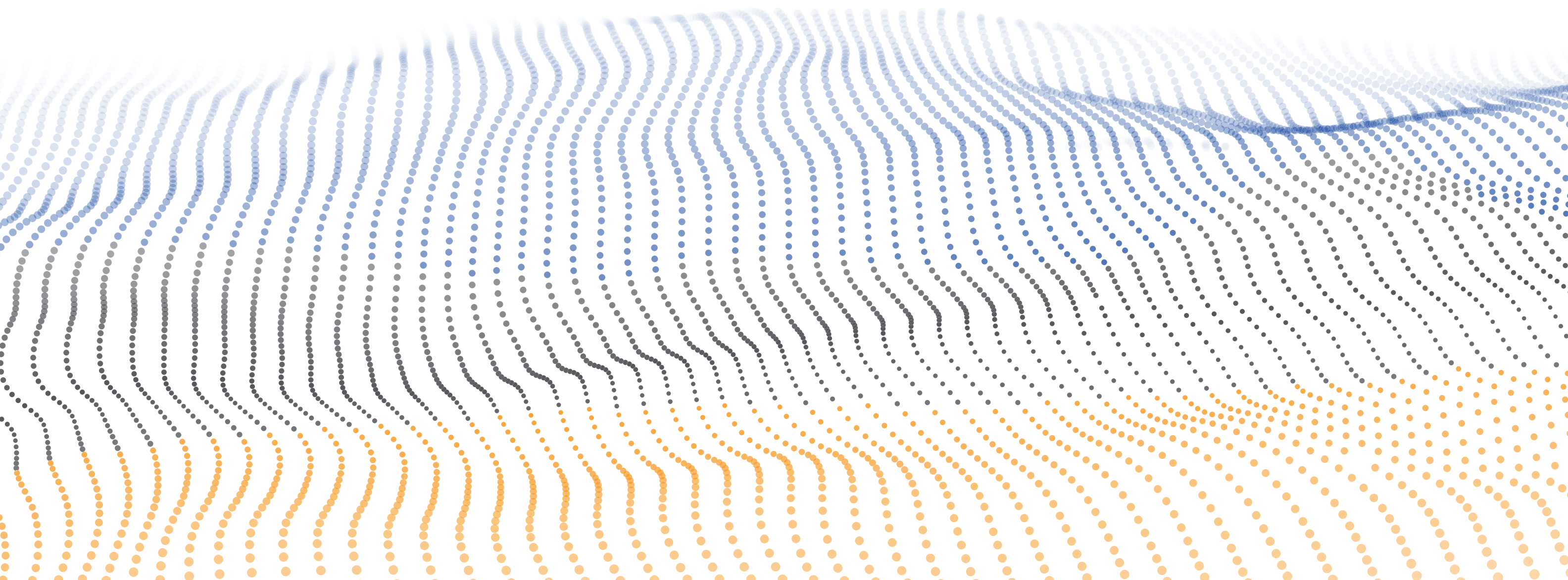
2019

ANNUAL REPORT

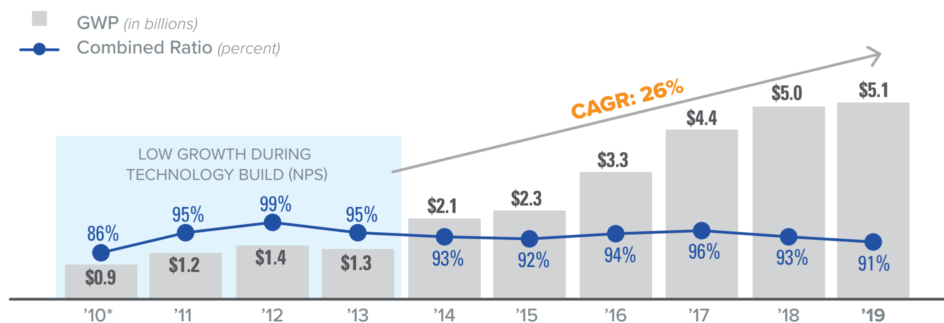


National General
Holdings Corp.

NATIONAL GENERAL HOLDINGS CORP., headquartered in New York City, is a specialty personal lines insurance holding company. National General provides personal automobile, homeowners, umbrella, health, and other niche insurance products. The group traces its roots back to 1939, and has a financial strength rating of A– (excellent) from A.M. Best.

Profitable Growth

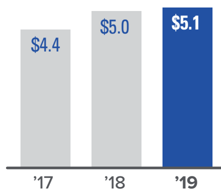
GWP and Combined Ratio



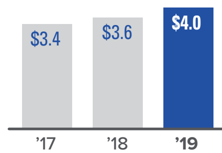
*Period from March 1, 2010 (Inception) to December 31, 2010
Combined ratios exclude amortization and impairment (non-GAAP)

We are focused on continually strengthening our analytical and technology advantages in order to reinforce profitable growth across our P&C and A&H business segments. Our core products focus on lines of business in specialty niches with short-tail risks where our technology, analytics, and distribution advantages help us underwrite to an attractive return.

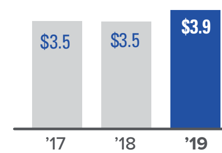
Gross Written Premium
($ in billions)



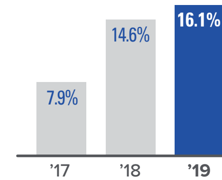
Net Written Premium
($ in billions)



Net Earned Premium
($ in billions)



Operating Return on Average Equity

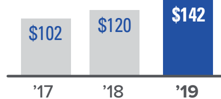


Combined Ratio
91%

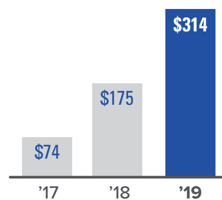
Operating ROE
16.1%

Growth in Diluted Book Value Per Share
25%

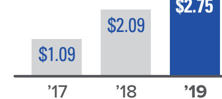
Net Investment Income
($ in millions)



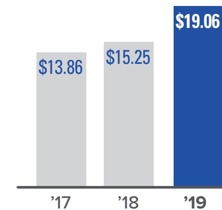
Net Income
($ in millions)



Diluted Operating EPS



Fully Diluted Book Value Per Share



Fellow Shareholders,

MESSAGE FROM CO-CHAIRMEN OF THE BOARD

It is our pleasure to report another record year at National General. We have now completed nearly a decade of continuous profitable growth. Throughout this time, we have been able to generate strength from diversified but complementary business activities, and we have continued to invest in our long-term success. Specifically in 2019, we were able to achieve a 16% return on equity and 25% growth in diluted book value per share. This is another remarkable result which demonstrates the strength of our capabilities.

National General's strength continues to manifest from our advantage in analytics. It allows us to use segmentation to appropriately price complex products and markets. For this reason, we continue to focus our efforts on short-tail, niche lines of business that can be easily modeled and have a limited level of reserving volatility.

Combining this product focus with our proprietary technology platforms is what allows us to generate and analyze data, and therefore gain underwriting insight that many insurance companies cannot replicate. More specifically, our integrated technologies allow us to extrapolate and map discrete data points to better predict factors associated with future insurance losses. We can then share these predictive insights across products and business lines to power continuous improvement in underwriting, pricing, marketing, sales, claims, and operations.

Our culture of data and analytics also keeps us agile. We strive to quickly identify and adapt to changing market conditions and capture new opportunities. Additionally, it gives us confidence to scale quickly while preserving margin and remaining efficient in what we do.

Furthermore, we continue to invest in R&D to consolidate this analytical advantage. We are developing applications for Artificial Intelligence, robotic process automation, and real-time analytics—each of which shows promise in improving our technological capabilities in ways that cannot be easily replicated by others.

The result of this investment in analytics and segmentation is particularly evident in our P&C segment across 2019. We saw a soft and competitive market emerge in auto insurance this year. Despite the challenge this represents, especially for sales via independent agents, we segmented the market, preserved margin, and grew. We've done this by rolling out and refining new product and pricing tools, designed specifically to give us more levers of calibration and segmentation, and therefore a pricing advantage. We've also used this analytical skill to combine marketing and pricing models, such that we can deliver targeted marketing and drive profitable growth in our direct-to-consumer channels. Our view is that by focusing on efficiency and preserving margin in this soft market, we prepare ourselves to outperform when the market inevitably hardens.

2019 was a great year for our A&H segment, and demonstrated the combined strength of these product categories. We began in A&H by acquiring distribution and marketing assets as well as associated technology businesses that enables our distribution partners to quote multiple carriers, purchase leads and manage their books of business. Since then, we applied our analytical tools and product expertise to create a business of unique value. Total underwriting revenues for the division grew by over 14% in 2019, and delivered a combined ratio of 78.2%. This performance was driven, in particular, by our release of new individual health insurance products with more refined pricing factors. Additionally, our A&H distribution businesses also made big steps forward in 2019, with our Medicare agency doubling its volume and our technology services beginning to mature.

2019 also saw us close the acquisition of Farmers Union Insurance in August and divest EuroAccident in December. With Farmers Union, we identified a business whose underlying value we believe can be increased considerably with the benefit of our technology and analytical capabilities. On the other hand, the divestiture of EuroAccident presents us with the opportunity to focus our attention and our capital on our domestic A&H division which is performing so well.

We continue to focus on building this business for the long term. After a decade as an independent insurance group, National General now has two powerful and complementary business segments—each consistently growing, profitable, and performing well. But perhaps more importantly, each is developing insight, sharing learnings and driving the other into continuous improvement.

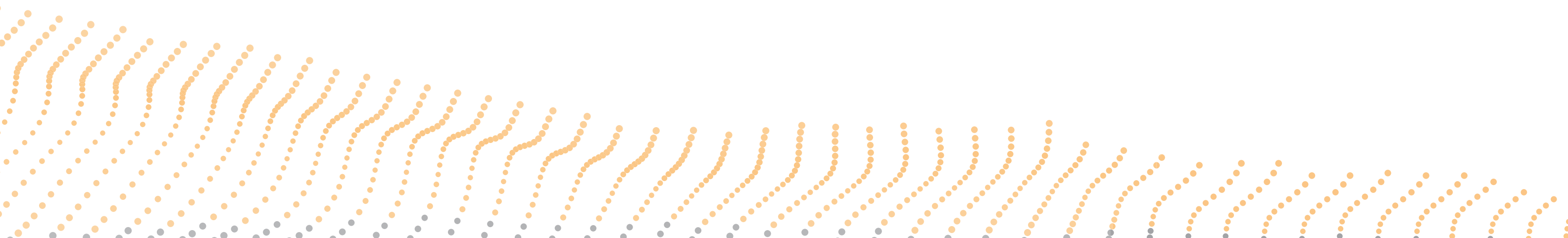
All of this is made possible by our continued investment in proprietary operating technologies and our culture of analytics, which we see as the foundation of National General today and into the future.

