National General Holdings Corp.
Form 10-K
February 26, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to
Commission File Number: 001-36311

NATIONAL GENERAL HOLDINGS CORP.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	27-1046208
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

59 Maiden Lane, 38th Floor, New York, New York	10038
(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 Stock, par value $0.01 per share	The Nasdaq Stock Market LLC
7.50% Non-Cumulative Preferred Stock, Series A	The Nasdaq Stock Market LLC
Depositary Shares, each Representing 1/40th of a Share of 7.50% Non-Cumulative Preferred Stock, Series B	The Nasdaq Stock Market LLC
Depositary Shares, each Representing 1/40th of a Share of 7.50% Non-Cumulative Preferred Stock, Series C	The Nasdaq Stock Market LLC
7.625% Subordinated Notes due 2055	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 o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

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

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

As of June 30, 2017, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the common stock held by non-affiliates was $1,274,305,973. As of February 21, 2018, the number of common shares of the registrant outstanding was 106,706,298.

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

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PART I

Note on Forward-Looking Statements

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

Item 1. Business

Legal Organization

National General Holdings Corp., a Delaware corporation, is a specialty personal lines insurance holding company. References to “National General,” “the Company,” “we,” “us” or “our” in this Annual Report on Form 10-K and in other statements and information publicly disseminated by National General Holdings Corp. refer to National General Holdings Corp. and all of its consolidated subsidiaries unless the context requires otherwise.

Business Overview

We are a specialty personal lines insurance holding company that, through our subsidiaries, provides a variety of insurance products, including personal and small business automobile, homeowners, umbrella, recreational vehicle, motorcycle, lender-placed, supplemental health and other niche insurance products. We sell insurance products with a focus on underwriting profitability through a combination of our customized and predictive analytics and our technology driven low cost infrastructure.

Our automobile insurance products protect our customers against losses due to physical damage to their motor vehicles, bodily injury and liability to others for personal injury or property damage arising from auto accidents. Our homeowners and umbrella insurance products protect our customers against losses to dwellings and their contents from a variety of perils, as well as coverage for personal liability. We offer our property and casualty (“P&C”) insurance products through a network of approximately 32,100 independent agents, a number of affinity partners and through direct-response marketing programs and retail storefronts. We have approximately 3.9 million P&C policyholders.

Our accident and health (“A&H”) business provides accident and non-major medical health insurance products targeting our existing P&C policyholders and persons who are uninsured or underinsured. We market our and other carriers’ A&H insurance products through a multi-pronged distribution platform that includes a network of over 34,300 independent agents, direct-to-consumer marketing, wholesaling, worksite marketing and the internet.

We are licensed to operate in 50 states and the District of Columbia, but focus on underserved niche markets. Approximately 77.8% of our P&C premium written is originated in ten core states: California, North Carolina, New York, Florida, Texas, New Jersey, Louisiana, Virginia, Michigan and Washington.

For the years ended December 31, 2017, 2016 and 2015, our gross premium written was $4,756 million, $3,501 million and $2,590 million, net premium written was $3,578 million, $3,073 million and $2,187 million and total consolidated revenues were $4,431 million, $3,553 million and $2,512 million, respectively.

Our company was formed to acquire the private passenger auto business of the U.S. consumer property and casualty insurance segment of General Motors Acceptance Corporation (“GMAC,” now known as Ally Financial Inc.), which operations date back to 1939. We acquired this business on March 1, 2010.

Our wholly-owned subsidiaries include twenty-two regulated domestic insurance companies, of which twenty write primarily P&C insurance and two write A&H insurance. Our insurance subsidiaries that are part of our intercompany quota share agreement to Integon National Insurance Company (“Integon National”), have an “A-” (Excellent) group rating by A.M. Best Company, Inc. (“A.M. Best”). We currently conduct a limited amount of business outside the United States, primarily in Bermuda, Luxembourg and Sweden.

Two of our wholly-owned subsidiaries that we acquired in 2014 are management companies that act as attorneys-in-fact for Adirondack Insurance Exchange, a New York reciprocal insurer, and New Jersey Skylands

Insurance Association, a New Jersey reciprocal insurer (together, the “Reciprocal Exchanges” or “Exchanges”). We do not own the Reciprocal Exchanges but are paid a fee to manage their business operations through our wholly-owned management companies.

Business Segments

We are a specialty national carrier with regional focuses. We manage our business through two segments:

- Property and Casualty - Our P&C segment operates its business through three primary distribution channels: agency, affinity and direct. Our agency channel focuses primarily on writing standard, preferred and nonstandard auto coverage and homeowners and umbrella coverage through our network of approximately 32,100 independent agents. In our affinity channel, we partner with a number of affinity groups and membership organizations to deliver insurance products tailored to the needs of our affinity partners' members or customers under our affinity partners' brand name or label, which we refer to as selling on a "white label" basis. A primary focus of a number of our affinity relationships is providing recreational vehicle coverage, of which we believe we are one of the top writers in the U.S. Our direct channel is operated through approximately 430 store fronts, web/mobile, phone sales centers and kiosks. In addition, we operate our lender-placed services through long-term distribution agreements with certain mortgage lenders.
- Accident and Health - Our A&H segment provides accident and non-major medical health insurance products targeting our existing policyholders and uninsured or underinsured individuals. Through a number of acquisitions of both carriers and general agencies, including VelaPoint, LLC, our call center general agency ("Velapoint"), National Health Insurance Company, a life and health insurance carrier established in 1979 ("NHIC"), Euro Accident Health & Care Insurance Aktiebolag, our European group life and health insurance managing general agent ("EHC"), Quotit Corporation, an application service provider for health insurance, HealthCompare Insurance Services, Inc., a call center agency, Healthcare Solutions Team, LLC, a healthcare insurance managing general agency ("HST"), and North Star Marketing Corporation, a proprietary small group sales channel, we have assembled a multi-pronged distribution platform that includes direct-to-consumer marketing through our call center agency, selling through approximately 34,300 independent agents, wholesaling insurance products through large general agencies/program managers and, through our affinity relationships, worksite marketing through employers and the internet.

For a summary of our underwriting revenues, net income and total assets by reportable business segments, see Note 23, "Segment Information," in the notes to our consolidated financial statements.

P&C Segment

Distribution and Marketing

Agency Distribution Channel

Our agency channel focuses on writing automobile insurance, including standard, preferred and nonstandard insurance, as well as preferred homeowners and umbrella insurance, through independent insurance agents and brokers. We have established a broad geographic presence throughout the United States and have a significant market presence in our ten largest states, namely California, North Carolina, New York, Florida, Texas, New Jersey, Louisiana, Virginia, Michigan and Washington.

Relationships with our Independent Agents. We have built a strong network of approximately 32,100 independent insurance agents and brokers and provide them with competitive compensation, a user-friendly technology platform and superior service for our core markets. In order to provide quick and responsive service to our agents, we operate an agency customer service call center staffed by experienced and highly-trained employees. Our focus on building and maintaining a strong agency network has created an effective variable cost distribution platform and is integral to the long-term success of our agency channel. We have also developed an innovative program for select agents, known as our agent captive program, which allows select agents to participate in the underwriting profits on business they produce. We believe this program encourages the participants to produce more profitable business and increases their

loyalty to us.

Our North Carolina Business. We are the largest writer of nonstandard auto insurance sold through independent agents in North Carolina, with over 50% market share. For the year ended December 31, 2017, in North Carolina, we generated $633.9 million of gross premium written.

The North Carolina nonstandard auto insurance market is serviced by a small number of carriers with most liability insurance ceded to the state-controlled North Carolina Reinsurance Facility, the NCRF. We are not subject to any underwriting liability risk

on the NCRF business written because losses are incurred by the NCRF. As a servicing carrier to the state facility, we receive a ceding commission from the NCRF to help offset operating expenses for providing the coverage to North Carolina residents. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Reinsurance.”

Affinity Distribution Channel

Through the affinity distribution channel of our P&C insurance business we are a leader in affinity marketing and have been in operation since 1953, relying on best-in-class marketing strategies and analytics to maximize the value of our longstanding relationships. Our affinity relationships are generally long-term in nature. In general, an affinity partner relationship consists of a partnership agreement between a sponsoring organization and an insurance company entered into to address the specific insurance needs of the sponsor organization’s members or customers. Through the affinity relationship, the insurance company receives an endorsement that positions it favorably among the sponsoring organizations’ members or customers. In exchange for the endorsement, the affinity customer receives access to a quality insurer, advantageous pricing and customized products. A primary focus of our affinity channel is to provide recreational vehicle, or RV, insurance, of which we are one of the largest writers in the U.S.

Direct Distribution Channel

Through our acquisition of Direct General Corporation (“Direct General”) in 2016, we obtained a direct distribution channel that primarily sells nonstandard auto policies. Our direct channel includes approximately 430 retail store fronts, web/mobile capabilities, phone contact centers and kiosks. The diversity of the channel by design, supports growth through changing customer preferences, and gives National General a foothold in the industry’s fastest growing channel. Local retail stores placed in high traffic areas are central to the omni-channel strategy, and are a key component to the marketing and brand awareness efforts in our direct distribution channel. The omni-channel approach also creates a seamless customer experience, regardless of the channel or device that is used.

Lender-placed Insurance Business

In 2015, we acquired a lender-placed insurance business, including relationships with certain mortgage lenders and servicers (“LPI Business”). We offer lender-placed insurance products and related services to such mortgage lenders and servicers.

P&C Product Overview

In our P&C segment, we operate in niche businesses and offer a broad range of products employing multiple channels of distribution. Through our agency channel, we primarily sell nonstandard automobile insurance through independent agents and brokers and also offer standard and preferred auto, motorcycle, small business vehicle, homeowners and umbrella products. Through our affinity channel, we primarily underwrite and market standard and preferred auto and RV insurance.

- Standard and preferred automobile insurance. These policies provide coverage designed for drivers with greater financial resources and a less risky driving and claims history and have higher renewal retention than nonstandard policies.
- Nonstandard automobile insurance. These policies provide coverage for liability and physical damage and are designed for drivers who represent a higher-than-normal level of risk as a result of several factors, including their driving record, limited driving experience and claims history, among other factors, and consequently their premiums are generally higher than those for drivers who qualify for standard or preferred coverage.
-

Homeowners insurance. Our homeowners policies are generally multiple-peril policies, providing property and liability coverages for one- and two-family, owner-occupied residences. We also offer additional personal umbrella coverage to the homeowner.

- Recreational vehicle insurance. Unlike many of our competitors, our policies carry RV-specific endorsements tailored to these vehicles, including automatic personal effects coverage, optional replacement cost coverage, RV storage coverage and full-time liability coverage. We also bundle coverage for RVs and passenger cars in a single policy for which the customer is billed on a combined statement.
- Small business automobile insurance. These policies include liability and physical damage coverage for light-to-medium duty commercial vehicles, focused on artisan vehicles, with an average of two vehicles per policy.

- Motorcycle insurance. We provide coverage for most types of motorcycles, as well as golf carts and all-terrain vehicles. Our policy coverage offers flexibility to permit the customer to select the type (e.g., liability) and limit of insurance (e.g., $100,000/$250,000/$500,000), and to include other risks, such as add-on equipment and towing.
- Lender-placed insurance. Through the lender-placed insurance platform, we offer a full suite of lender-placed insurance products to customers, including fire, home and flood products, as well as collateral protection insurance and guaranteed asset protection products for automobiles.

Fee Income

In addition to traditional insurance premiums, we generate revenue by charging policy service fees to policyholders. These fees include service fees for installment or renewal policies and fees for insufficient funds, late payments, cancellations and various financial responsibility filing fees. The fee income we generate varies depending on the type of policy and state regulations. For the year ended December 31, 2017, our P&C segment generated $348.3 million in revenue from policy service fees.

Geographic Distribution

We are licensed to operate in 50 states and the District of Columbia. For the year ended December 31, 2017 our top ten states represented 77.8% of our gross premium written. The following table sets forth the distribution of our P&C gross premium written by state as a percent of total gross premium written:

	Year Ended December 31,					
	2017		2016		2015	
	(amounts in thousands)					
California	$635,020	15.2 %	$545,233	18.0 %	$322,045	13.8 %
North Carolina	633,948	15.2 %	483,504	15.9 %	411,456	17.6 %
New York	617,270	14.8 %	493,486	16.2 %	456,828	19.5 %
Florida	515,723	12.4 %	262,937	8.7 %	136,562	5.8 %
Texas	201,776	4.8 %	143,711	4.7 %	94,918	4.1 %
New Jersey	156,035	3.7 %	125,731	4.1 %	88,445	3.8 %
Louisiana	139,893	3.4 %	125,550	4.1 %	101,638	4.3 %
Virginia	135,479	3.2 %	97,328	3.2 %	87,987	3.8 %
Michigan	116,195	2.8 %	104,963	3.5 %	99,736	4.3 %
Washington	96,188	2.3 %	88,474	2.9 %	67,685	2.9 %
Other States	927,056	22.2 %	565,971	18.7 %	470,822	20.1 %
Total	$4,174,583	100.0%	$3,036,888	100.0%	$2,338,122	100.0%

Underwriting and Claims Management Philosophy

We believe that proactive and prompt claims management is essential to reducing losses and lowering loss adjustment expenses (“LAE”) and enables us to more effectively and accurately measure reserves. To this end, we utilize our technology and extensive database of loss history in order to appropriately price and structure policies, maintain lower levels of loss, enhance our ability to accurately predict losses, and maintain lower claims costs. We believe that a strong underwriting foundation is best accomplished through careful risk selection and continuous evaluation of underwriting guidelines relative to loss experience. We are committed to a consistent and thorough review of new underwriting opportunities as well as our portfolio and product mix as a whole.

Underwriting, Pricing and Risk Management, and Actuarial Capabilities

We establish premium rates for insurance products based upon an analysis of expected losses using historical experience and anticipated future trends. Our product team develops the product and manages our underwriting tolerances. By utilizing a detailed actuarial analysis our actuarial team establishes the necessary rate level for a given product and territory to achieve our targeted return. For risks which fall within our underwriting tolerances, we establish a price by matching a rate to a risk at a detailed level

of segmentation. We determine the individual risk using predictive modeling developed by our analytics team with a level of precision that we believe is superior to the traditional loss cost pricing used by many of our competitors. We believe that effective collaboration among the product, analytics and actuarial teams enhances our ability to price risks appropriately and achieve our targeted rates of return.

Our actuarial group is central to the pricing and risk management process. The group carries out a number of functions including developing, tracking, and reporting on accident year loss results, monitoring and addressing national, state and channel-specific profit trends and establishing actuarial rate level needs and indications. Our actuarial group also helps ensure the integrity of reported accident year results.

To assist us in profitably underwriting our P&C products, our predictive analytics team has developed our RAD 5.0 underwriting pricing tool. The RAD 5.0 underwriting pricing tool offers significant advantages over our prior pricing tools by employing numerous additional components and pricing strategies such as supplemental risk and improved credit modeling. We believe the RAD 5.0 underwriting pricing tool facilitates better pricing over the lifetime of a policy by employing lifetime value modeling, elasticity modeling and optimized pricing. We believe that RAD 5.0 provides us with competitive advantage for pricing our products relative to other auto insurers of our size.

Claims

Claims can be submitted by telephone, email or smartphone app by policyholders, producers or other parties directly to our claims department. Upon notification of a claim, our claims call center creates a loss notice based on policy information in our claims system, EPIC. The claim is then automatically assigned to a claim handler and to a field adjuster for a vehicle inspection, if necessary. An initial reserve is established based on the type and location of the exposure and data from actuarial tables. A notice to the adjuster is automatically generated immediately after a claim has been assigned. The claim handler’s manager receives a status assignment within 24 hours to ensure the claim is being investigated in a timely manner. The claim handler evaluates coverage and loss participants and investigates the loss. If the claim represents a loss exceeding $50,000, the claim handler will establish a case-specific reserve based on the potential exposure. Claims with potential losses exceeding $100,000 are referred to the large loss unit and handled by employees specially trained to handle these claims. Every claims employee is granted authority to reserve and pay up to a specified claim level. If the potential claim amount exceeds the employee’s authority level, the request is automatically forwarded through EPIC to the manager with the appropriate authority level. As part of the investigation, claim handlers contact the parties to the loss and complete their investigations. Claim handlers record all investigation activities in EPIC, which are reviewed periodically by the managers in the department to ensure proper claims handling. Once the claim investigation has been completed, the claim handler works to close the claim as soon as possible. As of December 31, 2017, our Claims department includes approximately 2,300 individuals.

We carefully monitor our claim performance to ensure efficient handling. Management teams perform weekly reviews of open and aged claim reports. Through a combination of peer reviews, supervisor audits and monthly management information system reports, we have established an efficient mechanism designed to maintain and improve our level of claim handling performance.

Competition

The property and casualty insurance market in the United States is highly competitive. We believe that our primary competition comes not only from national companies or their subsidiaries, such as The Progressive Corporation, The Allstate Corporation, The Travelers Companies, Inc., The Hanover Insurance Group, Inc., Selective Insurance Group, Inc., State Farm Mutual Automobile Insurance Company, Farmers Insurance Group, Assurant, Inc. and GEICO, but also from nonstandard auto focused insurers such as Mercury General Corporation, Infinity Property & Casualty Corporation and independent agents that operate in a specific region or single state in which we operate.

We rely heavily on technology and extensive data gathering and analysis to segment markets and price accurately according to risk potential. We have remained competitive by refining our risk measurement and price segmentation skills, closely managing expenses, and achieving operating efficiencies. Superior customer service and fair and accurate claims adjusting are also important factors in our competitive strategy. With our policy administration system and our RAD 5.0 underwriting pricing tool, we believe we will continue to operate well in the competitive environment.

P&C Acquisitions

Since we acquired our P&C insurance business, we have made several acquisitions and entered into a number of renewal rights transactions. These additional operations have increased our presence in our target markets and broadened our distribution capabilities. We believe that merger and acquisition transactions and their effective integration represent a core competency and provide continued growth opportunities. For details of the impact of these acquisitions in our results of operations, see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations.”

Quota Share Reinsurance

Effective July 1, 2017, we entered into an auto quota share agreement, pursuant to which we cede 15.0% of net liability under our auto policies to an unaffiliated third-party reinsurance provider, and a homeowners quota share agreement, pursuant to which we cede 29.6% of net liability under homeowners policies to unaffiliated third-party reinsurance providers. See Note 12, “Reinsurance” in the notes to our consolidated financial statements.

A&H Segment

Our A&H segment provides supplemental accident and health insurance products. The key to our overall strategy revolves around distribution. We have multiple ways to reach the consumer through established channels, including:

- directly to the consumer through our in-house general agency;
- to independent agents through our in-house general agency;
- wholesaling through other general agents and Managing General Underwriters (“MGUs”); and
- through employers in the worksite.

We believe that our A&H distribution is unique because it is not driven by “company stores” - outlets that only sell products underwritten by us. In the markets where we choose not to underwrite, such as traditional individual major medical, we still sell these products on behalf of third-party carriers, allowing us to match consumers’ needs, whether it’s a product underwritten by us or a third-party carrier. This one-stop shopping element makes our distribution outlets attractive for both consumers and agents and enables us to promote our supplemental/ancillary products in a single sale environment.

Our product focus in our A&H segment is offering economical and quality alternatives to the traditional group and individual insurance markets. A significant portion of the market has challenges in obtaining health insurance that balances depth of coverage with affordability. Because of our far-reaching distribution capability and focused product portfolio, we believe we are uniquely positioned to offer greater value to our consumers.

Our products fall into three broad categories: (1) supplemental/ancillary healthcare policies that mitigate exposure to high out-of-pocket costs with some major medical policies; (2) specialty accident policies and short term individual major medical policies specifically not regulated by the Affordable Care Act that help a consumer obtain affordable healthcare as a bridge to more traditional forms of insurance; and (3) self-insurance programs for small employers to assist employers who find self-insurance to be a more cost effective solution to the group healthcare needs.

A&H Product Overview

We focus on products that will serve the emerging uninsured or underinsured individual and group worksite markets, who we expect will consist largely of people with incomes above the level that qualify for government subsidies. This market includes groups and individuals who saw their out-of-pocket health insurance costs rise under the Affordable

Care Act, and part-time employees and full-time employees who work for employers with fewer than 50 employees. Our products include those packaged with other coverages or services to enhance the overall value proposition to the consumer, as well as standalone products either purchased alone or as a supplement to major medical coverage. Target products for groups (through employers) and individuals include:

- Accident/AD&D. This coverage pays a stated benefit to the insured or his/her beneficiary in the event of bodily injury or death due to accidental means (other than natural causes). For our targeted young and uninsured population, accident

policies can provide basic insurance protection for those without coverage. These policies also serve as supplemental policies underneath high deductible major medical plans.

- Hospital Indemnity. These plans serve as supplements to high deductible plans, helping mitigate high catastrophic individual out of pocket expenses. They can also be sold as standalone programs to groups, offering basic insurance for those that cannot afford or do not wish to pay for more expensive major medical coverage.
- Short Term Recovery Care. These plans are designed to provide short term coverage post discharge from acute care/rehab center to the nursing home setting.
- Short-Term Medical. These plans offer comprehensive coverage to individuals for a prescribed short duration.
- Cancer/Critical Illness. Critical illness policies can provide coverage for many costs that are not covered by traditional health insurance. This coverage can be sold on a guarantee and simplified issue (health questionnaire) basis either as a standalone product or packaged with other products.
- Stop Loss. We expect that increases in health insurance costs will cause an increase in the number of employers offering self-insured plans. NHIC offers a wide array of stop loss programs for small and large employers, as permitted by state law. We also package our non-major medical coverages with stop loss programs.
- Dental/Vision. These policies provide basic dental or vision coverage and can be sold on a stand-alone basis or packaged with other products. They are frequently matched with discount plans.

Ratings

Financial strength ratings are an important factor in establishing the competitive position of insurance companies and are important to our ability to market and sell our products. Rating organizations continually review the financial positions of insurers, including us. A.M. Best has currently assigned our insurance subsidiaries that are part of our intercompany quota share agreement to Integon National, a group rating of “A-” (Excellent). According to A.M. Best, “A-” ratings are assigned to insurers that have an excellent ability to meet their ongoing financial obligations to policyholders. This rating reflects A.M. Best’s opinion of our ability to pay claims and is not an evaluation directed to investors regarding an investment in our common stock. This rating is subject to periodic review by, and may be revised downward or revoked at the sole discretion of, A.M. Best. There can be no assurance that we will maintain our current ratings. Future changes to our rating may adversely affect our competitive position. See Item 1A, “Risk Factors - Risks Relating to our Business - A downgrade in the A.M. Best rating of our insurance subsidiaries would likely reduce the amount of business we are able to write and could materially adversely impact the competitive positions of our insurance subsidiaries.”

Loss Reserves

We record loss reserves for estimated losses under the insurance policies that we write and for LAE related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances.

The process of establishing the liability for unpaid losses and loss adjustment expenses is complex and imprecise as it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments as to our ultimate exposure to losses are an important component of our loss reserving process.

Loss reserves include statistical reserves and case estimates for individual claims that have been reported and estimates for claims that have been incurred but not reported at the balance sheet date as well as estimates of the expenses associated with processing and settling all reported and unreported claims, less estimates of anticipated salvage and subrogation recoveries. Estimates are based upon past loss experience modified for current trends as well as economic, legal and social conditions. Loss reserves, except life reserves, are not discounted to present value,

which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income.

Incurred-but-not-reported (“IBNR”) reserve estimates are generally calculated by first projecting the ultimate cost of all claims that have occurred and then subtracting reported losses and loss expenses. Reported losses include cumulative paid losses and loss expenses plus case reserves. The IBNR reserve includes a provision for claims that have occurred but have not yet been reported, some of which are not yet known to the insured, as well as a provision for future development on reported claims.

We regularly review our loss reserves using a variety of actuarial methods and available information. We update the reserve estimates as historical loss experience develops, additional claims are reported and settled or as new information becomes available. Any changes in estimates are reflected in financial results in the period in which the estimates are changed.

Our actuarial review may include an actual to expected loss analysis or more detailed reserve indications for segments with changes, as well as the actuary's reasonable reserve range compared to carried reserves. We review available actuarial indications and review carried reserves compared to the reasonable reserve range to determine whether any reserve adjustments are warranted.

Our internal actuarial analysis of the historical data provides the factors we use in our actuarial analysis in estimating our loss and LAE reserves. These factors are implicit measures over time of claims reported, average case incurred amounts, case development, severity and payment patterns. However, these factors cannot be directly used as they do not take into consideration changes in business mix, claims management, regulatory issues, medical trends, and other subjective factors. We generally use a combination of actuarial factors and subjective assumptions in the development of up to seven of the following actuarial methodologies:

- Paid Development Method - uses historical, cumulative paid losses by accident year and develops those actual losses to estimated ultimate losses based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.
- Paid Generalized Cape Cod Method - combines the Paid Development Method with the expected loss method, where the expected loss ratios are estimated from exposure and claims experience weighted across multiple accident periods. The selected expected loss ratio for a given accident year is derived by giving some weight to all of the accident years in the experience history rather than treating each accident year independently.
- Paid Bornhuetter-Ferguson Method - a combination of the Paid Development Method and the Expected Loss Method, the Paid Bornhuetter-Ferguson Method estimates ultimate losses by adding actual paid losses and projected future unpaid losses. The amounts produced are then added to cumulative paid losses to produce the final estimates of ultimate incurred losses.
- Incurred Development Method - uses historical, cumulative incurred losses by accident year and develops those actual losses to estimated ultimate losses based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.
- Incurred Generalized Cape Cod Method - combines the Incurred Development Method with the expected loss method, where the expected loss ratios are estimated from exposure and claims experience weighted across multiple accident periods. The selected expected loss ratio for a given accident year is derived by giving some weight to all of the accident years in the experience history rather than treating each accident year independently.
- Incurred Bornhuetter-Ferguson Method - a combination of the Incurred Development Method and the Expected Loss Method, the Incurred Bornhuetter-Ferguson Method estimates ultimate losses by adding actual incurred losses and projected future unreported losses. The amounts produced are then added to cumulative incurred losses to produce an estimate of ultimate incurred losses.
- Expected Loss Method - utilizes an expected ultimate loss ratio based on historical experience adjusted for trends multiplied by earned premium to project ultimate losses.

For each method, losses are projected to the ultimate amount to be paid. We then analyze the results and may emphasize or deemphasize some or all of the outcomes to reflect actuarial judgment regarding their reasonableness in relation to supplementary information and operational and industry changes. These outcomes are then aggregated to produce a single selected point estimate that is the basis for the internal actuary's point estimate for loss reserves.

In determining the level of emphasis that may be placed on some or all of the methods, internal actuaries periodically review statistical information as to which methods are most appropriate, whether adjustments are appropriate within

the particular methods, and if results produced by each method include inherent bias reflecting operational and industry changes.

This supplementary information may include:
- open and closed claim counts;
- statistics related to open and closed claim count percentages;
- claim closure rates;
- changes in average case reserves and average loss and loss adjustment expenses incurred on open claims;
- reported and ultimate average case incurred changes;
- reported and projected ultimate loss ratios; and
- loss payment patterns.

When reviewing reserves, we analyze historical data and estimate the impact of numerous factors such as (1) individual claim information; (2) industry and the historical loss experience; (3) legislative enactments, judicial decisions, legal developments in the imposition of damages, and changes in political attitudes; and (4) trends in general economic conditions, including the effects of inflation. This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. There is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of reserves, because the eventual deficiency or redundancy is affected by multiple factors. The key assumptions we use in our determination of appropriate reserve levels include the underlying actuarial methodologies, consideration of pricing and underwriting initiatives, an evaluation of reinsurance costs and retention levels, and consideration of any claims handling impact on paid and incurred loss data trends embedded in the traditional actuarial methods.

With respect to estimating ultimate losses and LAE, the key assumptions remained consistent for the years ended December 31, 2017, 2016 and 2015 and our approach in establishing such assumptions remained consistent for newly underwritten lines. If circumstances bear out our assumptions, losses incurred in 2017 should develop similarly to losses incurred in 2016 and prior years. Thus, if for example, the net loss ratio for auto insurance premiums written in a given accident year is 65.0%, we expect that the net loss ratio for auto insurance premiums written in that same accident year evolving in Year 2 would also be 65.0%. However, due to the inherent uncertainty in the loss development factors, our actual liabilities may differ significantly from our original estimates.

See Note 11, “Unpaid Losses and Loss Adjustment Expense Reserves” for more information about short-duration insurance contracts and claims development tables in the notes to our consolidated financial statements.

Technology

We rely heavily on technology and extensive data gathering and analysis to evaluate and price our products accurately according to risk exposure. In order to provide our policyholders and producers with superior service and realize profitable growth, we have substantially upgraded our information technology capabilities in recent years. In September 2017, we entered into an agreement to acquire ownership of our personal lines policy administration system (“NPS”) and the related intellectual property from AmTrust Financial Services, Inc. (“AmTrust”), which we previously licensed from them for a licensing fee, for a purchase price of $200 million. The purchase price is payable in three equal payments, with the first payment made upon the execution of the agreement, the second payment payable upon the 6-month anniversary of the agreement, and the third payment payable upon the later of the completion of the full separation and transfer of the NPS to our operating environment and the 18-month anniversary of the agreement in accordance with the terms of the agreement. NPS is based on advanced server-based technology allowing quicker processing and the ability for enhanced scalability. This system reduced cost by eliminating our three costly legacy mainframe based systems and allows for increased straight-through automated processing, removing the need for expensive back office processes as well as providing enhanced self-service functionality. Since inception, we have reduced our information technology operating expenses significantly. Our goal is to continue to make strategic investments in technology in order to develop sophisticated tools that enhance our customer service, product management and data analysis capabilities.

RAD 5.0 is an underwriting pricing tool that more accurately prices specific risk exposures to assist us in profitably underwriting our P&C products. Our RAD 5.0 technology offers significant advantages over our prior underwriting pricing system by employing numerous additional components and pricing strategies such as supplemental risk and improved credit modeling. We believe the RAD 5.0 underwriting pricing tool will facilitate better pricing over the lifetime of a policy by employing lifetime value modeling, elasticity modeling and optimized pricing.

In our lender-placed insurance business, we use a proprietary insurance-tracking system to monitor the customers' mortgage portfolios to verify the continuation of insurance coverage on each mortgaged property. We believe we can leverage our technology expertise to operate the business under a more efficient cost structure.

Regulation

General

We are subject to extensive regulation in the United States and to a lesser extent in Bermuda, Luxembourg and Sweden. As of December 31, 2017, we had twenty-two operating insurance subsidiaries domiciled in the United States: Integon Casualty Insurance Company, Integon General Insurance Corporation, Integon Indemnity Corporation, Integon National, Integon Preferred Insurance Company, New South Insurance Company, MIC General Insurance Corporation, National General Insurance Company, National General Assurance Company, National General Insurance Online, Inc., National Health Insurance Company, National General Premier Insurance Company, Imperial Fire and Casualty Insurance Company, Agent Alliance Insurance Company, Century-National Insurance Company, Standard Property and Casualty Insurance Company, Direct General Insurance Company, Direct General Insurance Company of Louisiana, Direct General Insurance Company of Mississippi, Direct General Life Insurance Company, Direct Insurance Company and Direct National Insurance Company. Our insurance subsidiaries have an "A-" (Excellent) group rating by A.M. Best. We currently conduct a limited amount of business outside the United States, primarily in Bermuda, Luxembourg and Sweden.

State Insurance Regulation

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

Financial Oversight

Reporting Requirements

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

Investments

State insurance laws and insurance departments also regulate investments that insurers are permitted to make. Limitations are placed on the amounts an insurer may invest in a particular issuer, as well as the aggregate amount an insurer may invest in certain types of investments. Certain investments (such as real estate) are prohibited by certain

jurisdictions.

Each of our domiciliary states has its own regulations and limitations on the amounts an insurer may invest in a particular issuer and the aggregate amount an insurer may invest in certain types of investments. In general, investments may not exceed a certain percentage of surplus, admitted assets or total investments. For example, the investments of Integon National, domiciled in North Carolina, in stocks shall not exceed twenty-five percent of Integon National’s admitted assets and the stock of any one corporation may not exceed three percent of its admitted assets. To ensure compliance in each state, we review our investment portfolio quarterly based on each states regulations and limitations.

State Insurance Department Examinations

As part of their regulatory oversight process, state insurance departments conduct periodic detailed financial examinations of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the National Association of Insurance Commissioners ("NAIC"). A second type of regulatory oversight examination of insurance companies involves a review by an insurance department of an authorized company's market conduct, which entails a review and examination of a company's compliance with laws governing marketing, underwriting, rating, policy-issuance, claims-handling and other aspects of its insurance business during a specified period of time.

The results of these examinations can give rise to regulatory orders requiring remedial, injunctive or other corrective action on the part of the company that is the subject of the examination or assessing fines or other penalties against that company.

Risk-Based Capital Regulations

Our insurance subsidiaries are required to report their risk-based capital based on a formula developed and adopted by the NAIC that attempts to measure statutory capital and surplus needs based on the risks in the insurer's mix of products and investment portfolio. The formula is designed to allow insurance regulators to identify weakly-capitalized companies. Under the formula, a company determines its "risk-based capital" by taking into account certain risks related to the insurer's assets (including risks related to its investment portfolio and ceded reinsurance) and the insurer's liabilities (including underwriting risks related to the nature and experience of its insurance business). The departments of insurance in our domiciliary states generally require a minimum total adjusted risk-based capital equal to 200% of an insurance company's authorized control level risk-based capital. Each of our insurance subsidiaries had total adjusted risk-based capital substantially in excess of 200% of the authorized control level as of December 31, 2017.

Insurance Regulatory Information System Ratios

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

Management does not anticipate regulatory action as a result of the 2017 IRIS ratio results for our U.S. Insurance Subsidiaries. In all instances in prior years, regulators have been satisfied upon any follow-up that no regulatory action was required.

Statutory Accounting Principles

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

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

Credit for Reinsurance

State insurance laws permit U.S. insurance companies, as ceding insurers, to take financial statement credit for reinsurance that is ceded, so long as the assuming reinsurer satisfies the state's credit for reinsurance laws. The Nonadmitted and Reinsurance Reform Act ("NRRA") contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provides that if the state of domicile of a ceding insurer is an NAIC accredited state, or has financial solvency requirements substantially similar to the requirements necessary for NAIC accreditation, and recognizes credit for reinsurance for the insurer's ceded risk, then no other state may deny such credit for reinsurance. Because all states are currently accredited by the NAIC, the Dodd-Frank Act prohibits a state in which a U.S. ceding insurer is licensed but not domiciled from denying credit for reinsurance for the insurer's ceded risk if the cedant's domestic state regulator recognizes credit for reinsurance. The ceding company in this instance is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the ceding company's liability for unearned premium (which are that portion of premiums written which applies to the unexpired portion of the policy period), loss reserves and loss expense reserves to the extent ceded to the reinsurer.

Holding Company Regulation

We qualify as a holding company system under state-enacted legislation that regulates insurance holding company systems. Each insurance company in a holding company system is required to register with the insurance regulatory agency of its state of domicile and periodically furnish information concerning its operations and transactions, particularly with other companies within the holding company system that may materially affect its operations, management or financial condition.

Transactions with Affiliates

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

Dividends

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

Enterprise Risk

The Model Insurance Holding Company System Regulatory Act and Regulation (the "Amended Model Act and Regulation") adopted by the NAIC imposes more extensive informational requirements on an insurance holding company system in order to protect the licensed insurance companies from enterprise risk, including requiring it to prepare an annual enterprise risk report that identifies the material risks within the insurance company holding system that could pose enterprise risk to the licensed insurer. In addition, the Amended Model Act and Regulation requires any controlling person of a domestic insurer seeking to divest its controlling interest in the domestic insurer to file a notice of its proposed divestiture, which may be subject to approval by the insurance commissioner. To date, a number of states have adopted some or all of the changes in the Amended Model Act and Regulation, including California and Texas, where some of our insurance companies are domiciled or commercially domiciled.

The NAIC has made certain sections of the amendments part of its accreditation standards for state solvency regulation, which may motivate more states to adopt the amendments promptly.

