

Mid-Year 2017 Update

AmTrust Financial Services, Inc.



Over the past several months, AmTrust has announced a lot of news, and has been featured frequently in the news.

We know that with so much information, we need to clearly communicate the initiatives we are undertaking, and explain 'why', and 'why now'. We are providing this mid-year update as a summary of the key events and initiatives that we have announced over the past several months.

We welcome your questions and encourage you to reach out to your contact at AmTrust, or to contact our communications team directly at ir@amtrustgroup.com or (855) 327-2223.

Recap of our auditor transition and 2016 year-end filing.

To provide some background, in April 2016, AmTrust engaged KPMG as the Company's new independent registered public accounting firm. Given AmTrust's significant growth and now global reach, we felt that the additional expertise and scope of service with a Big Four auditor, that audits the P&C insurance sector's largest companies, was important for us. Our transition from BDO to KPMG was a significant milestone. At our size – with nearly \$8 billion in 2016 gross written premium, 8,000 employees, and over 125 offices serving 70 countries around the world – it is no small feat to change auditors.

On April 4, 2017, AmTrust filed its 10-K, which is an annual report required by the U.S. Securities and Exchange Commission (SEC) that gives a comprehensive summary of our company's financial performance. Our 10-K took one month longer than we expected to prepare as we worked to complete restatements for fiscal years 2014 and 2015.

It is not unusual to obtain an extension after a change in auditor. Approximately 69% of the companies that change auditors were late in filing at least one annual or quarterly report within a year of their changes.¹ Notably, we reported first-quarter 2017 financial results on time and as scheduled, on May 8, 2017.

As we previously reported, the restatement was made primarily to correct two errors in our 2015 and 2014 financials. First, and largest,

¹ Mark Grothe and Thomas R. Weirich, "Analyzing Auditor Changes: Lack of Disclosure Hinders Accountability to Investors." December 2007

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the adjustment related to the timing of recognition of revenue in our service and fee business. The second primary adjustment related to timing around bonuses, accruing for them in the year earned versus expensing them in the year paid. The total impact of restatements to net income was a decline of 7.1% in 2014 and 9.2% in 2015. AmTrust generated more than \$1.2 billion of net income in the last three years, even after the restatement.

These adjustments had no impact on the Company's gross written premium, net earned premium, loss and loss adjustment expense, or loss ratio. There was no material impact on the Company's ongoing insurance operations, statutory entities or statutory surplus.

Our year-end financials received an unqualified audit opinion, which is an independent auditor's judgment that our company's financial records and statements are fairly and appropriately presented, and in accordance with Generally Accepted Accounting Principles (GAAP).

Enhancing our finance organization leadership.

As part of our year-end close work, we reviewed our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002, and identified two material weaknesses in our internal controls related to accounting and finance resources. We needed additional financial resources to better match AmTrust's increased scale and global reach and a more effective process to assess our financial reporting.

To remediate these material weaknesses as quickly as possible, we have enhanced our senior financial leadership team, adding several new roles including Chief Accounting Officer, Deputy Chief Financial Officer, Head of Investment Accounting, a CFO of AmTrust International and a Global Treasurer. These new leaders came to AmTrust from some of the largest P&C names in our sector, and adding more experts to their teams.



We are continuing to add expertise in financial reporting, just as we have built up our actuarial team with a highly experienced Global Chief Actuary, Chief Pricing Actuary, and Chief Reserving Actuary. We are committed to ensuring that our resources, systems and skills are effective. Our goal is to become best-in-class in financial reporting in our sector.

In addition to enhancing our accounting and financial expertise, AmTrust has also taken steps to ensure that the sophistication of our systems aligns with the growth of the Company. In 2016, AmTrust engaged an external consultant to help identify and implement best practices in accounting policy and financial reporting, and help implement financial automation.

Investor support for AmTrust a demonstration of confidence.