Continuing to deliver record financial results doesn't happen on its own. It is our honor to work with thousands of talented and passionate employees across National General, who are motivated to keep delivering and outperforming the expectations of shareholders. What excites us about our team is that they continually strive to be the best and blaze their own path implementing improvements that many of our peers aren't even thinking about.

Finally, on that note, we would like to express our gratitude to all of the shareholders who supported us in 2019. We couldn't be more excited about what is yet to come.

Barry Karfunkel
Chief Executive Officer
Co-Chairman of the Board

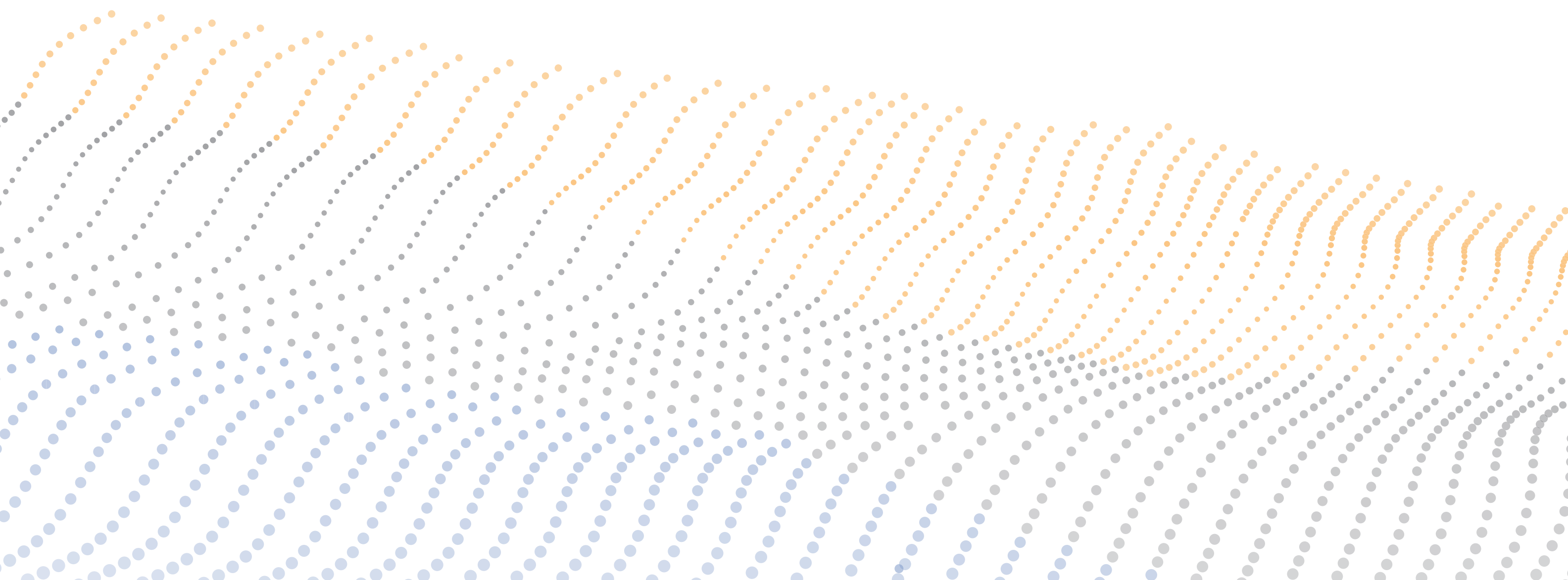
Robert Karfunkel
President
Co-Chairman of the Board



Strategic Advantage

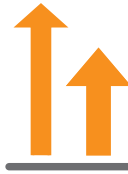
National General deploys proprietary technologies to create an analytical advantage.

We focus on insurance products with short-tail risks in niche lines of business which have a limited level of reserving volatility. Applying our technology to these products creates analytical insight, which we use to segment the market and outperform competitors. From this we have demonstrated a series of strategic advantages that make National General uniquely valuable.



Technology

Our business infrastructure is built upon proprietary technologies that are designed to yield operational efficiencies and enable a culture of analytical insight. Building and managing these technologies in-house increases our speed to market while lowering expenses.

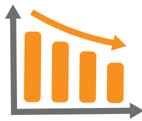


Growth

We continue to grow organically across the business. As we roll out new products, underwriting frameworks, and analytical tools, we have demonstrated an ability to produce products that meet market needs.

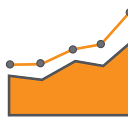
Profitability

Despite continued growth, we maintain a prudent focus on the bottom line. This allows us to weather the cycle of hard and soft markets while delivering strong returns for shareholders.



Short-Tail Niches

Operating in selective niche markets, with short-tail risks, allows us to build and maintain a data advantage over much larger competitors while also having a diversified range of products.

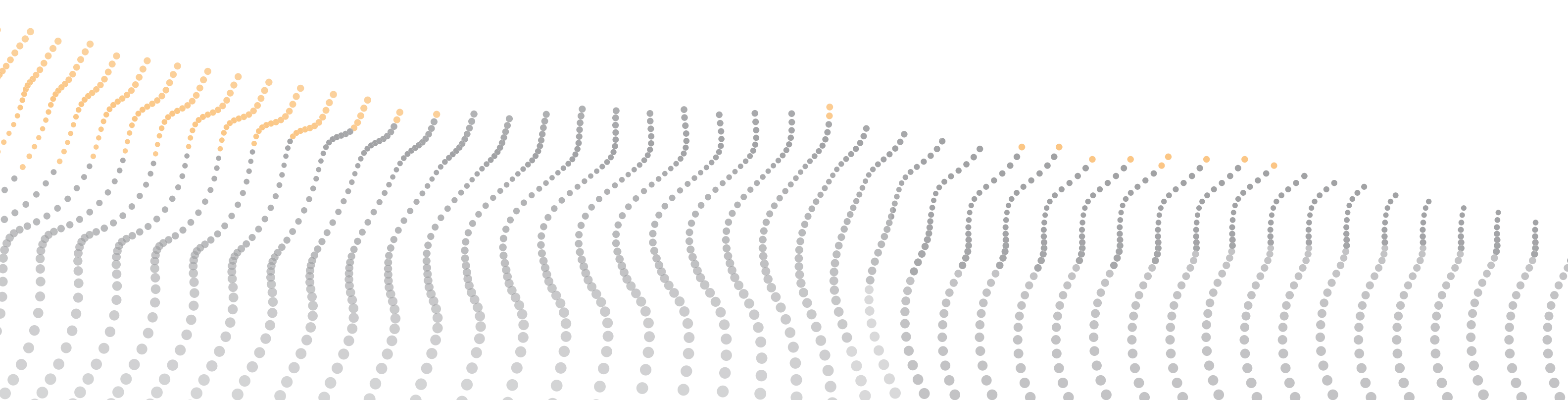


Flexibility

Having our operational infrastructure embedded in proprietary technologies continues to offer us new ways to analyze data, share insights across segments and assess opportunities. It also gives us confidence in our ability to scale while maintaining operational efficiency.

Conservative

We maintain a conservative approach to managing our capital which is exemplified by our conservative investment portfolio and our balanced use of reinsurance.



Property & Casualty

Our Property & Casualty segment achieved another strong year of performance, despite softening market conditions across the auto insurance market. While Gross Written Premium only grew by 2% for the year, underwriting income grew by 39% driven by a combined ratio of 93.5%. This is the result of our continued focus on products in specialty niches where we can leverage our technology to segment risk in a way that produces robust underwriting performance when others are seeing margin pressure.

Total gross written premium for auto insurance was $3.2 billion, comprised of personal auto, recreational vehicle, and small business auto. Within this set of products, our primary focus remained monoline non-standard auto insurance sold through independent agents and directly to consumers (the latter under our Direct Auto brand). While traditionally seen as a difficult market to underwrite, we found consistent success through investing in our analytical capabilities and market segmentation to develop profitable products that the market demands. We continue to innovate and explore new analytics tools and products to reinforce our competitive advantage for the long term.

Our homeowners insurance business grew by 4.3% to $719 million of gross written premium in 2019. The year also saw us begin the roll out of a new homeowners product designed to build upon the strength of our analytics platform and help segment homeowners risks with increased accuracy. We closed the acquisition of Farmers Union Insurance in August, giving us access to new niches and new data, which will complement the wider business.

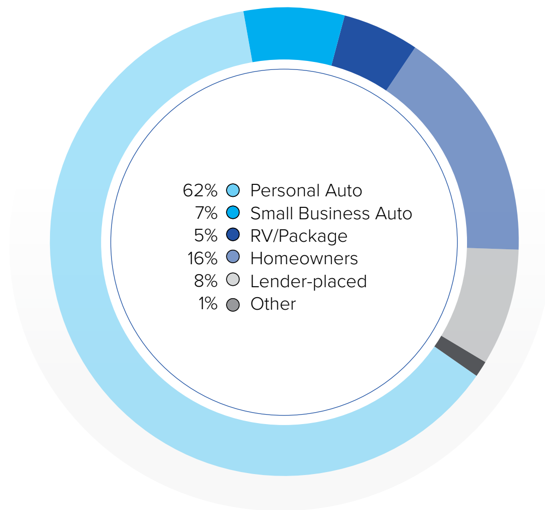
39.0%

GROWTH IN UNDERWRITING INCOME

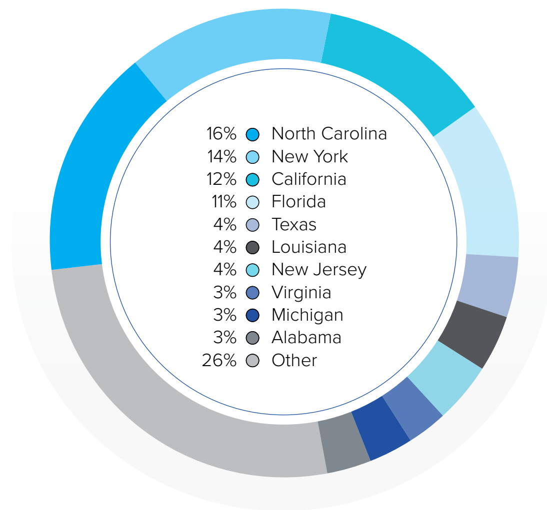
93.5%

COMBINED RATIO BEFORE AMORTIZATION AND IMPAIRMENT (NON-GAAP)

2019 P&C GWP BY PRODUCT



2019 P&C GWP BY STATE



Accident & Health

Our Accident & Health segment achieved organic growth of 10.1% in gross written premiums for the year, but drove a 34.2% increase in underwriting income from a combined ratio of 78.5%. This success is further validation of the strategy we used to build our presence in this space. We began by acquiring selective distribution assets and technology businesses to enable our distribution partners to quote multiple carriers, purchase leads and manage their books of business. We then deployed our analytics capabilities and segmentation expertise to refine key insurance products to the point where they are now yielding highly impressive results.