The Risk Management and Own Risk and Solvency Assessment (“ORSA”) Model Act, adopted by the NAIC, requires insurers to maintain a framework for identifying, assessing, monitoring and reporting on the “material and relevant risks” associated with the insurer’s current business plans. Under the ORSA Model Act, an insurer must perform at least annually a self-assessment of its current and future risks and must file a confidential report with the insurer’s lead insurance regulator. The ORSA report was filed in 2017 with the Company’s lead insurance regulator, as well as with certain other state regulators, and describes our process for assessing our own solvency.

Change of Control

State insurance holding company laws require prior approval by the respective state insurance departments of any change of control of an insurer. “Control” is generally defined as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the company, whether through the ownership of voting securities, by contract or otherwise. Control is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. Any person wishing to acquire control of us or of any substantial portion of our outstanding shares would first be required to obtain the approval of the domestic regulators (including those asserting “commercial domicile”) of our insurance subsidiaries.

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

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

Market Conduct

Regulation of Insurance Rates and Approval of Policy Forms

The insurance laws of most states in which we conduct business require insurance companies to file insurance rate schedules and insurance policy forms for review and approval. If, as permitted in some states, we begin using new rates before they are approved, we may be required to issue refunds or credits to the policyholders if the new rates are ultimately deemed excessive or unfair and disapproved by the applicable state regulator. In other states, prior approval of rate changes is required and there may be long delays in the approval process or the rates may not be approved. Accordingly, our ability to respond to market developments or increased costs in that state can be adversely affected.

Guaranty Fund Assessments

Most, if not all, of the states where we are licensed to transact business require that property and casualty insurers doing business within the state participate in a guaranty association, which is organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share

of the premiums written by the member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets.

Property and casualty insurance company insolvencies or failures may result in additional guaranty association assessments to our insurance subsidiaries at some future date. At this time, we are unable to determine the impact, if any, that such assessments may have on their financial positions or results of their operations. As of December 31, 2017, each of our insurance subsidiaries has established accruals for guaranty fund assessments with respect to insurers that are currently subject to insolvency proceedings.

Assigned Risks

Many states in which we conduct business require automobile liability insurers to sell bodily injury liability, property damage liability, medical expense, and uninsured motorist coverage to a proportionate number (based on the insurer's share of the state's automobile casualty insurance market) of those drivers applying for placement as "assigned risks." Drivers seek placement as assigned risks because their driving records or other relevant characteristics make them difficult to insure in the voluntary market.

Restrictions on Withdrawal, Cancellation, and Nonrenewal

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

Required Licensing

Our insurance subsidiaries operate under licenses issued by the department of insurance in the states in which they sell insurance. If a regulatory authority denies or delays granting a new license, our ability to offer new insurance products in that market may be substantially impaired. In addition, if the department of insurance in any state in which one of our insurance subsidiaries currently operates suspends, non-renews, or revokes an existing license, we would not be able to offer affected products in the state.

In addition, insurance agencies, producers, third-party administrators, claims adjusters and service contract providers and administrators are subject to licensing requirements and regulation by insurance regulators in various states in which they conduct business. Certain of our subsidiaries engage in these functions and are subject to licensing requirements and regulation by insurance regulators in various states.

Federal and State Legislative and Regulatory Changes

From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the NAIC. The NAIC has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulation framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. The Amended Model Act and Regulation (discussed above) is a result of these efforts. Additional requirements are also expected.

On December 22, 2017, "H.R.1", also known as the Tax Cuts and Jobs Act of 2017 (the "TCJA") was signed into law. The TCJA reduces the federal corporate income tax rate from 35% to 21% effective January 1, 2018, which the Company expects will impact the Company's future effective tax rate and after-tax earnings in the United States. The Company may also be affected by certain other aspects of the TCJA, including, without limitation, provisions regarding the one-time transition tax on undistributed foreign earnings and profits, limitations on the deductibility of interest expense and executive compensation and deductibility of capital expenditures. We are currently evaluating the effects of the TCJA and the full impact it will have on our consolidated financial statements, results of operations and

liquidity.

The Dodd-Frank Act established a Federal Insurance Office ("FIO") within the U.S. Department of the Treasury. The Federal Insurance Office is charged with monitoring all aspects of the insurance industry (other than health insurance, certain long-term care insurance and crop insurance), gathering data, and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. In 2013, the FIO issued a report (as required under the Dodd-Frank Act) entitled "How to Modernize and Improve the System of Insurance Regulation in the United States" (the "Report"), which stated that, given the "uneven" progress the states have made with several near-term state reforms, should the states fail to accomplish the necessary

modernization reforms in the near term, “Congress should strongly consider direct federal involvement.” The FIO continues to support the current state-based regulatory regime, but will consider federal regulation should the states fail to take steps to greater uniformity (e.g., federal licensing of insurers). The Report also appears to signal greater activity by the federal government in dealing with non-U.S. regulators and regulatory regimes, using the authority expressly given by the Dodd-Frank Act to Treasury and the United States Trade Representative to negotiate “covered agreements” with foreign authorities.

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

The Dodd-Frank Act also incorporates the NRRA, which, among other things, establishes national uniform standards on how states may regulate and tax surplus lines insurance and sets national standards concerning the regulation of reinsurance. In particular, the NRRA gives regulators in the home state of an insured exclusive authority to regulate and tax surplus lines insurance transactions, and regulators in a ceding insurer’s state of domicile the sole responsibility for regulating the balance sheet credit that the ceding insurer may take for reinsurance recoverables.

Existing and new laws and regulations affecting the health insurance industry, or changes to existing laws and regulations, may transpire. The Patient Protection and Affordable Care Act (“PPACA”) was signed into law in 2010, and, throughout 2017, there were several judicial and congressional challenges and proposed amendments to PPACA. If we are unable to adapt our A&H business to current and/or future requirements of the health insurance legislation, our A&H business could be materially adversely affected.

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

In recent years, the lender-placed insurance business has been subject to class action litigation and investigations by state insurance regulators and federal regulatory agencies, including the Consumer Financial Protection Bureau and the Federal Housing Finance Agency. Litigation and regulatory proceedings have included allegations of excessive premium rates and inappropriate business transactions. Unfavorable outcomes of litigation or regulatory investigations or significant problems in our relationships with regulators could adversely affect our results of operations and financial condition, reputation, and ability to continue to do business. They could also expose us to further investigations or litigation. In addition, certain of our customers in the mortgage industry are the subject of various regulatory investigations and/or litigation regarding mortgage lending practices, which could indirectly affect agreements with these clients and our business.

Privacy Regulations

In 1999, Congress enacted the Gramm-Leach-Bliley Act, which, among other things, protects consumers from the unauthorized dissemination of certain personal information. Subsequently, states have implemented additional regulations to address privacy issues. Certain aspects of these laws and regulations apply to all financial institutions,

including insurance and finance companies, and require us to maintain appropriate policies and procedures for managing and protecting certain personal information of our policyholders. We may also be subject to future privacy laws and regulations, which could impose additional costs and impact our results of operations or financial condition. In 2000, the NAIC adopted the Privacy of Consumer Financial and Health Information Model Regulation, which assisted states in promulgating regulations to comply with the Gramm-Leach-Bliley Act. In 2002, to further facilitate the implementation of the Gramm-Leach-Bliley Act, the NAIC adopted the Standards for Safeguarding Customer Information Model Regulation. Several states have now adopted similar provisions regarding the safeguarding of policyholder information.

Additionally, the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”), The Health Information Technology for Economic and Clinical Health Act (“HITECH”), and the more recent 2013 Omnibus Rule, dictates the dissemination of an individual’s personal health information by covered entities and their business associates. These laws and their implementing regulations apply to health care providers and health insurers, and thereby requires our A&H business to maintain policies and procedures with regard to the storage, maintenance and disclosure of our policyholders’ personal health information.

Cybersecurity Regulation

Insurance regulators have been focusing increased attention on data security during financial exams, and new laws and regulations are pending that would impose new requirements and standards for protecting personally identifiable information of insurance company policyholders. For example, the New York Department of Financial Services enacted a comprehensive cybersecurity regulation that became effective during 2017, requiring insurance companies and other entities to have a cybersecurity program designed to protect consumers’ private data; a written policy that is approved by the board or senior officer; a chief information security officer to help protect data and systems; and controls and plans in place to help ensure the safety of New York’s financial services industry. In addition, the NAIC has adopted the Roadmap for Cybersecurity Consumer Protections, a set of directives aimed at protecting consumer data, and is working on a new model data security law that is expected to incorporate the directives and impose additional requirements on insurance companies to the extent ultimately adopted by applicable state legislation. The NAIC has also strengthened and enhanced the cybersecurity guidance included in its handbook for state insurance examiners. We anticipate a continuing focus on new regulatory and legislative proposals at the state and federal levels that further regulate practices regarding privacy and security of personal information.

Telephone Sales Regulations

The United States Congress, the Federal Communications Commission and various states have promulgated and enacted rules and laws that govern telephone solicitations. There are numerous state statutes and regulations governing telephone sales activities that do or may apply to our operations, including the operations of our call center insurance agencies. For example, some states place restrictions on the methods and timing of calls and require that certain mandatory disclosures be made during the course of a telephone sales call. Federal and state “Do Not Call” regulations must be followed for us to engage in telephone sales activities.

Bermuda Regulation

Classification

Our Bermuda subsidiary, National General Re Ltd. (“NG Re”) is registered as an insurer by the Bermuda Monetary Authority (“BMA”) under the Insurance Act 1978 of Bermuda, as amended (the “Insurance Act - Bermuda”). The BMA is responsible for the day-to-day supervision of insurers and monitors compliance with the solvency and liquidity standards imposed by the Insurance Act - Bermuda. NG Re is registered as a Class 3A insurer. Accordingly, NG Re can carry on general business, broadly including all types of insurance business other than long-term business.

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

NG Re is required to file annually with the BMA financial statements, a statutory financial return and a capital and solvency return. The statutory financial return for an insurer includes, among other matters, statutory financial statements, a report of the approved auditor on the statutory financial statements, and, a declaration of compliance confirming compliance with various minimum criteria, including certifying the company meets the minimum solvency margin. The capital and solvency return includes NG Re's Bermuda solvency capital return model for a Class

3A insurer, a commercial insurer's solvency self-assessment, a reconciliation of net loss reserves, schedule of solvency, financial condition report, an opinion of the company’s loss reserve specialist, a schedule of eligible capital and an economic balance sheet. The capital and solvency return also includes a capital and solvency declaration that the return fairly represents the financial condition of NG Re in all material respects.

Insurance Code of Conduct

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

Minimum Solvency Margin and Restrictions on Dividends and Distributions

Under the Insurance Act - Bermuda, the value of the general business assets of a registered Class 3A insurer, such as NG Re, must exceed the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margin.

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

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

Minimum Liquidity Ratio

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

Offices

Our principal executive offices are located at 59 Maiden Lane, 38th Floor, New York New York 10038, and our telephone number at that location is (212) 380-9500. Our website is www.nationalgeneral.com. Our Internet website and the information contained therein or connected thereto are not intended to be incorporated by reference into the Annual Report on Form 10-K.

Employees

As of December 31, 2017, we have approximately 7,570 employees, including part-time employees, none of whom are covered by collective bargaining arrangements.

Available Information

We file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements on Schedule 14A and all amendments to those reports as required by the U.S. Securities and Exchange Commission (the "SEC"). You may read or obtain copies of these documents by visiting the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC's website at http://www.sec.gov.

You can also obtain on our website's Investor Relations page (www.nationalgeneral.com), free of charge, a copy of our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such reports or amendments with, or furnish them to, the SEC.

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

Item 1A. Risk Factors

You should carefully consider the following risks and all of the other information set forth in this report, including our consolidated financial statements and the notes thereto. The following discussion of risk factors includes forward-looking statements and our actual results may differ substantially from those discussed in such forward-looking statements. See “Note on Forward-Looking Statements.”

Risks Relating to Our Business

If we are unable to accurately underwrite risks and charge competitive yet profitable rates to our policyholders, our business, financial condition and results of operations may be adversely affected.

In general, the premiums for our insurance policies are established at the time a policy is issued and, therefore, before all of our underlying costs are known. Like other insurance companies, we rely on estimates and assumptions in setting our premium rates. Establishing adequate premiums is necessary, together with investment income, to generate sufficient revenue to offset losses, loss adjustment expenses and other underwriting costs and to earn a profit. If we do not accurately assess the risks that we assume, we may not charge adequate premiums to cover our losses and expenses, which would negatively affect our results of operations and our profitability. Alternatively, we could set our premiums too high, which could reduce our competitiveness and lead to lower revenues.

Pricing involves the acquisition and analysis of historical loss data, and the projection of future trends, loss costs and expenses, and inflation trends, among other factors, for each of our products in multiple risk tiers and many different markets. In order to accurately price our policies, we:

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

We seek to implement our pricing accurately in accordance with our assumptions. Our ability to undertake these efforts successfully and, as a result, accurately price our policies, is subject to a number of risks and uncertainties, including:

- insufficient or unreliable data;
- incorrect or incomplete analysis of available data;
- uncertainties generally inherent in estimates and assumptions;
- our failure to implement appropriate actuarial projections and rating formulas or other pricing methodologies;
- regulatory constraints on rate increases;
- unexpected escalation in the costs of ongoing medical treatment;
- our failure to accurately estimate investment yields and the duration of our liability for loss and LAE; and
- unanticipated court decisions, legislation or regulatory action.

If we are unable to establish and maintain accurate loss reserves, our business, financial condition and results of operations may be materially adversely affected.

Our financial statements include loss reserves, which represent our best estimate of the amounts that our insurance subsidiaries ultimately will pay on claims that have been incurred, and the related costs of adjusting those claims, as of the date of the financial statements. There is inherent uncertainty in the process of establishing insurance loss reserves.

As a result of these uncertainties, the ultimate paid loss and loss adjustment expenses may deviate, perhaps substantially, from the point-in-time estimates of such losses and expenses, as reflected in the loss reserves included in our financial statements. To the extent that loss and LAE exceed our estimates, we will be required to immediately recognize the unfavorable development and increase loss reserves, with a corresponding reduction in our net income in the period in which the deficiency is identified. Consequently, ultimate losses paid could materially exceed reported loss reserves and have a materially adverse effect on our business, financial condition and results of operations.

General economic conditions could materially and adversely affect our business, our liquidity and financial condition.

General economic factors beyond our control that affect our business include unemployment rates, consumer spending, residential and commercial real estate prices, U.S. debt ceiling and budget deficit concerns, tax rates and policies, and the availability of credit. Such conditions may potentially affect (among other aspects of our business) the demand for and claims made under our products, the ability of customers, counterparties and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources and our investment performance. In the event that these conditions result in a prolonged period of economic uncertainty, our results of operations, our financial condition and/or liquidity, our prospects and competitor landscape could be materially and adversely affected.

Our business is dependent on the efforts of our executive officers and other personnel. If we are unsuccessful in our efforts to attract, train and retain qualified personnel, our business may be materially adversely affected.

Our success is dependent on the efforts of our executive officers because of their industry expertise, knowledge of our markets, and relationships with our independent agents. Should any of our executive officers cease working for us, we may be unable to find acceptable replacements with comparable skills and experience in the specialty P&C and A&H sectors that we target. In addition, our business is also dependent on skilled underwriters and other skilled employees. We cannot assure you that we will be able to attract, train and retain, on a timely basis and on anticipated economic and other terms, experienced and capable senior management, underwriters and support staff. We intend to pay competitive salaries, bonuses and equity-based rewards in order to attract and retain such personnel, but we may not be successful in such endeavors. The loss of key personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition or operating results. We do not currently maintain life insurance policies with respect to our executive officers or other employees.

Revenues and operating profits from our P&C segment depend on our production in several key states and adverse developments in these key states could have a material adverse effect on our business, financial condition and results of operations.

For the year ended December 31, 2017, our P&C segment derived 77.8% of its gross premium written from the following ten states: California (15.2%), North Carolina (15.2%), New York (14.8%), Florida (12.4%), Texas (4.8%), New Jersey (3.7%), Louisiana (3.4%), Virginia (3.2%), Michigan (2.8%) and Washington (2.3%). As a result, our financial results are subject to prevailing regulatory, legal, economic, demographic, competitive, and other conditions in these states. Adverse developments relating to any of these conditions could have a material adverse impact on our business, financial condition and results of operations.

If we cannot sustain our business relationships, including our relationships with independent agents, agencies and other parties, we may be unable to compete effectively and operate profitably.

We market our P&C segment products primarily through a network of approximately 32,100 independent agents. Our relationships with our agents are generally governed by agreements that may be terminated on short notice. Independent agencies generally are not obligated to promote our products and may sell insurance offered by our competitors. As a result, our ability to compete and remain profitable depends, in part, on our maintaining our business relationship with our independent agents and agencies, the marketing efforts of our independent agents and agencies and on our ability to offer insurance products and maintain financial strength ratings that meet the requirements and preferences of our independent agents and agencies and their policyholders.

In connection with our lender-placed insurance business, we also have relationships with certain mortgage lenders and servicers, and we insure properties securing mortgages serviced by the mortgage loan servicers with whom we do

business.

If such lenders terminate important business arrangements with us, or renew contracts on terms less favorable to us, our cash flows, results of operations and financial condition could be materially adversely affected. For example, in our lender-placed insurance business, restrictions imposed by state regulators on us or by federal regulators on our customers could affect our ability to do business with certain mortgage loan servicers or the volume or profitability of such business. Furthermore, the transfer by mortgage servicer clients of loan portfolios to other carriers or the new participation by other carriers in insuring or reinsuring lender-placed insurance risks could materially reduce our revenues and profits from this business.

Any failure on our part to be effective in any of these areas could have a material adverse effect on our business and results of operations.

Our affinity channel depends on a relatively small number of affinity partner relationships for a significant percentage of the net premium revenue that it generates, and the loss of one of these significant affinity partner relationships could have a material adverse effect on our business, financial condition and results of operations.

Our affinity channel operates primarily through relationships with affinity partners, which include major retailers and membership organizations. See Item 1, "Business - P&C Segment - Distribution and Marketing - Affinity Distribution Channel." Our top two affinity relationships collectively represent 59.0% of our affinity channel written premium. Although our relationships with these and most of our other affinity partners are long-standing with long-term contracts, in the event of the termination of any of our significant affinity partner relationships, our net earned premium could be adversely affected.

If we, together with our affiliates and the other third parties that we contract with, are unable to maintain our technology platform or our technology platform fails to operate properly, or meet the technological demands of our customers with respect to the products and services we offer, our business and financial performance could be significantly harmed.

In 2017, we acquired the policy administration system that we previously licensed from AmTrust. We also use technology systems to more accurately evaluate specific risk exposures in order to assist us in profitably underwriting our P&C products.

If we are unable to properly integrate and maintain our policy administration system and maintain our technology systems or if our technology systems otherwise fail to perform in the manner we currently contemplate, our ability to effectively underwrite and issue policies, process claims and perform other business functions could be significantly impaired and our business and financial performance could be significantly harmed. In addition, the success of our business is dependent on our ability to resolve any issues identified with our technology arrangements during operations and make any necessary improvements in a timely manner. Further, we will need to match or exceed the technological capabilities of our competitors over time. We cannot predict with certainty the cost of such integration, maintenance and improvements, but failure to make such improvements could have an adverse effect on our business. See Item 1, "Business - Technology."

Also, we use e-commerce and other technology to provide, expand and market our products and services. Accordingly, we believe that it will be essential to continue to invest resources in maintaining electronic connectivity with customers and, more generally, in e-commerce and technology. Our business may suffer if we do not maintain these arrangements or keep pace with the technological demands of customers.

If we experience security breaches or other disruptions involving our technology, our ability to conduct our business could be adversely affected, we could be liable to third parties and our reputation could suffer, which could have a material adverse effect on our business.

Our business is dependent upon the uninterrupted functioning of our information technology and telecommunication systems. We rely upon our systems, as well as the systems of our vendors, for all our business operations, including underwriting and issuing policies, processing claims, providing customer service, complying with insurance regulatory requirements and performing actuarial and other analytical functions necessary for underwriting, pricing and product development. Our operations are dependent upon our ability to timely and efficiently maintain and improve our information and telecommunications systems and protect them from physical loss, telecommunications failure or other similar catastrophic events, as well as from security breaches. A shut-down of, or inability to access, one or more of our facilities, a power outage or a failure of one or more of our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis. In the event of a disaster such as a natural catastrophe, terrorist attack or industrial accident, or due to a

computer virus, our systems could be inaccessible for an extended period of time. While we have implemented business contingency plans and other reasonable and appropriate internal controls to protect our systems from interruption, loss or security breaches, a sustained business interruption or system failure could adversely impact our ability to process our business, provide customer service, pay claims in a timely manner or perform other necessary business functions.

Our operations depend on the reliable and secure processing, storage and transmission of confidential and other information in our computer systems and networks. Computer viruses, hackers, employee misconduct and other external hazards could expose our data systems to security breaches, cyberattacks or other disruptions. In addition, we routinely transmit and receive personal, confidential and proprietary information by electronic means. We have implemented security measures designed to protect against breaches of security and other interference with our systems and networks resulting from attacks by third parties, including hackers,

and from employee or adviser error or malfeasance. We also assess and monitor the security measures of our third-party business partners, who in the provision of services to us are provided with or process information pertaining to our business or our customers. Despite these measures, we cannot assure you that our systems and networks will not be subject to breaches or interference. Any such event may result in operational disruptions as well as unauthorized access to or the disclosure or loss of our proprietary information or our customers' information, which in turn may result in legal claims, regulatory scrutiny and liability, reputational damage, the incurrence of costs to eliminate or mitigate further exposure, the loss of customers or affiliated advisors or other damage to our business. In addition, the trend toward broad consumer and general public notification of such incidents could exacerbate the harm to our business, financial condition and results of operations. Even if we successfully protect our technology infrastructure and the confidentiality of sensitive data, we could suffer harm to our business and reputation if attempted security breaches are publicized. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology or other security measures protecting the networks and systems used in connection with our business.

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

Since our formation, we have grown our business primarily through a number of acquisitions of insurance companies, agencies or books of business. Part of our growth strategy is to continue to grow our business through acquisitions. This strategy of growing through acquisitions subjects us to numerous risks, including risks associated with:

- our ability to identify profitable geographic markets for entry;
- our ability to identify potential acquisition targets and successfully acquire them on acceptable terms and in a timely manner;
- our ability to integrate acquired businesses smoothly and efficiently;
- our ability to achieve expected synergies, profitability and return on our investment;
- the diversion of management's attention from the day-to-day operations of our business;
- our ability to attract and retain qualified personnel for expanded operations;
- encountering unforeseen operating difficulties or incurring unforeseen costs and liabilities;
- our ability to manage risks associated with entering into geographic and product markets with which we are less familiar;
- our ability to obtain necessary regulatory approvals;
- our ability to expand existing agency relationships; and
- our ability to augment our financial, administrative and other operating systems to accommodate the growth of our business.

Due to any of the above risks, we cannot assure you that (i) we will be able to successfully identify and acquire additional businesses on acceptable terms or at all, (ii) we will be able to successfully integrate any business we acquire, (iii) we will be able to effectively manage our growth or (iv) any new business that we acquire or enter into will be profitable. Our failure in any of these areas could have a material adverse effect on our business, financial condition and results of operations.

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

As of December 31, 2017, we had $174.2 million of goodwill recorded on our balance sheet. Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We are required to perform goodwill impairment tests at least annually and whenever events or circumstances indicate that the carrying value may not be recoverable from estimated future cash flows. If we determine that the goodwill has been impaired, we would be required to write down the goodwill by the amount of the impairment, with a corresponding charge to net income. Such write-downs could have a material adverse effect on our financial condition and results of operations.

As of December 31, 2017, we had $404.1 million aggregate amount of intangible assets, excluding goodwill, recorded on our balance sheet. Intangible assets represent the amount of fair value assigned to certain assets when we acquire a subsidiary or a book of business. Intangible assets are classified as having either a finite or an indefinite life. We test the recoverability of our

intangible assets at least annually. We test the recoverability of finite life intangibles whenever events or changes in circumstances indicate that the carrying value of a finite life intangible may not be recoverable. We recognize an impairment if the carrying value of an intangible asset is not recoverable and exceeds its fair value, in which circumstances we must write down the intangible asset by the amount of the impairment with a corresponding charge to net income. We own two management companies that are attorneys-in-fact for two reciprocal exchanges. If the reciprocal business does not perform well or the reciprocal exchanges are downgraded, we may be required to recognize an impairment of our intangible assets. Such write downs could have a material adverse effect on our financial condition and results of operations.

Our relationship with AmTrust and its subsidiaries may present, and make us vulnerable to, difficult conflicts of interest, related party transactions, business opportunity issues and legal challenges.

AmTrust is a publicly-traded insurance holding company controlled by Leah Karfunkel, George Karfunkel and Barry Zyskind. Because Leah Karfunkel beneficially owns 41.8% of our outstanding shares of common stock, AmTrust is a related party.

We are party to arrangements with AmTrust and its affiliates, including, among others, an asset management agreement pursuant to which a subsidiary of AmTrust provides investment management services to us; an asset purchase agreement pursuant to which AmTrust sold to us and our affiliates our policy administration system; a consulting and marketing agreement pursuant to which a subsidiary of AmTrust provides certain consulting and marketing services to promote our captive insurance program; joint investments in entities owning life settlement contracts; joint investments in entities owning office buildings in Ohio, Texas and Illinois; and aircraft timeshare agreements with a subsidiary of AmTrust. Conflicts of interest could arise with respect to any of our contractual arrangements with AmTrust and its affiliates, as well as any other business opportunities that could be advantageous to AmTrust or its subsidiaries, on the one hand, and disadvantageous to us or our subsidiaries, on the other hand. AmTrust's interests may be different from the interests of our company and the interests of our other stockholders.

Our relationship with ACP Re and ACP Re Holdings, LLC may present, and make us vulnerable to, difficult conflicts of interest, related party transactions, business opportunity issues and legal challenges.

ACP Re is a Bermuda reinsurer that is a subsidiary of the Karfunkel Family Trust. We provide management services to ACP Re pursuant to a services agreement we entered into in 2012. We and AmTrust provided ACP Re with financing in an aggregate amount of up to $250.0 million ($125.0 million each), and in July 2016, ACP Re Holdings, LLC, a Delaware limited liability company owned by the Karfunkel Family Trust ("ACP Re Holdings"), became the borrower in the place of ACP Re. Conflicts of interest could arise with respect to any of the contractual arrangements between us and ACP Re, as well as business opportunities that could be advantageous to ACP Re, on the one hand, and disadvantageous to us or our subsidiaries, on the other hand. There can be no assurance that ACP Re Holdings will have sufficient assets or liquidity to pay its obligations under the terms of the financing. ACP Re Holdings may need to liquidate assets to fulfill these obligations. The majority of ACP Re Holdings' assets currently consist of publicly traded equity securities. As a result of the financing, we, through our subsidiary, have significant credit exposure to ACP Re Holdings.

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

Rating agencies evaluate insurance companies based on their ability to pay claims. A.M. Best has currently assigned our insurance subsidiaries that are part of our intercompany quota share agreement to Integon National, a group rating of "A-" (Excellent). The ratings of A.M. Best are subject to periodic review using, among other things, proprietary capital adequacy models, and are subject to revision or withdrawal at any time. Our competitive position relative to

other companies is determined in part by the A.M. Best rating of our insurance subsidiaries. A.M. Best ratings are directed toward the concerns of policyholders and insurance agencies and are not intended for the protection of investors or as a recommendation to buy, hold or sell securities.

There can be no assurances that our insurance subsidiaries will be able to maintain their current ratings. Any downgrade in ratings would likely adversely affect our business through the loss of certain existing and potential policyholders and the loss of relationships with independent agencies that might move to other companies with higher ratings. We are not able to quantify the percentage of our business, in terms of premiums or otherwise, that would be affected by a downgrade in our A.M. Best ratings.

Performance of our investment portfolio is subject to a variety of investment risks that may adversely affect our financial results.

Our results are affected, in part, by the performance of our investment portfolio. Our investment portfolio contains interest rate sensitive investments, such as fixed-income securities. As of December 31, 2017, our investment in fixed-income securities was approximately $3,139.9 million, or 86.0% of our total investment portfolio. Increases in market interest rates may have an adverse impact on the value of our investment portfolio by decreasing the value of fixed-income securities. Conversely, declining market interest rates could have an adverse impact on our investment income as we invest positive cash flows from operations and as we reinvest proceeds from maturing and called investments in new investments that could yield lower rates than our investments have historically generated. Defaults in our investment portfolio may produce operating losses and adversely impact our results of operations.

Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions, and other factors beyond our control. We may not be able to manage interest rate sensitivity effectively. Despite our efforts to maintain a high quality portfolio and manage the duration of the portfolio to reduce the effect of interest rate changes, a significant change in interest rates could have a material adverse effect on our financial condition and results of operations.

In addition, the performance of our investment portfolio generally is subject to other risks, including the following:

- the risk of decrease in value due to a deterioration in the financial condition, operating performance or business prospects of one or more issuers of our fixed-income securities;
- the risk that our portfolio may be too heavily concentrated in the securities of one or more issuers, sectors or industries;
- the risk that we will not be able to convert investment securities into cash on favorable terms and on a timely basis; and
- general movements in the values of securities markets.

If our investment portfolio were to suffer a substantial decrease in value due to market, sector or issuer-specific conditions, our liquidity, financial condition and results of operations could be materially adversely affected. A decrease in value of an insurance subsidiary’s investment portfolio could also put the subsidiary at risk of failing to satisfy regulatory minimum capital requirements and could limit the subsidiary’s ability to write new business.

Our holding company structure and certain regulatory and other constraints, including adverse business performance, could affect our ability to satisfy our obligations.

We are a holding company and conduct our business operations through our various subsidiaries. Our principal sources of funds are dividends and other payments from our insurance subsidiaries, income from our investment portfolio and funds that may be raised from time to time in the capital markets. We will be largely dependent on amounts from our insurance subsidiaries to pay principal and interest on any indebtedness that we may incur, to pay holding company operating expenses, to make capital investments in our other subsidiaries and to pay dividends on our common stock. In addition, our credit agreement contains covenants that limit our ability to pay cash dividends to our stockholders under certain circumstances. See “-The covenants in our credit agreement limit our financial and operational flexibility, which could have an adverse effect on our financial condition.”

Our insurance subsidiaries are subject to statutory and regulatory restrictions imposed on insurance companies by their states of domicile, which limit the amount of cash dividends or distributions that they may pay to us unless special permission is received from the insurance regulator of the relevant domiciliary state. In general, the maximum amount

of dividends that the insurance subsidiaries may pay in any 12-month period without regulatory approval is the greater of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is generally defined for this purpose to be statutory net income, net of realized capital gains, for the calendar year preceding the date of the dividend. In addition, other states may limit or restrict our insurance subsidiaries' ability to pay stockholder dividends generally or as a condition to issuance of a certificate of authority. The aggregate amount of cash dividends and distributions that could be paid by our insurance subsidiaries without prior approval by the various domiciliary states of our insurance subsidiaries was approximately $387.6 million as of December 31, 2017, taking into account dividends paid in the prior twelve month period.

Our insurance subsidiaries are subject to minimum capital and surplus requirements. Our failure to meet these requirements could subject us to regulatory action.

The laws of the states of domicile of our insurance subsidiaries impose risk-based capital standards and other minimum capital and surplus requirements. Failure to meet applicable risk-based capital requirements or minimum statutory capital requirements could subject us to further examination or corrective action imposed by state regulators, including limitations on our writing of additional business, state supervision or liquidation. Any changes in existing risk-based capital requirements or minimum statutory capital requirements may require us to increase our statutory capital levels, which we may be unable to do. See Item 1, "Business - Regulation - State Insurance Regulation - Financial Oversight-Risk-Based Capital Regulations."

The insurance industry is subject to extensive regulation, which may affect our ability to execute our business plan and grow our business.

We are subject to comprehensive regulation and supervision by government agencies in each of the states in which our insurance subsidiaries are domiciled or commercially domiciled, as well as all states in which they are licensed, sell insurance products, issue policies, or handle claims. Some states impose restrictions or require prior regulatory approval of specific corporate actions, which may adversely affect our ability to operate, innovate, obtain necessary rate adjustments in a timely manner or grow our business profitably. These regulations provide safeguards for policyholders and are not intended to protect the interests of stockholders. Our ability to comply with these laws and regulations, and to obtain necessary regulatory action in a timely manner is, and will continue to be, critical to our success. Some of these regulations include:

- Required Licensing. We operate under licenses issued by the insurance department in the states in which we sell insurance. If a regulatory authority denies or delays granting a new license, our ability to enter that market quickly or offer new insurance products in that market may be substantially impaired. In addition, if the insurance department in any state in which we currently operate suspends, non-renews, or revokes an existing license, we would not be able to offer affected products in that state.
- Transactions Between Insurance Companies and Their Affiliates. Transactions between us or other of our affiliates and our insurance companies generally must be disclosed, and prior approval is required before any material or extraordinary transaction may be consummated. Approval may be refused or the time required to obtain approval may delay some transactions, which may adversely affect our ability to innovate or operate efficiently.
- Regulation of Insurance Rates and Approval of Policy Forms. The insurance laws of most states in which we conduct business require insurance companies to file insurance rate schedules and insurance policy forms for review and approval. If, as permitted in some states, we begin using new rates before they are approved, we may be required to issue refunds or credits to the policyholders if the new rates are ultimately deemed excessive or unfair and disapproved by the applicable insurance department. In other states, prior approval of rate changes is required and there may be long delays in the approval process or the rates may not be approved. Accordingly, our ability to respond to market developments or increased costs in that state could be adversely affected.
- Restrictions on Cancellation, Non-Renewal or Withdrawal. Many of the states in which we operate have laws and regulations that limit our ability to exit a market. For example, some states limit a private passenger auto insurer's ability to cancel and refuse to renew policies and some prohibit insurers from withdrawing one or more lines of insurance business from the state unless prior approval is received. In some states, these regulations extend to significant reductions in the amount of insurance written, not just to a complete withdrawal. Laws and regulations that limit our ability to cancel and refuse to renew policies in some states or locations and that subject withdrawal plans to prior approval requirements may restrict our ability to exit unprofitable markets, which may harm our business, financial condition and results of operations.
- Lender-placed insurance products. State departments of insurance and regulatory authorities may choose to review the appropriateness of our premium rates for our lender-placed insurance products. If the reviews by state departments of

insurance lead to significant decreases in premium rates for our lender-placed insurance products, our results of operations could be materially adversely affected.

- Other Regulations. We must also comply with regulations involving, among other matters:
- the use of non-public consumer information and related privacy issues;
- the use of credit history in underwriting and rating policies;
- limitations on the ability to charge policy fees;
- limitations on types and amounts of investments;
- restrictions on the payment of dividends by our insurance subsidiaries;

- the acquisition or disposition of an insurance company or of any company controlling an insurance company;
- involuntary assignments of high-risk policies, participation in reinsurance facilities and underwriting associations, assessments and other governmental charges;
- reporting with respect to financial condition; and
- periodic financial and market conduct examinations performed by state insurance department examiners.

The failure to comply with these laws and regulations may also result in regulatory actions, fines and penalties, and in extreme cases, revocation of our ability to do business in a particular jurisdiction. In the past we have been fined by state insurance departments for failing to comply with certain laws and regulations. In addition, we may face individual and class action lawsuits by insured and other parties for alleged violations of certain of these laws or regulations.

Our failure to accurately and timely pay claims could adversely affect our business, financial results and liquidity.

We must accurately and timely evaluate and pay claims that are made under our policies. Many factors affect our ability to pay claims accurately and timely, including the training and experience of our claims representatives, our claims organization's culture and the effectiveness of our management, our ability to develop or select and implement appropriate procedures and systems to support our claims functions and other factors. Our failure to pay claims accurately and timely could lead to material litigation, undermine our reputation in the marketplace and materially adversely affect our financial results and liquidity.

In addition, if we do not train new claims employees effectively or lose a significant number of experienced claims employees, our claims department's ability to handle an increasing workload could be adversely affected. In addition to potentially requiring that growth be slowed in the affected markets, our business could suffer from decreased quality of claims work which, in turn, could lower our operating margins.

Regulation may become more extensive in the future, which may adversely affect our business, financial condition and results of operations.

