates of deposit	—	—	—
Redeemable preferred stock	—	—	—
Total Fixed Maturities	2,380,480	2,357,414	2,357,414
Equity Securities:			
Common stock:			
Public utilities, banks, trust and insurance companies	244	255	255
Industrial, miscellaneous and all other	53,112	46,710	46,710
Nonredeemable preferred stocks	11,448	11,825	11,825
Total Equity Securities	64,804	58,790	58,790
Other Investments ⁽³⁾	13,031	13,031	13,031
Other Short-term Investments ⁽³⁾	3,527	3,527	3,527
Total Investments (other than investments in related parties)	\$2,461,842	\$2,432,762	\$2,432,762

(1) Original cost of equity securities and, as to fixed maturities, original cost reduced by repayments and adjusted for amortization of premiums or accrual of discounts.

(2) Includes structured securities, residential and commercial mortgage-backed securities.

(3) Approximates market value.

Schedule II

NATIONAL GENERAL HOLDINGS CORP.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS — PARENT COMPANY ONLY

(In Thousands, Except Shares and Par Value per Share)

	December 31,	
	2015	2014
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost \$229,405 and \$15,427)	\$230,952	\$15,844
Other investments	4,139	—
Equity investments in subsidiaries	1,782,748	1,339,161
Total investments	2,017,839	1,355,005
Cash and cash equivalents	16,642	1,282
Accrued interest	858	163
Premiums and other receivables, net	445	—
Deferred tax asset	7,992	9,575
Income tax receivable	19,931	—
Due from affiliates	1,843	—
Total Assets	\$2,065,550	\$1,366,025
Liabilities and Stockholders' Equity		
Liabilities:		
Due to affiliates	\$—	\$9,266
Securities sold under agreements to repurchase, at contract value	52,484	—
Notes payable	441,061	245,077
Income tax payable	—	6,616
Other liabilities	35,365	31,616
Total Liabilities	528,910	292,575
Stockholders' Equity:		
Common stock, \$0.01 par value - authorized 150,000,000 shares, issued and outstanding 105,554,331 shares - 2015; authorized 150,000,000 shares, issued and outstanding 93,427,382 shares - 2014	1,056	934
Preferred stock, \$0.01 par value - authorized 10,000,000 shares, issued and outstanding 2,365,000 shares - 2015; authorized 10,000,000 shares, issued and outstanding 2,200,000 shares - 2014. Aggregate liquidation preference \$220,000 - 2015, \$55,000 - 2014	220,000	55,000
Additional paid-in capital	900,114	690,736
Accumulated other comprehensive income (loss)	(19,414)	20,192
Retained earnings	412,044	292,832
Total National General Holdings Corp. Stockholders' Equity	1,513,800	1,059,694
Non-controlling interest	22,840	13,756
Total Stockholders' Equity	1,536,640	1,073,450
Total Liabilities and Stockholders' Equity	\$2,065,550	\$1,366,025

Schedule II

NATIONAL GENERAL HOLDINGS CORP.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF COMPREHENSIVE INCOME — PARENT COMPANY ONLY

(In Thousands)

	Year Ended December 31,		
	2015	2014	2013
Income:			
Investment income	\$3,813	\$3,416	\$1,842
Net realized loss on investments	(534)	(2,489)	(2,830)
Other-than-temporary impairment loss	—	—	(2,869)
Equity in undistributed net income of consolidated subsidiaries and partially-owned companies	160,396	112,850	46,826
Total income	163,675	113,777	42,969
Expenses:			
Interest expense	24,065	11,753	1,916
Benefit for income taxes	(16,988)	(2,996)	(1,981)
Other	321	273	643
Total expenses	7,398	9,030	578
Net income	\$156,277	\$104,747	\$42,391
Less: Net loss (income) attributable to non-controlling interest	(14,025)	(2,504)	(82)
Net income attributable to NGHC	\$142,252	\$102,243	\$42,309
Dividends on preferred stock	(14,025)	(2,291)	(2,158)
Net income attributable to NGHC common stockholders	\$128,227	\$99,952	\$40,151
Other comprehensive income (loss), net of tax:			
Changes in:			
Foreign currency translation adjustment	1,026	(5,171)	365
Net unrealized holding gain (loss) on securities	(44,596)	18,620	(25,414)
Other comprehensive income (loss), net of tax	(43,570)	13,449	(25,049)
Comprehensive income	112,707	118,196	17,342
Less: Comprehensive loss (income) attributable to non-controlling interest	(10,061)	(3,186)	(82)
Comprehensive income attributable to NGHC	\$102,646	\$115,010	\$17,260

Schedule II

NATIONAL GENERAL HOLDINGS CORP.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF CASH FLOWS — PARENT COMPANY ONLY

(In Thousands)