Gross written premium from our group health products grew by over 20% during the year. These group products are primarily small employer self-funded benefits programs, where we can provide a stop-loss and well as administrative support to maintain cost efficiency for clients. Groups are underwritten from the bottom-up—a powerful fit for our analytical underwriting capabilities.

For individual health insurance products, gross written premium rose by over 10% for the year. Similarly to group products, we effectively segmented risk and improved underwriting performance—while continuing to ensure that products offer value and quality to our customers in smaller and underserved markets.

Another notable function of our A&H segment is the broad distribution network built and grown within National General. As a result, we are an important distribution provider of third party carriers. We also provide a range of technology and operational support services, which collectively represent a valuable stream of income.

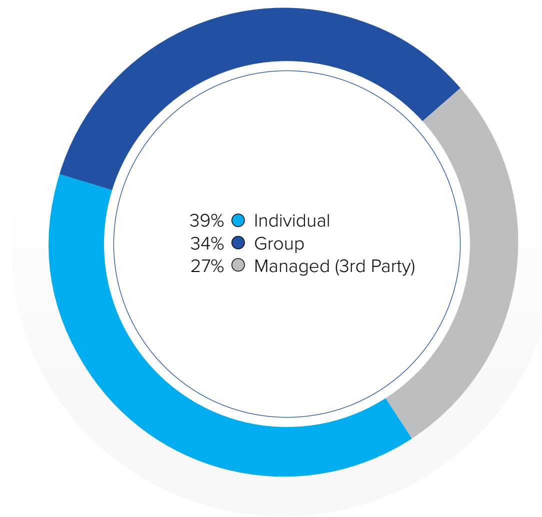
34.2%

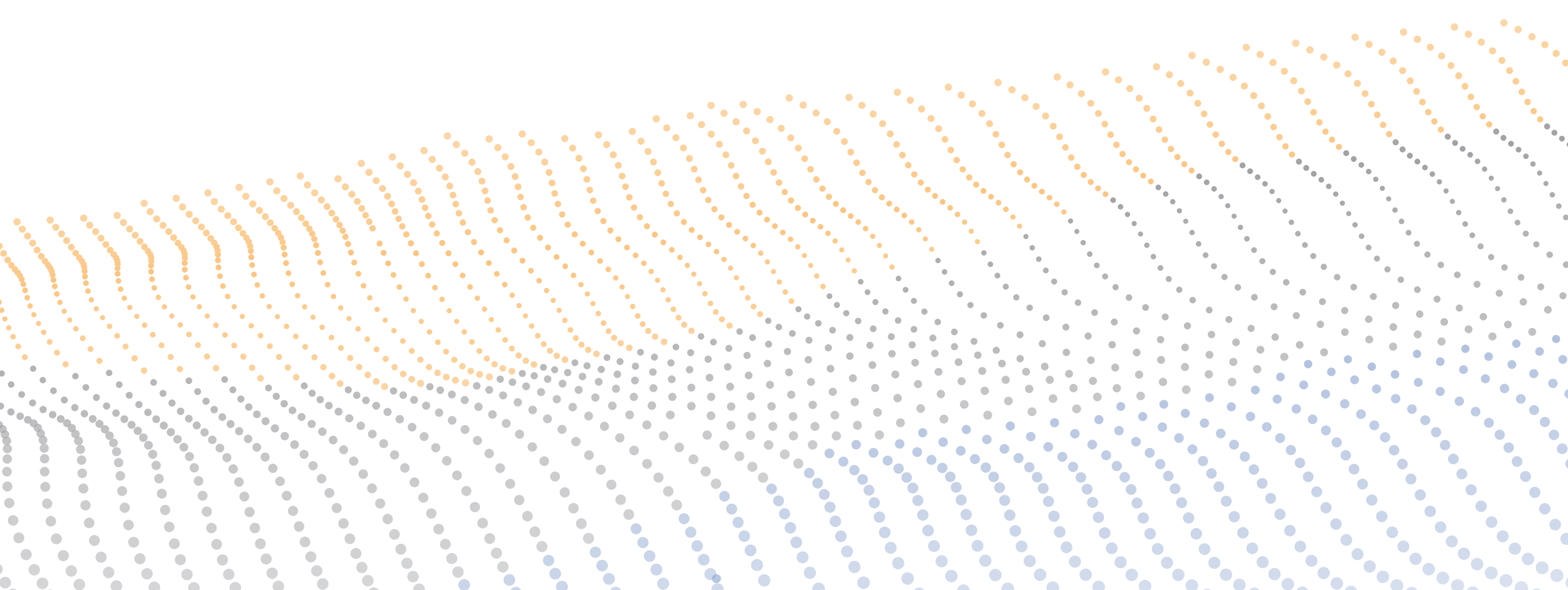
GROWTH IN UNDERWRITING INCOME

78.5%

COMBINED RATIO BEFORE AMORTIZATION AND IMPAIRMENT (NON-GAAP)

2019 A&H PREMIUM BY CATEGORY





SUMMARY INCOME STATEMENT $ in thousands (Unaudited)

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	NGHC	RECIPROCAL EXCHANGES	CONSOLIDATED	NGHC	RECIPROCAL EXCHANGES	CONSOLIDATED
REVENUES:						
Gross written premium	$ 5,135,633	$ 447,447	$ 5,583,080	$ 4,969,517	$ 448,923	$ 5,416,839 (G)
Net written premium	3,990,149	234,472	4,224,621	3,644,148	183,565	3,827,713
Net earned premium	3,907,811	210,231	4,118,042	3,545,441	186,761	3,732,202
Ceding commission income	174,952	63,501	238,453	167,948	56,749	224,697
Service and fee income	705,006	5,755	641,965 (A)	625,463	5,751	561,583 (H)
Net investment income	142,174	8,638	141,233 (B)	119,852	8,875	119,034 (I)
Net gain (loss) on investments	13,603	(130)	13,473	(26,179)	(3,366)	(29,545)
Other income	26,428	—	26,428	—	—	—
Total revenues	**4,969,974**	**287,995**	**5,179,594 (C)**	**4,432,525**	**254,770**	**4,607,971 (J)**
EXPENSES:						
Loss and loss adjustment expense	2,677,356	177,112	2,854,468	2,499,508	162,718	2,662,226
Acquisition and other underwriting expenses	782,328	45,039	827,367	693,283	41,983	735,266
General and administrative expenses	1,024,574	85,994	1,041,772 (D)	923,921	83,756	938,046 (K)
Interest expense	51,544	9,579	51,544 (E)	51,425	9,693	51,425 (L)
Total expenses	**4,535,802**	**317,724**	**4,775,151 (F)**	**4,168,137**	**298,150**	**4,386,963 (M)**
Income (loss) before provision (benefit) for income taxes	434,172	(29,729)	404,443	264,388	(43,380)	221,008
Provision (benefit) for income taxes	86,103	(9,090)	77,013	57,034	(3,550)	53,484
Net income (loss) before noncontrolling interest and dividends on preferred shares	348,069	(20,639)	327,430	207,354	(39,830)	167,524
Less: net income (loss) attributable to noncontrolling interest	—	(20,639)	(20,639)	—	(39,830)	(39,830)
Net income before dividends on preferred shares	348,069	—	348,069	207,354	—	207,354
Less: dividends on preferred shares	33,600	—	33,600	32,492	—	32,492
Net income available to common stockholders	**$ 314,469**	**$ —**	**$ 314,469**	**$ 174,862**	**$ —**	**$ 174,862**
Operating earnings[1]	**$ 319,174**			**$ 231,495**		

Consolidated column includes eliminations as follows: (A) $(68,796), (B) $(9,579), (C) $(78,375), (D) $(68,796), (E) $(9,579), (F) $(78,375), (G) $(1,601), (H) $(69,631), (I) $(9,693), (J) $(79,324), (K) $(69,631), (L) $(9,693) and (M) $(79,324).

(1) References to operating earnings and basic and diluted operating earnings per share ("EPS") are non-GAAP financial measures defined by the Company as net income/loss and basic and diluted earnings per share excluding after-tax net gain or loss on investments (including foreign exchange gain or loss), other-than-temporary impairment losses, earnings or losses of equity method investments (related parties), deferred tax asset impairment, non-cash impairment of goodwill and non-cash amortization of intangible assets, and any significant non-recurring or infrequent items that may not be indicative of ongoing operations. The Company believes operating earnings and basic and diluted operating EPS are relevant measures of the Company's profitability because operating earnings and basic and diluted operating EPS contain the components of net income upon which the Company's management has the most influence and exclude factors outside management's direct control and non-recurring items. Other companies may calculate these measures differently, and therefore, their measures may not be comparable to those used by National General. Please see the Non-GAAP reconciliation table on the next page for the reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measure.

Trailing twelve-month operating return on average equity is the ratio of the previous twelve months operating earnings (non-GAAP) to average shareholders' equity for the same twelve-month period. Average shareholders' equity is the sum of the shareholders' equity excluding preferred stock at the beginning and end of the period divided by two. In the opinion of the Company's management, this ratio is an important indicator of how well management creates value for its shareholders through its operating activities and capital management. Other companies may calculate these measures differently, and therefore, their measures may not be comparable to those used by National General. Please see the Non-GAAP reconciliation table on the next page for the reconciliation of net income to operating earnings, which is the Non-GAAP component of the operating return on average equity.