Compliance with applicable laws and regulations is time-consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance and other expenses of doing business, thus adversely affecting our business, financial condition and results of operations.

In the future, states may make existing insurance laws and regulation more restrictive or enact new restrictive laws. In such event, we may seek to reduce our business in, or withdraw entirely from, these states. Additionally, from time to time, the United States Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary. Currently, the U.S. federal government does not directly regulate the P&C insurance business. However, The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") established a Federal Insurance Office ("FIO") within the Department of the Treasury. The duties of the FIO include studying and reporting on how to modernize and improve the system of insurance regulation in the United States considering the ability of any federal regulation or a federal regulator to "provide robust consumer protection for policyholders" as well as "the potential consequences of subjecting insurers to a federal resolution authority." In 2013, the FIO issued a report on proposals to modernize and improve the system of insurance regulation in the United States. We cannot predict whether any of these proposals will be adopted, or what impact, if any, these proposals or, if enacted, these laws may have on our business, financial condition and results of operations. See Item 1, "Business - Regulation."

On December 22, 2017, "H.R.1", also known as the Tax Cuts and Jobs Act of 2017 (the "TCJA") was signed into law. The TCJA reduces the federal corporate income tax rate from 35% to 21% effective January 1, 2018, which the Company

expects will impact the Company's future effective tax rate and after-tax earnings in the United States. The Company may also be affected by certain other aspects of the TCJA, including, without limitation, provisions regarding the one-time transition tax on undistributed foreign earnings and profits, limitations on the deductibility of interest expense and executive compensation and deductibility of capital expenditures. We are currently evaluating the effects of the TCJA and the full impact it will have on our consolidated financial statements, results of operations and liquidity. In addition, in the absence of guidance on various uncertainties in the application of certain provisions of the TCJA, we will use what we believe are reasonable interpretations in applying the TCJA, but it is possible that the IRS could take positions that differ from our interpretations which could materially adversely impact our financial condition and results of operations.

Reform of the health insurance industry could materially reduce the profitability of our A&H segment.

The Patient Protection and Affordable Care Act ("PPACA") was signed into law in 2010, and throughout 2017, there were several judicial and congressional challenges and proposed amendments to PPACA. We expect there may be additional challenges and amendments in the future. Due to the complexity and continued uncertainty surrounding healthcare legislation, the impact from the PPACA or any amendments to the PPACA remains difficult to predict and could significantly affect the health insurance industry. We continue to review our product offerings and make changes to adapt to the current environment and the opportunities presented. However, we could be adversely affected if our plans for operating in the current environment are unsuccessful or if there is less demand than we expect for our A&H products.

If we are unable to adapt our A&H business to current and/or future requirements of PPACA, or if significant uncertainty continues with respect to implementation of PPACA or other healthcare reform legislation, our A&H business could be materially adversely affected. Furthermore, should Congress extend the scope of or repeal parts of or all of PPACA, such a development could have a material adverse effect on our A&H business. For more information on PPACA and its impact on our A&H segment, see Item 1, "Business - A&H Segment."

Assessments and other surcharges for guaranty funds, second-injury funds, catastrophe funds, and other mandatory pooling arrangements for insurers may reduce our profitability.

Virtually all states require insurers licensed to do business in their state to bear a portion of the loss suffered by some insured parties as the result of impaired or insolvent insurance companies. These losses are funded by assessments that are levied by state guaranty associations, up to prescribed limits, on all member insurance companies in the state based on their proportionate share of premiums written in the lines of business in which the impaired or insolvent insurance companies are engaged. The assessments levied on us may increase as we increase our written premium. In addition, as a condition to the ability to conduct business in various states, our insurance subsidiaries must participate in mandatory property and casualty shared market mechanisms or pooling arrangements, which provide various types of insurance coverage to individuals or entities that otherwise are unable to purchase that coverage from private insurers. The effect of these assessments and mandatory shared-market mechanisms or changes in them could reduce our profitability in any given period or limit our ability to grow our business.

We will require additional capital in the future and such additional capital may not be available to us, or may only be available to us on unfavorable terms.

To support our current and future policy writings or potential acquisitions, we may raise substantial additional capital using a combination of debt and equity. Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that the funds generated by our ongoing operations and initial capitalization are insufficient to fund future operating requirements, we may need to raise additional funds through financings or curtail our growth and reduce our assets. We cannot be sure that we will be able to raise equity or debt financing on terms favorable to us and our stockholders and in the amounts that we require, or at all. If we cannot obtain adequate capital, our business and financial condition could be adversely affected. Issuances of stock may result in dilution of our existing stockholders or a decrease in the per share price of our common stock.

In addition, the terms of a capital raising transaction could require us to agree to stringent financial and operating covenants and to grant security interests on our assets to lenders or holders of our debt securities that could limit our flexibility in operating our business or our ability to pay dividends on our common stock and could make it more difficult for us to obtain capital in the future.

The covenants in our credit agreement limit our financial and operational flexibility, which could have an adverse effect on our financial condition.

Our credit agreement contains covenants that limit our ability, among other things, to borrow money, sell assets, merge or consolidate and make particular types of investments or other restricted payments, including the payment of cash dividends if an event of default has occurred and is continuing or if we are out of compliance with our financial covenants. These covenants could restrict our ability to achieve our business objectives, and therefore, could have an adverse effect on our financial condition. In addition, this agreement also requires us to maintain specific financial ratios. If we fail to comply with these covenants or meet these financial ratios, the lenders under our credit agreement could declare a default and demand immediate repayment of all amounts owed to them, cancel their commitments to lend and/or issue letters of credit, any of which could have a material adverse effect on our liquidity, financial condition and business in general.

Our operations and business activities outside of the United States are subject to a number of risks, which could have an adverse effect on our business, financial condition and results of operations.

We currently conduct a limited amount of business outside the United States, primarily in Bermuda, Luxembourg and Sweden. In these jurisdictions, we are subject to a number of significant risks in conducting such business. These risks include restrictions such as price controls, capital controls, exchange controls and other restrictive government actions, which could have an adverse effect on our business and our reputation. Investments outside the United States also subject us to additional domestic and foreign laws and regulations, including the Foreign Corrupt Practices Act and similar laws in other countries that prohibit the making of improper payments to foreign officials. In addition, some countries have laws and regulations that lack clarity and, even with local expertise and effective controls, it can be difficult to determine the exact requirements of the local laws. Failure to comply with local laws in a particular market could have a significant and negative effect not only on our business in that market but also on our reputation generally.

Changes in accounting standards issued by the Financial Accounting Standards Board (the “FASB”) or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of accounting principles generally accepted in the United States of America, which are periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB. The impact of accounting pronouncements that have been issued but not yet implemented is disclosed in our reports filed with the SEC. See Note 2, “Significant Accounting Policies,” in the notes to our consolidated financial statements. An assessment of proposed standards, including standards on insurance contracts and accounting for financial instruments, is not provided as such proposals are subject to change through the exposure process and official positions of the FASB are determined only after extensive due process and deliberations. Therefore, the effects on our financial statements cannot be meaningfully assessed. The required adoption of future accounting standards could have a material adverse effect on our business, financial condition or results of operations, including on our net income.

Risks Relating to Our Insurance Operations

The insurance industry is highly competitive, and we may not be able to compete effectively against larger companies.

The insurance industry is highly competitive and, except for regulatory considerations, there are relatively few barriers to entry. We compete with both large national insurance providers and smaller regional companies on the basis of price, coverages offered, claims handling, customer service, agent commissions, geographic coverage and financial

strength ratings. Some of our competitors have more capital, higher ratings and greater resources than we have, and may offer a broader range of products than we offer.

Many of our competitors invest heavily in advertising and marketing efforts and/or expanding their online service offerings. Many of these competitors have better brand recognition than we have and have a significantly larger market share than we do. As a result, these larger competitors may be better able to offer lower rates to consumers, to withstand larger losses, and to more effectively take advantage of new marketing opportunities. Our ability to compete against these larger competitors depends on our ability to deliver superior service and maintain our relationships with independent agents and affinity groups.

In our lender-placed insurance business, we use a proprietary insurance-tracking system to monitor the clients' mortgage portfolios to verify the existence of insurance on each mortgaged property and identify those that are uninsured. If, in addition to our current competitors, others in this industry develop a competing system or equivalent administering capabilities, this could adversely affect our business and results of operations.

We may undertake strategic marketing and operating initiatives to improve our competitive position and drive growth. If we are unable to successfully implement new strategic initiatives or if our marketing campaigns do not attract new customers, our competitive position may be harmed, which could adversely affect our business, financial condition and results of operations.

We write a significant amount of business in the nonstandard auto insurance market, which could make us more susceptible to unfavorable market conditions which have a disproportionate effect on that customer base.

A significant amount of our P&C premium currently is written in the nonstandard auto insurance market. As a result, adverse developments in the economic, competitive or regulatory environment affecting the nonstandard customer base or the nonstandard auto insurance industry in general may have a greater effect on us as compared to a more diversified auto insurance carrier with a larger percentage of its business in other types of auto insurance products. Adverse developments of this type may have a material adverse effect on our business.

We generate significant revenue from service fees generated from our P&C and A&H policyholders, which could be adversely affected by additional insurance or consumer protection regulation.

For the year ended December 31, 2017, we generated $502.9 million in service and fee revenue from our P&C and A&H policyholders, which included origination fees, installment fees relating to installment payment plans, late payment fees, policy cancellation fees and reinstatement fees. The revenue we generate from these service fees could be reduced by changes in consumer protection or insurance regulation that restrict or prohibit our ability to charge these fees. If our ability to charge fees for these services were to be restricted or prohibited, there can be no assurance that we would be able to obtain rate increases or take other action to offset the lost revenue and the direct and indirect costs associated with providing the services, which could adversely affect our business, financial condition and results of operations.

The rates we charge under the policies we write are subject to prior regulatory approval in most of the states in which we operate.

In most of the states in which we operate, we must obtain prior regulatory approval of insurance rates charged to our customers, including any increases in those rates. If we are unable to receive approval for the rate changes we request, or if such approval were delayed, our ability to operate our business in a profitable manner may be limited and our financial condition, results of operations, and liquidity may be adversely affected.

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

Historically, the financial performance of the property and casualty insurance industry has tended to fluctuate in cyclical periods of price competition and excess capacity (known as a soft market) followed by periods of high premium rates and shortages of underwriting capacity (known as a hard market). The profitability of most property and casualty insurance companies tends to follow this cyclical market pattern. We cannot predict with certainty the timing or duration of changes in the market cycle because the cyclicality is due in large part to the actions of our competitors and general economic factors beyond our control. These cyclical patterns, the actions of our competitors, and general economic factors could cause our revenues and net income to fluctuate, which may adversely affect our business.

Catastrophic losses or the frequency of smaller insured losses may exceed our expectations as well as the limits of our reinsurance, which could adversely affect our financial condition and results of operations.

Our P&C insurance business is subject to claims arising from catastrophes, such as hurricanes, tornadoes, windstorms, floods, earthquakes, hailstorms, severe winter weather, and fires, or other events, such as explosions, terrorist attacks, riots, and hazardous material releases. The incidence and severity of such events are inherently unpredictable, and our losses from catastrophes could

be substantial. Our 2017 financial results were significantly impacted by hurricanes, floods and wildfires, and due to the inherent uncertainty of such catastrophes in future periods, any future impact remains difficult to predict.

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

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

We rely on the use of credit scoring in pricing and underwriting our auto insurance policies and any legal or regulatory requirements which restrict our ability to access credit score information could decrease the accuracy of our pricing and underwriting process and thus lower our profitability.

We use credit scoring as a factor in pricing and underwriting decisions where allowed by state law. Consumer groups and regulators have questioned whether the use of credit scoring unfairly discriminates against some groups of people and are calling for laws and regulations to prohibit or restrict the use of credit scoring in underwriting and pricing. Laws or regulations that significantly curtail or regulate the use of credit scoring, if enacted in a large number of states in which we operate, could impact the integrity of our pricing and underwriting process, which could, in turn, adversely affect our business, financial condition and results of operations and make it harder for us to be profitable over time.

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

As part of our overall risk and capacity management strategy, we purchase excess of loss catastrophic and casualty reinsurance for protection against catastrophic events and other large losses. We also rely on quota share insurance agreements to cede a portion of the risk on the policies that we write. Market conditions beyond our control, in terms of price and available capacity, may affect the amount of reinsurance we acquire and our profitability.

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

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

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

reinsurer is unable to meet its obligations to us, we would be responsible for claims and claim settlement expenses for which we would have otherwise received payment from the reinsurer. If we were unable to collect these amounts from our reinsurers, our costs would increase and our financial condition would be adversely affected. As of December 31, 2017, we had an aggregate amount of approximately $1,294.2 million of recoverables from reinsurers.

Our largest reinsurance recoverables are from the NCRF and the MCCA. The NCRF is a non-profit organization established to provide automobile liability reinsurance to those insurance companies that write automobile insurance in North Carolina. The MCCA is a Michigan reinsurance mechanism that covers no-fault first party medical losses of retentions in excess of $0.6 million in 2017. At December 31, 2017, the amount of reinsurance recoverable on unpaid losses from the NCRF and the MCCA was approximately $118.7 million and $661.6 million, respectively. If any of our principal reinsurers were unable to meet its obligations to us, our financial condition and results of operations would be materially adversely affected. For additional information, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Reinsurance."

The effects of emerging claim and coverage issues on our business are uncertain and negative developments in this area could have an adverse effect on our business.

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

The effects of litigation on our business are uncertain and could have an adverse effect on our business.

Although we are not currently involved in any material litigation with our customers, other members of the insurance industry are the target of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts, and the outcomes of which are unpredictable. This litigation is based on a variety of issues, including insurance and claim settlement practices. We cannot predict with any certainty whether we will be involved in such litigation in the future or what impact such litigation would have on our business.

Changing climate conditions may adversely affect our financial condition or profitability.

There is an emerging scientific consensus that Earth is getting warmer. Climate change, to the extent it produces rising temperatures and changes in weather patterns, may affect the frequency and severity of storms and other weather events, the affordability, availability and underwriting results of homeowners and property insurance, and, if frequency and severity patterns increase, could negatively affect our financial results.

Risks Related to an Investment in our Common Stock

Our revenues and results of operations may fluctuate as a result of factors beyond our control, which may cause volatility in the price of our shares of common stock.

Our common stock is listed on the Nasdaq Global Market ("Nasdaq") under the symbol "NGHC." Our performance, as well as the risks discussed herein, government or regulatory action, tax laws, interest rates and general market conditions could have a significant impact on the future market price of our common stock. The market price for shares of our common stock may be subject to low volume and may be highly volatile and you may not be able to resell your shares of our common stock at or above the price you paid to purchase the shares or at all. Some of the factors that could negatively affect our share price or result in fluctuations in the price of our common stock include:

- our operating results in any future quarter not meeting or being anticipated not to meet the expectations of market analysts or investors;
- reductions in our earnings estimates by us or market analysts;
- publication of negative research or other unfavorable publicity or speculation in the press or investment community about our company, related companies or the insurance industry in general;
- rising level of claims costs, changes in the frequency or severity of claims or new types of claims and new or changing judicial interpretations relating to the scope of insurance company liability;
- the financial stability of our third-party reinsurers, changes in the level of reinsurance capacity, termination of reinsurance arrangements and changes in our capital capacity;
- increases in interest rates causing investors to demand a higher yield or return on investment than an investment in our common stock may be projected to provide;
- changes in market valuations of other insurance companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- fluctuations in interest rates or inflationary pressures and other changes in the investment environment that affect returns on invested assets;
- additions or departures of key personnel;
- reaction to the sale or purchase of company stock by our principal stockholders or our executive officers;
- changes in the economic or regulatory environment in the markets in which we operate;
- changes in law; and
- general market, economic and political conditions.

Our principal stockholder has the ability to significantly impact our business, which may be disadvantageous to other stockholders.

Leah Karfunkel beneficially owns or controls approximately 41.8% of our outstanding shares of common stock. As a result, Mrs. Karfunkel has the ability to significantly impact all matters requiring approval by our stockholders, including the election and removal of directors, amendments to our certificate of incorporation (other than changes to the rights of the common stock) and bylaws, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. Mrs. Karfunkel may have interests that are different from those of other stockholders.

In addition, members of the Karfunkel family, through entities that they control, have entered into transactions with us and may from time to time in the future enter into other transactions with us. As a result, they may have interests that are different from, or are in addition to, their interests as a stockholder in our company. Such transactions may adversely affect our results or operations or financial condition.

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

In order to comply with the requirements of being a public company we continually enhance certain of our corporate processes, which require significant company resources and management attention.

As a public company with listed equity securities, we need to comply with the laws, regulations and requirements, corporate governance provisions of The Sarbanes-Oxley Act of 2002, periodic reporting requirements of the Exchange Act and other regulations of the SEC and the requirements of the Nasdaq Global Market. In order to comply with

these laws, rules and regulations, we have to continually monitor and enhance certain of our corporate processes, which require us to incur significant legal, accounting and other expenses. These efforts also require a significant amount of time from our board of directors and management, possibly diverting their attention from the implementation of our business plan and growth strategy.

We have made, and will continue to make, changes to our corporate governance standards, disclosure controls, financial reporting and accounting systems to meet our obligations as a public company. We cannot assure you that the changes we have

made and will continue to make to satisfy our obligations as a public company will be successful, and any failure on our part to do so could subject us to delisting of our common stock, fines, sanctions and other regulatory action and potential litigation.

Failure to maintain an effective system of internal control over financial reporting may have an adverse effect on our stock price.

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

Future sales and issuances of shares of our capital stock may depress our share price.

We may in the future issue our previously authorized and unissued securities. We have an authorized capitalization of 150 million shares of common stock and 10 million shares of preferred stock with such designations, preferences and rights as are contained in our charter or bylaws and as determined by our board of directors. Issuances of stock may result in dilution of our existing stockholders or a decrease in the per share price of our common stock. It is not possible to state the actual effect of the issuance of any shares of our preferred stock on the rights of holders of our common stock until our board of directors determines the specific rights attached to that class or series of preferred stock.

We cannot predict what effect, if any, future sales of our common stock, or the availability of shares for future sale, will have on the price prospective buyers are willing to pay for our common stock. Sales of a substantial number of shares of our common stock by us or our principal stockholders, or the perception that such sales could occur, may adversely affect the price prospective buyers are willing to pay for our common stock and may make it more difficult for you to sell your shares at a time and price that you determine appropriate.

Applicable insurance laws may make it difficult to effect a change of control of our company.

State insurance holding company laws require prior approval by the respective state insurance departments of any change of control of an insurer. “Control” is generally defined as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the company, whether through the ownership of voting securities, by contract or otherwise. Control is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. Any person wishing to acquire control of us or of any substantial portion of our outstanding shares would first be required to obtain the approval of the domestic regulators (including those asserting “commercial domicile”) of our insurance subsidiaries.

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

Future issuance of debt or preferred stock, which would rank senior to our common stock upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders, may adversely affect the market

value of our common stock.

In the future, we may attempt to increase our capital resources by issuing debt or making additional offerings of equity securities, including bank debt, commercial paper, medium-term notes, senior or subordinated notes and classes of shares of preferred stock. Upon liquidation, holders of our debt securities and preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of shares of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market value of our common stock, or both. Future issuances of preferred stock could have a preference on liquidating distributions or a preference on dividend payments that would limit amounts available for distribution to holders of shares of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing

or nature of our future offerings. Thus, holders of shares of our common stock bear the risk of our future offerings reducing the market value of our common stock and diluting their stockholdings in us.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We use an aggregate of approximately 1,974,200 square feet in approximately 70 office locations and approximately 430 store fronts. We have an ownership interest in the entities that own the buildings in which we lease space at two of these locations, which represent an aggregate of approximately 266,200 square feet.

Item 3. Legal Proceedings

We are routinely involved in legal proceedings arising in the ordinary course of business, in particular in connection with claims adjudication with respect to our policies. We believe we have recorded adequate reserves for these liabilities and that there is no individual case pending that is likely to have a material adverse effect on our financial condition or results of operations.

Item 4. Mine Safety Disclosures

None.

PART II

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

Shareholders

Our common shares began trading on the Nasdaq Global Market under the symbol "NGHC" on February 20, 2014. We have one class of authorized common stock for 150,000,000 shares at a par value of $0.01 per share. As of February 21, 2018 there were approximately 312 registered record holders of our common shares. This figure does not include beneficial owners who hold shares in nominee name.

Price Range of Common Stock

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

	2017			2016		
	High	Low	Dividends Declared	High	Low	Dividends Declared
First quarter	$26.99	$21.98	$ 0.04	$22.18	$18.04	$ 0.03
Second quarter	$23.78	$20.98	$ 0.04	$22.77	$19.98	$ 0.03
Third quarter	$21.96	$16.21	$ 0.04	$23.12	$20.21	$ 0.04
Fourth quarter	$22.38	$19.00	$ 0.04	$25.40	$18.04	$ 0.04

On February 21, 2018, the closing price per share of our common stock was $20.36.

Dividend Policy

Our board of directors currently intends to continue to authorize the payment of a quarterly cash dividend to our stockholders of record. Any declaration and payment of dividends by our board of directors will depend on many factors, including general economic and business conditions, our strategic plans, our financial results and condition, legal and regulatory requirements and other factors that our board of directors deems relevant.

National General Holdings Corp. is a holding company and has no direct operations. Our ability to pay dividends in the future depends on the ability of our operating subsidiaries, including our insurance subsidiaries, to transfer funds to us in the form of a dividend. The laws of the jurisdictions in which our insurance subsidiaries are organized regulate and restrict, under certain circumstances, their ability to pay dividends to us. The aggregate amount of cash dividends and distributions that could be paid to us by our insurance subsidiaries without prior approval by the various domiciliary states of our insurance subsidiaries was approximately $387.6 million as of December 31, 2017, taking into account dividends paid in the prior twelve month period. Under the terms of our credit agreement, we are not prohibited from paying cash dividends so long as no event of default has occurred and is continuing and we are not out of compliance with our financial covenants. We may, however, enter into credit agreements or other debt arrangements in the future that will restrict our ability to declare or pay cash dividends on our common stock.

Common Stock Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return on our common stock for the period beginning February 20, 2014 and ending on December 31, 2017 with the cumulative total return on the Nasdaq Global Market Index and a peer group comprised of the Nasdaq Insurance Index. The graph shows the change in value of an

initial $100 investment on February 20, 2014. The stock price performance of the following graph is not necessarily indicative of future stock price performance.

Comparative Cumulative Total Returns Since February 20, 2014 for National General Holdings Corp., Nasdaq Composite Index and Nasdaq Insurance Index

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

Item 6. Selected Financial Data

The following tables set forth our selected historical consolidated financial and operating information for the periods ended and as of the dates indicated. The income statement data for the years ended December 31, 2017, 2016 and 2015 and the balance sheet data as of December 31, 2017 and 2016 are derived from our audited financial statements included elsewhere in this annual report. These historical results are not necessarily indicative of results to be expected from any future period.

You should read the following selected consolidated financial information together with the other information contained in this annual report, including "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this annual report.

	Year Ended December 31,				
	2017	2016[(1)]	2015[(1)]	2014[(1)]	2013[(1)]
	(amounts in thousands, except percentages and per share data)				
Selected Income Statement Data[(2)]					
Gross premium written	$4,755,985	$3,500,898	$2,590,044	$2,135,107	$1,338,755
Ceded premiums[(3)]	(1,178,390)	(428,202)	(403,502)	(265,083)	(659,439)
Net premium written	$3,577,595	$3,072,696	$2,186,542	$1,870,024	$679,316
Change in unearned premium	76,581	(77,525)	(56,436)	(236,804)	8,750
Net earned premium	$3,654,176	$2,995,171	$2,130,106	$1,633,220	$688,066
Ceding commission income	116,456	45,600	43,790	12,430	87,100
Service and fee income	502,927	380,817	273,548	168,571	127,541
Net investment income	110,745	99,586	75,340	52,426	30,808
Net gain (loss) on investments	46,763	7,904	(11,095)	(4,552)	(1,653)
Other income (expense)	(198)	24,308	—	—	—
Total revenues	$4,430,869	$3,553,386	$2,511,689	$1,862,095	$931,862
Loss and loss adjustment expense	2,626,082	2,092,280	1,485,320	1,125,136	521,022
Acquisition costs and other underwriting expenses[(4)]	672,429	497,007	406,662	315,089	134,887
General and administrative expenses[(5)]	912,996	709,148	426,976	283,334	221,654
Interest expense	47,086	40,180	28,885	17,736	2,042
Total expenses	$4,258,593	$3,338,615	$2,347,843	$1,741,295	$879,605
Income before provision for income taxes and earnings (losses) of equity method investments	$172,276	$214,771	$163,846	$120,800	$52,257
Provision for income taxes	61,273	33,998	16,176	21,551	11,140
Income before earnings (losses) of equity method investments	$111,003	$180,773	$147,670	$99,249	$41,117
Earnings (losses) of equity method investments (related parties)	(8,795)	15,601	3,443	1,180	1,274
Net income	$102,208	$196,374	$151,113	$100,429	$42,391
Less: Net (income) loss attributable to non-controlling interest	3,637	(20,668)	(14,025)	(2,504)	(82)
Net income attributable to National General Holdings Corp.	$105,845	$175,706	$137,088	$97,925	$42,309
Dividends on preferred stock	(31,500)	(24,333)	(14,025)	(2,291)	(2,158)
Net income attributable to National General Holdings Corp. common stockholders	$74,345	$151,373	$123,063	$95,634	$40,151

Per common share data:										
Basic earnings per share	$0.70		$1.43		$1.25		$1.05		$0.62	
Weighted average shares outstanding - basic	106,588		105,952		98,242		91,499		65,018	
Diluted earnings per share	$0.68		$1.40		$1.22		$1.02		$0.59	
Weighted average shares outstanding - diluted	108,752		108,278		100,724		93,515		71,802	
Dividends declared per common share	$0.16		$0.14		$0.09		$0.05		$0.01	
Insurance Ratios										
Net loss ratio[6]	71.9	%	69.9	%	69.7	%	68.9	%	75.7	%
Net operating expense ratio (non-GAAP)[7][8]	26.4	%	26.0	%	24.2	%	25.6	%	20.6	%
Net combined ratio (non-GAAP)[7][8][9]	98.3	%	95.9	%	93.9	%	94.5	%	96.3	%

	As of December 31,				
	2017	2016[1]	2015[1]	2014[1]	2013[1]
Selected Balance Sheet Data	(amounts in thousands)				
Investments	$3,649,788	$3,631,064	$2,785,510	$1,991,105	$1,042,884
Cash, cash equivalents and restricted cash	$357,484	$285,900	$282,277	$132,615	$73,823
Premiums and other receivables, net	$1,324,321	$1,091,774	$694,577	$588,125	$344,633
Reinsurance recoverable	$1,294,165	$948,236	$897,232	$971,116	$1,055,447
Intangible assets, net and Goodwill	$578,223	$626,084	$461,312	$319,601	$156,915
Total assets	$8,439,743	$7,238,028	$5,556,192	$4,324,716	$2,837,515
Unpaid loss and loss adjustment expense reserves	$2,663,557	$2,273,866	$1,762,575	$1,568,796	$1,259,241
Unearned premiums and other revenue	$2,032,605	$1,701,286	$1,257,598	$872,963	$483,551
Debt	$713,710	$752,001	$491,537	$299,082	$81,142
Total liabilities	$6,486,318	$5,320,670	$4,029,034	$3,255,584	$2,194,648
Common stock and additional paid-in capital	$918,818	$914,851	$901,170	$691,670	$437,803
Preferred stock	$420,000	$420,000	$220,000	$55,000	$—
Total stockholders' equity	$1,953,425	$1,917,358	$1,527,158	$1,069,132	$642,867

(1) Prior years reflect the retrospective correction of errors and certain reclassifications have been made to facilitate period-to-period comparisons. For the year ended December 31, 2014, Loss and LAE increased by $72,071, and General and administrative expenses and Provision for income taxes decreased by $65,428 and $2,325, respectively. For the year ended December 31, 2013, Loss and LAE increased by $58,898 and General and administrative expenses decreased by $58,898. As of December 31, 2015, both Investments and Total assets decreased by $7,200, Unpaid loss and loss adjustment expense reserves increased by $6,951, Unearned premiums and other revenue decreased by $296, Total liabilities increased by $2,282 and Total stockholders' equity decreased by $9,482. As of December 31, 2014, Unpaid loss and loss adjustment expense reserves and Total liabilities increased by $6,643 and $4,318, respectively, and Total stockholders' equity decreased by $4,318. See Note 3, "Revisions of Previously Issued Financial Statements" in the notes to our consolidated financial statements for more information about these accounting changes.

(2) Results of operations were affected by our various acquisitions and reinsurance transactions from 2013 to 2017.

(3) Premiums ceded to related parties were not material for the years ended December 31, 2017 and 2016, and amounted to$1,578, $44,936 and $501,067 for the years ended December 31, 2015, 2014 and 2013, respectively.

(4) Acquisition costs and other underwriting expenses include policy acquisition expenses, commissions paid directly to producers, premium taxes and assessments, salary and benefits and other insurance general and administrative expenses which represent other costs that are directly attributable to insurance activities.

(5) General and administrative expenses are composed of all other operating expenses, including various departmental salaries and benefits expenses for employees that are directly involved in the maintenance of policies, information systems, and accounting for insurance transactions, and other insurance expenses such as federal excise tax, postage, telephones and Internet access charges, as well as legal and auditing fees and board and bureau charges. In addition, general and administrative expenses include those charges that are related to the amortization of tangible and intangible assets and non-insurance activities in which we engage.

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

(7) Net operating expense ratio and net combined ratio are considered non-GAAP financial measures under applicable SEC rules because a component of those ratios, net operating expense, is calculated by offsetting acquisition costs and other underwriting expenses and general and administrative expenses by ceding commission income and service and fee income. Management uses net operating expense ratio (non-GAAP) and net combined ratio (non-GAAP) to evaluate financial performance against historical results and establish targets on a consolidated basis. We believe this presentation enhances the understanding of our results by eliminating what we believe are volatile and unusual events and presenting the ratios with what we believe are the underlying run rates of the

business. Other companies may calculate these measures differently, and, therefore, their measures may not be comparable to those used by the Company’s management. For a reconciliation showing the total amounts by which acquisition costs and other underwriting expenses and general and administrative expenses were offset by ceding commission income and service and fee income in the calculation of net operating expense, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operation-Results of Operations-Consolidated Results of Operations.”

(8) Net operating expense ratio (non-GAAP) is calculated by dividing the net operating expense by net earned premium. Net operating expense consists of the sum of acquisition costs and other underwriting expenses and general and administrative expenses less ceding commission income and service and fee income.

(9) Net combined ratio (non-GAAP) is calculated by adding net loss ratio and net operating expense ratio (non-GAAP) together.

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

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

Overview

We are a specialty personal lines insurance holding company. Through our subsidiaries, we provide a variety of insurance products, including personal and small business automobile, homeowners, umbrella, recreational vehicle, motorcycle, lender-placed, supplemental health and other niche insurance products. We sell insurance products with a focus on underwriting profitability through a combination of our customized and predictive analytics and our technology driven low cost infrastructure.

We manage our business through two segments: Property and Casualty ("P&C") and Accident and Health ("A&H"). We transact business primarily through our twenty-two regulated domestic insurance subsidiaries: Integon Casualty Insurance Company, Integon General Insurance Corporation, Integon Indemnity Corporation, Integon National Insurance Company ("Integon National"), Integon Preferred Insurance Company, New South Insurance Company, MIC General Insurance Corporation, National General Insurance Company, National General Assurance Company, National General Insurance Online, Inc., National Health Insurance Company, National General Premier Insurance Company, Imperial Fire and Casualty Insurance Company, Agent Alliance Insurance Company, Century-National Insurance Company, Standard Property and Casualty Insurance Company, Direct General Insurance Company, Direct General Insurance Company of Louisiana, Direct General Insurance Company of Mississippi, Direct General Life Insurance Company, Direct Insurance Company and Direct National Insurance Company. Our insurance subsidiaries that are part of our intercompany quota share agreement to Integon National, have an "A-" (Excellent) group rating by A.M. Best Company, Inc. ("A.M. Best"). We currently conduct a limited amount of business outside the United States, primarily in Bermuda, Luxembourg and Sweden.

The operating results of property and casualty insurance companies are subject to quarterly and yearly fluctuations due to the effect of competition on pricing, the frequency and severity of losses, the effect of weather and natural disasters on losses, general economic conditions, the general regulatory environment in states in which an insurer operates, state regulation of premium rates, changes in fair value of investments, and other factors such as changes in tax laws. The property and casualty industry has been highly cyclical with periods of high premium rates and shortages of underwriting capacity followed by periods of severe price competition and excess capacity. While these cycles can have a large impact on a company's ability to grow and retain business, we have sought to focus on niche markets and regions where we are able to maintain premium rates at generally consistent levels and maintain underwriting discipline throughout these cycles. We believe that the nature of our P&C insurance products, including their relatively low limits, the relatively short duration of time between when claims are reported and when they are settled, and the broad geographic distribution of our customers, have allowed us to grow and retain our business throughout these cycles. In addition, we have limited our exposure to catastrophe losses through reinsurance. With regard to seasonality, we tend to experience higher claims and claims expense in our P&C segment during periods of severe or inclement weather. Our operating results for the year ended December 31, 2017 have been negatively impacted by losses resulting from severe weather, including Hurricanes Harvey, Irma and Maria, and by losses from California wildfires.

We evaluate our operations by monitoring key measures of growth and profitability, including net combined ratio (non-GAAP) and operating leverage. We target a net combined ratio (non-GAAP) in the low-to-mid 90s while

seeking to maintain optimal operating leverage in our insurance subsidiaries commensurate with our A.M. Best rating objectives. To achieve our targeted net combined ratio (non-GAAP) we continually seek ways to reduce our operating costs and lower our expense ratio. For the year ended December 31, 2017, our operating leverage (the ratio of net earned premium to average total stockholders' equity) was 1.9x, which was within our planned target operating leverage of between 1.5x and 2.0x.

Investment income is also an important part of our business. Because we often do not settle claims until several months or longer after we receive the original policy premiums, we are able to invest cash from premiums for significant periods of time. We invest our capital and surplus in accordance with state and regulatory guidelines. Our net investment income was $110.7 million,

$99.6 million and $75.3 million for the years ended December 31, 2017, 2016 and 2015, respectively. We held 8.9% and 7.3%, of total invested assets in cash, cash equivalents and restricted cash as of December 31, 2017 and 2016, respectively.

Our most significant balance sheet liability is our unpaid loss and loss adjustment expense ("LAE") reserves. As of December 31, 2017 and 2016, our reserves, net of reinsurance recoverables on unpaid losses, were $1.5 billion and $1.4 billion, respectively. We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances. Reserves are based on estimates of the most likely ultimate cost of individual claims. These estimates are inherently uncertain. Judgment is required to determine the relevance of our historical experience and industry information under current facts and circumstances. The interpretation of this historical and industry data can be impacted by external forces, principally frequency and severity of future claims, length of time to achieve ultimate settlement of claims, inflation of medical costs and wages, insurance policy coverage interpretations, jury determinations and legislative changes. Accordingly, our reserves may prove to be inadequate to cover our actual losses. If we change our estimates, these changes would be reflected in our results of operations during the period in which they are made, with increases in our reserves resulting in decreases in our earnings.

Quota Share Reinsurance

Effective July 1, 2017, we entered into an auto quota share agreement, pursuant to which we cede 15.0% of net liability under our auto policies to an unaffiliated third-party reinsurance provider, and a homeowners quota share agreement, pursuant to which we cede 29.6% of net liability under homeowners policies to unaffiliated third-party reinsurance providers. For more information see Note 12, "Reinsurance" in the notes to our consolidated financial statements.

Principal Revenue and Expense Items

Gross premium written. Gross premium written represents premium from each insurance policy that we write, including as a servicing carrier for assigned risk plans, during a reporting period based on the effective date of the individual policy, prior to ceding reinsurance to third parties.

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

Change in unearned premium. Change in unearned premium is the change in the balance of the portion of premium that we have written but have yet to earn during the relevant period because the policy is unexpired.