Over the past several years, AmTrust has achieved great growth and success and expanded its scale and reach around the world. On May 25, 2017, the Company made an important announcement to help ensure AmTrust is well positioned to maintain organic growth. We announced that we have received approximately \$300 million to further enhance AmTrust's balance sheet and capital base by issuing common equity to the Karfunkel Family.

Members of the Karfunkel family chose to make this investment because they believe strongly in the Company's future and views their ownership position in AmTrust as an attractive long-term opportunity given the Company's exceptional business platform and market positioning. The Karfunkel family has a long history of supporting AmTrust and remains dedicated to the Company's long-term success.

The capital investment represents another step forward in AmTrust's evolution, with a higher capital base to support our business platform and organic growth opportunities. We have raised capital throughout our history as a public company, in order to support growth. In the past three years, we have accessed the capital markets 12 times through common equity, preferred stock offerings, and debt offerings. This private placement is another example of how we strategically access the capital markets.

At a time when there have been baseless allegations made about AmTrust by short sellers in the media, this sizeable investment was designed to provide confidence to all of our stakeholders that we continue to be well capitalized to grow and write business, and to demonstrate our strength and stability.

In a May 25, 2017, press release, A.M. Best noted that it "views the equity raise as a positive step that improves the tangible equity position of AFSI and enhances the company's balance sheet strength." AmTrust continues to have a strong and highly liquid balance sheet and remains rated "A" (Excellent), FSC XV by A.M. Best.

New CFO to lead new senior financial organization team.

On June 5, 2017, Adam Karkowsky was announced as our new Chief Financial Officer, succeeding Ron Pipoly, who remains with AmTrust to support the transition and also serve in other strategic and advisory roles with the Company.

Ron, who served as CFO since 2005, will work closely with Adam to help ensure an effective and seamless transition. We appreciate Ron's hard work as our CFO over the past twelve years and look forward to his contributions in his new role as EVP Finance.

Adam has been with AmTrust since 2011 and most recently served as Executive Vice President, Strategic Development and Mergers & Acquisitions. He has been an important leader in guiding the strategic growth of the Company, both domestically and internationally.

Adam and the team identified and successfully completed the acquisitions of companies globally that have contributed so significantly to our size and scale today. Before joining AmTrust, Adam served in various finance and strategy roles in the private equity and insurance industries, including a role as Vice President, Mergers & Acquisitions Insurance Group, at AIG.

Adam engaged in a collaborative effort to bring aboard and develop the new senior financial leadership team, which he will now lead. In light of Adam's vision and financial expertise, along with his deep understanding of AmTrust and the property and casualty insurance industry, he is uniquely qualified to assume the role of CFO.

As part of our focus on operational excellence across the organization, Adam will build on the progress that has been made to strengthen AmTrust's financial reporting capabilities and expertise. He will also further enhance our company's disclosure regarding AmTrust's business and financial performance with our shareholders and other stakeholders. He is also focused on optimizing the

Company's financial structure and identifying opportunities to reduce complexity.

Simplifying our balance sheet and investment portfolio.

One of the first steps Adam took in his new role as CFO, was to simplify the Company's balance sheet and diversify our investment portfolio through the sale of a large investment.

On June 9, 2017, we announced that AmTrust entered into agreements to sell 10,586,000 of shares it owned in National General Holdings Corp. (NGHC) for approximately \$211.7 million.

Since 2010, AmTrust has held an ownership interest in NGHC, a specialty personal lines insurance holding company that operates twenty-two insurance companies in the United States and provides a variety of insurance products, including personal and commercial automobile, homeowners and umbrella, and supplemental health.

Our investment in National General has delivered meaningful returns, and we've benefited from their growth. This sale allows us to diversify away from one large investment in a related party, and gives us more flexibility to earn investment income across a diversified pool. It allows us to further invest in accordance with our typical investment guidelines and drive more predictable returns not tied to the performance of one specific company.