BALANCE SHEET $ in thousands (Unaudited)

	December 31, 2019			December 31, 2018		
	NGHC	RECIPROCAL EXCHANGES	CONSOLIDATED	NGHC	RECIPROCAL EXCHANGES	CONSOLIDATED
ASSETS:						
Total investments	$4,632,960	$329,494	$4,854,998[(A)]	$4,013,699	$314,411	$4,226,806[(H)]
Cash and cash equivalents, including restricted cash	163,480	983	164,463	233,383	200	233,583
Premiums and other receivables, net	1,373,089	55,859	1,428,948	1,338,485	61,327	1,399,812
Reinsurance balance	1,745,036	225,019	1,970,055	2,023,911	253,501	2,277,412
Intangible assets, net	362,598	3,225	365,823	376,532	3,405	379,937
Goodwill	179,328	—	179,328	180,183	—	180,183
Other	798,675	29,070	792,919[(B)]	739,068	27,879	741,547[(I)]
Total assets	**9,255,166**	**643,650**	**9,756,534[(C)]**	**8,905,261**	**660,723**	**9,439,280[(J)]**
LIABILITIES AND STOCKHOLDERS' EQUITY						
LIABILITIES:						
Unpaid loss and loss adjustment expense reserves	2,680,628	205,786	2,886,414	2,778,689	178,470	2,957,159
Unearned premiums and other revenue	2,059,688	252,553	2,312,241	2,014,965	265,763	2,280,728
Reinsurance payable	527,155	35,689	562,844	615,872	40,393	656,265
Accounts payable and accrued expenses	306,869	43,323	315,366[(D)]	390,338	33,120	398,058[(K)]
Debt	686,006	107,456	686,006[(E)]	705,795	101,304	705,795[(L)]
Other	345,366	30,803	376,169	178,764	61,640	240,404
Total liabilities	**6,605,712**	**675,610**	**7,139,040[(F)]**	**6,684,423**	**680,690**	**7,238,409[(M)]**
STOCKHOLDERS' EQUITY						
Common stock	1,134	—	1,134	1,129	—	1,1290
Preferred stock	450,000	—	450,000	450,000	—	450,000
Additional paid-in capital	1,065,634	—	1,065,634	1,057,783	—	1,057,783
Accumulated other comprehensive income (loss)	74,548	—	74,548	(52,130)	—	(52,130)
Retained earnings	1,058,138	—	1,058,138	764,056	—	764,056
Total National General Holdings Corp. stockholders' equity	**2,649,454**	**—**	**2,649,454**	**2,220,838**	—	**2,220,838**
Noncontrolling interest	—	(31,960)	(31,960)	—	(19,967)	(19,967)
Total stockholders' equity	**2,649,454**	**(31,960)**	**2,617,494**	**2,220,838**	**(19,967)**	**2,200,871**
Total liabilities and stockholders' equity	**$9,255,166**	**$643,650**	**$9,756,534[(G)]**	**$8,905,261**	**$660,723**	**$9,439,280[(N)]**

Consolidated column includes eliminations as follows: (A) $(107,456), (B) $(34,826), (C) $(142,282), (D) $(34,826), (E) $(107,456), (F) $(142,282), (G) $(142,282), (H) $(101,304), (I) $(25,400), (J) $(126,704), (K) $(25,400), (L) $(101,304), (M) $(126,704) and (N) $(126,704).

RECONCILIATION OF NET INCOME TO OPERATING EARNINGS (NON–GAAP)[(1)] $ in thousands, except per share data (Unaudited)

	Year Ended December 31, 2019	Year Ended December 31, 2018
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	**$314,469**	**$174,862**
Add (subtract):		
Equity in earnings of equity method investments	(2,951)	(165)
Net (gain) loss on investments and gain on sale of a business	(40,031)	26,179
Non-cash amortization of intangible assets	34,665	31,323
Arbitration award/Litigation settlement	14,273	10,000
Income tax expense (benefit)	(1,251)	(10,704)
Operating earnings attributable to NGHC (non-GAAP)[(1)]	**$ 319,174**	**$ 231,495**
Operating earnings per common share (non-GAAP)[(1)]		
Basic operating earnings per common share (non-GAAP)[(1)]	$ 2.82	$ 2.15
Diluted operating earnings per common share (non-GAAP)[(1)]	$ 2.75	$ 2.09

CORPORATE INFORMATION

SENIOR MANAGEMENT

Barry Karfunkel
Chief Executive Officer
Co-Chairman of the Board

Robert Karfunkel
President
Co-Chairman of the Board

Michael Weiner
Executive Vice President
Chief Financial Officer

Jeffrey Weissmann
Executive Vice President
General Counsel and Secretary

Peter Rendall
Executive Vice President
Chief Operating Officer

Tom Newgarden
Executive Vice President
Business Development

Doug Hanes
Executive Vice President
Vehicle

Andrew McGuire
Executive Vice President
National General Preferred

Brenda Castellano
Executive Vice President
Sales & Strategy

Art Castner
President
National General Lender Services

Aaron Goddard
Executive Vice President
Accident and Health Agencies and Sales

Mike Bentz
Executive Vice President
Accident and Health Product

George Hall
Executive Vice President
Chief Claims Officer

Sam Rea
Executive Vice President
Chief Information Officer

Jodi Swartz
Executive Vice President
Chief Marketing Officer

Aaron Kuluk
Executive Vice President
Retail Distribution

Jim McCoy
Senior Vice President
Chief Actuary

Lawrence J. Moloney
Senior Vice President
Chief Accounting Officer

Deb Franklin
Senior Vice President
Preferred & Premier Sales

Nicole Pemberton
Senior Vice President
Human Resources

BOARD OF DIRECTORS

Barry Karfunkel
Chief Executive Officer and Co-Chairman
National General Holdings Corp.

Robert Karfunkel
President and Co-Chairman
National General Holdings Corp.

Barry Zyskind
Director
Chairman, and Chief Executive Officer
AmTrust Financial Services, Inc.

INDEPENDENT DIRECTORS

John Marshaleck
Former Chief Financial Officer
Maiden Holdings, Ltd.

Donald DeCarlo
Former Chairman and Commissioner
New York State Insurance Fund

Patrick Fallon
Managing Director and Chief Operating Officer
CSG Partners

Jay Nichols
Former Chief Executive Officer
AXIS Re

Barbara Paris, M.D.
Vice-Chair, Medicine and Director of Division of Geriatrics
Maimonides Medical Center

ADDITIONAL INFORMATION

Website
www.NationalGeneral.com

Registrar and Transfer Agent
American Stock Transfer & Trust Company, LLC
Operations Center
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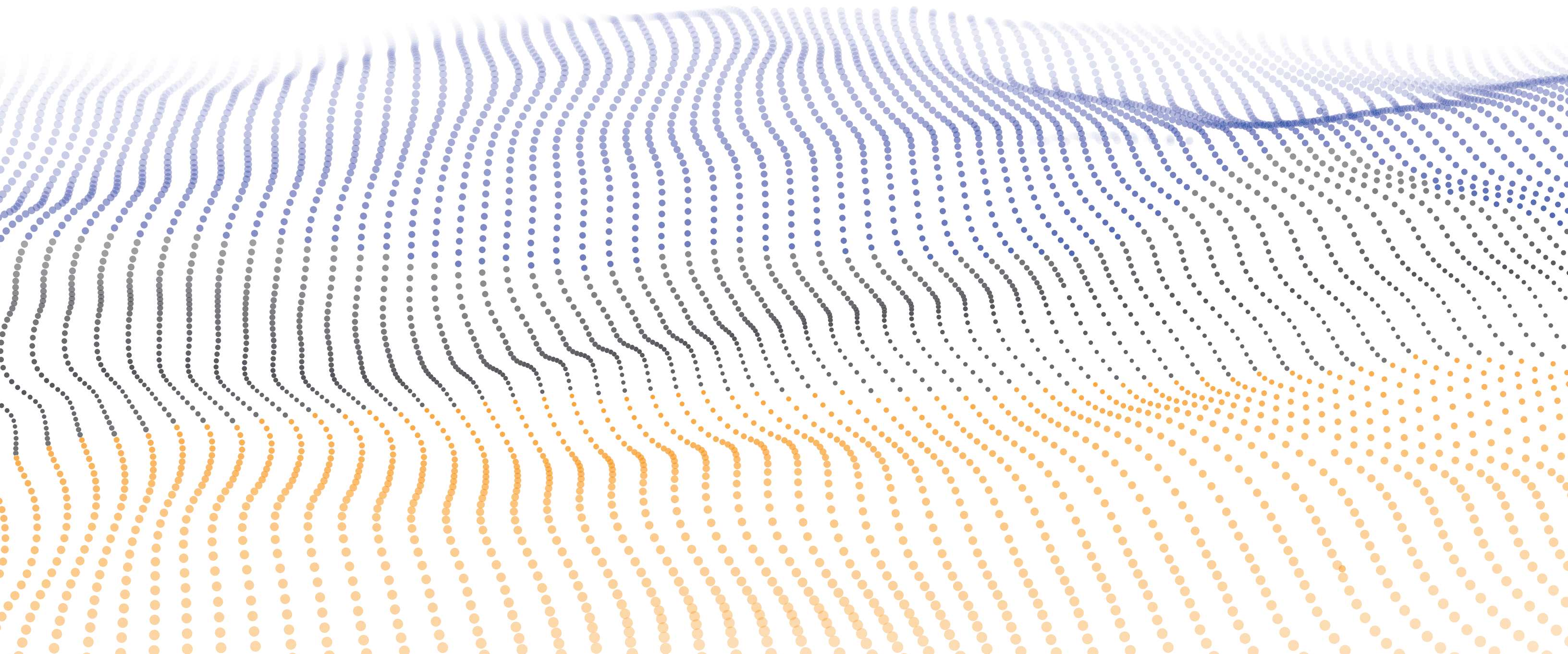
2019

FORM 10-K



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2019
OR

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

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

NATIONAL GENERAL HOLDINGS CORP.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**27-1046208**
(State or Other Jurisdiction of 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	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	NGHC	The Nasdaq Stock Market LLC
7.50% Non-Cumulative Preferred Stock, Series A	NGHCP	The Nasdaq Stock Market LLC
Depositary Shares, Representing 1/40th of a Share of 7.50% Non-Cumulative Preferred Stock, Series B	NGHCO	The Nasdaq Stock Market LLC
Depositary Shares, Representing 1/40th of a Share of 7.50% Non-Cumulative Preferred Stock, Series C	NGHCN	The Nasdaq Stock Market LLC
7.625% Subordinated Notes due 2055	NGHCZ	The Nasdaq Stock Market LLC

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

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

As of June 28, 2019, 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 $1,510,076,014. As of February 18, 2020, the number of common shares of the registrant outstanding was 113,474,549.

Documents incorporated by reference: Portions of the Proxy Statement for the 2020 Annual Meeting of Shareholders of the Registrant to be filed subsequently with the SEC are incorporated by reference into Part III of this report.

NATIONAL GENERAL HOLDINGS CORP.

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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 potential effect of changes in LIBOR reporting practices, 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 vendors 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 42,300 independent agents, a number of affinity partners and through direct-response marketing programs and retail storefronts. We have approximately 4.2 million P&C policyholders.

Our accident and health ("A&H") business provides accident and health insurance products not subject to the Patient Protection and Affordable Care Act ("PPACA") and targets uninsured or underinsured individuals and employers who are interested in an alternative to PPACA-compliant major medical coverage or who are looking for supplemental insurance options to help cover out of pocket costs. We market our and other carriers' A&H insurance products through a multi-pronged distribution platform that includes a network of over 46,200 independent agents, our in-house agencies, 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 niche markets. Approximately 73.7% of our P&C premium written is originated in ten core states: North Carolina, New York, California, Florida, Texas, Louisiana, New Jersey, Virginia, Michigan and Alabama.