Net earned premium. Net earned premium is the earned portion of our net premium written. We generally earn insurance premium on a pro rata basis over the term of the policy. At the end of each reporting period, premium written that is not earned is classified as unearned premium, which is earned in subsequent periods over the remaining term of the policy. Our policies typically have a term of six months or one year. For a six-month policy written on January 1, 2017, we would earn half of the premium in the first quarter of 2017 and the other half in the second quarter of 2017.

Ceding commission income. Ceding commission income is commission we receive based on the earned premium ceded to third-party reinsurers to reimburse us for our acquisition, underwriting and other operating expenses. We earn commissions on reinsurance premium ceded in a manner consistent with the recognition of the earned premium on the underlying insurance policies, generally on a pro rata basis over the terms of the policies reinsured. The portion of ceding commission revenue which represents reimbursement of successful acquisition costs related to the underlying policies is recorded as an offset to acquisition costs and other underwriting expenses.

Service and fee income. We also generate policy service and fee income from installment fees, late payment fees, and other finance and processing fees related to policy cancellation, policy reinstatement, and insufficient fund check returns. These fees

are generally designed to offset expenses incurred in the administration of our 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. Insufficient 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 canceled. A policy reinstatement fee is recognized when the customer's policy is reinstated. An insufficient fund fee is recognized when the customer's payment is returned by the financial institution. The amounts charged are primarily intended to compensate us 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.

We also collect service fees in the form of commissions and general agent fees by selling policies issued by third-party insurance companies. 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.

Net investment income and Net gains and losses on investments. We invest our statutory surplus funds and the funds supporting our insurance liabilities primarily in cash and cash equivalents, fixed maturities and equity securities. Our net investment income includes interest and dividends earned on our invested assets. We report net realized gains and losses on our investments separately from our net investment income. Net realized gains occur when we sell our investment securities for more than their costs or amortized costs, as applicable. Net realized losses occur when we sell our investment securities for less than their costs or amortized costs, as applicable, or we write down the investment securities as a result of other-than-temporary impairment loss. We classify our fixed maturities and equity securities as available for sale. We report net unrealized gains (losses) on those securities classified as available for sale separately in other comprehensive income on our balance sheet. Additionally, we have a small portfolio of fixed maturities and equity securities classified as trading. We report all gains (losses) on securities classified as trading within net gains (losses) on investments. Net gains and losses on investments also include foreign exchange gains and losses which are generated by the remeasurement of our subsidiaries' financial statement amounts that are denominated or stated in another currency into the Company's functional currency.

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

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses consist of policy acquisition and marketing expenses, salaries and benefits expenses. Policy acquisition expenses comprise commissions directly attributable to those agents, wholesalers or brokers that produce premiums written on our behalf and promotional fees directly attributable to our affinity relationships. Acquisition costs also include costs that are related to the successful acquisition of new or renewal insurance contracts including comprehensive loss underwriting exchange reports, motor vehicle reports, credit score checks, and policy issuance costs.

General and administrative expenses. General and administrative expenses are composed of all other operating expenses, including various departmental salaries and benefits expenses for employees that are directly involved in the maintenance of policies, information systems, and accounting for insurance transactions, and other insurance expenses such as federal excise tax, postage, telephones and Internet access charges, as well as legal and auditing fees and board and bureau charges. In addition,

general and administrative expenses include those charges that are related to the amortization of tangible and intangible assets and non-insurance activities in which we engage.

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

Income tax expense. We incur federal, state and local income tax expenses as well as income tax expenses in certain foreign jurisdictions in which we operate.

Earnings (losses) of equity method investments. This represents primarily our share in earnings or losses of our investment in two companies that own life settlement contracts, which includes the gain realized upon a mortality event and the change in fair value of the investments in life settlements as evaluated at the end of each reporting period. We also invest in corporate entities, partnership and partnership-like entities and participate in their earnings (losses) for real estate, private equity funds and various partnership investments.

Net operating expense. These expenses consist of the sum of general and administrative expenses and acquisition costs and other underwriting expenses less ceding commission income and service and fee income.

Underwriting income. Underwriting income is a measure of an insurance company's overall operating profitability before items such as investment income, interest expense and income taxes. Underwriting income is calculated as net earned premium plus ceding commission income and service and fee income less loss and LAE, acquisition costs and other underwriting expenses, and general and administrative expenses.

Insurance Ratios

Net combined ratio (non-GAAP). The net combined ratio (non-GAAP) is a measure of an insurance company's overall underwriting profit. This is the sum of the net loss ratio and net operating expense ratio (non-GAAP). If the net combined ratio (non-GAAP) is at or above 100 percent, an insurance company cannot be profitable without investment income, and may not be profitable if investment income is insufficient. Our definition of net loss ratio and net operating expense ratio is as follows:

- Net loss ratio. The net loss ratio is a measure of the underwriting profitability of an insurance company's business. Expressed as a percentage, this is the ratio of loss and LAE incurred to net earned premium.
- Net operating expense ratio (non-GAAP). The net operating expense ratio (non-GAAP) is one component of an insurance company's operational efficiency in administering its business. Expressed as a percentage, this is the ratio of net operating expense to net earned premium.

Net operating expense ratio and net combined ratio are considered non-GAAP financial measures under applicable SEC rules because a component of those ratios, net operating expense, is calculated by offsetting acquisition costs and other underwriting expenses and general and administrative expenses by ceding commission income and service and fee income, and is therefore a non-GAAP measure. Management uses net operating expense ratio (non-GAAP) and net combined ratio (non-GAAP) to evaluate financial performance against historical results and establish targets on a consolidated basis. We believe this presentation enhances the understanding of our results by eliminating what we believe are volatile and unusual events and presenting the ratios with what we believe are the underlying run rates of the business. Other companies may calculate these measures differently, and, therefore, their measures may not be comparable to those used by the Company's management. For a reconciliation showing the total amounts by which acquisition costs and other underwriting expenses and general and administrative expenses were offset by ceding commission income and service and fee income in the calculation of net operating expense, see "Results of Operations - Consolidated Results of Operations" below.

Critical Accounting Policies and Estimates

Our significant accounting policies are discussed in Note 2, “Significant Accounting Policies” in the notes to our consolidated financial statements.

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. Our principal estimates include unpaid losses and LAE 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 goodwill impairment; 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. We recognize earned premium on a pro rata basis over the terms of the policies, generally periods of six or twelve months. Unearned premium represents the portion of premiums written applicable to the unexpired terms of the policies. Net premiums receivable represent premium written and not yet collected, net of an allowance for uncollectible premium. We regularly evaluate premium and other receivables and adjust for uncollectible amounts as appropriate. Receivables specifically identified as uncollectible are charged to expense in the period the determination is made.

Service and fee income. We currently generate policy service and fee income from installment fees, late payment fees, and other finance and processing fees related to policy cancellation, policy reinstatement, and insufficient fund check returns. These fees are generally designed to offset expenses incurred in the administration of our 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. Insufficient 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 canceled. A policy reinstatement fee is recognized when the customer’s policy is reinstated. An insufficient fund fee is recognized when the customer’s payment is returned by the financial institution. The amounts charged are primarily intended to compensate us 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. We estimate an allowance for doubtful accounts based on a percentage of fee income.

We also collect service fees in the form of commissions and general agent fees by selling policies issued by third-party insurance companies. We do 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.

Reserves for loss and loss adjustment expenses. We record reserves for estimated losses under insurance policies that we write and for LAE related to the investigation and settlement of policy claims. Our reserves for loss and LAE represent the estimated cost of all reported and unreported loss and LAE incurred and unpaid at any given point in time based on known facts and circumstances.

Loss reserves include statistical reserves and case estimates for individual claims that have been reported and estimates for claims that have been incurred but not reported at the balance sheet date as well as estimates of the expenses associated with processing and settling all reported and unreported claims, less estimates of anticipated salvage and subrogation recoveries.

Estimates are based upon past loss experience modified for current trends as well as economic, legal and social conditions. Loss reserves, except life reserves, are not discounted to present value, which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income.

In establishing these estimates, we make various assumptions regarding a number of factors, including frequency and severity of claims, the length of time needed to achieve ultimate settlement of claims, inflation of medical costs, insurance policy coverage interpretations, jury determinations and legislative changes. Due to the inherent uncertainty associated with these estimates, and the cost of incurred but unreported claims, our actual liabilities may be different from our original estimates. On a quarterly basis, we review our reserves for loss and loss adjustment expenses to determine whether further adjustments are required. Any resulting adjustments are included in the current period's results. Additional information regarding the judgments and uncertainties surrounding our estimated reserves for loss and loss adjustment expenses can be found in Item 1, "Business-Loss Reserves."

Reinsurance. We account for reinsurance premiums, losses and LAE ceded to other companies on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. 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 on reinsurance premiums ceded are earned in a manner consistent with the recognition of the costs to acquire the underlying policies, generally on a pro-rata basis over the terms of the policies reinsured. The portion of ceding commission which represents reimbursement of acquisition costs related to the underlying policies is recorded as an offset to acquisition costs and other underwriting expenses. Commission in excess of acquisition costs is recorded as ceding commission income over the terms of the policies. Certain reinsurance agreements contain provisions whereby the ceding commission rates vary based on the loss experience of the policies covered by the agreements. The Company records ceding commission revenue based on its current estimate of losses on the reinsured policies subject to variable commission rates. The Company records adjustments to the ceding commission revenue in the period that changes in the estimated losses are determined. 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 we determine that a reinsurance contract does not transfer sufficient risk, we account for the contract under deposit accounting.

Deferred policy acquisition costs. Deferred acquisition costs include commissions, premium taxes, payments to affinity partners, promotional fees, and other direct sales costs that vary and are directly related to the successful 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. We consider anticipated investment income in determining the recoverability of these costs. Management believes that these costs are recoverable in the near term. If management determined that these costs were not recoverable, then we could not continue to record deferred acquisition costs as an asset and would be required to establish a liability for a premium deficiency reserve.

Assessments related to insurance premiums. We are subject to a variety of insurance-related 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. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. These assessments are accrued in the period in which they have been incurred. We use estimated assessment rates in determining the appropriate assessment expense and accrual. We use estimates derived from state regulators and/or National Association of Insurance Commissioners ("NAIC") Tax and Assessments Guidelines.

Unearned premium reserves. Unearned premium reserves represent the portion of premiums written applicable to the unexpired terms of the policies.

Investments. We account for investments in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 320, “Investments - Debt and Equity Securities,” which requires that equity securities that have readily determinable fair values and all investments in debt securities to be segregated into categories based upon our intention for those securities. Based on our intention, we have classified our investments as available for sale or trading, with the exception of our equity and cost method investments. We may sell our 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 statements of comprehensive income. Trading securities are reported at their estimated fair values with all gains and losses included in earnings.

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.

We use 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 that 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 not more likely than not that we will be required to sell the security before recovery of its amortized cost basis;
- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings;
- the occurrence of a discrete credit event resulting in the issuer defaulting on 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. We immediately write down investments that we consider to be impaired based on the foregoing criteria collectively.

In the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is not more 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 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.

Goodwill and intangible assets. We account for goodwill and intangible assets in accordance with 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 statements of income.

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

Non-controlling Interest. The ownership interest in consolidated subsidiaries of non-controlling interests is reflected as non-controlling interest. Our consolidation principles also consolidate entities in which we are deemed a primary beneficiary. Non-controlling interest income or loss represents such non-controlling interests in the earnings of that entity. We consolidate the Reciprocal Exchanges as we have determined that these are variable interest entities and that we are the primary beneficiary.

Fair value of financial instruments. Our estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 820, “Fair Value Measurements and Disclosures.” The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect our significant market assumptions. Additionally, valuation of fixed-maturity investments is more subjective when markets are less liquid due to lack of market-based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur. Fair values of other financial instruments which are short-term in nature 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.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors, including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. We use prices and inputs that are current as of the measurement date. In periods of market dislocation, the observability

of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified between levels.

For investments that have quoted market prices in active markets, we use the quoted market prices as fair value and include these prices in the amounts disclosed in the Level 1 hierarchy. We receive the quoted market prices from nationally recognized third-party pricing services ("pricing service"). When quoted market prices are unavailable, we utilize the 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 services are included in the Level 2 hierarchy. The pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. The pricing service's evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing, to prepare evaluations. In addition, the pricing service uses model processes, such as the Option Adjusted Spread model, to assess interest rate impact and develop prepayment scenarios. The market inputs that the pricing service normally seeks for evaluations of securities, listed in approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

We utilize the fair values received from the pricing service to estimate fair value measurements for all our fixed maturities and equity securities. The following describes the valuation techniques we used to determine the fair value of financial instruments held as of December 31, 2017 and 2016:

•U.S. Treasury and Federal Agencies   Comprised primarily of bonds issued by the U.S. Treasury. 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. We believe the market for U.S. government securities is an actively traded market given the high level of daily trading volume.

•States and Political Subdivision Bonds   Comprised of bonds and auction rate securities issued by U.S. states and municipal entities or agencies. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, these are classified within Level 2 of the fair value hierarchy. We also hold certain municipal bonds that finance economic development, infrastructure and environmental projects which do not have an active market. These bonds are valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and are classified as Level 3 in the fair value hierarchy.

•Foreign Government   Comprised of bonds issued by foreign governments. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, these are classified within Level 2 of the fair value hierarchy. We also hold certain foreign government bonds that are valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and are classified as Level 3 in the fair value hierarchy.

•Corporate Bonds   Comprised of bonds issued by corporations, public and privately placed. The fair values of short-term corporate bonds are priced 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, we obtain non-binding quotes from broker-dealers. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, these are classified within Level 2 of the fair value hierarchy. We also hold certain structured notes and term loans that do not have an active market. These bonds are valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and are classified as Level 3 in the fair value hierarchy.

•Mortgage, Asset-backed and Structured Securities   Comprised of commercial and residential mortgage-backed, asset-backed and structured securities. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, prepayment speeds, collateral performance and credit spreads, these are classified within Level 2 of the fair value hierarchy. We also hold certain mortgage and structured securities valued based on non-binding broker quotes received from brokers who are familiar with the investments and where the inputs have not been corroborated to be market observable, these are classified within Level 3 of the fair value hierarchy.

•Equity Securities   The pricing service utilizes market quotations for equity securities that have quoted market prices in active markets and their respective quoted prices are provided as fair value. We classified the values of these equity securities as

Level 1. The pricing service also provides fair value estimates for certain equity securities whose fair value is based on observable market information rather than market quotes. We classified the value of these equity securities as Level 2. From time to time, we also hold certain equity securities that are issued by privately-held entities or direct equity investments that do not have an active market. We estimate the fair value of these securities primarily based on inputs such as third-party broker quote, issuers' book value, market multiples, and other inputs. These bonds are valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and are classified as Level 3 in the fair value hierarchy.

•Other Investments, at fair value - Comprised of our rights to receive the Excess Servicing Spread ("ESS") related to servicing rights. We use a discounted cash flow approach to estimate their fair value. The key inputs used in the estimation of ESS include prepayment speed and discount rate. Changes in the fair value of the ESS are reported in earnings. We classified the fair value estimates of ESS as Level 3 in the fair value hierarchy.

•Premiums and Other Receivables - The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values due to the short-term nature of these assets.

•Debt - The amount reported in the accompanying balance sheets for these financial instruments represents the carrying value of our debt. We utilize a pricing service to estimate its fair value, other than our publicly traded debt.

Stock Compensation Expense. We recognize compensation expense for our share-based awards based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight-line basis in our consolidated statements of income over the period during which the employee is required to perform service in exchange for the award. Share-based payments include stock option grants and restricted stock units ("RSU") under our 2010 Equity Incentive Plan and our 2013 Equity Incentive Plan.

Earnings per Share. Basic earnings per share are computed based on the weighted-average number of shares of common stock outstanding. Dilutive earnings per share are computed using the weighted-average number of shares of common stock outstanding during the period adjusted for the dilutive impact of share options and restricted stock units using the treasury stock method.

Income Taxes. We join our subsidiaries in the filing of a consolidated federal income tax return and are party to federal income tax allocation agreements. Under the tax allocation agreements, we pay to or receive from our subsidiaries the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return. 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 amount of our 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. We record changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income, primarily unrealized investment gains and losses, directly to other comprehensive income. We include changes in deferred income tax assets and liabilities as a component of income tax expense.

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

We recognize tax benefits only on tax positions that are more likely than not to be sustained upon examination by taxing authorities. Our policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in our income tax provision. We file our consolidated tax returns as prescribed by the tax laws of the jurisdictions in which we and our subsidiaries operate.

On December 22, 2017, “H.R.1”, also known as the Tax Cuts and Jobs Act of 2017 (the “TCJA”) was signed into law. The TCJA reduces the federal corporate income tax rate from 35% to 21% effective January 1, 2018, which we expect will impact our future effective tax rate and after-tax earnings in the United States. We may also be affected by certain other aspects of the TCJA, including, without limitation, provisions regarding the one-time transition tax on undistributed foreign earnings and profits, limitations on the deductibility of interest expense and executive compensation and deductibility of capital expenditures.

As a result of the reduction in the corporate income tax rate, we were required to revalue our deferred tax assets and deferred tax liabilities to account for the future impact of lower corporate tax rates on these deferred tax amounts. Under the SEC guidance, Staff Accounting Bulletin No. 118, we recognized additional provision for income taxes in the amount of $20.6 million (net of $5.2 million benefit in the Reciprocal Exchanges) related to this revaluation.

Results of Operations

Consolidated Results of Operations

	Year Ended December 31,							
	2017				2016			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(amounts in thousands)							
Gross premium written	$4,375,414	$383,773	$(3,202)	$4,755,985	$3,261,670	$241,540	$(2,312)	$3,500,898
Ceded premiums	(973,468)	(208,124)	3,202	(1,178,390)	(309,522)	(120,992)	2,312	(428,202)
Net premium written	$3,401,946	$175,649	$—	$3,577,595	$2,952,148	$120,548	$—	$3,072,696
Change in unearned premium	82,359	(5,778)	—	76,581	(67,372)	(10,153)	—	(77,525)
Net earned premium	$3,484,305	$169,871	$—	$3,654,176	$2,884,776	$110,395	$—	$2,995,171
Ceding commission income	56,276	60,180	—	116,456	2,078	43,522	—	45,600
Service and fee income	552,580	5,794	(55,447)	502,927	410,771	3,862	(33,816)	380,817
Total underwriting revenues	$4,093,161	$235,845	$(55,447)	$4,273,559	$3,297,625	$157,779	$(33,816)	$3,421,588
Underwriting expenses:								
Loss and loss adjustment expense	2,506,242	119,840	—	2,626,082	2,023,064	69,216	—	2,092,280
Acquisition costs and other underwriting expenses	622,269	50,160	—	672,429	481,865	15,148	(6)	497,007
General and administrative expenses	887,472	80,971	(55,447)	912,996	677,582	65,376	(33,810)	709,148
Total underwriting expenses	$4,015,983	$250,971	$(55,447)	$4,211,507	$3,182,511	$149,740	$(33,816)	$3,298,435
Underwriting income (loss)	$77,178	$(15,126)	$—	$62,052	$115,114	$8,039	$—	$123,153
Net investment income	111,024	9,325	(9,604)	110,745	97,376	8,716	(6,506)	99,586
Net gain on investments	40,640	6,123	—	46,763	7,389	515	—	7,904
	(198)	—	—	(198)	24,308	—	—	24,308

Other income (expense)								
Earnings (losses) of equity method investments (related parties)	(8,795)	—	—	(8,795)	15,601	—	—	15,601
Interest expense	(47,086)	(9,604)	9,604	(47,086)	(40,180)	(6,506)	6,506	(40,180)
Income (loss) before provision (benefit) for income taxes	$172,763	$(9,282)	$—	$163,481	$219,608	$10,764	$—	$230,372
Less: Provision (benefit) for income taxes	66,918	(5,645)	—	61,273	43,789	(9,791)	—	33,998
Net income (loss)	$105,845	$(3,637)	$—	$102,208	$175,819	$20,555	$—	$196,374
Less: Net (income) loss attributable to non-controlling interest	—	3,637	—	3,637	(113)	(20,555)	—	(20,668)
Net income attributable to NGHC	$105,845	$—	$—	$105,845	$175,706	$—	$—	$175,706
Net loss ratio	71.9%	70.5%		71.9%	70.1%	62.7%		69.9%
Net operating expense ratio (non-GAAP)	25.9%	38.4%		26.4%	25.9%	30.0%		26.0%
Net combined ratio (non-GAAP)	97.8%	108.9%		98.3%	96.0%	92.7%		95.9%

	Year Ended December 31, 2017				2016			
Reconciliation of net operating expense ratio (non-GAAP):	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(amounts in thousands)							
Total expenses	$4,063,069	$260,575	$(65,051)	$4,258,593	$3,222,691	$156,246	$(40,322)	$3,338,615
Less: Loss and loss adjustment expense	2,506,242	119,840	—	2,626,082	2,023,064	69,216	—	2,092,280
Less: Interest expense	47,086	9,604	(9,604)	47,086	40,180	6,506	(6,506)	40,180
Less: Ceding commission	56,276	60,180	—	116,456	2,078	43,522	—	45,600

income								
Less: Service and fee income	552,580	5,794	(55,447)	502,927	410,771	3,862	(33,816)	380,817
Net operating expense	$900,885	$65,157	$—	$966,042	$746,598	$33,140	$—	$779,738
Net earned premium	$3,484,305	$169,871	$—	$3,654,176	$2,884,776	$110,395	$—	$2,995,171
Net operating expense ratio (non-GAAP)	25.9 %	38.4 %		26.4 %	25.9 %	30.0 %		26.0 %

	Year Ended December 31, 2016				2015			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(amounts in thousands)							
Gross premium written	$3,261,670	$241,540	$(2,312)	$3,500,898	$2,310,052	$283,582	$(3,590)	$2,590,044
Ceded premiums	(309,522)	(120,992)	2,312	(428,202)	(249,601)	(157,491)	3,590	(403,502)
Net premium written	$2,952,148	$120,548	$—	$3,072,696	$2,060,451	$126,091	$—	$2,186,542
Change in unearned premium	(67,372)	(10,153)	—	(77,525)	(65,054)	8,618	—	(56,436)
Net earned premium	$2,884,776	$110,395	$—	$2,995,171	$1,995,397	$134,709	$—	$2,130,106
Ceding commission income (loss)	2,078	43,522	—	45,600	(2,510)	46,300	—	43,790
Service and fee income	410,771	3,862	(33,816)	380,817	300,114	13,226	(39,792)	273,548
Total underwriting revenues	$3,297,625	$157,779	$(33,816)	$3,421,588	$2,293,001	$194,235	$(39,792)	$2,447,444
Underwriting expenses:								
Loss and loss adjustment expense	2,023,064	69,216	—	2,092,280	1,376,704	108,616	—	1,485,320
Acquisition costs and other underwriting expenses	481,865	15,148	(6)	497,007	378,798	27,972	(108)	406,662
General and administrative expenses	677,582	65,376	(33,810)	709,148	412,356	54,304	(39,684)	426,976
Total underwriting expenses	$3,182,511	$149,740	$(33,816)	$3,298,435	$2,167,858	$190,892	$(39,792)	$2,318,958
Underwriting income	$115,114	$8,039	$—	$123,153	$125,143	$3,343	$—	$128,486
Net investment income	97,376	8,716	(6,506)	99,586	66,429	8,911	—	75,340
Net gain (loss) on investments	7,389	515	—	7,904	(11,441)	346	—	(11,095)
Other income	24,308	—	—	24,308	—	—	—	—
Earnings of equity method investments	15,601	—	—	15,601	3,443	—	—	3,443

(related parties)								
Interest expense	(40,180)	(6,506)	6,506	(40,180)	(24,229)	(4,656)	—	(28,885)
Income before provision (benefit) for income taxes	$219,608	$10,764	$—	$230,372	$159,345	$7,944	$—	$167,289
Less: Provision (benefit) for income taxes	43,789	(9,791)	—	33,998	22,125	(5,949)	—	16,176
Net income	$175,819	$20,555	$—	$196,374	$137,220	$13,893	$—	$151,113
Less: Net (income) attributable to non-controlling interest	(113)	(20,555)	—	(20,668)	(132)	(13,893)	—	(14,025)
Net income attributable to NGHC	$175,706	$—	$—	$175,706	$137,088	$—	$—	$137,088
Net loss ratio	70.1%	62.7%		69.9%	69.0%	80.6%		69.7%
Net operating expense ratio (non-GAAP)	25.9%	30.0%		26.0%	24.7%	16.9%		24.2%
Net combined ratio (non-GAAP)	96.0%	92.7%		95.9%	93.7%	97.5%		93.9%

	Year Ended December 31, 2016				2015			
Reconciliation of net operating expense ratio (non-GAAP):	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(amounts in thousands)							
Total expenses	$3,222,691	$156,246	$(40,322)	$3,338,615	$2,192,087	$195,548	$(39,792)	$2,347,843
Less: Loss and loss adjustment expense	2,023,064	69,216	—	2,092,280	1,376,704	108,616	—	1,485,320
Less: Interest expense	40,180	6,506	(6,506)	40,180	24,229	4,656	—	28,885
Less: Ceding commission income (loss)	2,078	43,522	—	45,600	(2,510)	46,300	—	43,790
Less: Service and fee income	410,771	3,862	(33,816)	380,817	300,114	13,226	(39,792)	273,548
Net operating expense	$746,598	$33,140	$—	$779,738	$493,550	$22,750	$—	$516,300
Net earned premium	$2,884,776	$110,395	$—	$2,995,171	$1,995,397	$134,709	$—	$2,130,106

Net operating expense ratio (non-GAAP)	25.9 %	30.0 %	26.0 %	24.7 %	16.9 %	24.2 %

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Effective July 1, 2017, we entered into an auto quota share agreement, pursuant to which we cede 15.0% of net liability under our auto policies to an unaffiliated third-party reinsurance provider, and a homeowners quota share agreement, pursuant to which we cede 29.6% of net liability under homeowners policies to unaffiliated third-party reinsurance providers (collectively, the "Quota Shares"). Ceded premiums under the Quota Shares for the year ended December 31, 2017 were $565.8 million. See "Reinsurance" below for additional information.

During 2016, we entered into a number of acquisitions and other transactions, including the following: (i) in November 2016, we closed on the acquisition of Elara Holdings, Inc., the parent company of Direct General Corporation, a Tennessee-based property and casualty insurance company ("Direct General"), (ii) in October 2016, we closed on the acquisition of Standard Property and Casualty Insurance Company, an Illinois-based property and casualty insurance company ("SPCIC"), (iii) in June 2016, we closed on the acquisition of Century-National Insurance Company, a California-based property and casualty insurance company and Western General, a California corporation ("Century-National"), and (iv) we had an increase in premium volume from our 2015 acquired company Assigned Risk Solutions Ltd. ("ARS"), which began being written on our paper on January 1, 2016. In addition, in the first quarter of 2016, the Reciprocal Exchanges were deconsolidated at January 1, 2016, and subsequently reconsolidated at March 31, 2016.

During 2015, we acquired our lender-placed insurance business ("LPI Business") and certain A&H lines and assets from Assurant Health (the "Assurant Transaction").

As a result of these transactions and reinsurance agreements, comparisons in our results of operation between 2017 and 2016, and between 2016 and 2015, will be less meaningful. Other than the life portion of Direct General and the Assurant Transaction, all these transactions impacted our P&C segment only.

Additionally, as discussed in Note 3, "Revisions of Previously Issued Financial Statements" in the notes to our consolidated financial statements, management identified certain errors in our historical financial statements resulting in prior period adjustments to correct misstatements.

Consolidated Results of Operations for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Gross premium written. Gross premium written increased by $1,255.1 million, or 35.9%, from $3,500.9 million for the year ended December 31, 2016 to $4,756.0 million for the year ended December 31, 2017, due to an increase of $1,137.7 million from the P&C segment as a result of the acquisitions of Direct General ($374.2 million), Century-National ($81.6 million) and SPCIC ($34.1 million), from organic growth ($537.2 million) and the consolidation of the Reciprocal Exchanges ($142.2 million), partially offset by a decline in lender-placed premiums ($31.7 million); and an increase of $117.4 million from the A&H segment as a result of the acquisition of Direct General ($10.4 million) and organic growth ($107.0 million).

Net premium written. Net premium written increased by $504.9 million, or 16.4%, from $3,072.7 million for the year ended December 31, 2016 to $3,577.6 million for the year ended December 31, 2017. Net premium written for the P&C segment increased by $388.3 million for the year ended December 31, 2017 compared to the same period in 2016, as a result of the acquisitions of Direct General ($367.2 million), Century-National ($69.5 million) and SPCIC ($34.0 million), from organic growth ($464.2 million) and the consolidation of the Reciprocal Exchanges ($55.1 million), partially offset by the Quota Shares ($565.8 million) and a decline in lender-placed premiums ($36.0 million). Net premium written for the A&H segment increased by $116.6 million for the year ended December 31, 2017 compared to the same period in 2016, as a result of the acquisition of Direct General ($10.4 million) and organic growth ($106.2 million).

Net earned premium. Net earned premium increased by $659.0 million, or 22.0%, from $2,995.2 million for the year ended December 31, 2016 to $3,654.2 million for the year ended December 31, 2017. The increase by segment was: P&C $540.1 million and A&H $118.9 million. The increase in the P&C segment was attributable to the acquisitions of Direct General ($352.8 million), Century-National ($84.0 million) and SPCIC ($35.2 million), from organic growth ($392.4 million) and the consolidation of the Reciprocal Exchanges ($59.5 million), partially offset by the Quota Shares ($291.1 million) and a decline in lender-placed premiums ($92.7 million). The increase in the A&H segment was primarily due to the acquisition of Direct General ($10.7 million) and organic growth ($108.2 million).

Ceding commission income. Ceding commission income increased by $70.9 million, from $45.6 million for the year ended December 31, 2016 to $116.5 million for the year ended December 31, 2017, mainly driven by an increase in the P&C segment primarily from the Quota Shares ($51.2 million) and the consolidation of the Reciprocal Exchanges ($16.7 million).

Service and fee income. Service and fee income increased by $122.1 million, or 32.1%, from $380.8 million for the year ended December 31, 2016 to $502.9 million for the year ended December 31, 2017. The increase was attributable to our P&C segment ($106.4 million), primarily resulting from the acquisition of Direct General ($85.7 million) and from organic growth ($13.8 million); and an increase in the A&H segment ($15.7 million) primarily due to growth in our domestic business.

The components of service and fee income are as follows:

	Year Ended December 31,			
	2017	2016	Change	% Change
	(amounts in thousands)			
Commission revenue	$145,693	$110,343	$35,350	32.0 %
Finance and processing fees	124,305	88,624	35,681	40.3 %
Installment fees	83,883	43,460	40,423	93.0 %
Group health administrative fees	62,217	69,689	(7,472)	(10.7)%
Late payment fees	27,305	16,737	10,568	63.1 %
Other	59,524	51,964	7,560	14.5 %
Total	$502,927	$380,817	$122,110	32.1 %

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $533.8 million, or 25.5%, from $2,092.3 million for the year ended December 31, 2016 to $2,626.1 million for the year ended December 31, 2017, primarily reflecting the acquisitions of Direct General ($234.7 million), SPCIC ($29.4 million) and Century-National ($26.4 million), organic growth ($341.6 million), significant catastrophe losses in 2017 compared to 2016 ($72.1 million) and the consolidation of the Reciprocal Exchanges ($50.6 million), partially offset by the Quota Shares ($221.1 million). The changes by segment were: P&C - increased by $516.5 million and A&H - increased by $17.3 million.

Loss and LAE for the year ended December 31, 2017 included $7.3 million of unfavorable development on prior accident year loss and LAE reserves. This development was composed of $16.2 million of unfavorable development in the P&C segment (including $0.9 million of unfavorable development for the Reciprocal Exchanges) primarily driven by higher than expected development in auto liability coverages, and $8.8 million of favorable development in the A&H segment primarily driven by development in the domestic A&H business. Loss and LAE for the year ended December 31, 2016 included $13.5 million of unfavorable development on prior accident year loss and LAE reserves. This development was composed of $4.2 million of unfavorable development in the P&C segment primarily driven by higher than expected development in private passenger auto bodily injury coverage, and $9.3 million of unfavorable development in the A&H segment primarily driven by unfavorable development in the domestic stop loss, short-term medical and European A&H policies.

Our consolidated net loss ratio increased from 69.9% for the year ended December 31, 2016 to 71.9% for the year ended December 31, 2017, with a higher P&C segment net loss ratio and a lower A&H segment net loss ratio in 2017 compared to 2016. Net loss ratio is discussed in more detail in the segment discussions that follow.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $175.4 million, or 35.3%, from $497.0 million for the year ended December 31, 2016 to $672.4 million for the year ended December 31, 2017, due to an increase of $123.3 million in the P&C segment, primarily as a result of the acquisitions of Direct General ($33.8 million) and Century-National ($33.5 million), from organic growth ($62.3 million) and the consolidation of the Reciprocal Exchanges ($35.0 million), partially offset by the Quota Shares ($47.4 million); and an increase of $52.1 million in the A&H segment, primarily from organic growth ($49.3 million).

General and administrative expenses. General and administrative expenses increased by $203.8 million, or 28.7%, from $709.1 million for the year ended December 31, 2016 to $913.0 million for the year ended December 31, 2017, due to an increase

of $160.7 million in the P&C segment, primarily as a result of the acquisition of Direct General ($152.4 million); and an increase of $43.2 million in the A&H segment, primarily from organic growth ($27.5 million).

Net operating expense; net operating expense ratio (non-GAAP). Net operating expense increased by $186.3 million, or 23.9%, from $779.7 million for the year ended December 31, 2016 to $966.0 million for the year ended December 31, 2017, due to an increase of $106.4 million from the P&C segment and an increase of $80.0 million from the A&H segment.

The consolidated net operating expense ratio increased from 26.0% for the year ended December 31, 2016 to 26.4% for the year ended December 31, 2017. Excluding the Reciprocal Exchanges, the net operating expense ratio was 25.9% and 25.9% for the years ended December 31, 2017 and 2016, respectively. The Reciprocal Exchanges' net operating expense ratio was 38.4% and 30.0% for the years ended December 31, 2017 and 2016, respectively. Net operating expense ratio is discussed in more detail in the segment discussions that follow.

Net investment income. Net investment income increased by $11.2 million, or 11.2%, from $99.6 million for the year ended December 31, 2016 to $110.7 million for the year ended December 31, 2017.

Net gain on investments. Net gain on investments increased by $38.9 million from a gain of $7.9 million for the year ended December 31, 2016 to a $46.8 million gain for the year ended December 31, 2017. The increase was mainly attributable to gains in our fixed maturities portfolio in 2017 and insignificant impairment losses in 2017 compared to 2016.

Earnings (losses) of equity method investments (related parties). Earnings (losses) of equity method investments decreased by $24.4 million from $15.6 million in earnings for the year ended December 31, 2016 to $8.8 million in losses for the year ended December 31, 2017. The decrease was primarily attributable to losses recorded in 2017 in our life settlement contracts partnerships.

Interest expense. Interest expense for the years ended December 31, 2017 and 2016 was $47.1 million and $40.2 million, respectively. The increase of $6.9 million is primarily due to interest payable under our credit facility and debt assumed from our 2016 acquisitions.

Provision for income taxes. Income tax expense increased by $27.3 million, or 80.2%, from $34.0 million for the year ended December 31, 2016, reflecting an effective tax rate of 15.8%, to $61.3 million for the year ended December 31, 2017, reflecting an effective tax rate of 35.6%. The increase in consolidated income tax expense and the effective tax rate was primarily driven by the revaluation of our deferred tax assets resulting from the enactment of the 2017 tax reform.

Consolidated Results of Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

Gross premium written. Gross premium written increased by $910.9 million, or 35.2%, from $2,590.0 million for the year ended December 31, 2015 to $3,500.9 million for the year ended December 31, 2016, due to an increase of $698.8 million in premiums received from the P&C segment primarily as a result of the acquisitions of Direct General ($58.5 million) and Century-National ($140.0 million), additional premiums from the LPI Business ($249.5 million) and ARS ($74.6 million), and organic growth ($204.5 million), partially offset by the first quarter 2016 deconsolidation of the Reciprocal Exchanges ($40.8 million). Premiums received from the A&H segment increased by $212.1 million, primarily as a result of additional premiums from the Assurant Transaction ($133.7 million) and organic growth ($76.7 million).