As CFO, Adam initiated this sale as part of a vision to simplify our balance sheet and have an investment portfolio that is more consistent with that of the best companies in our sector. Since the NGHC stock already counted as capital as it was held at our insurance subsidiaries, and not at the holding company, there was no change to the Company's capital base.

Increasing certainty around AmTrust's net reserve position.

On July 6, 2017, AmTrust announced we have partnered with Premia Holdings Ltd. on a reinsurance agreement that provides up to \$400 million of reinsurance for adverse net loss reserve development in excess of AmTrust's stated net loss reserves as of March 31, 2017. This agreement supports our goal of reducing exposure to potential volatility and creating more certainty and confidence in our future financial performance.

This action demonstrates that our approach to managing our balance sheet is a conservative one, consistent with our overall objectives and other property and casualty insurance providers of our size, scale and capacity. This reinsurance agreement provides further confidence to



our stakeholders that we are insulated from any potential reserve volatility in the future.

We selected Premia Holdings Ltd. as the reinsurer for the transaction due to their competitive economic terms, experienced management team and positive reputation. Under our agreement, AmTrust will retain sole authority to handle and resolve claims, continuing our strong and unwavering commitment to customer care and dedication to being a strong, stable partner for our brokers, agents, and policyholders. AmTrust employees will continue to provide the strong service and support that our policyholders, brokers, and agents expect.

AmTrust remains financially strong.

Since our founding 19 years ago, AmTrust has grown into a multinational property and casualty insurer with nearly 8,000 employees in more than 125 offices serving 70 countries around the globe.

We are now the 15th largest property and casualty writer in the United States. In the U.S., AmTrust is one of the top three providers of workers' compensation insurance and one of the top three warranty writers. AmTrust is also a top 13 Lloyd's manager by capacity. We continue to grow our capacity to insure risk with a surplus of more than \$3 billion.

Update on our Service and Fee business.

AmTrust's service and fee income continues to be a differentiated source of cash flow for the Company. The fees-based business represents approximately 10% of total revenue, generated through several sources including warranty and consumer services, insurance brokerage fees, assigned risk, policy issuance fees and workers' compensation fund management. The service business is complementary to our core insurance and underwriting operations.

As we discussed on the Company's quarterly earnings conference call on May 8, 2017, we are exploring various ways to have the market recognize the value

of our fee business. The fee business we have built is impressive and we want to continue to see it grow and be successful. One approach we are evaluating is the sale of a portion of the business, while maintaining a significant ownership position in the new entity and continuing to write the insurance premiums for this business. There is even greater opportunity for the service and fee business as a separate entity.

This evaluation is still in the preliminary stages and we may determine not to proceed with the sale. Our intention is to help shine a light on the value of this portion of our business, which we believe is not being reflected in our company's market valuation, particularly given the valuation multiples of similar businesses in the market. This recognition of hidden value is the only reason we are considering a potential sale at this time.

As we evaluate our options, we will keep both an eye on what is best for our company, our partners and customers, and our employees. This will not change the way we conduct business and we will continue to keep all of our stakeholders informed.

Reaching New Milestones

We recently achieved an exciting milestone with a ranking on the prestigious Fortune 500 list for the first time. The list celebrates the largest companies in the U.S. by total revenue.

This achievement is a recognition of AmTrust's financial strength and stability and follows a year of record revenue for the company. AmTrust's total revenue in 2016 was \$5.45 billion, an increase of 18% over the prior year.

Thank You

We are very grateful to our partners, brokers and agents for their support and trust in helping us reach this milestone.

We also thank our employees, for their hard work and dedication, as they demonstrate our core values of integrity, diversity, accountability, teamwork, community engagement, and a spirit of entrepreneurship. We adhere to these values every day allowing us to continue to successfully build a best-in-class property and casualty insurer for our valued partners and customers.

We deeply appreciate and value our relationships and look forward to continuing to work with all of our stakeholders to reach new milestones together.

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