For the years ended December 31, 2019, 2018 and 2017, our gross premium written was $5,583 million, $5,417 million and $4,756 million, net premium written was $4,225 million, $3,828 million and $3,578 million and total consolidated revenues were $5,180 million, $4,608 million and $4,422 million, respectively.

Our company was formed in 2009 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 have an "A-" (Excellent) 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.

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 42,300 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 490 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 ("NHIC"), Quotit Corporation, an application service provider for health insurance, HealthCompare Insurance Services, Inc., a call center agency, and Healthcare Solutions Team, LLC, a healthcare insurance managing general agency ("HST"), we have assembled a multi-pronged distribution platform that includes direct-to-consumer marketing through our call center agency, selling through approximately 46,200 independent agents, wholesaling insurance products through large general agencies/program managers and, through our affinity relationships, worksite marketing through employers and the internet.

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, North Carolina, New York, California, Florida, Texas, Louisiana, New Jersey, Virginia, Michigan and Alabama.

Relationships with our Independent Agents. We have built a strong network of approximately 42,300 independent insurance agents and brokers and provide them with competitive compensation, a user-friendly technology platform and superior service. 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.

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, 2019, in North Carolina, we generated $770.3 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.

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 believe we are one of the largest writers in the U.S. In 2019, we acquired National Farmers Union Property and Casualty Company ("Farmers Union Insurance"), which maintains a long-term relationship with the National Farmers Union to sell personal lines insurance to its members.

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 490 retail store fronts, web/mobile capabilities, phone contact centers and kiosks. The diversity of the channel 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

We offer lender-placed insurance products and related services to mortgage lenders and servicers ("LPI Business").

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, 2019, our P&C segment generated $392.5 million in revenue from policy service fees.

P&C Gross Premium Written by State

We are licensed to operate in 50 states and the District of Columbia. For the year ended December 31, 2019 our top ten states represented 73.7% 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,					
	2019		2018		2017	
	(amounts in thousands, except percentages)					
North Carolina	$ 770,349	16.0%	$ 729,426	15.5%	$ 633,948	15.2%
New York	672,439	14.0%	694,736	14.7%	617,270	14.8%
California	582,240	12.1%	720,284	15.3%	635,020	15.2%
Florida	517,456	10.7%	499,430	10.6%	515,723	12.4%
Texas	214,209	4.4%	218,410	4.6%	201,776	4.8%
Louisiana	173,237	3.6%	142,483	3.0%	139,893	3.4%
New Jersey	171,330	3.6%	174,234	3.7%	156,035	3.7%
Virginia	162,008	3.4%	148,806	3.2%	135,479	3.2%
Michigan	147,022	3.1%	139,642	3.0%	116,195	2.8%
Alabama	133,108	2.8%	119,462	2.5%	95,661	2.3%
Other States	1,271,065	26.3%	1,131,817	23.9%	927,583	22.2%
Total	$ 4,814,463	100.0%	$ 4,718,730	100.0%	$ 4,174,583	100.0%

Underwriting and Claims Management Philosophy

We believe that proactive and prompt claims management is essential to reducing losses and lowering loss adjustment expense ("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 underwriting pricing tool. The RAD 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 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 our RAD underwriting pricing tool provides us with a 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 with respect 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, 2019, our Claims department includes approximately 2,770 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 believe that 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, Kemper Corporation and independent agents that operate in a specific region or single state in which we operate. See Item 1A, "Risk Factors - Risks Relating to Our Insurance Operations - *The insurance industry is highly competitive, and we may not be able to compete effectively against larger companies.*"

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 advanced underwriting pricing tools, 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."

On August 1, 2019, we completed the acquisition of Farmers Union Insurance. This acquisition adds an affinity distribution channel to the Company's auto and homeowners business and expands the Company's presence in this product line in the Midwest. The purchase price for the transaction was approximately $52.8 million.

Quota Share Reinsurance

In 2017, we entered into an auto quota share agreement covering our auto line of business pursuant to which we ceded 15.0% of net liability to an unaffiliated third party reinsurer. Under the auto quota share agreement, we retain the flexibility, under certain conditions, to increase the cession percentage up to a maximum cession of 30.0% and to decrease the cession percentage to a minimum cession of 5.0%. Effective January 1, 2019, we ceded 7.0% of net liability. On July 1, 2019, we renewed our agreement for a two-year term. Effective July 1, 2019, we ceded 10.0% of net liability. Effective January 1, 2020, we cede 5.0% of net liability under new and renewal auto policies written.

In 2017, we entered into a homeowners quota share agreement covering our homeowners line of business pursuant to which we ceded 29.6% of net liability to unaffiliated third party reinsurers. Effective May 1, 2018, we ceded an additional 12.4% of net liability for a total cession of 42.0%. On July 1, 2019, we renewed our agreements for a one-year term. Effective July 1, 2019, we cede 40.0% of net liability under new and renewal homeowners policies written.

See Note 9, "Reinsurance" in the notes to our consolidated financial statements.

A&H Segment

Our A&H segment provides supplemental accident and health insurance products. One of the keys 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;
- through independent agents;
- 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 and group fully insured 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. We believe we are uniquely positioned to offer greater value to our consumers because of our far-reaching distribution and focused product portfolio.

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 subject to the PPACA for consumers seeking an alternative to more traditional forms of major medical 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.

On December 2, 2019, we sold our Euro Accident Health and Care Insurance Sweden operation to a Swedish investment company focused on Nordic healthcare investments.

A&H Product Overview

We focus on products that help individuals and employers address the ever increasing affordability challenges in healthcare. Our products include those packaged with other coverages or services to enhance the overall value proposition to the consumer, as well as standalone products. 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). These policies can serve as supplemental policies underneath high deductible major medical plans that help reduce out of pocket expenses for consumers that result from unexpected events.
- **Hospital Indemnity**. These plans provide a fixed benefit amount for specific healthcare services (e.g., office visits, hospital stays, diagnostic care, etc.) with no deductibles or copays. They are designed for individuals who are looking for coverage that reduces out of pocket costs not covered by major medical coverage.
- **Short-Term Medical**. These plans can bridge the timing gap between the annual open enrollment periods (when traditional major medical insurance is available), and offers individuals financial protection for certain unexpected medical bills and other health care expenses (e.g., office visits, emergency, care, hospital stays, etc.). These plans have prescribed policy durations; typically the initial policy durations cannot exceed 12 months (or shorter durations in certain states).
- **Cancer/Critical Illness**. Critical illness policies provide benefits when specific diseases are first diagnosed. These benefits are paid to the individual directly, who can use them to pay for other out of pocket costs that

may arise. 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**. Increases in health insurance costs in the group fully insured market has caused an increase in the number of employers offering self-insured plans. NHIC offers a wide array of stop loss programs together with self-insured program administration for small and large employers, as permitted by state law.
- **Dental**. These policies provide basic dental coverage and can be sold on a stand-alone basis or packaged with other products. They are frequently matched with discount plans and/or dental networks.
- **Medicare Supplement.** Medicare Supplement insurance policies fills the "gaps" in Original Medicare Plan coverage. These policies help pay some of the health care costs that the Original Medicare Plan doesn't cover and have standardized plan designs.

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 a 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 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.

The process of establishing the liability for unpaid losses and LAE 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 includes 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. In accordance with Actuarial Standards of Practice, we generally use multiple traditional methods in determining our estimates of the ultimate unpaid claim liabilities. Each of these methods require actuarial judgment and assumptions. The techniques can include, but are not limited to:

- 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 LAE 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 in determining the net reserves, 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, 2019, 2018 and 2017 and our approach in establishing such assumptions remained consistent for newly underwritten lines. If circumstances bear out our assumptions, losses incurred in 2019 should develop similarly to losses incurred in 2018 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 8, “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 2017, we acquired ownership of our personal lines policy administration system (“NPS”) and the related intellectual property, which we previously licensed. NPS has been fully transferred to our operating environment and the purchase price has been fully paid. 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.

Our RAD underwriting pricing tool accurately prices specific risk exposures to assist us in profitably underwriting our P&C products. Our RAD 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 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. As of December 31, 2019, 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 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 Mississippi, Direct General Life Insurance Company, Direct Insurance Company, Direct National Insurance Company and National Farmers Union Property and Casualty 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.

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.

<u>*Financial Oversight*</u>

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, 2019.

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 2019 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. To date, a number of states have adopted some or all of the changes in the Amended Model Act and Regulation, including states where some of our insurance companies are domiciled or commercially domiciled.

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 2019 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 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.

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.

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, 2019, 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.

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.

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 reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018, which impacted the Company's effective tax rate and after-tax earnings in the United States. The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, Income Taxes, requires deferred tax assets and liabilities to be adjusted for the effect of a change in tax laws or rates in the year of enactment, which is the year in which the change was signed into law. Accordingly, the Company adjusted its deferred tax assets and liabilities effective December 31, 2017, using the new corporate tax rate of 21 percent. The Company was also affected by certain other aspects of the TCJA, including provisions regarding the one-time transition tax on undistributed foreign earnings and profits, limitations on the deductibility of interest expense and executive compensation, deductibility of capital expenditures, and, implementation of a minimum tax on the "global intangible low-taxed income" of a "United States shareholder" of a "controlled foreign corporation."

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 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 regulations 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 recoverable.

Existing and new laws and regulations affecting the health insurance industry, or changes to existing laws and regulations, may transpire. The PPACA was signed into law in 2010, and, in recent years there have been several judicial and congressional challenges and proposed amendments to the PPACA. The TCJA also repealed certain aspects of the 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. 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

The Gramm-Leach-Bliley Act is a federal law which, among other things, protects consumers from the unauthorized dissemination of certain personal information. States have also implemented additional regulations to address privacy issues. For example, the California Consumer Privacy Act ("CCPA") was signed into law on June 28, 2018 and took effect on January 1, 2020. The CCPA, among other things, contains new disclosure obligations for businesses that collect personal information about California residents and affords those individuals new rights relating to their personal information that may affect our ability to use personal information or share it with our business partners. Regulations from the California Attorney General have not been finalized, and it is expected that additional amendments to the CCPA will be introduced in 2020. We will continue to monitor and assess the impact of these state laws, which may impose substantial penalties for violations, impose significant costs for investigations and compliance, allow private class-action litigation and carry significant potential liability for our business. 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 a 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.

Foreign 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, 2019, we have approximately 9,200 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 obtain our electronic filings 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, LAE 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. The process of estimating loss reserves involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events, such as: changes in claims handling procedures, adverse changes in loss cost trends, economic conditions (including general inflation), legal trends and legislative changes, and varying judgments and viewpoints in the estimation process, among others. The impact of many of these items on ultimate loss reserves is difficult to estimate.