Net premium written. Net premium written increased by $886.2 million, or 40.5%, from $2,186.5 million for the year ended December 31, 2015 to $3,072.7 million for the year ended December 31, 2016. Net premium written for the P&C segment increased by $683.4 million for the year ended December 31, 2016 compared to the same period in 2015, primarily as a result of the acquisitions of Direct General ($58.5 million) and Century-National ($122.1 million), additional premiums from the LPI Business ($238.2 million) and ARS ($74.6 million), and organic growth ($183.4 million), partially offset by the first quarter 2016 deconsolidation of the Reciprocal Exchanges ($5.5 million). Net premium written for the A&H segment increased by $202.7 million, primarily as a result of additional premiums from the Assurant Transaction ($133.7 million) and organic growth ($67.4 million).

Net earned premium. Net earned premium increased by $865.1 million, or 40.6%, from $2,130.1 million for the year ended December 31, 2015 to $2,995.2 million for the year ended December 31, 2016. The increase by segment was: P&C $661.9 million

and A&H $203.1 million. The increase in the P&C segment was primarily attributable to the acquisitions of Direct General ($68.3 million) and Century-National ($122.4 million), additional premiums from the LPI Business ($299.4 million) and ARS ($42.5 million), and organic growth ($141.5 million), partially offset by the first quarter 2016 deconsolidation of the Reciprocal Exchanges ($24.3 million). The increase in the A&H segment was primarily due to additional premiums from the Assurant Transaction ($134.1 million) and organic growth ($66.9 million).

Ceding commission income. Ceding commission income increased from $43.8 million for the year ended December 31, 2015 to $45.6 million for the year ended December 31, 2016, primarily driven by an increase attributable to the acquisition of Century-National, partially offset by an increase to the sliding scale adjustment on our terminated third-party quota share agreement and the first quarter 2016 deconsolidation of the Reciprocal Exchanges within our P&C segment.

Service and fee income. Service and fee income increased by $107.3 million, or 39.2%, from $273.5 million for the year ended December 31, 2015 to $380.8 million for the year ended December 31, 2016. The increases were attributable to our P&C segment ($67.1 million), resulting primarily from the Direct General and Century-National acquisitions, additional service and fee income from the LPI Business, ARS and organic growth; and the A&H segment ($40.1 million), primarily from the Assurant Transaction.

The components of service and fee income are as follows:

	Year Ended December 31,			
	2016	2015	Change	% Change
	(amounts in thousands)			
Commission revenue	$110,343	$58,807	$51,536	87.6 %
Finance and processing fees	88,624	90,072	(1,448)	(1.6)%
Group health administrative fees	69,689	29,622	40,067	135.3 %
Installment fees	43,460	32,404	11,056	34.1 %
Late payment fees	16,737	12,210	4,527	37.1 %
Other	51,964	50,433	1,531	3.0 %
Total	$380,817	$273,548	$107,269	39.2 %

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $607.0 million, or 40.9%, from $1,485.3 million for the year ended December 31, 2015 to $2,092.3 million for the year ended December 31, 2016, primarily reflecting the Direct General and Century-National acquisitions; additional losses from the LPI Business, ARS and the Assurant Transaction; catastrophe losses related to hail storms that occurred in Dallas and San Antonio, Texas; floods that occurred in Louisiana; and Hurricane Matthew in the Southeast; and loss experience in our legacy domestic stop loss programs, partially offset by the first quarter 2016 deconsolidation of the Reciprocal Exchanges. The changes by segment were: P&C - increased $477.4 million and A&H - increased $129.6 million. Loss and LAE for the year ended December 31, 2016 included $13.5 million of unfavorable development on prior accident year loss and LAE reserves. The $4.2 million of unfavorable development in the P&C segment was primarily driven by higher than expected development in private passenger auto bodily injury coverage, and $9.3 million of unfavorable development in the A&H segment was primarily driven by unfavorable development in the domestic stop loss, short-term medical and European A&H policies. Our consolidated net loss ratio slightly increased from 69.7% for the year ended December 31, 2015 to 69.9% for the year ended December 31, 2016, with a higher P&C segment net loss ratio and a lower A&H segment net loss ratio.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $90.3 million, or 22.2%, from $406.7 million for the year ended December 31, 2015 to $497.0 million for the year

ended December 31, 2016, primarily as a result of the Direct General ($1.9 million) and Century-National ($12.0 million) acquisitions, additional costs from the LPI Business ($33.3 million), ARS ($7.3 million) and the Assurant Transaction ($23.9 million), and organic growth and other ($25.6 million), partially offset by lower costs on the Reciprocal Exchanges ($12.7 million).

General and administrative expenses. General and administrative expenses increased by $282.2 million, or 66.1%, from $427.0 million for the year ended December 31, 2015 to $709.1 million for the year ended December 31, 2016, primarily as a result of the Direct General ($38.0 million) and Century-National ($34.4 million) acquisitions, additional expenses from the LPI

Business ($148.7 million), ARS ($7.7 million) and the Assurant Transaction ($39.8 million), higher expenses on the Reciprocal Exchanges ($18.2 million), and organic growth and other ($26.8 million).

Net operating expense; net operating expense ratio (non-GAAP). Net operating expense increased by $263.4 million, or 51.0%, from $516.3 million for the year ended December 31, 2015 to $779.7 million for the year ended December 31, 2016. The consolidated net operating expense ratio, which includes the Reciprocal Exchanges, increased to 26.0% in the year ended December 31, 2016 from 24.2% in the year ended December 31, 2015. Excluding the Reciprocal Exchanges, the net operating expense ratio was 25.9% and 24.7% for the years ended December 31, 2016 and 2015, respectively. The Reciprocal Exchanges' net operating expense ratio was 30.0% and 16.9% for the years ended December 31, 2016 and 2015, respectively.

Net investment income. Net investment income increased by $24.2 million, or 32.2%, from $75.3 million for the year ended December 31, 2015 to $99.6 million for the year ended December 31, 2016, primarily as a result of our higher amount of invested assets.

Net gain (loss) on investments. Net gain (loss) on investments increased by $19.0 million from a loss of $11.1 million for the year ended December 31, 2015 to a $7.9 million gain for the year ended December 31, 2016, primarily from our trading activities offset by higher other-than-temporary impairments in 2016.

Other income (expense). For the year ended December 31, 2016, we had a $24.3 million bargain purchase gain related to net assets acquired in excess of the purchase price paid for the acquisitions of Direct General ($7.1 million) and SPCIC ($17.2 million). The SPCIC transaction was sponsored by us, with the conversion of a mutual company to stock company and our offering of common stock at a discount to members, directors and officers of the acquired company.

Earnings of equity method investments (related parties). Earnings of equity method investments, which primarily relate to our 50% interest in life settlement entities, increased by $12.2 million from $3.4 million in earnings for the year ended December 31, 2015 to $15.6 million in earnings for the year ended December 31, 2016, due to the change in fair market value of the life settlement contracts and income from our real estate investments.

Interest expense. Interest expense for the years ended December 31, 2016 and 2015 was $40.2 million and $28.9 million, respectively. The increase of $11.3 million is primarily due to interest under our credit facility and the promissory note issued in connection with the Century-National acquisition, partially offset by our purchase of the Reciprocal Exchanges’ surplus notes.

Provision for income taxes. Income tax expense increased by $17.8 million, or 110.2%, from $16.2 million for the year ended December 31, 2015, reflecting an effective tax rate of 9.9%, to $34.0 million for the year ended December 31, 2016, reflecting an effective tax rate of 15.8%. The primary driver of the increase in consolidated income tax expense was the increase in pre-tax income period over period. Income tax expense included a tax benefit of $5.9 million and $27.1 million for the years ended December 31, 2016 and 2015, respectively, attributable to the reduction of the deferred tax liability associated with the equalization reserves of our Luxembourg reinsurers. The effect of this tax benefit reduced the effective tax rate for the years ended December 31, 2016 and 2015 by 2.8% and 16.5%, respectively.

The increase in consolidated tax expense was primarily driven by several factors. Pre-tax income increased by 30.4% year over year. Additionally, there was a 78.2% decrease in the tax benefit attributable to the utilization of our Luxembourg equalization reserves. The upward trend in our effective tax rate was limited by the effects of bargain purchase gain associated with two acquisitions during 2016 as well as a reduction of the valuation allowance at the Reciprocal Exchanges. Combined, these two items resulted in a net benefit of 10.2% to the effective tax rate of the

consolidated group.

Excluding the Reciprocal Exchanges, income tax expense was $43.8 million and $22.1 million for the years ended December 31, 2016 and 2015, respectively, reflecting effective tax rates of 21.5% and 14.2%, respectively. The Reciprocal Exchanges had pre-tax income of $10.8 million and $7.9 million for the years ended December 31, 2016 and 2015, respectively. A full valuation allowance was recorded on the Reciprocal Exchanges at December 31, 2015. For the year ended December 31, 2016, the valuation allowance for two of the four Reciprocal Exchanges was released in full. The remaining two exchanges maintained their full valuation allowance. The valuation allowance across all exchanges was $7.1 million and $17.3 million for the years ended December 31, 2016 and 2015, respectively.

P&C Segment - Results of Operations

	Year Ended December 31, 2017				2016			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(amounts in thousands)							
Gross premium written	$3,794,012	$383,773	$(3,202)	$4,174,583	$2,797,660	$241,540	$(2,312)	$3,036,888
Ceded premiums	(927,362)	(208,124)	3,202	(1,132,284)	(264,180)	(120,992)	2,312	(382,860)
Net premium written	$2,866,650	$175,649	$—	$3,042,299	$2,533,480	$120,548	$—	$2,654,028
Change in unearned premium	84,372	(5,778)	—	78,594	(63,131)	(10,153)	—	(73,284)
Net earned premium	$2,951,022	$169,871	$—	$3,120,893	$2,470,349	$110,395	$—	$2,580,744
Ceding commission income	55,263	60,180	—	115,443	747	43,522	—	44,269
Service and fee income	397,966	5,794	(55,447)	348,313	271,835	3,862	(33,816)	241,881
Total underwriting revenues	$3,404,251	$235,845	$(55,447)	$3,584,649	$2,742,931	$157,779	$(33,816)	$2,866,894
Underwriting expenses:								
Loss and loss adjustment expense	2,187,779	119,840	—	2,307,619	1,721,854	69,216	—	1,791,070
Acquisition costs and other underwriting expenses	467,390	50,160	—	517,550	379,135	15,148	(6)	394,277
General and administrative expenses	715,975	80,971	(55,447)	741,499	549,249	65,376	(33,810)	580,815
Total underwriting expenses	$3,371,144	$250,971	$(55,447)	$3,566,668	$2,650,238	$149,740	$(33,816)	$2,766,162
Underwriting income (loss)	$33,107	$(15,126)	$—	$17,981	$92,693	$8,039	$—	$100,732
Net loss ratio	74.1%	70.5%		73.9%	69.7%	62.7%		69.4%
Net operating expense ratio (non-GAAP)	24.7%	38.4%		25.5%	26.5%	30.0%		26.7%
Net combined ratio	98.8%	108.9%		99.4%	96.2%	92.7%		96.1%

(non-GAAP)

	Year Ended December 31, 2017				2016			
Reconciliation of net operating expense ratio (non-GAAP):	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(amounts in thousands)							
Total underwriting expenses	$3,371,144	$250,971	$(55,447)	$3,566,668	$2,650,238	$149,740	$(33,816)	$2,766,162
Less: Loss and loss adjustment expense	2,187,779	119,840	—	2,307,619	1,721,854	69,216	—	1,791,070
Less: Ceding commission income	55,263	60,180	—	115,443	747	43,522	—	44,269
Less: Service and fee income	397,966	5,794	(55,447)	348,313	271,835	3,862	(33,816)	241,881
Net operating expense	$730,136	$65,157	$—	$795,293	$655,802	$33,140	$—	$688,942
Net earned premium	$2,951,022	$169,871	$—	$3,120,893	$2,470,349	$110,395	$—	$2,580,744
Net operating expense ratio (non-GAAP)	24.7%	38.4%		25.5%	26.5%	30.0%		26.7%

	Year Ended December 31, 2016				2015			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(amounts in thousands)							
Gross premium written	$2,797,660	$241,540	$(2,312)	$3,036,888	$2,058,130	$283,582	$(3,590)	$2,338,122
Ceded premiums	(264,180)	(120,992)	2,312	(382,860)	(213,632)	(157,491)	3,590	(367,533)
Net premium written	$2,533,480	$120,548	$—	$2,654,028	$1,844,498	$126,091	$—	$1,970,589
Change in unearned premium	(63,131)	(10,153)	—	(73,284)	(60,402)	8,618	—	(51,784)
Net earned premium	$2,470,349	$110,395	$—	$2,580,744	$1,784,096	$134,709	$—	$1,918,805
Ceding commission income (loss)	747	43,522	—	44,269	(3,601)	46,300	—	42,699
Service and fee income	271,835	3,862	(33,816)	241,881	201,304	13,226	(39,792)	174,738
Total underwriting revenues	$2,742,931	$157,779	$(33,816)	$2,866,894	$1,981,799	$194,235	$(39,792)	$2,136,242
Underwriting expenses:								
Loss and loss adjustment expense	1,721,854	69,216	—	1,791,070	1,205,074	108,616	—	1,313,690
Acquisition costs and other underwriting expenses	379,135	15,148	(6)	394,277	312,799	27,972	(108)	340,663
General and administrative expenses	549,249	65,376	(33,810)	580,815	330,245	54,304	(39,684)	344,865
Total underwriting expenses	$2,650,238	$149,740	$(33,816)	$2,766,162	$1,848,118	$190,892	$(39,792)	$1,999,218
Underwriting income	$92,693	$8,039	$—	$100,732	$133,681	$3,343	$—	$137,024
Net loss ratio	69.7%	62.7%		69.4%	67.5%	80.6%		68.5%
Net operating expense ratio (non-GAAP)	26.5%	30.0%		26.7%	25.0%	16.9%		24.4%
Net combined ratio (non-GAAP)	96.2%	92.7%		96.1%	92.5%	97.5%		92.9%

Reconciliation of net operating expense ratio (non-GAAP):	Year Ended December 31, 2016				2015			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(amounts in thousands)							
Total underwriting expenses	$2,650,238	$149,740	$(33,816)	$2,766,162	$1,848,118	$190,892	$(39,792)	$1,999,218
Less: Loss and loss adjustment expense	1,721,854	69,216	—	1,791,070	1,205,074	108,616	—	1,313,690
Less: Ceding commission income (loss)	747	43,522	—	44,269	(3,601)	46,300	—	42,699
Less: Service and fee income	271,835	3,862	(33,816)	241,881	201,304	13,226	(39,792)	174,738
Net operating expense	$655,802	$33,140	$—	$688,942	$445,341	$22,750	$—	$468,091
Net earned premium	$2,470,349	$110,395	$—	$2,580,744	$1,784,096	$134,709	$—	$1,918,805
Net operating expense ratio (non-GAAP)	26.5%	30.0%		26.7%	25.0%	16.9%		24.4%

P&C Segment Results of Operations for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Gross premium written. Gross premium written increased by $1,137.7 million, or 37.5%, from $3,036.9 million for the year ended December 31, 2016 to $4,174.6 million for the year ended December 31, 2017, as a result of the acquisitions of Direct General ($374.2 million), Century-National ($81.6 million) and SPCIC ($34.1 million), from organic growth ($537.2 million) and the consolidation of the Reciprocal Exchanges ($142.2 million), partially offset by a decline in lender-placed premiums ($31.7 million).

Net premium written. Net premium written increased by $388.3 million, or 14.6%, from $2,654.0 million for the year ended December 31, 2016 to $3,042.3 million for the year ended December 31, 2017, as a result of the acquisitions of Direct General ($367.2 million), Century-National ($69.5 million) and SPCIC ($34.0 million), from organic growth ($464.2 million) and the consolidation of the Reciprocal Exchanges ($55.1 million), partially offset by the Quota Shares ($565.8 million) and a decline in lender-placed premiums ($36.0 million).

Net earned premium. Net earned premium increased by $540.1 million, or 20.9%, from $2,580.7 million for the year ended December 31, 2016 to $3,120.9 million for the year ended December 31, 2017, attributable to the acquisitions of Direct General ($352.8 million), Century-National ($84.0 million) and SPCIC ($35.2 million), from organic growth ($392.4 million) and the consolidation of the Reciprocal Exchanges ($59.5 million), partially offset by the Quota Shares ($291.1 million) and a decline in lender-placed premiums ($92.7 million).

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Ceding commission income. Ceding commission income increased by $71.2 million, from $44.3 million for the year ended December 31, 2016 to $115.4 million for the year ended December 31, 2017, primarily from the Quota Shares ($51.2 million) and the consolidation of the Reciprocal Exchanges ($16.7 million).

Service and fee income. Service and fee income increased by $106.4 million, or 44.0%, from $241.9 million for the year ended December 31, 2016 to $348.3 million for the year ended December 31, 2017, primarily resulting from the acquisition of Direct General ($85.7 million) and from organic growth ($13.8 million).

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $516.5 million, or 28.8%, from $1,791.1 million for the year ended December 31, 2016 to $2,307.6 million for the year ended December 31, 2017, reflecting the acquisitions of Direct General ($234.7 million), SPCIC ($29.4 million) and Century-National ($26.4 million), increased premiums from organic growth ($341.6 million), significant catastrophe losses in 2017 compared to 2016 ($72.1 million) and the consolidation of the Reciprocal Exchanges ($50.6 million), partially offset by the Quota Shares ($221.1 million).

Our P&C segment net loss ratio, which includes the Reciprocal Exchanges, increased from 69.4% for the year ended December 31, 2016 to 73.9% for the year ended December 31, 2017, primarily due to significant catastrophe losses in 2017 compared to 2016, a decline in lender-placed premiums and higher catastrophe losses in the Reciprocal Exchanges in 2017 compared to 2016, partially offset by the Quota Shares.

Excluding the Reciprocal Exchanges, the net loss ratio was 74.1% and 69.7% for the years ended December 31, 2017 and 2016, respectively. Significant catastrophe losses for the year ended December 31, 2017 compared to the same period in 2016 represented an increase of 2.0 basis points in the net loss ratio. The Reciprocal Exchanges' net loss ratio was 70.5% and 62.7% for the years ended December 31, 2017 and 2016, respectively, with the 2017 increase primarily due to significant catastrophe losses.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $123.3 million, or 31.3%, from $394.3 million for the year ended December 31, 2016 to $517.6 million for the year ended December 31, 2017, primarily as a result of the acquisitions of Direct General ($33.8 million) and Century-National ($33.5 million), from organic growth ($62.3 million) and the consolidation of the Reciprocal Exchanges ($35.0 million), partially offset by the Quota Shares ($47.4 million).

General and administrative expenses. General and administrative expenses increased by $160.7 million, or 27.7%, from $580.8 million for the year ended December 31, 2016 to $741.5 million for the year ended December 31, 2017, primarily as a result of the acquisition of Direct General ($152.4 million).

Net operating expense; net operating expense ratio (non-GAAP). Net operating expense increased by $106.4 million, or 15.4%, from $688.9 million for the year ended December 31, 2016 to $795.3 million for the year ended December 31, 2017, primarily as a result of our 2016 acquisitions, organic growth, commission income from the Quota Shares and the consolidation of the Reciprocal Exchanges, partially offset by a reduction in transition related expenses in the lender-placed business. Our P&C segment net operating expense ratio decreased from 26.7% for the year ended December 31, 2016 to 25.5% for the year ended December 31, 2017, primarily as a result of higher net earned premium in 2017 compared to 2016.

Underwriting income; net combined ratio (non-GAAP). Underwriting income decreased from $100.7 million for the year ended December 31, 2016 to $18.0 million for the year ended December 31, 2017. Our P&C segment net combined ratio increased from 96.1% for the year ended December 31, 2016 to 99.4% for the year ended December 31, 2017, with a higher net loss ratio in 2017 compared to 2016 as a result of significant catastrophe losses in 2017.

P&C Segment Results of Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

Gross premium written. Gross premium written increased by $698.8 million, or 29.9%, from $2,338.1 million for the year ended December 31, 2015 to $3,036.9 million for the year ended December 31, 2016, primarily as a result of the acquisitions of Direct General ($58.5 million) and Century-National ($140.0 million), additional premiums from the LPI Business ($249.5 million) and ARS ($74.6 million), and organic growth ($204.5 million), partially offset by the first quarter 2016 deconsolidation of the Reciprocal Exchanges ($40.8 million).

Net premium written. Net premium written increased by $683.4 million, or 34.7%, from $1,970.6 million for the year ended December 31, 2015 to $2,654.0 million for the year ended December 31, 2016, primarily as a result of the acquisitions of Direct General ($58.5 million) and Century-National ($122.1 million), additional premiums from the LPI Business ($238.2 million) and ARS ($74.6 million), and organic growth ($183.4 million), partially offset by the first quarter 2016 deconsolidation of the Reciprocal Exchanges ($5.5 million).

Net earned premium. Net earned premium increased by $661.9 million, or 34.5%, from $1,918.8 million for the year ended December 31, 2015 to $2,580.7 million for the year ended December 31, 2016, primarily as a result of the acquisitions of Direct General ($68.3 million) and Century-National ($122.4 million), additional premiums from the LPI Business ($299.4 million) and ARS ($42.5 million), and organic growth ($141.5 million), partially offset by the first quarter 2016 deconsolidation of the Reciprocal Exchanges ($24.3 million).

Ceding commission income. Our ceding commission income increased by $1.6 million from $42.7 million for the year ended December 31, 2015 to $44.3 million for the year ended December 31, 2016, driven by an increase attributable to the acquisition of Century-National, partially offset by an increase to the sliding scale adjustment on our terminated third-party quota share agreement and the first quarter 2016 deconsolidation of the Reciprocal Exchanges.

Service and fee income. Service and fee income increased by $67.1 million, or 38.4%, from $174.7 million for the year ended December 31, 2015 to $241.9 million for the year ended December 31, 2016, primarily as a result of the Direct General and Century-National acquisitions, additional service and fee income from the LPI Business, ARS and organic growth.

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $477.4 million, or 36.3%, from $1,313.7 million for the year ended December 31, 2015 to $1,791.1 million for the year ended December 31, 2016, primarily reflecting the Direct General and Century-National acquisitions, additional losses from the LPI Business and ARS, catastrophe losses related to hail storms that occurred in Dallas and San Antonio, Texas; floods that occurred in Louisiana; and Hurricane Matthew in the Southeast; partially offset by the first quarter 2016 deconsolidation of the Reciprocal Exchanges. Our P&C segment net loss ratio, which includes the Reciprocal Exchanges, increased from 68.5% for the year ended December 31, 2015 to 69.4% for the year ended December 31, 2016, primarily due to catastrophe losses for the events that occurred during 2016. Excluding the Reciprocal Exchanges, the net loss ratio was 69.7% and 67.5% for the years ended December 31, 2016 and 2015, respectively. The Reciprocal Exchanges' net loss ratio was 62.7% and 80.6% for the years ended December 31, 2016 and 2015, respectively.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $53.6 million, or 15.7%, from $340.7 million for the year ended December 31, 2015 to $394.3 million for the year ended December 31, 2016. The increase was due to the Direct General ($1.9 million) and Century-National ($12.0 million) acquisitions, additional costs from the LPI Business ($33.3 million) and ARS ($7.3 million), and organic growth and other ($12.8 million), partially offset by lower costs on the Reciprocal Exchanges ($12.7 million).

General and administrative expenses. General and administrative expenses increased by $236.0 million, or 68.4%, from $344.9 million for the year ended December 31, 2015 to $580.8 million for the year ended December 31, 2016, as a result of the Direct General ($38.0 million) and Century-National ($34.4 million) acquisitions, additional expenses from the LPI Business ($148.7 million) and ARS ($7.7 million), higher expenses on the Reciprocal Exchanges ($18.2 million), and organic growth and other ($17.4 million).

Net operating expense; net operating expense ratio (non-GAAP). Net operating expense increased by $220.9 million, or 47.2%, from $468.1 million for the year ended December 31, 2015 to $688.9 million for the year ended December 31, 2016. Our P&C segment net operating expense ratio, which includes the Reciprocal Exchanges, increased from 24.4% for the year ended December 31, 2015 to 26.7% for the year ended December 31, 2016. Excluding the

Reciprocal Exchanges, the net operating expense ratio was 26.5% and 25.0% for the years ended December 31, 2016 and 2015, respectively. The Reciprocal Exchanges' net operating expense ratio was 30.0% and 16.9% for the years ended December 31, 2016 and 2015, respectively.

Underwriting income; net combined ratio (non-GAAP). Underwriting income decreased from $137.0 million for the year ended December 31, 2015 to $100.7 million for the year ended December 31, 2016. Our P&C segment net combined ratio, which includes the Reciprocal Exchanges, for the year ended December 31, 2016 increased to 96.1% compared to 92.9% for the same period in 2015, primarily as a result of an increase in our net loss ratio due to catastrophe losses. Excluding the Reciprocal Exchanges,

the combined ratio was 96.2% and 92.5% for the years ended December 31, 2016 and 2015, respectively. The Reciprocal Exchanges' combined ratio was 92.7% and 97.5% for the years ended December 31, 2016 and 2015, respectively.

A&H Segment - Results of Operations

	Year Ended December 31,		
	2017	2016	2015
	(amounts in thousands)		
Gross premium written	$581,402	$464,010	$251,922
Ceded premiums	(46,106)	(45,342)	(35,969)
Net premium written	$535,296	$418,668	$215,953
Change in unearned premium	(2,013)	(4,241)	(4,652)
Net earned premium	$533,283	$414,427	$211,301
Ceding commission income	1,013	1,331	1,091
Service and fee income	154,614	138,936	98,810
Total underwriting revenues	$688,910	$554,694	$311,202
Underwriting expenses:			
Loss and loss adjustment expense	318,463	301,210	171,630
Acquisition costs and other underwriting expenses	154,879	102,730	65,999
General and administrative expenses	171,497	128,333	82,111
Total underwriting expenses	$644,839	$532,273	$319,740
Underwriting income (loss)	$44,071	$22,421	$(8,538)
Net loss ratio	59.7 %	72.7 %	81.2 %
Net operating expense ratio (non-GAAP)	32.0 %	21.9 %	22.8 %
Net combined ratio (non-GAAP)	91.7 %	94.6 %	104.0 %

	Year Ended December 31,		
Reconciliation of net operating expense ratio (non-GAAP):	2017	2016	2015
	(amounts in thousands)		
Total underwriting expenses	$644,839	$532,273	$319,740
Less: Loss and loss adjustment expense	318,463	301,210	171,630
Less: Ceding commission income	1,013	1,331	1,091
Less: Service and fee income	154,614	138,936	98,810
Net operating expense	$170,749	$90,796	$48,209
Net earned premium	$533,283	$414,427	$211,301
Net operating expense ratio (non-GAAP)	32.0 %	21.9 %	22.8 %

A&H Segment Results of Operations for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Gross premium written. Gross premium written increased by $117.4 million, or 25.3%, from $464.0 million for the year ended December 31, 2016 to $581.4 million for the year ended December 31, 2017, as a result of the acquisition of Direct General ($10.4 million) and organic growth, both domestic ($90.4 million) and international ($16.6 million).

Net premium written. Net premium written increased by $116.6 million, or 27.9%, from $418.7 million for the year ended December 31, 2016 to $535.3 million for the year ended December 31, 2017, as a result of the acquisition of Direct General ($10.4 million) and organic growth, both domestic ($89.7 million) and international ($16.6 million).

Net earned premium. Net earned premium increased by $118.9 million, or 28.7%, from $414.4 million for the year ended December 31, 2016 to $533.3 million for the year ended December 31, 2017, primarily as a result of the acquisition of Direct General ($10.7 million) and organic growth, both domestic ($89.1 million) and international ($19.1 million).

Service and fee income. Service and fee income increased by $15.7 million, or 11.3%, from $138.9 million for the year ended December 31, 2016 to $154.6 million for the year ended December 31, 2017, primarily due to growth in our domestic business.

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $17.3 million, or 5.7%, from $301.2 million for the year ended December 31, 2016 to $318.5 million for the year ended December 31, 2017. Our A&H net loss ratio decreased from 72.7% for the year ended December 31, 2016 to 59.7% for the year ended December 31, 2017. The loss ratio decrease was a result of higher premiums with lower loss experience due to a change in product mix primarily in our domestic business.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $52.1 million, or 50.8%, from $102.7 million for the year ended December 31, 2016 to $154.9 million for the year ended December 31, 2017, primarily from organic growth ($49.3 million).

General and administrative expenses. General and administrative expenses increased by $43.2 million, or 33.6%, from $128.3 million for the year ended December 31, 2016 to $171.5 million for the year ended December 31, 2017, primarily from organic growth ($27.5 million).

Net operating expense; net operating expense ratio (non-GAAP). Net operating expense increased by $80.0 million, or 88.1%, from $90.8 million for the year ended December 31, 2016 to $170.7 million for the year ended December 31, 2017. Our A&H net operating expense ratio increased from 21.9% for the year ended December 31, 2016 to 32.0% for the year ended December 31, 2017. The increases in net operating expense and net operating expense ratio were primarily due to higher expenses primarily in our domestic business.

Underwriting income; net combined ratio (non-GAAP). Underwriting income increased from $22.4 million for the year ended December 31, 2016 to $44.1 million for the year ended December 31, 2017. Our A&H net combined ratio decreased from 94.6% for the year ended December 31, 2016 to 91.7% for the year ended December 31, 2017. The net combined ratio decrease was primarily a result of a lower net loss ratio.

A&H Segment Results of Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

Gross premium written. Gross premium written increased by $212.1 million, or 84.2%, from $251.9 million for the year ended December 31, 2015 to $464.0 million for the year ended December 31, 2016, primarily as a result of additional premiums from the Assurant Transaction ($133.7 million) and organic growth ($76.7 million).

Net premium written. Net premium written increased by $202.7 million, or 93.9%, from $216.0 million for the year ended December 31, 2015 to $418.7 million for the year ended December 31, 2016, primarily as a result of additional premiums from the Assurant Transaction ($133.7 million) and organic growth ($67.4 million).

Net earned premium. Net earned premium increased by $203.1 million, or 96.1%, from $211.3 million for the year ended December 31, 2015 to $414.4 million for the year ended December 31, 2016, primarily as a result of additional premiums from the Assurant Transaction ($134.1 million) and organic growth ($66.9 million).

Service and fee income. Service and fee income increased by $40.1 million, or 40.6%, from $98.8 million for the year ended December 31, 2015 to $138.9 million for the year ended December 31, 2016, primarily as a result of the Assurant Transaction and domestic organic growth.

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $129.6 million, or 75.5%, from $171.6 million for the year ended December 31, 2015 to $301.2 million for the year ended December 31, 2016, primarily as a result of the Assurant Transaction and higher loss experience in our legacy domestic stop loss programs. Our net loss ratio decreased from 81.2% for the year ended December 31, 2015 to 72.7% for the year ended December 31, 2016. The loss ratio decrease in the year ended December 31, 2016, was primarily driven by our international business.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $36.7 million, or 55.7%, from $66.0 million for the year ended December 31, 2015 to $102.7 million for the year ended December 31, 2016, primarily due to the Assurant Transaction ($23.9 million) and organic growth ($12.5 million).

General and administrative expenses. General and administrative expenses increased by $46.2 million, or 56.3%, from $82.1 million for the year ended December 31, 2015 to $128.3 million for the year ended December 31, 2016, primarily as a result of the Assurant Transaction ($39.8 million) and organic growth ($9.1 million).

Net operating expense; net operating expense ratio (non-GAAP). Net operating expense increased by $42.6 million, or 88.3%, from $48.2 million for the year ended December 31, 2015 to $90.8 million for the year ended December 31, 2016, primarily as a result of the Assurant Transaction and our legacy domestic business. The net operating expense ratio decreased from 22.8% for the year ended December 31, 2015 to 21.9% for the year ended December 31, 2016, primarily as a result of increased net earned premiums and higher service and fee income, partially offset by an increase in general and administrative expenses and acquisition costs and other underwriting expenses.

Underwriting income (loss); net combined ratio (non-GAAP). Underwriting income increased from a loss of $8.5 million for the year ended December 31, 2015 to income of $22.4 million for the year ended December 31, 2016, primarily as a result of the Assurant Transaction, partially offset by underwriting loss in our legacy domestic and international businesses. The net combined ratio for the year ended December 31, 2016 decreased to 94.6% compared to 104.0% for the same period in 2015.

Investment Portfolio

Our investment strategy emphasizes, first, the preservation of capital and, second, maximization of an appropriate risk-adjusted return. We seek to maximize investment returns using investment guidelines that stress prudent allocation among cash and cash equivalents, fixed maturities and, to a lesser extent, equity securities. Cash and cash equivalents include cash on deposit, commercial paper, pooled short-term money market funds and certificates of deposit with an original maturity of 90 days or less. Our fixed maturities include obligations of the U.S. Treasury or U.S. government agencies, obligations of local and foreign governments, obligations of U.S. and Canadian corporations, mortgages guaranteed by the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, Federal Farm Credit entities, commercial mortgage obligations, and structured securities primarily consisting of collateralized loan and debt obligations. Our equity securities include common and preferred stock primarily of U.S. and Canadian corporations.

The average yield on our investment portfolio was 3.0% and 3.1% for the years ended December 31, 2017 and 2016, respectively, and the average duration of the portfolio was 3.98 and 5.08 years at December 31, 2017 and 2016, respectively.

For more information related to our investments, see Note 4, “Investments” in the notes to our consolidated financial statements.

Investment in Entities Holding Life Settlement Contracts

We have a 50% ownership interest in two entities (collectively, the “LSC Entities”) formed for the purpose of acquiring life settlement contracts, with AmTrust Financial Services, Inc. owning the remaining 50%. The LSC Entities used the contributed capital to pay premiums and purchase policies. 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.

Our equity interest in the LSC Entities as of December 31, 2017 and 2016, was $160.7 million and $186.0 million, respectively. For the years ended December 31, 2017, 2016 and 2015, we recorded equity in earnings (losses) from the LSC Entities of $(1.2) million, $20.8 million and $8.9 million, respectively, and made cash contributions of $21.0 million, $11.5 million, $0.6 million, respectively, and received distributions of $45.1 million, $0.0 million and $1.9 million, respectively. During 2017, the LSC Entities sold a substantial portion of the life settlement contracts. See Note 4, “Investments - LSC Entities” for additional information on our investments in LSC Entities and these transactions in the notes to our consolidated financial statements.

Liquidity and Capital Resources

We are organized as a holding company with twenty-two domestic insurance company subsidiaries, various foreign insurance and reinsurance subsidiaries, as well as various other non-insurance subsidiaries. Our principal sources of operating funds are premiums, service and fee income, investment income and proceeds from sales and maturities of investments. The primary sources of cash for the management companies of the Reciprocal Exchanges are management fees for acting as the attorneys-in-fact for the exchanges. Our primary uses of operating funds include payments of claims and operating expenses. Currently, we pay claims using cash flow from operations and invest our excess cash primarily in fixed-maturity securities and, to a lesser extent, equity securities. Except as set forth below, we expect that projected cash flows from operations, as well as the net proceeds from our debt and equity issuances, will provide us with sufficient liquidity to fund our anticipated growth by providing capital to increase the surplus of our insurance subsidiaries, as well as to pay claims and operating expenses, and to pay interest and principal on debt and debt facilities and other holding company expenses for the foreseeable future. However, if our growth attributable to potential acquisitions, internally generated growth, or a combination of these factors, exceeds our expectations, we may have to raise additional capital. If we cannot obtain adequate capital on favorable terms or at all, we may be unable to support future growth or operating requirements and, as a result, our business, financial condition and results of operations could be adversely affected. To support our current and future policy writings, we have raised substantial capital using a combination of debt and equity, and entered into third party quota share reinsurance agreements. We may raise additional capital over the next twelve months or obtain additional capital support in the form of third party quota share reinsurance.

We may generate liquidity through the issuance of debt or equity securities or financing through borrowings under credit facilities, or a combination thereof. We also have a $245.0 million credit agreement, under which there was $190.0 million outstanding as of December 31, 2017. In 2017, we drew down an additional $140.0 million on the revolving credit line and we paid in full the Century National Promissory Note, including accrued but unpaid interest. The proceeds of borrowings under the credit agreement may be used for working capital, acquisitions and general corporate purposes. See “Revolving Credit Agreement” below.