	Year Ended December 31,		
	2015	2014	2013
Cash Flows From Operating Activities:			
Net income	\$142,252	\$102,243	\$42,309
Reconciliation of net income to net cash provided by (used in) operating activities:			
Equity in earnings of unconsolidated subsidiaries	(199,263)	(116,366)	(46,744)
Net amortization of premium (discount) on fixed maturities	(296)	2,596	(62)
Other net realized loss on investments	534	2,489	2,830
Other-than-temporary impairment loss	—	—	2,869
Foreign currency translation adjustment, net of tax	(139)	(1,655)	—
Stock compensation expense	5,937	2,859	2,727
Changes in assets and liabilities:			
Accrued interest	(111)	25	(188)
Other assets	(445)	—	—
Due to/from affiliates	(11,109)	25,533	(25,986)
Deferred tax asset	1,187	(19,537)	(448)
Income tax receivable/payable	(26,548)	6,754	(138)
Other liabilities	(4,869)	28,714	867
Net Cash Provided By (Used in) Operating Activities	(92,870)	33,655	(21,964)
Cash Flows From Investing Activities:			
Purchases of fixed maturities	(569,632)	(102,191)	(200,587)
Proceeds from sale of fixed maturities	355,576	173,804	102,279
Purchase of other investments	(4,139)	—	—
Investment in consolidated subsidiaries	(275,598)	(517,953)	(89,583)
Net Cash Used In Investing Activities	(493,793)	(446,340)	(187,891)
Cash Flows From Financing Activities:			
Securities sold under agreements to repurchase, net	52,484	—	—
Issuances of common and preferred stock, net of fees	370,194	230,997	213,277
Notes payable repayments	—	(59,200)	(57,570)
Exercises of stock options	2,595	796	—
Proceeds from notes payable	195,400	245,077	68,700
Dividends paid to common and preferred shareholders	(18,650)	(4,860)	(13,796)
Net Cash Provided By Financing Activities	602,023	412,810	210,611
Net Increase in Cash and Cash Equivalents	15,360	125	756
Cash and Cash Equivalents, Beginning of Year	1,282	1,157	401
Cash and Cash Equivalents, End of Year	\$16,642	\$1,282	\$1,157

Schedule III
NATIONAL GENERAL HOLDINGS CORP.
SUPPLEMENTARY INSURANCE INFORMATION
(In Thousands)

Years Ended December 31,

Segment	Deferred Policy Acquisition Costs	Unpaid Loss and Loss Adjustment Expense Reserves	Unearned Premiums	Net Earned Premium	Net Investment Income	Loss and Loss Adjustment Expense Incurred	Deferred Acquisition Costs Amortization	Other Operating Expenses	Net Written Premium
2015									
Property and casualty	\$ 153,767	\$ 1,612,346	\$ 1,172,516	\$ 1,918,509	\$ —	\$ 1,210,319	\$ 302,126	\$ 37,805	\$ 1,970,293
Accident and health	6,764	143,278	19,983	211,301	—	171,322	31,857	34,142	215,953
Corporate and other	—	—	—	—	75,340	—	—	—	—
Total	\$ 160,531	\$ 1,755,624	\$ 1,192,499	\$ 2,129,810	\$ 75,340	\$ 1,381,641	\$ 333,983	\$ 71,947	\$ 2,186,246
2014									
Property and casualty	\$ 119,167	\$ 1,521,134	\$ 851,875	\$ 1,512,744	\$ —	\$ 967,176	\$ 171,693	\$ 88,704	\$ 1,730,022
Accident and health	6,832	41,019	12,561	120,476	—	85,889	32,624	22,068	140,002
Corporate and other	—	—	—	—	52,426	—	—	—	—
Total	\$ 125,999	\$ 1,562,153	\$ 864,436	\$ 1,633,220	\$ 52,426	\$ 1,053,065	\$ 204,317	\$ 110,772	\$ 1,870,024
2013									
Property and casualty	\$ 59,048	\$ 1,253,516	\$ 476,220	\$ 654,849	\$ —	\$ 435,989	\$ 64,694	\$ 45,815	\$ 646,100
Accident and health	1,064	5,725	12	33,217	—	26,135	425	23,953	33,216
Corporate and other	—	—	—	—	30,808	—	—	—	—
Total	\$ 60,112	\$ 1,259,241	\$ 476,232	\$ 688,066	\$ 30,808	\$ 462,124	\$ 65,119	\$ 69,768	\$ 679,316

Schedule IV
NATIONAL GENERAL HOLDINGS CORP.
REINSURANCE
(In Thousands)

Years Ended December 31,	Gross Amount	Ceded to Other Companies	Assumed Other Companies	Net Amount	Percent of Amount Assumed to Net	
2015 Premiums	\$2,052,880	\$(377,921)	\$ 454,851	\$2,129,810	21.4	%
2014 Premiums	\$1,496,709	\$(277,899)	\$ 414,410	\$1,633,220	25.4	%
2013 Premiums	\$1,325,251	\$(663,055)	\$ 25,870	\$688,066	3.8	%

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Schedule V

NATIONAL GENERAL HOLDINGS CORP.

VALUATION AND QUALIFYING ACCOUNTS

(In Thousands)

Years Ended December 31,

Description	Balance at beginning of the year	Additions Charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of the year
2015					
Premiums and other receivables:					
Allowance for uncollectible accounts	\$ 9,728	\$23,810	\$	—\$(20,105)	\$13,433
2014					
Premiums and other receivables:					
Allowance for uncollectible accounts	\$ 6,064	\$29,133	\$	—\$(25,469)	\$9,728
2013					
Premiums and other receivables:					
Allowance for uncollectible accounts	\$ 6,573	\$22,484	\$	—\$(22,993)	\$6,064

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Schedule VI

NATIONAL GENERAL HOLDINGS CORP.

SUPPLEMENTAL INFORMATION CONCERNING

PROPERTY-CASUALTY INSURANCE OPERATIONS

(In Thousands)

Years Ended December 31,	Losses and Loss		Paid Losses
	Adjustment	Expenses Incurred	
	Related to		Adjustment
	Current	Prior	Expenses
	Year	Years	
2015	\$1,365,957	\$15,684	\$1,276,285
2014	\$1,033,788	\$19,277	\$865,980
2013	\$456,039	\$6,085	\$448,797

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INDEX TO EXHIBITS

The following documents are filed as exhibits to this report:

Exhibit No.	Description
23.1	Consent of BDO USA, LLP, Independent Registered Public Accounting Firm, relating to the Financial Statements of the Company (filed herewith)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)