As a result of these uncertainties, the ultimate paid LAE 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, changes in interest rates 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 key employees. If we are unsuccessful in our efforts to attract, train and retain qualified executive officers and key employees, our business may be materially adversely affected.

Our success has developed from, and will continue to depend on, the efforts of our executive officers because of their industry expertise, knowledge of our markets, and relationships with our independent agents and distribution partners. 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, 2019, our P&C segment derived 73.7% of its gross premium written from the following ten states: North Carolina (16.0%), New York (14.0%), California (12.1%), Florida (10.7%), Texas (4.4%), Louisiana (3.6%), New Jersey (3.6%), Virginia (3.4%), Michigan (3.1%) and Alabama (2.8%). 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 effect 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 products primarily through a network of independent agents and distribution partners. 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. Our top two affinity relationships collectively represent 59% 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 we fail to 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.

We use our own policy administration system. 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 maintain our policy administration system and other 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.

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 or other form of cyberattacks, 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, phishing attempts, e-mail fraud, 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 or third party systems and networks will not be subject to breaches or interference. Any such event may result in operational disruptions, cause payments to be made to an unintended recipient, or result in 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.

The regulatory environment surrounding information security and privacy is increasingly demanding. We are subject to numerous U.S. federal and state laws and regulations in jurisdictions outside the U.S. governing the protection of personal and confidential information of our clients or employees, including in relation to credit card data and financial information. These laws and regulations are increasing in complexity and number and change frequently. If any person, including any of our employees or those with whom we share such information, negligently disregards or intentionally breaches our established controls with respect to our client or employee data, or otherwise mismanages or misappropriates that data, we could be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution in one or more jurisdictions.

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.

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.

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 an insurance holding company controlled by Leah Karfunkel, George Karfunkel and Barry Zyskind. Because Leah Karfunkel beneficially owns 39.3% 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, a consulting and marketing agreement pursuant to which a subsidiary of AmTrust provides certain consulting and marketing services to promote our captive insurance program; a joint investment in an entity owning an investment in third party managed life settlement contracts; and joint investments in entities owning office buildings in Ohio, Texas and Illinois. 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 and AmTrust provided ACP Re with financing in an aggregate amount of $250.0 million ($125.0 million each), and in 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. 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 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.

We may be adversely affected by changes in LIBOR reporting practices, the method in which LIBOR is determined or the use of alternative reference rates.

As of December 31, 2019, our debt indentures, 2019 Credit Agreement and Series D Preferred Stock include terms indexed to London Interbank Offered Rate ("LIBOR"). In July 2017, the United Kingdom regulator that regulates LIBOR announced its intention to phase out LIBOR rates by the end of 2021. The Alternative Reference Rates Committee ("ARRC"), a steering committee comprised of large U.S. financial institutions, has proposed replacing U.S. Dollar-LIBOR with a new index calculated by short-term repurchase agreements - the Secured Overnight Financing Rate

("SOFR"). At this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR, and it is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether LIBOR rates will cease to be published or supported before or after 2021 or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. Such developments and any other legal or regulatory changes in the method by which LIBOR is determined or the transition from LIBOR to a successor benchmark may result in, among other things, a sudden or prolonged increase or decrease in LIBOR, a delay in the publication of LIBOR, and changes in the rules or methodologies in LIBOR, which may discourage market participants from continuing to administer or to participate in LIBOR's determination and, in certain situations, could result in LIBOR no longer being determined and published. If a published U.S. dollar LIBOR rate is unavailable after 2021, the interest rates on our debt indentures, 2019 Credit Agreement and Series D Preferred Stock, which are indexed to LIBOR will be determined using various alternative methods, any of which may result in interest obligations which are more than or do not otherwise correlate over time with the payments that would have been made on such debt if U.S. dollar LIBOR was available in its current form. Further, the same costs and risks that may lead to the unavailability of U.S. dollar LIBOR may make one or more of the alternative methods impossible or impracticable to determine. Any of these proposals or consequences could have a material adverse effect on our financing costs, and as a result, our financial condition, operating results and cash flows.

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, 2019, our investment in fixed-income securities was approximately $4,476.4 million, or 92.2% 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.

Our investment portfolio also contains floating rate instruments, which typically bear interest based on LIBOR. Regulatory and industry initiatives to eliminate LIBOR as an interest rate benchmark may create uncertainty in our LIBOR-based instruments, which may adversely impact both pricing and liquidity of such instruments.

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 and other operating 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 and preferred 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 $403.0 million as of December 31, 2019, 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 most of the states in which we operate, 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 and our ability to operate in a profitable manner may be limited.
- *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 surcharges for guaranty funds, second-injury funds, catastrophe funds and other mandatory pooling arrangements;
  - 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 department'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." We cannot predict whether any proposals promulgated by FIO 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."

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

The PPACA was signed into law in 2010. In recent years there have been several judicial and congressional challenges and proposed amendments to PPACA, and the Tax Cuts and Jobs Act of 2017 repealed certain aspects of the PPACA. Congress may consider other legislation to repeal or replace elements of the 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 the PPACA, or if significant uncertainty continues with respect to implementation of the 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 the PPACA, such a development could have a material adverse effect on our A&H business. For more information on the PPACA and its impact on our A&H segment, see Item 1, "Business - A&H Segment."

We may 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 regulatory and rating agency requirements and 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 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. In this jurisdiction, we are subject to a number of significant risks in conducting such business. These risks include restrictions such as capital 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 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 anticipated 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, distribution partners 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 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, 2019, we generated $642.0 million in service and fee revenue from our P&C and A&H policyholders, which included, among others, 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 insurance industry is cyclical in nature, which may affect our overall financial performance.

Historically, the financial performance of the 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 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, non-catastrophic weather and water losses 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.

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, 2019, we had an aggregate amount of approximately $1,394.3 million of reinsurance recoverable.

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 2019. At December 31, 2019, the amount of reinsurance recoverable from the NCRF and the MCCA was approximately $191.3 million and $558.3 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.

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.

We may from time to time be subject to a variety of legal actions relating to our current and past business operations including, but not limited to, disputes over coverage or claims adjudication, including claims alleging that we have acted in bad faith in the administration of claims by our policyholders, disputes with our agents or producers over compensation and termination of contracts and related claims, disputes relating to certain business acquired or disposed of by us and disputes with former employees. We also cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on our business.

Class action claims present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it results in a significant damage award or a judicial ruling that was otherwise detrimental, could create a precedent in the industry that could have an adverse effect on our business.

The effects of regulatory inquiries and litigation relating to our collateral protection insurance business are uncertain and could have an adverse effect on us and our business.

We have been and continue to be subject to inquiries by regulatory and government agencies and class action litigation concerning matters arising from our collateral protection insurance business with Wells Fargo. Although we believe that our actions have at all times been in compliance with applicable requirements and that we have a meritorious defense in the litigation pending against us, there can be no assurance as to the ultimate outcome of these matters and we may be subject to fines, penalties or damages. Additionally, negative publicity relating to these claims, or unfavorable outcomes in these matters, could adversely affect our business and results of operations and damage our reputation.

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 39.3% 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, requirements, and 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 market 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 2.4 million square feet in approximately 60 office locations and approximately 490 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 0.3 million 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.

On July 25, 2019, the City of North Miami Beach Police Officers' and Firefighters' Retirement Plan filed a complaint in the U.S. District Court for the Central District of California against the Company and certain of its officers. The plaintiff purports to represent a class of individuals and entities who purchased or otherwise acquired shares of the Company's common stock between August 5, 2015 and August 9, 2017. The complaint asserts claims under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder based on allegedly false and misleading statements made by the Company in its SEC filings in relationship to the Company's involvement in the historical and no longer existing Wells Fargo collateral protection insurance program. The complaint seeks damages in an amount to be proven at trial. On November 19, 2019, the U.S. District Court for the Central District of California granted the Company's Motion to Transfer the case to the Southern District of New York. On January 10, 2020, lead plaintiffs Town of Davie Police Officers Retirement System and Massachusetts Laborers' Pension Fund filed an amended Complaint alleging similar claims under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder on behalf of a purported class of individuals and entities who purchased or otherwise acquired shares of the Company's common stock between July 15, 2015 and August 9, 2017. We believe that the claims set forth in the amended complaint are unfounded and without merit and intend to vigorously contest them. We note, however, that in light of the inherent uncertainty in legal proceedings, we can give no assurance as to the ultimate resolution of the matter, and an estimate of the possible loss or range of loss, if any, cannot be made at this time.

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 18, 2020 there were approximately 263 registered record holders of our common shares. This figure does not include beneficial owners who hold shares in nominee name.