Our insurance subsidiaries are subject to statutory and regulatory restrictions imposed on insurance companies by their place of domicile which limit the amount of cash dividends or distributions that they may pay to us unless special permission is received from the insurance regulator of the relevant domicile. The aggregate limit imposed by the various domiciliary regulatory authorities of our insurance subsidiaries was approximately $387.6 million and $397.1 million as of December 31, 2017 and 2016, respectively, taking into account dividends paid in the prior twelve month periods. During the years ended December 31, 2017, 2016 and 2015, there were $339.4 million, $29.5 million and $23.8 million, respectively, of dividends or return of capital paid by our insurance subsidiaries to their parent company or National General Holdings Corp.

We forecast claim payments based on our historical experience. We seek to manage the funding of claim payments by actively managing available cash and forecasting cash flows on both a short-term and long-term basis. Cash payments for claims were $2.5 billion, $1.9 billion and $1.4 billion in the years ended December 31, 2017, 2016 and 2015, respectively. Historically, we have funded claim payments from cash flow from operations (principally premiums), net of amounts ceded to our third-party reinsurers. We presently expect to maintain sufficient cash flow from operations to meet our anticipated claim obligations and operating and capital expenditure needs. Our cash and cash equivalents (including restricted cash) and total investments increased from $3.1 billion at December 31, 2015 to $3.9 billion at December 31, 2016, and increased to $4.0 billion at December 31, 2017. We do not anticipate selling securities in our investment portfolio to pay claims or to fund operating expenses. Should circumstances arise that would require us to do so, we may incur losses on such sales, which would adversely affect our results of operations and financial condition and could reduce investment income in future periods.

Pursuant to a tax allocation agreement by and among us and certain of our direct and indirect subsidiaries, we compute and pay federal income taxes on a consolidated basis. Each subsidiary party to this agreement computes and pays to us its respective share of the federal income tax liability primarily based on separate return calculations.

The following table is a summary of our statement of cash flows:

	Year Ended December 31,		
	2017	2016	2015
	(amounts in thousands)		
Net cash provided by operating activities	$317,301	$318,146	$316,064
Net cash used in investing activities	(171,472)	(462,041)	(720,647)
Net cash (used in) provided by financing activities	(81,903)	152,704	554,588
Effect of exchange rate changes on cash and cash equivalents	7,658	(5,186)	(343)
Net increase in cash, cash equivalents, and restricted cash	$71,584	$3,623	$149,662

Comparison of Years Ended December 31, 2017 and 2016

Net cash used in investing activities decreased by $290.6 million, primarily reflecting a decrease of $250.6 million in cash used for acquisitions in 2017.

Net cash (used in) provided by financing activities decreased by $234.6 million, primarily due to a decrease of $198.5 million in proceeds received from issuances of common and preferred stock, an increase of $14.2 million in dividends paid and an increase of $64.7 million in cash used in repayments of debt, net of proceeds, partially offset by a decrease of $47.5 million in the securities sold under agreements to repurchase, net.

Comparison of Years Ended December 31, 2016 and 2015

Net cash used in investing activities decreased by $258.6 million, due to an increase of $410.4 million in proceeds received from sale of investments and distributions from unconsolidated subsidiaries, a decrease of $298.5 million in cash used in purchases of investments and an increase of $5.7 million in cash used in investments in unconsolidated subsidiaries and non-controlling interest, partially offset by an increase of $432.5 million in cash used for acquisitions and an increase of $12.0 million in cash used in purchases of premises and equipment.

Net cash (used in) provided by financing activities decreased by $401.9 million, primarily due to a decrease of $171.7 million in proceeds received from issuances of common and preferred stock, a decrease of $162.9 million in proceeds received from borrowings, net of repayments and returns of capital, a decrease of $53.2 million in the securities sold under agreements to repurchase, net of short sales and an increase of $15.7 million in 2016 payments of dividends.

Consolidating Balance Sheet Information

	December 31, 2017			
	NGHC	Reciprocal Exchanges	Eliminations	Total
ASSETS	(amounts in thousands)			
Investments:				
Fixed maturities, available-for-sale, at fair value	$2,834,955	$304,934	$—	$3,139,889
Equity securities, available-for-sale, at fair value	29,028	—	—	29,028
Fixed maturities, trading, at fair value	9	—	—	9
Equity securities, trading, at fair value	21,313	—	—	21,313
Other investments	526,425	22,279	(89,155)	459,549
Total investments	3,411,730	327,213	(89,155)	3,649,788
Cash and cash equivalents	286,840	5,442	—	292,282
Restricted cash and cash equivalents	64,593	609	—	65,202
Accrued investment income	36,422	1,805	(15,855)	22,372
Premiums and other receivables, net	1,268,330	56,792	(801)	1,324,321
Deferred acquisition costs	195,552	20,837	—	216,389
Reinsurance recoverable	1,199,961	94,204	—	1,294,165
Prepaid reinsurance premiums	416,142	100,980	—	517,122
Premises and equipment, net	319,780	4,269	—	324,049
Intangible assets, net	400,385	3,685	—	404,070
Goodwill	174,153	—	—	174,153
Prepaid and other assets	153,567	2,263	—	155,830
Total assets	$7,927,455	$618,099	$(105,811)	$8,439,743
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Unpaid loss and loss adjustment expense reserves	$2,520,204	$143,353	$—	$2,663,557
Unearned premiums and other revenue	1,807,210	225,395	—	2,032,605
Reinsurance payable	329,772	69,076	(801)	398,047
Accounts payable and accrued expenses	423,054	24,682	(15,855)	431,881
Debt	713,710	89,155	(89,155)	713,710
Other liabilities	204,936	41,582	—	246,518
Total liabilities	$5,998,886	$593,243	$(105,811)	$6,486,318
Stockholders' equity:				
Common stock	$1,067	$—	$—	$1,067
Preferred stock	420,000	—	—	420,000
Additional paid-in capital	917,751	—	—	917,751
Accumulated other comprehensive loss	(8,112)	—	—	(8,112)
Retained earnings	597,863	—	—	597,863
Total National General Holdings Corp. stockholders' equity	1,928,569	—	—	1,928,569
Non-controlling interest	—	24,856	—	24,856
Total stockholders' equity	$1,928,569	$24,856	$—	$1,953,425
Total liabilities and stockholders' equity	$7,927,455	$618,099	$(105,811)	$8,439,743

	December 31, 2016			
	NGHC	Reciprocal Exchanges	Eliminations	Total
ASSETS	(amounts in thousands)			
Investments:				
Fixed maturities, available-for-sale, at fair value	$2,755,454	$306,345	$—	$3,061,799
Equity securities, available-for-sale, at fair value	11,780	—	—	11,780
Fixed maturities, trading, at fair value	38,677	—	—	38,677
Equity securities, trading, at fair value	47,931	—	—	47,931
Other investments	559,885	—	(89,008)	470,877
Total investments	3,413,727	306,345	(89,008)	3,631,064
Cash and cash equivalents	212,894	7,405	—	220,299
Restricted cash and cash equivalents	64,632	969	—	65,601
Accrued investment income	32,210	2,957	(6,398)	28,769
Premiums and other receivables, net	1,045,377	47,198	(801)	1,091,774
Deferred acquisition costs	189,879	31,043	—	220,922
Reinsurance recoverable	892,264	55,972	—	948,236
Prepaid reinsurance premiums	87,285	69,685	—	156,970
Premises and equipment, net	110,387	4,117	—	114,504
Intangible assets, net	456,695	11,025	—	467,720
Goodwill	158,364	—	—	158,364
Prepaid and other assets	168,539	(19,007)	(15,727)	133,805
Total assets	$6,832,253	$517,709	$(111,934)	$7,238,028
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Unpaid loss and loss adjustment expense reserves	$2,136,791	$137,075	$—	$2,273,866
Unearned premiums and other revenue	1,502,562	198,724	—	1,701,286
Reinsurance payable	78,949	20,662	(801)	98,810
Accounts payable and accrued expenses	331,129	13,179	(6,398)	337,910
Debt	752,001	89,008	(89,008)	752,001
Other liabilities	145,138	27,386	(15,727)	156,797
Total liabilities	$4,946,570	$486,034	$(111,934)	$5,320,670
Stockholders' equity:				
Common stock	$1,064	$—	$—	$1,064
Preferred stock	420,000	—	—	420,000
Additional paid-in capital	913,787	—	—	913,787
Accumulated other comprehensive income	11,475	—	—	11,475
Retained earnings	539,114	—	—	539,114
Total National General Holdings Corp. stockholders' equity	1,885,440	—		1,885,440
Non-controlling interest	243	31,675	—	31,918
Total stockholders' equity	$1,885,683	$31,675	$—	$1,917,358
Total liabilities and stockholders' equity	$6,832,253	$517,709	$(111,934)	$7,238,028

Other Material Changes in Financial Position

	December 31,			
	2017	2016	Change	% Change
	(amounts in thousands)			
Selected Assets:				
Premiums and other receivables, net	$1,324,321	$1,091,774	$232,547	21.3 %
Reinsurance recoverable	$1,294,165	$948,236	$345,929	36.5 %
Prepaid reinsurance premiums	$517,122	$156,970	$360,152	229.4 %
Premises and equipment, net	$324,049	$114,504	$209,545	183.0 %
Selected Liabilities:				
Unearned premiums and other revenue	$2,032,605	$1,701,286	$331,319	19.5 %
Reinsurance payable	$398,047	$98,810	$299,237	302.8 %
Accounts payable and accrued expenses	$431,881	$337,910	$93,971	27.8 %

Changes in Financial Position During the Year Ended December 31, 2017 Compared to December 31, 2016

Premiums and other receivables, net increased by $232.5 million, primarily due to growth in our P&C segment ($247.2 million), partially offset by our A&H segment ($32.4 million). Reinsurance recoverable, increased by $345.9 million, primarily due to the Quota Shares ($177.0 million), from organic growth in our P&C segment, mainly from our reinsurance catastrophe excess of loss program ($112.9 million), the acquisition of Century-National ($16.5 million) and the Reciprocal Exchanges ($38.2 million). Prepaid reinsurance premiums increased by $360.2 million, primarily due to the Quota Shares ($274.7 million) and the Reciprocal Exchanges ($31.3 million). Premises and equipment, net increased by $209.5 million, primarily due to the purchase of our policy management system ($190.2 million).

Unearned premiums and other revenue increased by $331.3 million, primarily due to organic growth in our P&C segment ($245.0 million), the Quota Shares ($53.3 million) and the Reciprocal Exchanges ($26.7 million). Reinsurance payable increased by $299.2 million, primarily due to the Quota Shares ($252.3 million) and the Reciprocal Exchanges ($48.4 million). Accounts payable and accrued expenses increased by $94.0 million, primarily due to the purchase of the policy management system, accrued debt interest and payables related to investments.

Reinsurance

Our insurance subsidiaries utilize reinsurance agreements to transfer portions of the underlying risk of the business we write to various affiliated and third-party reinsurers. Reinsurance does not discharge or diminish our obligation to pay claims covered by the insurance policies we issue; however, it does permit us to recover certain incurred losses from our reinsurers and our reinsurance recoveries reduce the maximum loss that we may incur as a result of a covered loss event. We believe it is important to ensure that our reinsurance partners are financially strong and they generally carry at least an A.M. Best rating of "A-" (Excellent) or are fully collateralized at the time we enter into our reinsurance agreements. We also enter into 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 we purchase may vary from year to year based upon a variety of factors, including the availability of quality reinsurance at an acceptable price and the level of risk that we choose to retain for our own account.

We assume and cede insurance risks under various reinsurance agreements, on both a pro rata basis and an excess of loss basis. We purchase 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. As part of our overall risk and capacity management strategy, we purchase various quota share, excess of loss catastrophic and casualty reinsurance for protection against catastrophic events and other large losses.

Quota Share Agreements

Effective July 1, 2017, we entered into an Auto Quota Share Agreement (the "Auto Quota Share Agreement") covering our auto lines of business, under which we cede 15.0% of net liability under auto policies in force as of the effective date and new and renewal policies issued during the two-year term of the agreement to an unaffiliated third-party reinsurance provider. Under the Auto Quota Share Agreement, we receive a 31.2% provisional ceding commission on premiums ceded to the reinsurers during the term of the Auto Quota Share Agreement, subject to a sliding scale adjustment to a maximum of 32.8% if the net loss ratio for the reinsured business is 63.4% or less and a minimum of 29.6% if the net loss ratio is 66.6% or higher. The liability of the reinsurer is capped at $5.0 million per risk or $70.0 million per event. The cession may be increased, under certain conditions, up to a maximum cession of 20.0%.

Effective July 1, 2017, we entered into a Homeowners Quota Share Agreement (the "HO Quota Share Agreement") covering our homeowners line of business, under which we cede 29.6% of net liability under homeowners policies, including lender-placed property policies, in force as of the effective date and new and renewal policies issued during the two-year term of the agreement to unaffiliated third-party reinsurance providers. Under the HO Quota Share Agreement, we receive a 42.5% ceding commission on premiums ceded to the reinsurers during the term of the HO Quota Share Agreement. The liability of the reinsurers is capped at $5.0 million per risk or $70.0 million per event.

Catastrophe Reinsurance

As of May 1, 2017, our reinsurance property catastrophe excess of loss program provides a total of $575.0 million in coverage in excess of a $70.0 million retention, with one reinstatement. Effective July 1, 2017, the casualty program provides $45.0 million in coverage in excess of a $5.0 million retention. We pay a premium as consideration for ceding the risk.

As of July 1, 2017, 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 property catastrophe program provides a total of $375.0 million in coverage in excess of a $20.0 million retention, with one reinstatement.

Industry Pools and Facilities

Our reinsurance transactions include premiums written under state-mandated involuntary plans for commercial vehicles and premiums ceded to state-provided reinsurance facilities such as the Michigan Catastrophic Claims Association (the "MCCA"), and the North Carolina Reinsurance Facility (the "NCRF") (collectively, "State Plans"), for which we retain 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.

All automobile insurers doing business in Michigan are required to participate in the MCCA. The MCCA is a reinsurance mechanism that covers no-fault first party medical losses of retentions in excess of a set limit. Insurers are reimbursed for their covered losses in excess of $545,000 in the first half of 2017 and $555,000 until June 30, 2019. Funding for the 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.

Reinsurance recoverables from the MCCA are as follows:

	December 31,	
(amounts in thousands)	2017	2016
Reinsurance recoverable on paid losses	$7,948	$7,969
Reinsurance recoverable on unpaid losses	661,562	663,943

The following is a summary of premium and related losses ceded to the MCCA:

(amounts in thousands)	Year Ended December 31,		
	2017	2016	2015
Ceded earned premiums	$9,323	$9,404	$12,146
Ceded Loss and LAE	14,304	26,510	15,482

The NCRF is a non-profit organization established to provide automobile liability reinsurance to those insurance companies that write automobile insurance in North Carolina. Companies licensed to write automobile insurance in the state must be members of the NCRF and must offer liability coverage to any eligible North Carolina resident applicant for coverages and limits which may be ceded to the NCRF. The NCRF accepts cession of liability for bodily injury and property damage, medical payments, uninsured and combined uninsured/underinsured motorist coverages. Funding for the NCRF comes from premiums collected from automobile insurers based upon the amounts of coverage provided with respect to insured automobiles in the state. North Carolina law provides that cumulative losses incurred by the NCRF are recoverable either through direct surcharges to North Carolina motorists or indirectly by assessments of member companies, which recoup the costs from individual policyholders.

Reinsurance recoverables from the NCRF are as follows:

(amounts in thousands)	December 31,	
	2017	2016
Reinsurance recoverable on paid losses	$34,698	$29,274
Reinsurance recoverable on unpaid losses	118,701	100,470

The following is a summary of premium and related losses ceded to the NCRF:

(amounts in thousands)	Year Ended December 31,		
	2017	2016	2015
Ceded earned premiums	$190,809	$165,491	$158,613
Ceded Loss and LAE	186,051	173,926	144,350

We believe that we are unlikely to incur any material loss as a result of non-payment of amounts owed to us by the MCCA and the NCRF because the payment obligations are extended over many years, resulting in relatively small current payment obligations; both the MCCA and the NCRF are supported by assessments permitted by statute; and we have not historically incurred losses as a result of non-payment by either MCCA or NCRF. Accordingly, we believe that we have no significant exposure to uncollectible reinsurance balances from these entities.

The Company has a concentration of credit risk associated with its reinsurance recoverables and premiums ceded to reinsurers. The following tables present information for each reinsurer by reinsurance recoverable, prepaid reinsurance and funds held balances:

December 31, 2017	A.M. Best Rating	Recoverable on Unpaid Losses	Recoverable on Paid Losses	Prepaid Reinsurance	Funds Held	Total
Reinsurer:		(amounts in thousands)				
MCCA	NR	$661,562	$7,948	$ 3,948	$—	$673,458
NCRF	NR	118,701	34,698	78,105	—	231,504
Hannover Ruck SE	A+	97,208	40,725	169,704	(180,222)	127,415
Related Parties	Various	12,536	4,704	—	(47)	17,193
Other reinsurers' balances - each less than 5% of total	A- or higher	239,736	76,347	265,365	(6,695)	574,753
Total		$1,129,743	$164,422	$ 517,122	$(186,964)	$1,624,323
NGHC		$1,077,335	$122,626	$ 416,142	$(186,942)	$1,616,103
Reciprocal Exchanges		52,408	41,796	100,980	(22)	195,184
Total		$1,129,743	$164,422	$ 517,122	$(186,964)	$1,624,323

December 31, 2016	A.M. Best Rating	Recoverable on Unpaid Losses	Recoverable on Paid Losses	Prepaid Reinsurance	Funds Held	Total
Reinsurer:		(amounts in thousands)				
MCCA	NR	$663,943	$7,969	$ 3,911	—	$675,823
NCRF	NR	100,470	29,274	52,726	—	182,470
Related Parties	Various	26,782	10,264	—	(2)	37,044
Other reinsurers' balances - each less than 5% of total	A- or higher	89,602	19,932	100,333	(4,984)	204,883
Total		$880,797	$67,439	$ 156,970	$(4,986)	$1,100,220
NGHC		$838,605	$53,659	$ 87,285	$(4,964)	$974,585
Reciprocal Exchanges		42,192	13,780	69,685	(22)	125,635
Total		$880,797	$67,439	$ 156,970	$(4,986)	$1,100,220

Funds held for reinsurers are recorded within reinsurance payable in our consolidated balance sheets. Additionally, collateral is available to us in the form of letters of credit and trust agreements in the amounts of $93.2 million and $55.8 million, as of December 31, 2017 and 2016, respectively. See Note 16, "Related Party Transactions" for additional information about reinsurance agreements with related parties in the notes to our consolidated financial statements.

Debt

7.625% Subordinated Notes due 2055

We have $100.0 million aggregate principal amount outstanding of our 7.625% subordinated notes due 2055 (the "7.625% Notes"). 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. The 7.625% Notes are our subordinated unsecured obligations and are structurally subordinated to all existing and future indebtedness, liabilities and other obligations of our subsidiaries. The 7.625% Notes mature on September 15, 2055, unless earlier redeemed or purchased by us. Interest expense on the 7.625% Notes for the years ended December 31, 2017, 2016 and 2015 was $7.5 million, $7.6 million and $3.0 million, respectively. For more information on the 7.625% notes including ranking and restrictive covenants, see Note 15, "Debt" in the notes to our consolidated financial statements.

6.75% Notes due 2024

We have $350.0 million aggregate principal amount outstanding of our 6.75% Notes due 2024 (the “6.75% Notes”). 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. The 6.75% Notes are our general unsecured obligations and rank equally in right of payment with our other existing and future senior unsecured indebtedness and senior in right of payment to any of our indebtedness that is contractually subordinated to the 6.75% Notes. The 6.75% Notes mature on May 15, 2024, unless earlier redeemed or purchased by us. Interest expense on the 6.75% Notes for the years ended December 31, 2017, 2016 and 2015 was $23.7 million, $23.6 million and $18.4 million, respectively. For more including ranking and restrictive covenants, see Note 15, “Debt” in the notes to our consolidated financial statements.

Revolving Credit Agreement

On January 25, 2016, we entered into a 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, and the various lending institutions party thereto. The credit facility is a $225.0 million base revolving credit facility with a letter of credit sublimit of $112.5 million and an expansion feature not to exceed $50.0 million. As of December 31, 2017, the Credit Agreement had been expanded to $245.0 million. Proceeds of borrowings under the Credit Agreement may be used for working capital, acquisitions and general corporate purposes. The Credit Agreement has a maturity date of January 25, 2020.

The Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. There are also financial covenants that require us to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. 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 us and our 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 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.

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 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 1.0 percent. Eurodollar borrowings under the Credit Agreement will bear interest at the adjusted LIBOR for the interest period in effect. Fees payable by us 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 our consolidated leverage ratio, and which rate was 0.30% as of December 31, 2017).

As of December 31, 2017, there was $190.0 million outstanding under the Credit Agreement. The weighted average interest rate on the amount outstanding as of December 31, 2017 was 3.77%. Interest payments are due the last day of the interest period in intervals of three months duration, commencing on the date of such borrowing. Interest expense

on the Credit Agreement for the years ended December 31, 2017 and 2016 was $4.2 million and $0.9 million, respectively. We were in compliance with all of the covenants under the Credit Agreement as of December 31, 2017.

Preferred Stock

Series C Preferred Stock

In 2016, we completed a public offering of 8,000,000 of our depositary shares, each representing a 1/40th interest in a share of our 7.50% Non-Cumulative Preferred Stock, Series C, $0.01 par value per share (the “Series C 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 C Preferred Stock represented thereby (including any dividend, liquidation, redemption and voting rights). Dividends on the Series C 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 our 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. Dividends on the Series C Preferred Stock are not cumulative. Accordingly, in the event dividends are not declared on the Series C Preferred Stock for payment on any dividend payment date, then those dividends will not accumulate and will not be payable. If we have not declared a dividend before the dividend payment date for any dividend period, we will have no obligation to pay dividends for that dividend period, whether or not dividends on the Series C Preferred Stock are declared for any future dividend payment. The Series C Preferred Stock represented by the depositary shares is not redeemable prior to July 15, 2021. After that date, we may redeem at our option, in whole or in part, the Series C 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 8,000,000 depositary shares (equivalent to 200,000 shares of Series C Preferred Stock) were issued.

Series B Preferred Stock

In 2015, we completed a public offering of 6,600,000 of our depositary shares, each representing a 1/40th interest in a share of our 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 our 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. Dividends on the Series B Preferred Stock are not cumulative. Accordingly, in the event dividends are not declared on the Series B Preferred Stock for payment on any dividend payment date, then those dividends will not accumulate and will not be payable. If we have not declared a dividend before the dividend payment date for any dividend period, we will have no obligation to pay dividends for that dividend period, whether or not dividends on the Series B Preferred Stock are declared for any future dividend payment. The Series B Preferred Stock represented by the depositary shares is not redeemable prior to April 15, 2020. After that date, we may redeem at our 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 6,600,000 depositary shares (equivalent to 165,000 shares of Series B Preferred Stock) were issued.

Series A Preferred Stock

In 2014, we completed a public offering of 2,200,000 shares of 7.50% Non-Cumulative Preferred Stock, Series A, $0.01 par value per share (the “Series A Preferred Stock”). Dividends will be payable on the liquidation preference amount of $25 per share, on a non-cumulative basis, when, as, and if declared by the Board of Directors, quarterly in

arrears on the 15th day of January, April, July and October of each year 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 we have not declared a dividend before the dividend payment date for any dividend period, we 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 Series A Preferred Stock is not redeemable prior to July 15, 2019. After that date, we may redeem at our option, in whole or in part, the Series A Preferred Stock at a redemption price of $25 per 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.

Contractual Obligations and Commitments

The following table sets forth certain of our contractual obligations as of December 31, 2017:

	Payment Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	(amounts in thousands)				
Loss and LAE reserves [1]	$2,663,557	$1,265,738	$697,684	$299,017	$401,118
Debt and interest [2]	1,254,929	42,948	269,152	71,390	871,439
Operating leases	163,701	32,165	53,693	32,197	45,646
Purchase obligations [3]	133,333	66,666	66,667	—	—
Capital lease obligations	32,547	8,361	17,634	5,252	1,300
Contributions to partnerships	12,391	2,293	3,187	2,218	4,693
Employment agreement obligations	7,260	5,795	1,465	—	—
Total	$4,267,718	$1,423,966	$1,109,482	$410,074	$1,324,196

(1) The loss and LAE payments due by period in the table above are based upon the loss and LAE estimates as of December 31, 2017, and actuarial estimates of expected payout patterns and are not contractual liabilities with finite maturities. Our contractual liability is to provide benefits under the policy. As a result, our calculation of loss and LAE payments due by period is subject to the same uncertainties associated with determining the level of loss and LAE generally and to the additional uncertainties arising from the difficulty of predicting when claims (including claims that have not yet been reported to us) will be paid. For a discussion of our loss and LAE estimate process, see Item 1, "Business - Loss Reserves." Actual payments of loss and LAE by period will vary, perhaps materially, from the table above to the extent that current estimates of loss and LAE vary from actual ultimate claims amounts and as a result of variations between expected and actual payout patterns. See Item 1A, "Risk Factors - Risks Relating to Our Business - If we are unable to establish and maintain accurate loss reserves, our business, financial condition and results of operations may be materially adversely affected" for a discussion of the uncertainties associated with estimating loss and LAE.

(2) The interest related to our debt by period as of December 31, 2017 was as follows: $42.9 million - less than 1 year, $79.2 million - 1 - 3 years, $71.4 million - 3 - 5 years and $340.3 million - more than 5 years.

(3) Relates to the purchase of our policy management system.

Inflation

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Liquidity Risk. Liquidity risk represents our potential inability to meet all payment obligations when they become due. We maintain sufficient cash and marketable securities to fund claim payments and operations. We purchase reinsurance coverage to mitigate the risk of an unexpected rise in claims severity or frequency from catastrophic events or a single large loss. The availability, amount and cost of reinsurance depend on market conditions and may vary significantly.

Credit Risk. Credit risk is the potential loss arising principally from adverse changes in the financial condition of the issuers of our fixed-maturity securities and the financial condition of our reinsurers.

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

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

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

Interest Rate Risk. We had fixed-maturities and preferred stock with a fair value of $3.1 billion as of December 31, 2017 that are subject to interest rate risk. Interest rate risk is the risk that we may incur losses due to adverse changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of our fixed-maturity securities. We manage our exposure to interest rate risk through a disciplined asset and liability matching and capital management process. In the management of this risk, the characteristics of duration, credit and variability of cash flows are critical elements. These risks are assessed regularly and balanced within the context of our liability and capital position.

The table below summarizes the interest rate risk by illustrating the sensitivity of the fair value and carrying value of our fixed-maturity securities as of December 31, 2017 to selected hypothetical changes in interest rates, and the associated impact on our stockholders’ equity. We anticipate that we will continue to meet our obligations out of income. We classify our fixed-maturity and equity securities primarily as available-for-sale. Temporary changes in the fair value of our fixed-maturity securities impact the carrying value of these securities and are reported in our stockholders’ equity as a component of accumulated other comprehensive income, net of taxes.

The selected scenarios with our fixed maturities (and excluding $2.2 million of preferred stock), in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the fair value and carrying value of our fixed maturities and on our stockholders’ equity, each as of December 31, 2017.

Hypothetical Change in Interest Rates	Fair Value	Estimated

		Change in Fair Value	Hypothetical Percentage Increase (Decrease) in Stockholders' Equity
	(amounts in thousands)		
200 basis point increase	$2,894,986	$(244,912)	(8.1)%
100 basis point increase	3,014,302	(125,596)	(4.2)
No change	3,139,898	—	—
100 basis point decrease	3,265,494	125,596	4.2
200 basis point decrease	3,400,510	260,612	8.7

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Changes in interest rates would affect the fair market value of our fixed-rate debt instruments but would not have an impact on our earnings or cash flow. We currently have $721.2 million principal amount of debt instruments of which $450.0 million are fixed-rate debt instruments. A fluctuation of 100 basis points in interest on our variable-rate debt instruments, which are tied to LIBOR, would affect our earnings and cash flows by $2.7 million before income tax, on an annual basis, but would not affect the fair market value of the variable-rate debt.

Off-Balance Sheet Risk. As of December 31, 2017 we did not have any off-balance sheet arrangements that have or are likely to have a material effect on our financial condition or results of operations.

Item 8. Financial Statements and Supplementary Data

The financial statements and financial statement schedules required to be filed pursuant to this Item 8 are listed in the accompanying Index to Consolidated Financial Statements and Schedules at page F-1 and are filed as part of this report.

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

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer (CEO) and chief financial officer (CFO), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)), as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our CEO and CFO have concluded that as of December 31, 2017, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (SEC), and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the assessment, management has concluded that its internal control over financial reporting was effective as of December 31, 2017 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP. Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report with respect to our internal control over financial reporting, which appears in Part II, Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in Management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the fourth quarter of 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures and Internal Control over Financial Reporting

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
National General Holdings Corp:

Opinion on Internal Control over Financial Reporting
We have audited National General Holdings Corp.'s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, National General Holdings Corp. (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of National General Holdings Corp. as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and the related notes and the financial statement schedules listed in the accompanying index, of the Company and our report dated February 26, 2018 expressed an unqualified opinion thereon.

Basis for Opinion
The Company'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 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting
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.

/s/ Ernst & Young LLP

New York, New York
February 26, 2018

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement for our Annual Meeting of Stockholders to be held May 8, 2018 (the "Proxy Statement") under the captions "Proposal 1: Election of Directors," "Executive Officers," "Certain Relationships and Related Transactions - Family Relationships," "Corporate Governance — Code of Business Conduct and Ethics," "Corporate Governance — Board Committees — Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC before May 1, 2018.

Item 11. Executive Compensation

The information required by Item 11 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions "Executive Compensation," "Compensation of Directors," "Compensation Discussion and Analysis," "Corporate Governance," "Compensation Committee Interlocks and Insider Participation," "CEO Compensation Pay Ratio" and "Compensation Committee Report." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC before May 1, 2018.

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

A portion of the information required by Item 12 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC before May 1, 2018.

Equity Compensation Plan Information

The table below shows information regarding awards outstanding and shares of common stock available for issuance as of December 31, 2017 under our 2010 Equity Incentive Plan and 2013 Equity Incentive Plan.

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights[(1)]	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights[(2)]	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	4,296,044	$ 9.37	966,561
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	4,296,044	$ 9.37	966,561

(1) Includes restricted stock unit awards that, upon vesting, provide the holder with the right to receive common shares on a one-to-one basis. For further discussion of these awards, see Note 21, “Share-Based Compensation” in the notes to our consolidated financial statements.
(2) Only applies to outstanding options, as restricted stock units do not have exercise prices.

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

The information required by Item 13 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the captions "Certain Relationships and Related Transactions" and "Corporate Governance — Independence of Directors." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC before May 1, 2018.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of Form 10-K is incorporated by reference to the information contained in our Proxy Statement under the caption "Proposal 2: Ratification of Independent Registered Public Accounting Firm." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC before May 1, 2018.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

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

(c) Exhibits listing

Exhibit No.	Exhibit Description
3.1	Second Amended and Restated Certificate of Incorporation of National General Holdings Corp. (the "Company") (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
3.3	Certificate of Designations for 7.50% Non-Cumulative Preferred Stock, Series A (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2014)
3.4	Certificate of Designations of 7.50% Non-Cumulative Preferred Stock, Series B (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 27, 2015)
3.5	Certificate of Designations of 7.50% Non-Cumulative Preferred Stock, Series C (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 7, 2016)
4.1	Form of Common Stock Certificate of the Company (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
4.2	Registration Rights Agreement, dated as of October 16, 2009, by and among the Company, The Michael Karfunkel 2005 Grantor Retained Annuity Trust, Michael Karfunkel and AmTrust International Insurance, Ltd., as assignee of AmTrust Financial Services, Inc. (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
4.3	Form of Stock Certificate evidencing 7.50% Non-Cumulative Preferred Stock, Series A (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2014)
4.4	Form of stock certificate evidencing 7.50% Non-Cumulative Preferred Stock, Series B (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on March 27, 2015)
4.5	Form of stock certificate evidencing 7.50% Non-Cumulative Preferred Stock, Series C (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on July 7, 2016)
4.6	Form of 6.750% Notes due 2024 (included as Exhibit A to Exhibit 4.9) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on May 28, 2014)
4.7	Form of 7.625% Subordinated Notes due 2055 (included as Exhibit A to Exhibit 4.10) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on August 18, 2015)
4.8	Indenture, dated as of May 23, 2014, by and between the Company, as Issuer, and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 28, 2014)
4.9	First Supplemental Indenture, dated as of May 23, 2014, by and between the Company, as Issuer, and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on May 28, 2014)
4.10	Second Supplemental Indenture, dated as of August 18, 2015, by and between the Company and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on August 18, 2015)

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4.11	Deposit Agreement, dated March 27, 2015, among National General Holdings Corp., American Stock Transfer & Company, LLC and the holders from time to time of the depositary receipts described therein (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 27, 2015)
4.12	Deposit Agreement, dated July 7, 2016, among National General Holdings Corp., American Stock Transfer & Trust Company, LLC and the holders from time to time of the depositary receipts described therein (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 7, 2016)
4.13	Form of depositary receipt (included as Exhibit A to Exhibit 4.11) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 27, 2015)
4.14	Form of depositary receipt (included as Exhibit A to Exhibit 4.12) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 7, 2016)
10.1*	American Capital Acquisition Corporation 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
10.2*	Form of Statutory Time-Based Stock Option Agreement for the American Capital Acquisition Corporation 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
10.3*	Amendment to Form of Statutory Time-Based Stock Option Agreement for the American Capital Acquisition Corporation 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
10.4*	2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
10.5*	Form of Non-Qualified Stock Option Award Agreement for the NGHC 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
10.6*	Form of Incentive Stock Option Award Agreement for the NGHC 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
10.7*	Form of Restricted Stock Unit Agreement for the NGHC 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2014)
10.8*	Form of Indemnification Agreement for Directors and Certain Officers (incorporated by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
10.9*	Employment Agreement, dated as of January 1, 2013, by and between National General Management Corp. and Michael Weiner (incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
10.10	Personal and Commercial Automobile Quota Share Reinsurance Agreement between Integon National Insurance Company and Technology Insurance Company, Inc., Maiden Insurance Company Ltd., and ACP Re, Ltd., effective March 1, 2010 (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
10.11	Addendum No. 1 to Personal and Commercial Automobile Quota Share Reinsurance Agreement between Integon National Insurance Company and Technology Insurance Company, Inc., Maiden Insurance Company Ltd., and ACP Re, Ltd., effective October 1, 2012 (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (No. 333-190454) filed on August 7, 2013)
10.12	Credit Agreement, dated January 25, 2016, among the Company, 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 parties thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 26, 2016)
10.13	Amendment No. 1, dated October 14, 2016, to the Credit Agreement, among the Company, 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 parties thereto (incorporated by reference to Exhibit 10.1 to the Company's current Report on Form 8-K filed on October 14, 2016)

10.14	Amended and Restated Credit Agreement, dated September 20, 2016, among AmTrust Financial Services, Inc.as Administrative Agent, ACP Re Holdings, LLC, the Michael Karfunkel Family 2005 Trust, and AmTrust International Insurance, Ltd. and National General Re Ltd., as Lenders (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 21, 2016)
10.15	Asset Purchase and License Agreement, dated September 13, 2017, between AmTrust North America, Inc. and National General Holdings Corp. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 18, 2017)
12.1	Computation of Ratio of Earnings to Fixed Charges (filed herewith)
21.1	List of subsidiaries of the Company (filed herewith)
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm, relating to the Financial Statements of the Company (filed herewith)
23.2	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.SC. 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.SC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.1	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets as of December 31, 2017 and 2016; (ii) the Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015; (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2017, 2016 and 2015; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015; and (vi) the Notes to the Consolidated Financial Statements (submitted electronically herewith)
	The Company and its subsidiaries are party to other long-term debt instruments not filed herewith under which the total amount of securities authorized does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. Pursuant to paragraph 4(iii)(A) of Item 601(b) of Regulation S-K, the Company agrees to furnish a copy of such instruments to the SEC upon request.