Dividend Policy

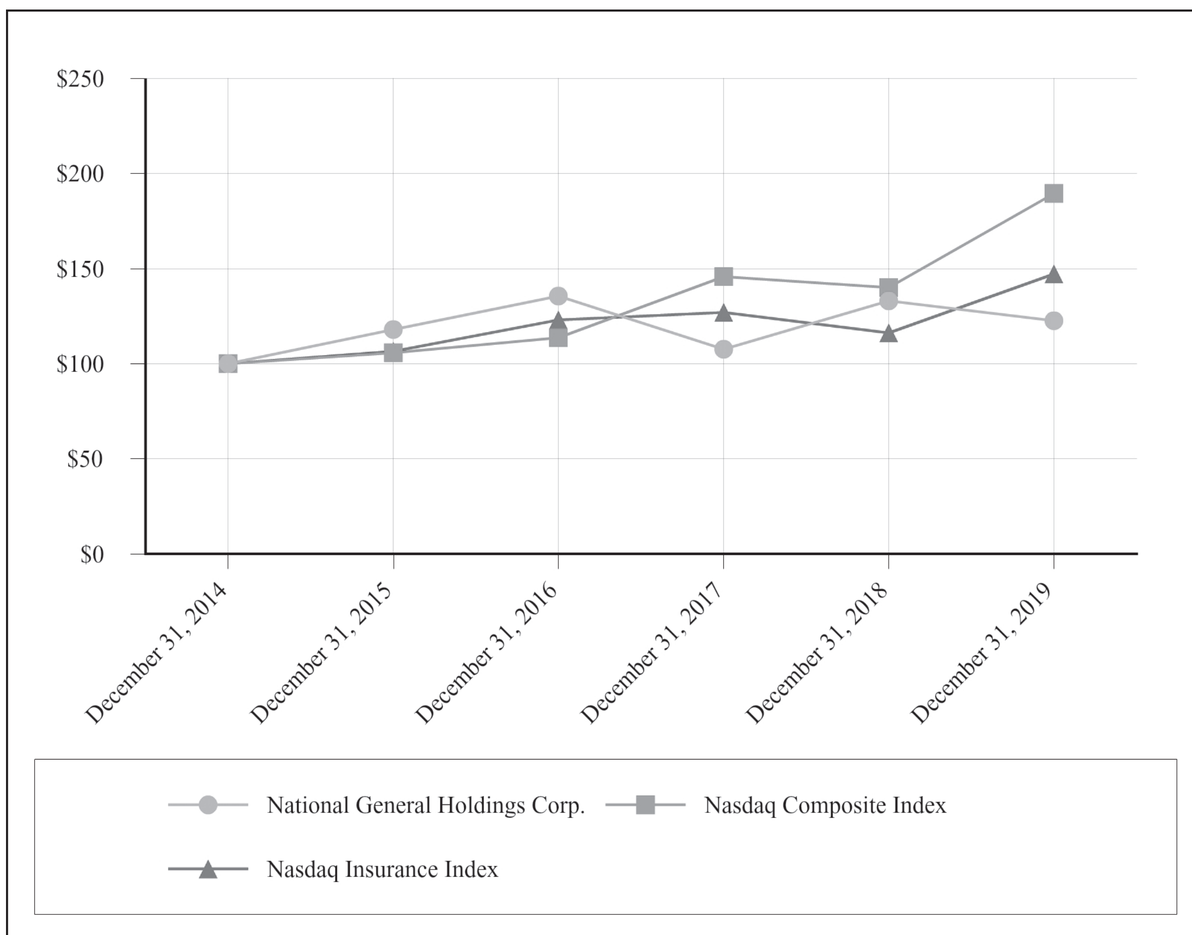
Our board of directors currently intends to continue to authorize the payment of a quarterly cash dividend to our stockholders of record. Any declaration and payment of dividends by our board of directors will depend on many factors, including general economic and business conditions, our strategic plans, 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 $403.0 million as of December 31, 2019, 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, or would result from such payment, 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 five-year period (December 31, 2014 to December 31, 2019) 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 made on December 31, 2014. The stock price performance of the following graph is not necessarily indicative of future stock price performance.

Comparative Cumulative Total Returns Since December 31, 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, 2019, 2018 and 2017 and the balance sheet data as of December 31, 2019 and 2018 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,				
	2019	2018	2017	2016	2015
Selected Income Statement Data[1]	*(amounts in thousands, except percentages and per share data)*				
Gross premium written	$ 5,583,080	$ 5,416,839	$ 4,755,985	$ 3,500,898	$ 2,590,044
Ceded premiums[2]	(1,358,459)	(1,589,126)	(1,178,390)	(428,202)	(403,502)
Net premium written	$ 4,224,621	$ 3,827,713	$ 3,577,595	$ 3,072,696	$ 2,186,542
Change in unearned premium	(106,579)	(95,511)	76,581	(77,525)	(56,436)
Net earned premium	$ 4,118,042	$ 3,732,202	$ 3,654,176	$ 2,995,171	$ 2,130,106
Ceding commission income	238,453	224,697	116,456	45,600	43,790
Service and fee income	641,965	561,583	502,927	380,817	273,548
Net investment income[3]	141,233	119,034	101,950	115,187	78,783
Net gain (loss) on investments	13,473	(29,545)	46,763	7,904	(11,095)
Other income (expense)	26,428	—	(198)	24,308	—
Total revenues	$ 5,179,594	$ 4,607,971	$ 4,422,074	$ 3,568,987	$ 2,515,132
Loss and loss adjustment expense	2,854,468	2,662,226	2,626,082	2,092,280	1,485,320
Acquisition costs and other underwriting expenses[4]	827,367	735,266	672,429	497,007	406,662
General and administrative expenses[5]	1,041,772	938,046	912,996	709,148	426,976
Interest expense	51,544	51,425	47,086	40,180	28,885
Total expenses	$ 4,775,151	$ 4,386,963	$ 4,258,593	$ 3,338,615	$ 2,347,843
Income before provision for income taxes	$ 404,443	$ 221,008	$ 163,481	$ 230,372	$ 167,289
Provision for income taxes	77,013	53,484	61,273	33,998	16,176
Net income	$ 327,430	$ 167,524	$ 102,208	$ 196,374	$ 151,113
Less: Net (income) loss attributable to noncontrolling interest	20,639	39,830	3,637	(20,668)	(14,025)
Net income attributable to National General Holdings Corp.	$ 348,069	$ 207,354	$ 105,845	$ 175,706	$ 137,088
Dividends on preferred stock	(33,600)	(32,492)	(31,500)	(24,333)	(14,025)
Net income attributable to National General Holdings Corp. common stockholders	$ 314,469	$ 174,862	$ 74,345	$ 151,373	$ 123,063
Per common share data:					
Basic earnings per share	$ 2.78	$ 1.62	$ 0.70	$ 1.43	$ 1.25
Weighted average shares outstanding - basic	113,200	107,660	106,588	105,952	98,242
Diluted earnings per share	$ 2.73	$ 1.59	$ 0.68	$ 1.40	$ 1.22
Weighted average shares outstanding - diluted	116,097	110,822	108,752	108,278	100,724
Dividends declared per common share	$ 0.18	$ 0.16	$ 0.16	$ 0.14	$ 0.09
Insurance Ratios					
Net loss ratio[6]	69.3%	71.3%	71.9%	69.9%	69.7%
Net operating expense ratio (non-GAAP)[7][8]	23.7%	23.5%	26.4%	26.0%	24.2%
Net combined ratio (non-GAAP)[7][8][9]	93.0%	94.8%	98.3%	95.9%	93.9%
Insurance Ratios Before Amortization and Impairment (non-GAAP)					
Net operating expense ratio before amortization and impairment (non-GAAP)[10]	22.8%	22.7%	24.7%	23.6%	22.4%
Net combined ratio before amortization and impairment (non-GAAP)[10][11]	92.1%	94.0%	96.6%	93.5%	92.1%

	As of December 31,									
	2019		2018		2017		2016		2015	
Selected Balance Sheet Data	*(amounts in thousands)*									
Investments	$	4,854,998	$	4,226,806	$	3,649,788	$	3,631,064	$	2,785,510
Cash, cash equivalents and restricted cash	$	164,463	$	233,583	$	357,484	$	285,900	$	282,277
Premiums and other receivables, net	$	1,428,948	$	1,399,812	$	1,324,321	$	1,091,774	$	694,577
Reinsurance recoverable	$	1,394,308	$	1,611,738	$	1,294,165	$	948,236	$	897,232
Intangible assets, net and Goodwill	$	545,151	$	560,120	$	578,223	$	626,084	$	461,312
Total assets	$	9,756,534	$	9,439,280	$	8,439,743	$	7,238,028	$	5,556,192
Unpaid loss and loss adjustment expense reserves	$	2,886,414	$	2,957,159	$	2,663,557	$	2,273,866	$	1,762,575
Unearned premiums and other revenue	$	2,312,241	$	2,280,728	$	2,032,605	$	1,701,286	$	1,257,598
Debt	$	686,006	$	705,795	$	713,710	$	752,001	$	491,537
Total liabilities	$	7,139,040	$	7,238,409	$	6,486,318	$	5,320,670	$	4,029,034
Common stock and additional paid-in capital	$	1,066,768	$	1,058,912	$	918,818	$	914,851	$	901,170
Preferred stock	$	450,000	$	450,000	$	420,000	$	420,000	$	220,000
Noncontrolling interest	$	(31,960)	$	(19,967)	$	24,856	$	31,918	$	22,840
Total stockholders' equity	$	2,617,494	$	2,200,871	$	1,953,425	$	1,917,358	$	1,527,158

(1) Results of operations were affected by our various acquisitions and reinsurance transactions from 2015 to 2019, and a disposition in 2019. Bargain purchase gain or gain on sale of a business is recorded in other income (expense).

(2) Premiums ceded to related parties were not material for the years ended December 31, 2019, 2018, 2017 and 2016, and amounted to $1,578 for the year ended December 31, 2015.

(3) Earnings (losses) of equity method investments, including those with related parties, are recorded in net investment income.

(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, service and fee income and other general and administrative expenses (arbitration award / litigation settlement expense). 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 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, service and fee income and other general and administrative expenses (arbitration award / litigation settlement expense).

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

[10] Net operating expense ratio before amortization and impairment (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 before non-cash amortization of intangible assets and non-cash impairment of goodwill to net earned premium.

[11] The net combined ratio before amortization and impairment (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 before amortization and impairment (non-GAAP). If the net combined ratio before amortization and impairment (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. Management believes that this measure of underwriting profitability provides a more useful comparison to the combined ratio of other insurance companies involved in fewer acquisitions.

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."

The discussion of our financial condition and results of operations for the year ended December 31, 2017 included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2018 is incorporated by reference into this MD&A.

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.

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:

Property and Casualty:
Agent Alliance Insurance Company
Century-National Insurance Company
Direct General Insurance Company
Direct General Insurance Company of Mississippi
Direct Insurance Company
Direct National Insurance Company
Imperial Fire and Casualty Insurance Company
Integon Casualty Insurance Company
Integon General Insurance Corporation
Integon Indemnity Corporation
Integon National Insurance Company
Integon Preferred Insurance Company
MIC General Insurance Corporation
National Farmers Union Property and Casualty Company
National General Assurance Company
National General Insurance Company
National General Insurance Online, Inc.
National General Premier Insurance Company
New South Insurance Company
Standard Property and Casualty Insurance Company

Accident and Health:
Direct General Life Insurance Company
National Health Insurance Company

Our insurance subsidiaries have an "A-" (Excellent) group rating by A.M. Best Company, Inc. ("A.M. Best"). On September 5, 2019, A.M. Best affirmed our A- rating including our subsidiary National Farmers Union Property

and Casualty Company, which we acquired on August 1, 2019. We currently conduct a limited amount of business outside the United States, primarily in Bermuda.

On December 2, 2019, we sold our Euro Accident Health and Care Insurance Sweden operation to a Swedish investment company focused on Nordic healthcare investments.

Two of our wholly-owned subsidiaries 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. The Reciprocal Exchanges are included in our P&C segment.

The operating results of 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 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 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, 2019 have been negatively impacted by losses resulting from severe weather-related events.

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, 2019, our operating leverage (the ratio of net earned premium to average total stockholders’ equity) was 1.7x, 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 $141.2 million, $119.0 million and $102.0 million for the years ended December 31, 2019, 2018 and 2017, respectively. We held 3.3% and 5.2% in cash, cash equivalents and restricted cash of our total invested assets as of December 31, 2019 and 2018, respectively.