*Management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary

None.

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.

Date	NATIONAL GENERAL HOLDINGS CORP.
February 26, 2018	By: /s/ Michael Weiner Name: Michael Weiner Title: Chief Financial Officer

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

Signature	Title	Date
/s/ Barry Karfunkel Barry Karfunkel	President, Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2018
/s/ Michael Weiner Michael Weiner	Chief Financial Officer (Principal Financial Officer)	February 26, 2018
/s/ Lawrence J. Moloney Lawrence J. Moloney	Chief Accounting Officer (Principal Accounting Officer)	February 26, 2018
/s/ Robert Karfunkel Robert Karfunkel	Director	February 26, 2018
/s/ Barry Zyskind Barry Zyskind	Director and non-executive Chairman	February 26, 2018
/s/ Donald DeCarlo Donald DeCarlo	Director	February 26, 2018
/s/ Patrick Fallon Patrick Fallon	Director	February 26, 2018
/s/ Barbara Paris Barbara Paris	Director	February 26, 2018
/s/ John Marshaleck John Marshaleck	Director	February 26, 2018
/s/ John Nichols John Nichols	Director	February 26, 2018

NATIONAL GENERAL HOLDINGS CORP.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
National General Holdings Corp:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of National General Holdings Corp. (the “Company”) as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity and cash flows for the year then ended, and the related notes and the financial statement schedules listed in the accompanying index (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2017.

New York, New York
February 26, 2018

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. (the "Company") as of December 31, 2016 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2016. 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 disclosure 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, 2016 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2016, 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.

/s/BDO USA, LLP
New York, New York
March 23, 2017 except for Note 3 for which it is February 26, 2018.

NATIONAL GENERAL HOLDINGS CORP.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Shares and Par Value per Share)

	December 31, 2017	December 31, 2016 (As adjusted)
ASSETS		
Investments - NGHC		
Fixed maturities, available-for-sale, at fair value (amortized cost - $2,835,293 and $2,739,045)	$2,834,955	$2,755,454
Equity securities, available-for-sale, at fair value (cost - $29,073 and $6,956)	29,028	11,780
Fixed maturities, trading, at fair value	9	38,677
Equity securities, trading, at fair value	21,313	47,931
Other investments (related parties - $347,548 and $373,688)	437,270	470,877
Investments - Exchanges		
Fixed maturities, available-for-sale, at fair value (amortized cost - $304,498 and $301,017)	304,934	306,345
Short-term investments	22,279	—
Total investments	3,649,788	3,631,064
Cash and cash equivalents (Exchanges - $5,442 and $7,405)	292,282	220,299
Restricted cash and cash equivalents (Exchanges - $609 and $969)	65,202	65,601
Accrued investment income (related parties - $2,334 and $1,298) (Exchanges - $1,805 and $2,957)	22,372	28,769
Premiums and other receivables, net (Exchanges - $56,792 and $47,198)	1,324,321	1,091,774
Deferred acquisition costs (Exchanges - $20,837 and $31,043)	216,389	220,922
Reinsurance recoverable (related parties - $17,240 and $37,046) (Exchanges - $94,204 and $55,972)	1,294,165	948,236
Prepaid reinsurance premiums (Exchanges - $100,980 and $69,685)	517,122	156,970
Premises and equipment, net (Exchanges - $4,269 and $4,117)	324,049	114,504
Intangible assets, net (Exchanges - $3,685 and $11,025)	404,070	467,720
Goodwill	174,153	158,364
Prepaid and other assets (Exchanges - $2,263 and $(19,007))	155,830	133,805
Total assets	$8,439,743	$7,238,028

See accompanying notes to consolidated financial statements.

NATIONAL GENERAL HOLDINGS CORP.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Shares and Par Value per Share)

	December 31,	
	2017	2016 (As adjusted)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unpaid loss and loss adjustment expense reserves (Exchanges - $143,353 and $137,075)	$2,663,557	$2,273,866
Unearned premiums and other revenue (Exchanges - $225,395 and $198,724)	2,032,605	1,701,286
Reinsurance payable (related parties - $543 and $33,419) (Exchanges - $68,275 and $19,861)	398,047	98,810
Accounts payable and accrued expenses (related parties - $140,098 and $29,271) (Exchanges - $8,827 and $6,781)	431,881	337,910
Debt	713,710	752,001
Other liabilities (Exchanges - $41,582 and $11,659)	246,518	156,797
Total liabilities	$6,486,318	$5,320,670
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Common stock, $0.01 par value - authorized 150,000,000 shares, issued and outstanding 106,697,648 shares - 2017; authorized 150,000,000 shares, issued and outstanding 106,428,092 shares - 2016	$1,067	$1,064
Preferred stock, $0.01 par value - authorized 10,000,000 shares, issued and outstanding 2,565,000 shares - 2017; authorized 10,000,000 shares, issued and outstanding 2,565,000 shares - 2016.	420,000	420,000
Aggregate liquidation preference $420,000 - 2017, $420,000 - 2016		
Additional paid-in capital	917,751	913,787
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation adjustments, net of tax	(7,810)	(2,320)
Unrealized gains (losses) on investments, net of tax	(302)	13,795
Total accumulated other comprehensive income (loss)	(8,112)	11,475
Retained earnings	597,863	539,114
Total National General Holdings Corp. stockholders' equity	1,928,569	1,885,440
Non-controlling interest (Exchanges - $24,856 and $31,675)	24,856	31,918
Total stockholders' equity	$1,953,425	$1,917,358
Total liabilities and stockholders' equity	$8,439,743	$7,238,028

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)

	Year Ended December 31,		
	2017	2016 (As adjusted)	2015 (As adjusted)
Revenues:			
Net earned premium	$3,654,176	$2,995,171	$2,130,106
Ceding commission income	116,456	45,600	43,790
Service and fee income	502,927	380,817	273,548
Net investment income	110,745	99,586	75,340
Net gain (loss) on investments:			
Other-than-temporary impairment loss	(25)	(22,102)	(15,247)
Other net realized gain on investments	46,788	30,006	4,152
Net gain (loss) on investments	46,763	7,904	(11,095)
Other income (expense)	(198)	24,308	—
Total revenues	4,430,869	3,553,386	2,511,689
Expenses:			
Loss and loss adjustment expense	2,626,082	2,092,280	1,485,320
Acquisition costs and other underwriting expenses	672,429	497,007	406,662
General and administrative expenses	912,996	709,148	426,976
Interest expense	47,086	40,180	28,885
Total expenses	4,258,593	3,338,615	2,347,843
Income before provision for income taxes and earnings of equity method investments	172,276	214,771	163,846
Provision for income taxes	61,273	33,998	16,176
Income before earnings (losses) of equity method investments	111,003	180,773	147,670
Earnings (losses) of equity method investments (related parties)	(8,795)	15,601	3,443
Net income	102,208	196,374	151,113
Less: Net (income) loss attributable to non-controlling interest	3,637	(20,668)	(14,025)
Net income attributable to NGHC	105,845	175,706	137,088
Dividends on preferred stock	(31,500)	(24,333)	(14,025)
Net income attributable to NGHC common stockholders	$74,345	$151,373	$123,063
Earnings per common share:			
Basic	$0.70	$1.43	$1.25
Diluted	$0.68	$1.40	$1.22
Dividends declared per common share	$0.16	$0.14	$0.09
Weighted average common shares outstanding:			
Basic	106,588,402	105,951,752	98,241,904
Diluted	108,752,262	108,278,318	100,723,936

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2017	2016 (As adjusted)	2015 (As adjusted)
Net income	$102,208	$196,374	$151,113
Other comprehensive income, net of tax:			
Foreign currency translation adjustment, net of tax	(5,490)	1,460	1,026
Gross gain (loss) on investments, net of tax ($8,710, $13,010 and $(27,621) in 2017, 2016 and 2015, respectively)	32,767	24,161	(51,296)
Reclassification adjustments for investment gain/loss included in net income:			
Other-than-temporary impairment loss, net of tax ($5, $7,736 and $5,336 in 2017, 2016 and 2015, respectively)	20	14,366	9,911
Other gain on investments, net of tax ($(13,293), $(4,116) and $(1,729) in 2017, 2016 and 2015, respectively)	(50,005)	(7,644)	(3,211)
Other comprehensive income (loss), net of tax	(22,708)	32,343	(43,570)
Comprehensive income	79,500	228,717	107,543
Less: Comprehensive (income) loss attributable to non-controlling interest	6,758	(22,122)	(10,061)
Comprehensive income attributable to NGHC	$86,258	$206,595	$97,482

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, 2017, 2016 and 2015

	Common Stock		Preferred Stock						
	Shares	$	Shares	$	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interest	Total
Balance January 1, 2015 (as adjusted)	93,427,382	$934	2,200,000	$55,000	$690,736	$20,192	$288,514	$13,756	$1,069,132
Net income (as adjusted)	—	—	—	—	—	—	137,088	14,025	151,113
Foreign currency translation adjustment, net of tax	—	—	—	—	—	1,026	—	—	1,026
Change in unrealized loss on investments, net of tax	—	—	—	—	—	(40,632)	—	(3,964)	(44,596)
Change in non-controlling interest	—	—	—	—	—	—	—	(977)	(977)
Issuance of common stock	11,500,000	115	—	—	210,527	—	—	—	210,642
Issuance of preferred stock	—	—	165,000	165,000	(5,448)	—	—	—	159,552
Common stock dividends	—	—	—	—	—	—	(9,015)	—	(9,015)
Preferred stock dividends	—	—	—	—	—	—	(14,025)	—	(14,025)
Common stock issued under employee stock plans and exercises of stock options	650,536	7	—	—	(1,638)	—	—	—	(1,631)
Shares withheld related to net share settlement	(23,587)	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	5,937	—	—	—	5,937
Balance December 31,	105,554,331	1,056	2,365,000	220,000	900,114	(19,414)	402,562	22,840	1,527,158

2015 (as adjusted)									
Cumulative effect adjustment of change in accounting principle	—	—	—	—	—	—	—	(22,619)	(22,619)
Net income (as adjusted)	—	—	—	—	—	—	175,706	20,668	196,374
Foreign currency translation adjustment, net of tax	—	—	—	—	—	1,460	—	—	1,460
Change in unrealized gain on investments, net of tax (as adjusted)	—	—	—	—	—	29,429	—	1,454	30,883
Exchanges' equity on March 31, 2016, date of consolidation	—	—	—	—	—	—	—	9,575	9,575
Return of capital	—	—	—	—	(150)	—	—	—	(150)
Issuance of common stock for acquisition	272,609	2	—	—	6,056	—	—	—	6,058
Issuance of preferred stock	—	—	200,000	200,000	(6,482)	—	—	—	193,518
Common stock dividends	—	—	—	—	—	—	(14,821)	—	(14,821)
Preferred stock dividends	—	—	—	—	—	—	(24,333)	—	(24,333)
Common stock issued under employee stock plans and exercises of stock options	644,939	6	—	—	5,134	—	—	—	5,140
Shares withheld related to net share settlement (as adjusted)	(43,787)	—	—	—	(919)	—	—	—	(919)
Stock-based compensation	—	—	—	—	8,221	—	—	—	8,221
Tax benefit from stock-based	—	—	—	—	1,813	—	—	—	1,813

compensation									
Balance December 31, 2016 (as adjusted)	106,428,092	$1,064	2,565,000	$420,000	$913,787	$11,475	$539,114	$31,918	$1,917,358

See accompanying notes to consolidated financial statements.

NATIONAL GENERAL HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands, Except Shares)
Years Ended December 31, 2017, 2016 and 2015

	Common Stock		Preferred Stock						
	Shares	$	Shares	$	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interest	Total
Balance January 1, 2017 (as adjusted)	106,428,092	$1,064	2,565,000	$420,000	$913,787	$11,475	$539,114	$31,918	$1,917,358
Cumulative effect adjustment of change to OCI related to tax reform	—	—	—	—	—	—	1,438	(61)	1,377
Net income (loss)	—	—	—	—	—	—	105,845	(3,637)	102,208
Foreign currency translation adjustment, net of tax	—	—	—	—	—	(5,490)	—	—	(5,490)
Change in unrealized loss on investments, net of tax	—	—	—	—	—	(14,097)	—	(3,121)	(17,218)
Purchase of non-controlling interest	—	—	—	—	(3,843)	—	—	(243)	(4,086)
Common stock dividends	—	—	—	—	—	—	(17,034)	—	(17,034)
Preferred stock dividends	—	—	—	—	—	—	(31,500)	—	(31,500)
Common stock issued under employee stock plans and exercises of stock options	347,809	3	—	—	1,256	—	—	—	1,259
Shares withheld related to net share settlement	(78,253)	—	—	—	(1,773)	—	—	—	(1,773)
	—	—	—	—	8,324	—	—	—	8,324

Stock-based compensation									
Balance December 31, 2017	106,697,648	$1,067	2,565,000	$420,000	$917,751	$(8,112)	$597,863	$24,856	$1,953,425

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2017	2016 (As adjusted)	2015 (As adjusted)
Cash flows from operating activities:			
Net income	$102,208	$196,374	$151,113
Reconciliation of net income to net cash provided by (used in) operating activities:			
Depreciation, amortization and goodwill impairment	103,303	92,035	49,628
Net amortization of premium/discount on fixed maturities and debt, net	(5,097)	1,096	2,327
Stock-compensation expense	8,324	8,221	5,937
Bad debt expense	63,819	35,356	23,810
Net (gain) loss on investments	(46,763)	(7,904)	11,095
(Earnings) losses of equity method investments	9,472	(13,850)	(913)
Other	1,119	(19,396)	(510)
Changes in assets and liabilities:			
Accrued investment income	5,129	(8,627)	(5,649)
Premiums and other receivables	(276,557)	(127,767)	45,340
Deferred acquisition costs	4,751	(83,089)	(34,532)
Reinsurance recoverable	(347,848)	(26,677)	79,343
Prepaid reinsurance premiums	(360,152)	(17,611)	(25,582)
Prepaid expenses and other assets	(17,543)	18,602	27,177
Unpaid loss and loss adjustment expense reserves	382,299	190,864	23,312
Unearned premiums and other revenue	328,753	97,210	77,882
Reinsurance payable	298,925	22,962	(42,469)
Accounts payable	(54,485)	(44,773)	(98,317)
Deferred tax asset / liability	24,726	(36,176)	(34,677)
Other liabilities	92,918	41,296	61,749
Net cash provided by operating activities	$317,301	$318,146	$316,064
Cash flows from investing activities:			
Purchases of fixed maturities, available-for-sale	$(1,927,018)	$(686,095)	$(1,310,560)
Proceeds from sale and maturity of fixed maturities, available-for-sale	1,844,699	672,691	530,325
Purchases of equity securities, available-for-sale	(33,374)	(32,170)	(11,824)
Proceeds from sale of equity securities, available-for-sale	22,207	119,003	3,951
Purchases of trading investments	(217,861)	(95,026)	—
Proceeds from sale and maturity of trading investments	261,225	62,104	—
Purchases of short-term investments	(5,728,031)	(177,628)	(84,939)
Proceeds from sale of short-term investments	5,707,331	165,075	91,952
Purchases of other investments	(59,384)	(197,384)	(79,452)
Proceeds from sale and return of other investments	73,778	17,714	—
Purchases of premises and equipment	(95,668)	(34,640)	(22,669)
Acquisition of consolidated subsidiaries, net of cash	(19,376)	(269,965)	162,569
Decrease in cash due to deconsolidation of the Reciprocal Exchanges	—	(8,393)	—
Increase in cash due to consolidation of the Reciprocal Exchanges	—	2,673	—
Net cash used in investing activities	$(171,472)	$(462,041)	$(720,647)

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2017	2016 (As adjusted)	2015 (As adjusted)
Cash flows from financing activities:			
Securities sold under agreements to repurchase, net	$—	$(52,484)	$5,680
Securities sold, not yet purchased	—	5,013	—
Proceeds from debt	140,000	50,000	195,400
Repayments of debt, return of capital and purchase of non-controlling interests	(172,839)	(18,150)	(631)
Issuance of common stock, net (fees $0 - 2017, $0 - 2016, and $7,858 - 2015)	—	4,942	210,642
Issuance of preferred stock, net (fees $0 - 2017, $6,482- 2016 and $5,448 - 2015)	—	193,518	159,552
Dividends paid to common shareholders	(17,050)	(13,773)	(7,719)
Dividends paid to preferred shareholders	(31,500)	(20,583)	(10,931)
Proceeds from exercise of stock options	1,259	5,140	2,595
Taxes paid related to net share settlement of equity awards	(1,773)	(919)	—
Net cash (used in) provided by financing activities	$(81,903)	$152,704	$554,588
Effect of exchange rate changes on cash and cash equivalents	$7,658	$(5,186)	$(343)
Net increase in cash, cash equivalents, and restricted cash	71,584	3,623	149,662
Cash, cash equivalents, and restricted cash at beginning of the year	285,900	282,277	132,615
Cash, cash equivalents, and restricted cash at end of the year	$357,484	$285,900	$282,277
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	$20,800	$41,646	$77,000
Cash paid for interest	49,498	32,679	21,222
Supplemental disclosures of non-cash investing and financing activities:			
Unsettled securities purchases	2,526	20,936	16,670
Unsettled securities sales	29,971	12,198	—
Common stock issued for acquisition	—	1,116	—
Promissory note issued for acquisition	—	178,894	—
Decrease in non-controlling interest due to deconsolidation of the Exchanges	—	22,619	—
Increase in non-controlling interest due to consolidation of the Exchanges	—	9,575	—
Accrued common stock dividends	4,268	4,226	3,167
Accrued preferred stock dividends	7,875	7,875	4,125

See accompanying notes to consolidated financial statements.

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 small business automobile, homeowners, umbrella, recreational vehicle, motorcycle, lender-placed, supplemental health and other niche insurance products. The insurance is sold through a network of independent agents, relationships with affinity partners, and direct-response marketing programs and retail storefronts. 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, 2017 and 2016, and for the years ended December 31, 2017, 2016 and 2015, 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. For the year ended December 31, 2016, the consolidated financial statements exclude the accounts and operations of the Reciprocal Exchanges, from January 1, 2016 to March 31, 2016, as these entities did not meet the criteria for consolidation under GAAP: "ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis," during that period but met the criteria on March 31, 2016. The Company adopted "ASU 2015-02" using a modified retrospective approach by recording a cumulative effect adjustment as of January 1, 2016, as a result, periods prior to the adoption were not impacted by the deconsolidation of the Reciprocal Exchanges. The Company does not own the Reciprocal Exchanges but is paid a fee to manage 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 ("P&C 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 amounts; 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 goodwill impairment; 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 premiums receivable 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 period the determination is made.

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

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.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents balances relate primarily to deposits in certain states in order to conduct business and certain third-party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. Amounts described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

Deferred Acquisition Costs

Deferred acquisition costs include commissions, premium taxes, payments to affinity partners, promotional fees, and other direct sales costs that are directly related to successful contract acquisition of insurance policies. These costs, net of ceding allowances, 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 costs to acquire the underlying policies, generally on a pro-rata basis over the terms of the policies reinsured. The portion of ceding commission which represents reimbursement of acquisition costs related to the underlying policies is recorded as an offset to acquisition costs and other underwriting expenses. Commission in excess of acquisition costs is recorded as ceding commission income over the terms of the policies. Certain reinsurance agreements contain provisions whereby the ceding commission rates vary based on the loss experience of the policies covered by the agreements. The Company records ceding commission revenue based on its current estimate of losses on the reinsured policies subject to variable commission rates. 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. 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 current period.

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

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

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 general and administrative expenses in the consolidated statements of income.

Investments

The Company accounts for its investments in accordance with ASC 320, “Investments - Debt and Equity Securities,” which requires that equity securities that have readily determinable fair values and all investments in debt securities to be segregated into categories based upon the Company’s intention for those securities. In accordance with ASC 320, the Company has classified certain fixed maturities and equity securities as available for sale and trading, with the exception of the Company’s equity and cost method investments. 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 quoted market prices or a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of comprehensive income in stockholders’ equity. The Company also classified certain fixed maturities and equity securities as trading securities, for which gains and losses are reported in earnings.

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.

Quarterly, the Company’s Investment Committee (“Committee”) evaluates each security that has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment (“OTTI”). The Company generally considers an investment to be impaired when it has been in a significant unrealized loss position for over 12 months. In addition, the Committee uses a set of quantitative and qualitative criteria to review the Company's investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of the Company’s investments. The criteria the Committee primarily considers include:

- the current fair value compared to amortized cost;
- the length of time the security's fair value has been below its amortized cost;
- specific credit issues related to the issuer such as changes in credit rating 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.

Based on guidance in ASC 320-10-35, 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 OTTI with the amount related to other factors recognized in accumulated other comprehensive income 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.

As of December 31, 2017 and 2016, the Company had the following major types of investments:

(i) 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 investments consisted of money market funds with original maturities of 90 days or less.

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

(iii) Fixed maturities and equity securities, trading - Fixed maturities and equity securities classified as trading are carried at estimated fair market value. Gains and losses are reported in the net gain or loss on investments in earnings.

(iv) Mortgage and structured securities - For mortgage and structured securities, the Company recognizes income 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, available-for-sale in the consolidated balance sheets.

(v) 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 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 earnings of equity method investments, as applicable.

Fair Value of Financial Instruments

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 820, "Fair Value Measurements and Disclosures." The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate

is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. Additionally, valuation of fixed-maturity investments is more subjective when markets are less liquid due to lack of market-based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur. Fair values of other financial instruments which are short-term in nature 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.

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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.

Equity Method Investments

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 net investment income or earnings of equity method investments, as applicable.

Stock Compensation Expense

The Company recognizes shared-based employee compensation expense under the fair value recognition and measurement provisions under GAAP. Those provisions require all shared-based payments to employees, including stock options and restricted stock units ("RSUs"), to be measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight-line basis in the Company's consolidated statements of income over the period during which the employee is required to perform service in exchange for the award. The majority of the Company's awards are earned generally over a service period of three or four years.

Advertising Costs

The Company expenses the cost of advertising as incurred. Advertising expense is included as a component of acquisition costs and other underwriting expenses in the Company's consolidated statements of income. Advertising expense was $68,867, $45,997 and $38,263 for the years ended December 31, 2017, 2016 and 2015, 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 shares of common stock outstanding during the period adjusted for the dilutive impact of share options and restricted stock units 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 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.

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 the tax allocation agreements and file separate tax returns.

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 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.

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
Other equipment	3 to 20 years
Hardware and software	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.

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 include 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 ("VIE") and that the Company is the primary beneficiary.

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 as primary beneficiary. The Company has no ownership interest in the Reciprocal Exchanges.

In March 2016, the Company purchased the Reciprocal Exchanges 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 determined that each of the Reciprocal Exchanges qualifies as a VIE because the Company is the primary beneficiary as it has the power to direct their activities that most significantly impact their economic performance, will absorb more than an insignificant amount of expected losses or residual returns of the Reciprocal Exchanges, and has the risk of loss through ownership of the surplus notes. Accordingly, the Company consolidates the Reciprocal Exchanges and eliminates all intercompany balances and transactions with the Company.

The consolidation of the Reciprocal Exchanges at March 31, 2016 was treated as a business combination with the assets, liabilities and non-controlling interest recognized at fair value at the date of consolidation. The Company has no ownership interest in the Reciprocal Exchanges, therefore, the difference between the fair value of the assets acquired and liabilities assumed represents the fair value of the non-controlling interest.

For the year ended December 31, 2017, the Reciprocal Exchanges recognized total revenues, total expenses and net loss of $251,293, $254,930 and $(3,637), respectively. For the year ended December 31, 2016, the Reciprocal Exchanges recognized total revenues, total expenses and net income of $167,010, $146,455 and $20,555, respectively. 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.

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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, 2017 and 2016, 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, see Note 12, "Reinsurance" for additional information about concentration of credit risk. 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.

Foreign Currency Transactions

For operations where the functional currency is a foreign currency, the functional currency assets and liabilities are translated into U.S. dollars at year-end exchange rates and the related translation adjustments are recorded as a separate component of accumulated other comprehensive income in shareholders' equity. The functional currency of the Company and many of its subsidiaries is the U.S. dollar. For these companies, the Company remeasures 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 LAE 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 insufficient 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. Insufficient 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 canceled. A policy reinstatement fee is recognized when the customer's policy is reinstated. An insufficient 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. The Company will adopt ASU 2014-09, “Revenue from Contracts with Customers” on January 1, 2018, using the modified retrospective method. The Company anticipates the adoption of this new standard will impact its consolidated financial statements, specifically its Accident and Health segment (“A&H segment”). Under

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ASU 2014-09, the Company expects to recognize Medicare-related and other accident and health commission revenues equal to the estimated life-time value of a policy at the time when the policy is sold, as opposed to its current treatment of recognizing revenue initially billed or as of the effective date of the insurance policy, whichever is later. ASU 2014-09 will require the Company to make significant estimates, including, but not limited to, the estimated consideration to be paid to us over the estimated life of plans approved by carriers. The Company expects to record a cumulative effect of applying the standard as an adjustment increasing the opening balance of retained earnings of approximately $10,088 upon adoption.

The Company also collects service fees in the form of group health administrative fees by performing enrollment and claims services for self-funded employer plans. The Company does not bear insurance underwriting risk for these self-funded employer plans. Group health administrative fees are recognized pro-rata over the term of the administrative contract with the employer, which generally covers twelve months.

The following table summarizes service and fee income by category:

	Year Ended December 31,		
	2017	2016	2015
Commission revenue	$145,693	$110,343	$58,807
Finance and processing fees	124,305	88,624	90,072
Installment fees	83,883	43,460	32,404
Group health administrative fees	62,217	69,689	29,622
Late payment fees	27,305	16,737	12,210
Other	59,524	51,964	50,433
Total	$502,927	$380,817	$273,548

Recent Accounting Standards, Adopted

In March 2016, the FASB issued ASU 2016-07, “Investments-Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting” as part of its initiative to reduce complexity in accounting standards. ASU 2016-07 eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The Company adopted ASU 2016-07 on January 1, 2017. The adoption of this guidance did not have an effect on the Company’s results of operations, financial position or liquidity.

In March 2016, the FASB issued ASU 2016-09, “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted ASU 2016-09 on January 1, 2017. Adoption of the new standard resulted in: (i) prospectively recognizing all excess tax benefits and tax deficiencies as income tax expense or benefit in the statement of income, (ii) retrospectively presenting the excess tax benefits along with other income tax cash flows as an operating activity, (iii) the Company’s election to continue estimating expected forfeitures, and (iv) cash paid by the Company when directly withholding shares for tax-withholding purposes to be classified as a financing activity. The adoption of this guidance did not have a material effect on the Company’s results of operations, financial position or liquidity, other than reclassifying $1,813 excess tax

benefits from cash flows from financing activities to cash flows from operating activities in the consolidated statements of cash flows for the year ended December 31, 2016.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” ASU 2016-15 provides guidance on eight specific cash flow classification issues. The Company elected to early adopt ASU 2016-15 on January 1, 2017 resulting in the application of its requirements using a retrospective transition method to each period presented. The adoption of this guidance did not have an effect on the Company’s results of operations, financial position or liquidity; other than the required classifications of the eight specific transactions in the statements of cash flows.

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In February 2018, the FASB issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," that allows a reclassification of the stranded tax effects in accumulated other comprehensive income ("AOCI") resulting from the Tax Cuts and Jobs Act of 2017 ("TCJA"). Current guidance requires the effect of a change in tax laws or rates on deferred tax balances to be reported in income from continuing operations in the accounting period that includes the period of enactment, even if the related income tax effects were originally charged or credited directly to AOCI. The amount of the reclassification would include the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of the enactment of TCJA related to items in AOCI. The updated guidance is effective for reporting periods beginning after December 15, 2018 and is to be applied retrospectively to each period in which the effect of the TCJA related to items remaining in AOCI are recognized or at the beginning of the period of adoption. Early adoption is permitted. The Company adopted the guidance as of December 31, 2017. The adoption of the guidance resulted in a reduction in our deferred tax liability of $1,377 related to AOCI, which resulted in a corresponding decrease in income tax expense. In addition, AOCI was adjusted to reflect the proper tax rates which was reflected through an adjustment to retained earnings.

Recent Accounting Standards, Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," 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. In March 2016, the FASB issued ASU 2016-08, "Principal versus Agent Considerations (Reporting Gross versus Net)", which amends the principal versus agent guidance and clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. In addition, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing", ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" and ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers", each of which provide additional clarification of certain provisions in Topic 606. Finally, the FASB issued ASU 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets", which clarifies the scope of guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. While the guidance specifically excludes revenues from insurance contracts, investments and financial instruments from its scope, the guidance will be applicable to the Company's service and fee income not specifically exempted from the guidance. The Company will adopt ASU 2014-09 effective January 1, 2018 and plans to use the modified retrospective approach. The Company expects to record a cumulative effect of applying the standard as an adjustment increasing the opening balance of retained earnings by approximately $10,088 upon adoption. Furthermore, on a go forward basis the Company expects to record all commission revenue using point in time recognition which is a significant difference for many products in its A&H segment. This will result in the recognition of revenue equal to the estimated life-time value of a policy at the time when the policy is sold, compared to the Company's current practice of recognizing revenue initially billed or as of the effective date of the insurance policy, whichever is later. The Company does expect significant disclosures for each quarter in the year of adoption.

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. Specifically, under ASU 2016-01, equity investments (other than those accounted for using the equity method of accounting or those

subject to consolidation) will be measured at fair value with changes in fair value recognized in earnings. Also, for those financial liabilities for which the fair value option accounting has been elected, ASU 2016-01 requires changes in fair value due to instrument-specific credit risk to be presented separately in other comprehensive income. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017. As of December 31, 2017 and 2016, the Company had $(36) and $3,136, respectively, of net unrealized gains (losses), net of tax, for equity securities, available-for-sale, recognized as a component of AOCI.

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

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years beginning after December 15, 2018. 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 in the early stages of evaluating the impact this guidance will have on its results of operations, financial position or liquidity and disclosures. The Company expects the adoption will have a significant impact on its consolidated financial statements, primarily to the consolidated balance sheets by recognizing a right-of-use asset and corresponding lease liability and related disclosures, due to the addition of operating leases previously accounted for as off-balance sheet transactions. The Company is currently unable to quantify the impact of adopting this guidance.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which significantly changes the impairment model for most financial assets and certain other instruments. ASU 2016-13 will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, which will generally result in earlier recognition of allowances for credit losses on loans and other financial instruments. Companies will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Companies will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The standard is effective for fiscal years beginning after December 15, 2019. All entities may adopt the amendments in ASU 2016-13 earlier as of the fiscal years beginning after December 15, 2018. Based on the financial instruments currently held by the Company, there would not be a material effect on the Company’s consolidated financial condition, results of operations, cash flows and disclosures if the new guidance were able to be adopted in the current accounting period. The impact on the Company’s consolidated financial condition, results of operations, cash flows and disclosures at the date of adoption of the updated guidance will be determined by the financial instruments held by the Company and the economic conditions at that time.

In October 2016, the FASB issued ASU 2016-16 “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory,” which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 eliminates the exception for an intra-entity transfer of an asset other than inventory. The amendments in ASU 2016-16 are effective for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact this guidance will have on its consolidated financial condition, results of operations, cash flows and disclosures. Based on the intra-entity transfers executed by the Company, there would not be a material effect on the Company’s consolidated financial condition, results of operations, cash flows and disclosures if the new guidance were able to be adopted in the current accounting period. The impact on the Company’s consolidated financial condition, results of operations, cash flows and disclosures at the date of adoption of the updated guidance will be determined by the amount of intra-entity transfer activity of the Company at that time.

In January 2017, the FASB issued ASU 2017-04 “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” to establish a one-step process for testing the value of the goodwill which an entity carries. ASU 2017-04 requires the goodwill impairment to be measured as the excess of the reporting unit’s carrying amount over its fair value. ASU 2017-04 is effective for public business entities for its annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact this guidance will have on its consolidated financial condition, results of operations, cash flows and disclosures. Based on the goodwill currently held by the Company, there would not be a material effect on the Company’s consolidated financial condition, results of operations, cash flows and disclosures if the new guidance were

able to be adopted in the current accounting period. The impact on the Company's consolidated financial condition, results of operations, cash flows and disclosures at the date of adoption of the updated guidance will be determined by the goodwill held by the Company at that time.

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3. Revisions of Previously Issued Financial Statements

In connection with the preparation, review and audit of the Company's consolidated financial statements required to be included in this Annual Report on Form 10-K for the year ended December 31, 2017, management identified certain errors in the Company's historical financial statements, resulting in a conclusion that certain corrections need to be made to the Company's previously audited consolidated financial statements for fiscal years 2016 and 2015, along with each of the unaudited quarters of fiscal years 2016 and 2015, as well as the unaudited first three quarters of fiscal year 2017. The Company has revised its prior period consolidated financial statements accordingly and included such revisions herein. Based on an analysis of quantitative and qualitative factors, the Company concluded that these errors were not material to the consolidated financial position, results of operations or cash flows as presented in the Company’s quarterly and annual financial statements that have been previously filed in the Company’s Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. As a result, amendment of such reports is not required.

The revisions to correct errors primarily relate to (1) the retrospective correction of costs associated with claims handling from General and administrative expenses to Loss and LAE, and (2) the period in which losses relating to the Company’s limited partnership interests in certain real estate joint ventures should have been recorded in Earnings (losses) of equity method investments (related parties). The Company has also included certain other adjustments that have been corrected.

The nature and description of each of these adjustments is as follows (all quarterly amounts are unaudited):

1. Costs associated with claims handling. The Company classified certain costs associated with claims handling within general and administrative expenses in 2016 and 2015. The Company has moved these costs from general and administrative expenses to loss adjustment expense in 2016 and 2015. This correction resulted in increases in loss and loss adjustment expense and corresponding decreases in general and administrative expenses in 2016 and 2015.
2. Earnings (losses) of equity method investments (related parties). The Company received information in 2017 from an investment’s general partner relating to amortization and depreciation of certain limited partnership real estate investments. The information related to prior periods and the initial impact was recorded in the second quarter of 2017. This correction resulted in a $9,800 and $7,200 decrease in earnings of equity method investments in 2016 and 2015, respectively; and a corresponding $2,300 decrease, a $14,700 and $17,000 increase in earnings of equity method investments for the three, six and nine months ended September 30, 2017, respectively.
3. Gross Premium Written. The Company corrected its P&C segment gross premium written and acquisition costs and other underwriting expenses due to calculation errors. This correction resulted in a $1,390 increase in gross premium written and a $151 decrease in acquisition costs and other underwriting expenses in 2016, and a $296 and $732 increase in gross premium written and acquisition costs and other underwriting expenses in 2015, respectively; and a corresponding $1,686 and $581 decrease in gross premium written and acquisition costs and other underwriting expenses, respectively, for the three, six and nine months ended September 30, 2017.
4. Loss Reserves. The Company made adjustments to its A&H segment loss reserves by correcting a discount rate and other calculation errors. This correction resulted in a $1,843 and $308 increase in loss and loss adjustment expense in 2016 and 2015, respectively, and a $6,643 increase to the unpaid loss and adjustment expense reserves opening balance as of January 1, 2015; and a corresponding $2,492 and $3,279 increase and a $8,794 decrease in loss and loss adjustment expense for the three, six and nine months ended September 30, 2017, respectively.
5. Goodwill Reversal. The Company recorded a goodwill impairment in 2016 and recognized it at the consolidated level. The A&H segment reporting unit level had no goodwill impairment so no goodwill impairment should have been recognized at the consolidated level. This correction resulted in a $3,074 decrease in general and administrative expenses in 2016.

6. Investments. The Company incorrectly classified a trading portfolio investment as available-for-sale at December 31, 2016. This correction resulted in a $1,900 increase in gains on investment in 2016, and a corresponding $1,900 decrease in gains on investments for the three, six and nine months ended September 30, 2017.
7. Taxes. The Company identified errors in its tax provision during its tax return preparation which resulted in a tax benefit in 2016. This correction resulted in a $5,747 decrease in the provision for income taxes in 2016, and a corresponding $5,747 increase in the provision for income taxes for the three and nine months ended September 30, 2017. The Company also identified certain tax related balances that were incorrectly classified as income tax payable within other liabilities and other investments in 2016, rather than classified as other assets.

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8. Additional Paid-in-Capital. The Company identified errors when booking withholding tax when share-based compensation shares were net settled. This correction resulted in a $919 decrease in additional paid-in-capital and a corresponding increase in accounts payable and accrued expenses in 2016.

(a) To facilitate period-to-period comparisons, certain reclassifications have been made to amounts in the prior years' consolidated financial statements and in the prior quarters' condensed consolidated financial statements to conform to the current year presentation.

Periods prior to 2015 were impacted by these adjustments. The cumulative effect of these adjustments as of January 1, 2015 increased the previously reported unpaid loss and loss adjustment expense reserve by $6,643 and decreased income tax payable and retained earnings by $2,325 and $4,318, respectively.

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The adjustments to the Company's annual and quarterly previously issued financial statements are as follows:

	December 31, 2016			
Consolidated Balance Sheet:	As reported (a) (Audited)	Adjustments	As adjusted	Reference
ASSETS				
Investments - NGHC				
Fixed maturities, available-for-sale, at fair value	$2,755,454	$ —	$2,755,454	
Equity securities, available-for-sale, at fair value	29,578	(17,798)	11,780	6
Fixed maturities, trading, at fair value	38,677	—	38,677	
Equity securities, trading, at fair value	30,133	17,798	47,931	6
Other investments	513,262	(42,385)	470,877	2, 7
Investments - Exchanges				
Fixed maturities, available-for-sale, at fair value	306,345	—	306,345	
Total investments	3,673,449	(42,385)	3,631,064	
Cash and cash equivalents	220,299	—	220,299	
Restricted cash and cash equivalents	65,601	—	65,601	
Accrued investment income	28,769	—	28,769	
Premiums and other receivables, net	1,090,669	1,105	1,091,774	3
Deferred acquisition costs	220,922	—	220,922	
Reinsurance recoverable	948,236	—	948,236	
Prepaid reinsurance premiums	156,970	—	156,970	
Premises and equipment, net	114,504	—	114,504	
Intangible assets, net	467,720	—	467,720	
Goodwill	155,290	3,074	158,364	5
Prepaid and other assets	102,552	31,253	133,805	6, 7
Total assets	$7,244,981	$ (6,953)	$7,238,028	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Unpaid loss and loss adjustment expense reserves	$2,265,072	$ 8,794	$2,273,866	4
Unearned premiums and other revenue	1,701,286	—	1,701,286	
Reinsurance payable	98,810	—	98,810	
Accounts payable and accrued expenses	336,991	919	337,910	8
Debt	752,001	—	752,001	
Other liabilities	165,317	(8,520)	156,797	2, 3, 4, 6, 7
Total liabilities	$5,319,477	$ 1,193	$5,320,670	
Stockholders' equity:				
Common stock	$1,064	$ —	$1,064	
Preferred stock	420,000	—	420,000	
Additional paid-in capital	914,706	(919)	913,787	8
Accumulated other comprehensive income:				
Unrealized foreign currency translation adjustment, net of tax	(2,320)	—	(2,320)	
Unrealized gains on investments, net of tax	15,030	(1,235)	13,795	6
Total accumulated other comprehensive income	12,710	(1,235)	11,475	
Retained earnings	545,106	(5,992)	539,114	2, 3, 4, 5, 6, 7
Total National General Holdings Corp. stockholders' equity	1,893,586	(8,146)	1,885,440	

Non-controlling interest	31,918	—	31,918
Total stockholders’ equity	$1,925,504	$ (8,146)	$1,917,358
Total liabilities and stockholders’ equity	$7,244,981	$ (6,953)	$7,238,028

NATIONAL GENERAL HOLDINGS CORP.
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Consolidated Statement of Income:	Three Months Ended December 31, 2016				Year Ended December 31, 2016			
	As reported (a)	Adjustments	As adjusted	Reference	As reported (a)	Adjustments	As adjusted	Reference
	(Unaudited)				(Audited)			
Revenues:								
Net earned premium	$856,071	$1,612	$857,683	3	$2,993,781	$1,390	$2,995,171	3
Ceding commission income	21,194	—	21,194		45,600	—	45,600	
Service and fee income	98,194	—	98,194		380,817	—	380,817	
Net investment income	22,712	—	22,712		99,586	—	99,586	
Net gain (loss) on investments:								
Other-than-temporary impairment loss	—	—	—		(22,102)	—	(22,102)	
Other net realized gain on investments	8,700	1,900	10,600	6	28,106	1,900	30,006	6
Total net gain on investments	8,700	1,900	10,600		6,004	1,900	7,904	
Other income (expense)	24,308	—	24,308		24,308	—	24,308	
Total revenues	1,031,179	3,512	1,034,691		3,550,096	3,290	3,553,386	
Expenses:								
Loss and loss adjustment expense	567,284	45,391	612,675	1, 4	1,958,545	133,735	2,092,280	1, 4
Acquisition costs and other underwriting expenses	134,645	398	135,043	3	497,158	(151)	497,007	3
General and administrative expenses	277,630	(46,859)	230,771	1, 5	844,114	(134,966)	709,148	1, 5
Interest expense	11,645	—	11,645		40,180	—	40,180	
Total expenses	991,204	(1,070)	990,134		3,339,997	(1,382)	3,338,615	
Income before provision (benefit) for income taxes and earnings of equity method investments	39,975	4,582	44,557		210,099	4,672	214,771	
Provision (benefit) for income taxes	1,177	(6,058)	(4,881)	2, 3, 4, 6, 7	42,616	(8,618)	33,998	2, 3, 4, 6, 7
Income before earnings of equity method investments	38,798	10,640	49,438		167,483	13,290	180,773	
Earnings of equity method investments (related parties)	8,410	(2,400)	6,010	2	25,401	(9,800)	15,601	2

Net income	47,208	8,240	55,448	192,884	3,490	196,374
Less: Net (income) attributable to non-controlling interest	(8,419)	—	(8,419)	(20,668)	—	(20,668)
Net income attributable to NGHC	38,789	8,240	47,029	172,216	3,490	175,706
Dividends on preferred stock	(7,875)	—	(7,875)	(24,333)	—	(24,333)
Net income attributable to NGHC common stockholders	$30,914	$8,240	$39,154	$147,883	$3,490	$151,373
Earnings per common share:						
Basic	$0.29		$0.37	$1.40		$1.43
Diluted	$0.28		$0.36	$1.37		$1.40
Dividends declared per common share	$0.04		$0.04	$0.14		$0.14
Weighted average common shares outstanding:						
Basic	106,395,429		106,395,429	105,951,752		105,951,752
Diluted	108,973,892		108,973,892	108,278,318		108,278,318

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	Impact on opening balances as of January 1, 2016			
Consolidated Balance Sheet Data:	As reported (a) (Audited)	Adjustments	As adjusted	Reference
Total investments	$2,792,710	$ (7,200)	$2,785,510	2
Total assets	$5,563,392	$ (7,200)	$5,556,192	
Unpaid loss and loss adjustment expense reserves	$1,755,624	$ 6,951	$1,762,575	4
Unearned premiums and other revenue	$1,257,894	$ (296)	$1,257,598	3
Accounts payable and accrued expenses	$284,902	$ 732	$285,634	3
Other liabilities	$115,139	$ (5,105)	$110,034	2, 3, 4
Total liabilities	$4,026,752	$ 2,282	$4,029,034	
Retained earnings	$412,044	$ (9,482)	$402,562	2, 3, 4
Total National General Holdings Corp. Stockholders' Equity	$1,513,800	$ (9,482)	$1,504,318	
Total stockholders’ equity	$1,536,640	$ (9,482)	$1,527,158	
Total liabilities and stockholders’ equity	$5,563,392	$ (7,200)	$5,556,192	

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	Three Months Ended December 31, 2015				Year Ended December 31, 2015			
Consolidated Statement of Income:	As reported (a)	Adjustments	As adjusted	Reference	As reported (a)	Adjustments	As adjusted	Reference
	(Unaudited)				(Audited)			
Revenues:								
Net earned premium	$678,568	$74	$678,642	3	$2,129,810	$296	$2,130,106	3
Ceding commission income	16,590	—	16,590		43,790	—	43,790	
Service and fee income	100,213	—	100,213		273,548	—	273,548	
Net investment income	22,385	—	22,385		75,340	—	75,340	
Net gain (loss) on investments:								
Other-than-temporary impairment loss	(6,755)	—	(6,755)		(15,247)	—	(15,247)	
Other net realized gain (loss) on investments	(995)	—	(995)		4,152	—	4,152	
Net gain (loss) on investments	(7,750)	—	(7,750)		(11,095)	—	(11,095)	
Total revenues	810,006	74	810,080		2,511,393	296	2,511,689	
Expenses:								
Loss and loss adjustment expense	485,867	28,566	514,433	1, 4	1,381,641	103,679	1,485,320	1, 4
Acquisition costs and other underwriting expenses	110,799	183	110,982	3	405,930	732	406,662	3
General and administrative expenses	186,921	(28,489)	158,432	1	530,347	(103,371)	426,976	1
Interest expense	1,776	—	1,776		28,885	—	28,885	
Total expenses	785,363	260	785,623		2,346,803	1,040	2,347,843	
Income before provision (benefit) for income taxes and earnings (losses) of equity method investments	24,643	(186)	24,457		164,590	(744)	163,846	
Provision (benefit) for income taxes	(5,936)	(1,290)	(7,226)	2, 3, 4	18,956	(2,780)	16,176	2, 3, 4
Income before earnings (losses) of equity method investments	30,579	1,104	31,683		145,634	2,036	147,670	
	1,743	(3,500)	(1,757)	2	10,643	(7,200)	3,443	2

Earnings (losses) of equity method investments (related parties)						
Net income	32,322	(2,396)	29,926	156,277	(5,164)	151,113
Less: Net (income) attributable to non-controlling interest	(14,478)	—	(14,478)	(14,025)	—	(14,025)
Net income attributable to NGHC	17,844	(2,396)	15,448	142,252	(5,164)	137,088
Dividends on preferred stock	(4,125)	—	(4,125)	(14,025)	—	(14,025)
Net income attributable to NGHC common stockholders	$13,719	$(2,396)	$11,323	$128,227	$(5,164)	$123,063
Earnings per common share:						
Basic	$0.13		$0.11	$1.31		$1.25
Diluted	$0.13		$0.10	$1.27		$1.22
Dividends declared per common share	$0.03		$0.03	$0.09		$0.09
Weighted average common shares outstanding:						
Basic	105,503,021		105,503,021	98,241,904		98,241,904
Diluted	108,161,786		108,161,786	100,723,936		100,723,936

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Consolidated Balance Sheet:	September 30, 2017 As reported (a) (Unaudited)	Adjustments	As adjusted	Reference
ASSETS				
Investments - NGHC				
Fixed maturities, available-for-sale, at fair value	$2,928,119	$ —	$2,928,119	
Equity securities, available-for-sale, at fair value	30,318	—	30,318	
Fixed maturities, trading, at fair value	33,174	—	33,174	
Equity securities, trading, at fair value	39,001	—	39,001	
Other investments	460,543	(5,385)	455,158	7
Investments - Exchanges				
Fixed maturities, available-for-sale, at fair value	319,743	—	319,743	
Short-term investments	26,886	—	26,886	
Total investments	3,837,784	(5,385)	3,832,399	
Cash and cash equivalents	330,728	—	330,728	
Restricted cash and cash equivalents	88,127	—	88,127	
Accrued investment income	22,624	—	22,624	
Premiums and other receivables, net	1,340,836	—	1,340,836	
Deferred acquisition costs	227,720	—	227,720	
Reinsurance recoverable	1,139,880	—	1,139,880	
Prepaid reinsurance premiums	485,028	—	485,028	
Premises and equipment, net	319,636	—	319,636	
Intangible assets, net	394,036	—	394,036	
Goodwill	190,713	3,074	193,787	5
Prepaid and other assets	96,329	17,903	114,232	7
Total assets	$8,473,441	$ 15,592	$8,489,033	
LIABILITIES AND STOCKHOLDERS’ EQUITY				
Liabilities:				
Unpaid loss and loss adjustment expense reserves	$2,566,437	$ —	$2,566,437	
Unearned premiums and other revenue	1,969,296	—	1,969,296	
Reinsurance payable	331,454	—	331,454	
Accounts payable and accrued expenses	612,338	—	612,338	
Debt	754,922	—	754,922	
Other liabilities	256,531	12,518	269,049	7
Total liabilities	$6,490,978	$ 12,518	$6,503,496	
Stockholders’ equity:				
Common stock	$1,067	$ —	$1,067	
Preferred stock	420,000	—	420,000	
Additional paid-in capital	919,477	—	919,477	
Accumulated other comprehensive income:				
Unrealized foreign currency translation adjustment, net of tax	(5,597)	—	(5,597)	
Unrealized gains on investments, net of tax	14,856	—	14,856	
Total accumulated other comprehensive income	9,259	—	9,259	
Retained earnings	607,555	3,074	610,629	5
Total National General Holdings Corp. stockholders’ equity	1,957,358	3,074	1,960,432	

Non-controlling interest	25,105	—	25,105
Total stockholders' equity	$1,982,463	$ 3,074	$1,985,537
Total liabilities and stockholders' equity	$8,473,441	$ 15,592	$8,489,033

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	Three Months Ended September 30, 2017				Nine Months Ended September 30, 2017			
Consolidated Statement of Income:	As reported (a)	Adjustments	As adjusted	Reference	As reported (a)	Adjustments	As adjusted	Reference
	(Unaudited)				(Unaudited)			
Revenues:								
Net earned premium	$864,301	$—	$864,301		$2,766,223	$(1,686)	$2,764,537	3
Ceding commission income	50,102	—	50,102		91,604	—	91,604	
Service and fee income	122,526	—	122,526		373,644	—	373,644	
Net investment income	27,147	—	27,147		82,983	—	82,983	
Net gain (loss) on investments:								
Other-than-temporary impairment loss	—	—	—		(25)	—	(25)	
Other net realized gain (loss) on investments	47,605	—	47,605		45,943	(1,900)	44,043	6
Total net gain (loss) on investments	47,605	—	47,605		45,918	(1,900)	44,018	
Other income (expense)	(3,901)	—	(3,901)		(198)	—	(198)	
Total revenues	1,107,780	—	1,107,780		3,360,174	(3,586)	3,356,588	
Expenses:								
Loss and loss adjustment expense	651,218	(12,073)	639,145	4	1,977,950	(8,794)	1,969,156	4
Acquisition costs and other underwriting expenses	163,585	—	163,585		527,681	(581)	527,100	3
General and administrative expenses	214,127	—	214,127		680,806	—	680,806	
Interest expense	11,495	—	11,495		34,590	—	34,590	
Total expenses	1,040,425	(12,073)	1,028,352		3,221,027	(9,375)	3,211,652	
Income before provision for income taxes and earnings (losses) of equity method investments	67,355	12,073	79,428		139,147	5,789	144,936	
Provision for income taxes	7,698	10,777	18,475	2, 4, 7	27,028	13,723	40,751	2, 3, 4, 6, 7
Income before earnings (losses) of equity method investments	59,657	1,296	60,953		112,119	(7,934)	104,185	
	(4,297)	2,300	(1,997)	2	(18,258)	17,000	(1,258)	2

Earnings (losses) of equity method investments (related parties)						
Net income	55,360	3,596	58,956	93,861	9,066	102,927
Less: Net (income) loss attributable to non-controlling interest	(1,311)	—	(1,311)	4,973	—	4,973
Net income attributable to NGHC	54,049	3,596	57,645	98,834	9,066	107,900
Dividends on preferred stock	(7,875)	—	(7,875)	(23,625)	—	(23,625)
Net income attributable to NGHC common stockholders	$46,174	$3,596	$49,770	$75,209	$9,066	$84,275
Earnings per common share:						
Basic	$0.43		$0.47	$0.71		$0.79
Diluted	$0.43		$0.46	$0.69		$0.78
Dividends declared per common share	$0.04		$0.04	$0.12		$0.12
Weighted average common shares outstanding:						
Basic	106,645,601		106,645,601	106,556,662		106,556,662
Diluted	108,520,964		108,520,964	108,690,139		108,690,139

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Consolidated Balance Sheet:	June 30, 2017 As reported (a) (Unaudited)	Adjustments	As adjusted	Reference
ASSETS				
Investments - NGHC				
Fixed maturities, available-for-sale, at fair value	$2,924,583	$ —	$2,924,583	
Equity securities, available-for-sale, at fair value	7,638	—	7,638	
Fixed maturities, trading, at fair value	23,093	—	23,093	
Equity securities, trading, at fair value	37,967	—	37,967	
Other investments	524,361	(7,685)	516,676	2, 7
Investments - Exchanges				
Fixed maturities, available-for-sale, at fair value	306,614	—	306,614	
Short-term investments	82,403	—	82,403	
Total investments	3,906,659	(7,685)	3,898,974	
Cash and cash equivalents	241,838	—	241,838	
Restricted cash and cash equivalents	39,058	—	39,058	
Accrued investment income	28,306	—	28,306	
Premiums and other receivables, net	1,332,694	—	1,332,694	
Deferred acquisition costs	254,913	—	254,913	
Reinsurance recoverable	969,081	—	969,081	
Prepaid reinsurance premiums	182,947	—	182,947	
Premises and equipment, net	129,275	—	129,275	
Intangible assets, net	410,655	—	410,655	
Goodwill	189,587	3,074	192,661	5
Prepaid and other assets	102,119	25,183	127,302	7
Total assets	$7,787,132	$ 20,572	$7,807,704	
LIABILITIES AND STOCKHOLDERS’ EQUITY				
Liabilities:				
Unpaid loss and loss adjustment expense reserves	$2,360,156	$ 12,073	$2,372,229	4
Unearned premiums and other revenue	1,912,842	—	1,912,842	
Reinsurance payable	128,026	—	128,026	
Accounts payable and accrued expenses	468,050	1,753	469,803	8
Debt	754,736	—	754,736	
Other liabilities	200,354	9,021	209,375	2, 4, 7
Total liabilities	$5,824,164	$ 22,847	$5,847,011	
Stockholders’ equity:				
Common stock	$1,066	$ —	$1,066	
Preferred stock	420,000	—	420,000	
Additional paid-in capital	920,310	(1,753)	918,557	8
Accumulated other comprehensive income:				
Unrealized foreign currency translation adjustment, net of tax	(4,392)	—	(4,392)	
Unrealized gains on investments, net of tax	37,268	—	37,268	
Total accumulated other comprehensive income	32,876	—	32,876	
Retained earnings	565,649	(522)	565,127	2, 4, 5, 7
Total National General Holdings Corp. stockholders’ equity	1,939,901	(2,275)	1,937,626	

Non-controlling interest	23,067	—	23,067
Total stockholders' equity	$1,962,968	$ (2,275)	$1,960,693
Total liabilities and stockholders' equity	$7,787,132	$ 20,572	$7,807,704

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

Consolidated Statement of Income:	Three Months Ended June 30, 2017				Six Months Ended June 30, 2017			
	As reported (a)	Adjustments	As adjusted	Reference	As reported (a)	Adjustments	As adjusted	Reference
	(Unaudited)				(Unaudited)			
Revenues:								
Net earned premium	$981,751	$—	$981,751		$1,901,922	$(1,686)	$1,900,236	3
Ceding commission income	21,508	—	21,508		41,502	—	41,502	
Service and fee income	125,176	—	125,176		251,118	—	251,118	
Net investment income	29,446	—	29,446		55,836	—	55,836	
Net loss on investments	(2,175)	—	(2,175)		(1,687)	(1,900)	(3,587)	6
Other income (expense)	(6,098)	—	(6,098)		3,703	—	3,703	
Total revenues	1,149,608	—	1,149,608		2,252,394	(3,586)	2,248,808	
Expenses:								
Loss and loss adjustment expense	710,407	787	711,194	4	1,326,732	3,279	1,330,011	4
Acquisition costs and other underwriting expenses	188,795	—	188,795		364,096	(581)	363,515	3
General and administrative expenses	211,494	—	211,494		466,679	—	466,679	
Interest expense	11,550	—	11,550		23,095	—	23,095	
Total expenses	1,122,246	787	1,123,033		2,180,602	2,698	2,183,300	
Income before provision for income taxes and earnings (losses) of equity method investments	27,362	(787)	26,575		71,792	(6,284)	65,508	
Provision for income taxes	5,812	5,675	11,487	2, 4	19,330	2,946	22,276	2, 3, 4, 6
Income before earnings (losses) of equity method investments	21,550	(6,462)	15,088		52,462	(9,230)	43,232	
Earnings (losses) of equity method investments (related parties)	(18,915)	17,000	(1,915)	2	(13,961)	14,700	739	2

Net income	2,635	10,538	13,173	38,501	5,470	43,971
Less: Net (income) loss attributable to non-controlling interest	159	—	159	6,284	—	6,284
Net income attributable to NGHC	2,794	10,538	13,332	44,785	5,470	50,255
Dividends on preferred stock	(7,875)	—	(7,875)	(15,750)	—	(15,750)
Net income (loss) attributable to NGHC common stockholders	$(5,081)	$ 10,538	$5,457	$29,035	$ 5,470	$34,505
Earnings (loss) per common share:						
Basic	$(0.05)		$0.05	$0.27		$0.32
Diluted	$(0.05)		$0.05	$0.27		$0.32
Dividends declared per common share	$0.04		$0.04	$0.08		$0.08
Weighted average common shares outstanding:						
Basic	106,560,000		106,560,000	106,514,396		106,514,396
Diluted	109,447,812		109,447,812	109,364,273		109,364,273

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

Consolidated Balance Sheet:	March 31, 2017 As reported (a) (Unaudited)	Adjustments	As adjusted	Reference
ASSETS				
Investments - NGHC				
Fixed maturities, available-for-sale, at fair value	$2,804,092	$ —	$2,804,092	
Equity securities, available-for-sale, at fair value	9,963	—	9,963	
Fixed maturities, trading, at fair value	54,114	—	54,114	
Equity securities, trading, at fair value	57,067	—	57,067	
Other investments	598,642	(44,685)	553,957	2, 7
Investments - Exchanges				
Fixed maturities, available-for-sale, at fair value	311,818	—	311,818	
Total investments	3,835,696	(44,685)	3,791,011	
Cash and cash equivalents	209,644	—	209,644	
Restricted cash and cash equivalents	45,351	—	45,351	
Accrued investment income	29,577	—	29,577	
Premiums and other receivables, net	1,394,309	—	1,394,309	
Deferred acquisition costs	242,784	—	242,784	
Reinsurance recoverable	968,087	—	968,087	
Prepaid reinsurance premiums	169,972	—	169,972	
Premises and equipment, net	125,809	—	125,809	
Intangible assets, net	438,902	—	438,902	
Goodwill	173,528	3,074	176,602	5
Prepaid and other assets	123,819	3,914	127,733	7
Total assets	$7,757,478	$ (37,697)	$7,719,781	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Unpaid loss and loss adjustment expense reserves	$2,268,201	$ 11,286	$2,279,487	4
Unearned premiums and other revenue	1,897,906	—	1,897,906	
Reinsurance payable	134,450	—	134,450	
Accounts payable and accrued expenses	477,111	1,753	478,864	8
Debt	745,962	—	745,962	
Other liabilities	274,265	(37,923)	236,342	2, 4, 7
Total liabilities	$5,797,895	$ (24,884)	$5,773,011	
Stockholders' equity:				
Common stock	$1,065	$ —	$1,065	
Preferred stock	420,000	—	420,000	
Additional paid-in capital	917,057	(1,753)	915,304	8
Accumulated other comprehensive income:				
Unrealized foreign currency translation adjustment, net of tax	(3,034)	—	(3,034)	
Unrealized gains on investments, net of tax	22,914	—	22,914	
Total accumulated other comprehensive income	19,880	—	19,880	
Retained earnings	574,962	(11,060)	563,902	2, 4, 5, 7
Total National General Holdings Corp. stockholders' equity	1,932,964	(12,813)	1,920,151	
Non-controlling interest	26,619	—	26,619	

Total stockholders' equity	$1,959,583	$(12,813)	$1,946,770
Total liabilities and stockholders' equity	$7,757,478	$(37,697)	$7,719,781

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

Consolidated Statement of Income:	Three Months Ended March 31, 2017 As reported (a) (Unaudited)	Adjustments	As adjusted	Reference
Revenues:				
Net earned premium	$920,171	$ (1,686)	$ 918,485	3
Ceding commission income	19,994	—	19,994	
Service and fee income	125,942	—	125,942	
Net investment income	26,390	—	26,390	
Net loss on investments	488	(1,900)	(1,412)	6
Other income (expense)	9,801	—	9,801	
Total revenues	1,102,786	(3,586)	1,099,200	
Expenses:				
Loss and loss adjustment expense	616,325	2,492	618,817	4
Acquisition costs and other underwriting expenses	175,301	(581)	174,720	3
General and administrative expenses	255,185	—	255,185	
Interest expense	11,545	—	11,545	
Total expenses	1,058,356	1,911	1,060,267	
Income before provision for income taxes and earnings of equity method investments	44,430	(5,497)	38,933	
Provision for income taxes	13,518	(2,729)	10,789	2, 3, 4, 6
Income before earnings of equity method investments	30,912	(2,768)	28,144	
Earnings of equity method investments (related parties)	4,954	(2,300)	2,654	2
Net income	35,866	(5,068)	30,798	
Less: Net (income) loss attributable to non-controlling interest	6,125	—	6,125	
Net income attributable to NGHC	41,991	(5,068)	36,923	
Dividends on preferred stock	(7,875)	—	(7,875)	
Net income attributable to NGHC common stockholders	$34,116	$ (5,068)	$ 29,048	
Earnings per common share:				
Basic	$0.32		$ 0.27	
Diluted	$0.31		$ 0.27	
Dividends declared per common share	$0.04		$ 0.04	
Weighted average common shares outstanding:				
Basic	106,467,599		106,467,599	
Diluted	109,166,681		109,166,681	

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

Consolidated Balance Sheet:	September 30, 2016 As reported (a) (Unaudited)	Adjustments	As adjusted	Reference
ASSETS				
Investments - NGHC				
Fixed maturities, available-for-sale, at fair value	$2,676,115	$ —	$2,676,115	
Equity securities, available-for-sale, at fair value	83,596	—	83,596	
Fixed maturities, trading, at fair value	35,429	—	35,429	
Equity securities, trading, at fair value	22,286	—	22,286	
Other investments	579,099	(14,600)	564,499	2
Investments - Exchanges				
Fixed maturities, available-for-sale, at fair value	295,020	—	295,020	
Short-term investments	3,596	—	3,596	
Total investments	3,695,141	(14,600)	3,680,541	
Cash and cash equivalents	202,686	—	202,686	
Restricted cash and cash equivalents	13,688	—	13,688	
Accrued investment income	27,925	—	27,925	
Premiums and other receivables, net	840,460	—	840,460	
Deferred acquisition costs	206,087	—	206,087	
Reinsurance recoverable	1,001,006	—	1,001,006	
Prepaid reinsurance premiums	154,574	—	154,574	
Premises and equipment, net	83,732	—	83,732	
Intangible assets, net	366,202	—	366,202	
Goodwill	211,702	—	211,702	
Prepaid and other assets	54,225	—	54,225	
Total assets	$6,857,428	$ (14,600)	$6,842,828	
LIABILITIES AND STOCKHOLDERS’ EQUITY				
Liabilities:				
Unpaid loss and loss adjustment expense reserves	$2,086,934	$ 7,188	$2,094,122	4
Unearned premiums and other revenue	1,533,822	(74)	1,533,748	3
Reinsurance payable	107,036	—	107,036	
Accounts payable and accrued expenses	317,171	1,102	318,273	3, 8
Debt	675,507	—	675,507	
Other liabilities	189,188	(7,665)	181,523	2, 3, 4
Total liabilities	$4,909,658	$ 551	$4,910,209	
Stockholders’ equity:				
Common stock	$1,061	$ —	$1,061	
Preferred stock	420,000	—	420,000	
Additional paid-in capital	905,772	(919)	904,853	8
Accumulated other comprehensive income:				
Unrealized foreign currency translation adjustment, net of tax	(2,323)	—	(2,323)	
Unrealized gains on investments, net of tax	69,753	—	69,753	
Total accumulated other comprehensive income	67,430	—	67,430	
Retained earnings	518,418	(14,232)	504,186	2, 3, 4
Total National General Holdings Corp. stockholders’ equity	1,912,681	(15,151)	1,897,530	

Non-controlling interest	35,089	—	35,089
Total stockholders' equity	$1,947,770	$ (15,151)	$1,932,619
Total liabilities and stockholders' equity	$6,857,428	$ (14,600)	$6,842,828

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

Consolidated Statement of Income:	Three Months Ended September 30, 2016				Nine Months Ended September 30, 2016			
	As reported (a)	Adjustments	As adjusted	Reference	As reported (a)	Adjustments	As adjusted	Reference
	(Unaudited)				(Unaudited)			
Revenues:								
Net earned premium	$769,850	$(74)	$769,776	3	$2,137,710	$(222)	$2,137,488	3
Ceding commission income	14,597	—	14,597		24,406	—	24,406	
Service and fee income	95,662	—	95,662		282,623	—	282,623	
Net investment income	27,676	—	27,676		76,874	—	76,874	
Net gain (loss) on investments:								
Other-than-temporary impairment loss	(22,102)	—	(22,102)		(22,102)	—	(22,102)	
Other net realized gain on investments	11,093	—	11,093		19,406	—	19,406	
Total net gain (loss) on investments	(11,009)	—	(11,009)		(2,696)	—	(2,696)	
Total revenues	896,776	(74)	896,702		2,518,917	(222)	2,518,695	
Expenses:								
Loss and loss adjustment expense	509,853	32,280	542,133	1, 4	1,391,261	88,344	1,479,605	1, 4
Acquisition costs and other underwriting expenses	140,740	(183)	140,557	3	362,513	(549)	361,964	3
General and administrative expenses	198,737	(32,201)	166,536	1	566,484	(88,107)	478,377	1
Interest expense	10,455	—	10,455		28,535	—	28,535	
Total expenses	859,785	(104)	859,681		2,348,793	(312)	2,348,481	
Income before provision for income taxes and earnings of equity method investments	36,991	30	37,021		170,124	90	170,214	
Provision for income taxes	8,805	(830)	7,975	2, 3, 4	41,439	(2,560)	38,879	2, 3, 4
Income before earnings of equity method investments	28,186	860	29,046		128,685	2,650	131,335	
Earnings of equity method investments (related parties)	2,953	(2,400)	553	2	16,991	(7,400)	9,591	2

Net income	31,139	(1,540)	29,599	145,676	(4,750)	140,926
Less: Net (income) attributable to non-controlling interest	(3,009)	—	(3,009)	(12,249)	—	(12,249)
Net income attributable to NGHC	28,130	(1,540)	26,590	133,427	(4,750)	128,677
Dividends on preferred stock	(8,208)	—	(8,208)	(16,458)	—	(16,458)
Net income attributable to NGHC common stockholders	$19,922	$(1,540)	$18,382	$116,969	$(4,750)	$112,219
Earnings per common share:						
Basic	$0.19		$0.17	$1.11		$1.06
Diluted	$0.18		$0.17	$1.08		$1.04
Dividends declared per common share	$0.04		$0.04	$0.10		$0.10
Weighted average common shares outstanding:						
Basic	106,002,337		106,002,337	105,801,817		105,801,817
Diluted	108,423,998		108,423,998	108,053,177		108,053,177

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

Consolidated Balance Sheet:	June 30, 2016 As reported (a) (Unaudited)	Adjustments	As adjusted	Reference
ASSETS				
Investments - NGHC				
Fixed maturities, available-for-sale, at fair value	$2,385,461	$ —	$2,385,461	
Equity securities, available-for-sale, at fair value	110,500	—	110,500	
Other investments	482,771	(12,200)	470,571	2
Securities pledged	137,448	—	137,448	
Investments - Exchanges				
Fixed maturities, available-for-sale, at fair value	290,569	—	290,569	
Total investments	3,406,749	(12,200)	3,394,549	
Cash and cash equivalents	260,795	—	260,795	
Restricted cash and cash equivalents	10,899	—	10,899	
Accrued investment income	25,337	—	25,337	
Premiums and other receivables, net	823,410	—	823,410	
Deferred acquisition costs	174,660	—	174,660	
Reinsurance recoverable	923,522	—	923,522	
Prepaid reinsurance premiums	146,405	—	146,405	
Premises and equipment, net	79,224	—	79,224	
Intangible assets, net	383,700	—	383,700	
Goodwill	208,971	—	208,971	
Prepaid and other assets	69,269	—	69,269	
Total assets	$6,512,941	$ (12,200)	$6,500,741	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Unpaid loss and loss adjustment expense reserves	$1,966,752	$ 7,109	$1,973,861	4
Unearned premiums and other revenue	1,494,359	(148)	1,494,211	3
Reinsurance payable	97,211	—	97,211	
Accounts payable and accrued expenses	274,031	753	274,784	3, 8
Securities sold under agreements to repurchase, at contract value	119,472	—	119,472	
Debt	678,715	—	678,715	
Other liabilities	174,835	(6,835)	168,000	2, 3, 4
Total liabilities	$4,805,375	$ 879	$4,806,254	
Stockholders' equity:				
Common stock	$1,059	$ —	$1,059	
Preferred stock	220,000	—	220,000	
Additional paid-in capital	908,276	(387)	907,889	8
Accumulated other comprehensive income:				
Unrealized foreign currency translation adjustment, net of tax	(4,135)	—	(4,135)	
Unrealized gains on investments, net of tax	48,859	—	48,859	
Total accumulated other comprehensive income	44,724	—	44,724	
Retained earnings	502,741	(12,692)	490,049	2, 3, 4
Total National General Holdings Corp. stockholders' equity	1,676,800	(13,079)	1,663,721	
Non-controlling interest	30,766	—	30,766	

Total stockholders' equity	$1,707,566	$(13,079)	$1,694,487
Total liabilities and stockholders' equity	$6,512,941	$(12,200)	$6,500,741

NATIONAL GENERAL HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

	Three Months Ended June 30, 2016				Six Months Ended June 30, 2016			
Consolidated Statement of Income:	As reported (a)	Adjustments	As adjusted	Reference	As reported (a)	Adjustments	As adjusted	Reference
	(Unaudited)				(Unaudited)			
Revenues:								
Net earned premium	$712,940	$ (74)	$712,866	3	$1,367,860	$ (148)	$1,367,712	3
Ceding commission income	11,704	—	11,704		9,809	—	9,809	
Service and fee income	90,017	—	90,017		186,961	—	186,961	
Net investment income	27,528	—	27,528		49,198	—	49,198	
Net gain on investments	3,995	—	3,995		8,313	—	8,313	
Total revenues	846,184	(74)	846,110		1,622,141	(148)	1,621,993	
Expenses:								
Loss and loss adjustment expense	472,358	30,061	502,419	1, 4	881,408	56,064	937,472	1, 4
Acquisition costs and other underwriting expenses	108,874	(183)	108,691	3	221,773	(366)	221,407	3
General and administrative expenses	191,120	(29,982)	161,138	1	367,747	(55,906)	311,841	1
Interest expense	8,939	—	8,939		18,080	—	18,080	
Total expenses	781,291	(104)	781,187		1,489,008	(208)	1,488,800	
Income before provision for income taxes and earnings of equity method investments	64,893	30	64,923		133,133	60	133,193	
Provision for income taxes	14,551	(865)	13,686	2, 3, 4	32,634	(1,730)	30,904	2, 3, 4
Income before earnings of equity method investments	50,342	895	51,237		100,499	1,790	102,289	
Earnings of equity method investments (related parties)	7,356	(2,500)	4,856	2	14,038	(5,000)	9,038	2
Net income	57,698	(1,605)	56,093		114,537	(3,210)	111,327	
Less: Net (income) attributable to non-controlling interest	(9,228)	—	(9,228)		(9,240)	—	(9,240)	
Net income attributable to NGHC	48,470	(1,605)	46,865		105,297	(3,210)	102,087	
Dividends on preferred stock	(4,125)	—	(4,125)					