Our most significant balance sheet liability is our unpaid loss and loss adjustment expense (“LAE”) reserves. As of December 31, 2019 and 2018, our reserves, net of reinsurance recoverable on unpaid losses, were $1.8 billion and $1.7 billion, respectively. 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. 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, such 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.

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 recoverable, 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 stock-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. 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 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 time when the policy is sold. The allowance for estimated third-party cancellations is periodically evaluated and adjusted as necessary.

Reserves for loss and loss adjustment expense. 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 LAE to determine whether further adjustments are required. Any resulting adjustments are included in the period in which adjustments are determined. Additional information regarding the judgments and uncertainties surrounding our estimated reserves for loss and LAE can be found in Item 1, "Business-Loss Reserves."

Reinsurance. We cede insurance risk under various reinsurance agreements. We seek 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. We remain 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 to the extent the ceding commission exceeds acquisition costs. Reinsurance recoverable is 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 acquisition costs. Deferred acquisition costs include commissions, premium taxes, payments to affinity partners, and other direct sales costs that are directly related to the successful 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. Anticipated investment income is considered in determining the recoverability of these costs. We believe that these costs are recoverable.

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 our investments in debt securities in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 320, "Investments - Debt Securities," and certain equity investments with ASC 321, "Investments - Equity Securities." In accordance with ASC 320, our debt securities are classified as available for sale and are measured at fair value with unrealized gains and losses reported as a separate component of comprehensive income. Equity investments (except those accounted for under the equity method, and those that result in consolidation of the investee and certain other investments) are measured at fair value with all gains and losses reported in net income in accordance with ASC 321. We may sell our available-for-sale and equity securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors. Available-for-sale and equity securities are reported at their estimated fair values based on quoted market prices or recognized pricing services.

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 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.

Intangible assets that have finite lives, including but not limited to, agent and customer relationships and trademarks, are amortized over the estimated useful life of the asset. For intangible assets with finite lives, impairment is recognized if the carrying amount is not recoverable and exceeds the fair value of the intangible asset. Generally intangible assets with finite lives are only tested for impairment if there are indicators of impairment ("triggers") identified. Triggers include, but are not limited to, a significant adverse change in the extent, manner or length of time in which the intangible asset is being used or a significant adverse change in legal factors or in the business climate that could affect the value of the other intangible asset.

Business combinations. We account for business combinations under the acquisition method of accounting, which requires us to record assets acquired, liabilities assumed and any noncontrolling 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 of 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 (e.g., 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 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. We expense costs associated with the acquisition of a business in the period incurred.

Noncontrolling Interest. Non-redeemable noncontrolling interest is the portion of equity (net assets) not attributable, directly or indirectly, to a parent. We have no ownership interest in the Reciprocal Exchanges. Therefore, the difference between the value of their assets and liabilities represent the value of the noncontrolling interest.

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.

Level 3 assets are unobservable inputs 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 non-binding broker quotes, pricing models, discounted cash flow methodologies, or similar techniques that require significant judgment or estimation.

Income taxes. We join our subsidiaries in the filing of a consolidated federal income tax return and are party to federal income tax allocation agreement. The Reciprocal Exchanges are not party to federal income tax allocation agreement 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 debt securities.

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 operate.

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 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, 2019, we would earn half of the premium in the first quarter of 2019 and the other half in the second quarter of 2019.

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 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 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 time when the policy is sold. The allowance for estimated third-party cancellations is periodically evaluated and adjusted as necessary.

Net investment income. We invest our statutory surplus funds and the funds supporting our insurance liabilities primarily in cash and cash equivalents, debt and equity securities. Our net investment income includes interest and dividends earned on our invested assets and earnings or losses on our equity method investments.

Net gains and losses on investments. 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 report net unrealized gains (losses) on debt securities classified as available for sale within accumulated other comprehensive income (loss) in our balance sheet. We report all gains (losses) on equity securities within net gains (losses) on investments in our statement of income. Net gains and losses on investments include foreign exchange gains and losses which are generated by the remeasurement of financial statement balances that are denominated or stated in another currency into the functional currency.

Other income. Other income represents the bargain purchase gain or the gain on sale of a business.

Loss and loss adjustment expense. 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 attributable to those agents, wholesalers or brokers that produce premiums written on our behalf and promotional fees 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 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 and interest credited on funds held balances at the 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.

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, service and fee income and other general and administrative expenses (arbitration award / litigation settlement expense).

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 are 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 combined ratio before amortization and impairment (non-GAAP). The net combined ratio before amortization and impairment (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 before amortization and impairment (non-GAAP). Management believes that this measure of underwriting profitability provides a more useful comparison to the combined ratio of other insurance companies involved in fewer acquisitions. Our definition of net operating expense ratio before amortization and impairment is as follows:

Net operating expense ratio before amortization and impairment (non-GAAP). The net operating expense ratio before amortization and impairment (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 before non-cash amortization of intangible assets and non-cash impairment of goodwill to net earned premium.

Net operating expense ratio, net operating expense ratio before amortization and impairment, net combined ratio and net combined ratio before amortization and impairment 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. We use net operating expense ratio (non-GAAP), net operating expense ratio before amortization and impairment (non-GAAP), net combined ratio (non-GAAP) and net combined ratio before amortization and impairment (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 us. For a reconciliation of net operating expense, see "Results of Operations - Consolidated Results of Operations" below.

Results of Operations

Consolidated Results of Operations

	Year Ended December 31,							
	2019				2018			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
Underwriting revenues:				*(amounts in thousands)*				
Gross premium written	$ 5,135,633	$ 447,447	$ —	$ 5,583,080	$ 4,969,517	$ 448,923	$ (1,601)	$ 5,416,839
Ceded premiums	(1,145,484)	(212,975)	—	(1,358,459)	(1,325,369)	(265,358)	1,601	(1,589,126)
Net premium written	$ 3,990,149	$ 234,472	$ —	$ 4,224,621	$ 3,644,148	$ 183,565	$ —	$ 3,827,713
Change in unearned premium	(82,338)	(24,241)	—	(106,579)	(98,707)	3,196	—	(95,511)
Net earned premium	$ 3,907,811	$ 210,231	$ —	$ 4,118,042	$ 3,545,441	$ 186,761	$ —	$ 3,732,202
Ceding commission income	174,952	63,501	—	238,453	167,948	56,749	—	224,697
Service and fee income	705,006	5,755	(68,796)	641,965	625,463	5,751	(69,631)	561,583
Total underwriting revenues	$ 4,787,769	$ 279,487	$ (68,796)	$ 4,998,460	$ 4,338,852	$ 249,261	$ (69,631)	$ 4,518,482
Underwriting expenses:								
Loss and loss adjustment expense	2,677,356	177,112	—	2,854,468	2,499,508	162,718	—	2,662,226
Acquisition costs and other underwriting expenses	782,328	45,039	—	827,367	693,283	41,983	—	735,266
General and administrative expenses	1,024,574	85,994	(68,796)	1,041,772	923,921	83,756	(69,631)	938,046
Total underwriting expenses	$ 4,484,258	$ 308,145	$ (68,796)	$ 4,723,607	$ 4,116,712	$ 288,457	$ (69,631)	$ 4,335,538
Underwriting income (loss)	$ 303,511	$ (28,658)	$ —	$ 274,853	$ 222,140	$ (39,196)	$ —	$ 182,944
Net investment income	142,174	8,638	(9,579)	141,233	119,852	8,875	(9,693)	119,034
Net gain (loss) on investments	13,603	(130)	—	13,473	(26,179)	(3,366)	—	(29,545)
Other income	26,428	—	—	26,428	—	—	—	—
Interest expense	(51,544)	(9,579)	9,579	(51,544)	(51,425)	(9,693)	9,693	(51,425)
Income (loss) before provision (benefit) for income taxes	$ 434,172	$ (29,729)	$ —	$ 404,443	$ 264,388	$ (43,380)	$ —	$ 221,008
Provision (benefit) for income taxes	86,103	(9,090)	—	77,013	57,034	(3,550)	—	53,484
Net income (loss)	$ 348,069	$ (20,639)	$ —	$ 327,430	$ 207,354	$ (39,830)	$ —	$ 167,524
Net loss attributable to noncontrolling interest	—	20,639	—	20,639	—	39,830	—	39,830
Net income attributable to NGHC	$ 348,069	$ —	$ —	$ 348,069	$ 207,354	$ —	$ —	$ 207,354
Dividends on preferred stock	(33,600)	—	—	(33,600)	(32,492)	—	—	(32,492)
Net income attributable to NGHC common stockholders	$ 314,469	$ —	$ —	$ 314,469	$ 174,862	$ —	$ —	$ 174,862

	Year Ended December 31,							
	2019				2018			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
Underwriting ratios:	*(amounts in thousands, except percentages)*							
Net loss ratio	68.5%	84.2%	—%	69.3%	70.5%	87.1%	—%	71.3%
Net operating expense ratio (non-GAAP)	23.4%	29.4%	—%	23.7%	23.0%	33.9%	—%	23.5%
Net combined ratio (non-GAAP)	91.9%	113.6%	—%	93.0%	93.5%	121.0%	—%	94.8%
Underwriting ratios before amortization and impairment (non-GAAP):								
Net loss ratio	68.5%	84.2%	—%	69.3%	70.5%	87.1%	—%	71.3%
Net operating expense ratio before amortization and impairment (non-GAAP)	22.5%	29.4%	—%	22.8%	22.1%	33.8%	—%	22.7%
Net combined ratio before amortization and impairment (non-GAAP)	91.0%	113.6%	—%	92.1%	92.6%	120.9%	—%	94.0%
Reconciliation of net operating expense ratio (non-GAAP):								
Total expenses	$4,535,802	$ 317,724	$ (78,375)	$4,775,151	$4,168,137	$ 298,150	$ (79,324)	$4,386,963
Less: Loss and loss adjustment expense	2,677,356	177,112	—	2,854,468	2,499,508	162,718	—	2,662,226
Less: Interest expense	51,544	9,579	(9,579)	51,544	51,425	9,693	(9,693)	51,425
Less: Ceding commission income	174,952	63,501	—	238,453	167,948	56,749	—	224,697
Less: Service and fee income	705,006	5,755	(68,796)	641,965	625,463	5,751	(69,631)	561,583
Less: Other general and administrative expenses	14,273	—	—	14,273	10,000	—	—	10,000
Net operating expense	$ 912,671	$ 61,777	$ —	$ 974,448	$ 813,793	$ 63,239	$ —	$ 877,032
Net earned premium	$3,907,811	$ 210,231	$ —	$4,118,042	$3,545,441	$ 186,761	$ —	$3,732,202
Net operating expense ratio (non-GAAP)	23.4%	29.4%	—%	23.7%	23.0%	33.9%	—%	23.5%
Net operating expense	$ 912,671	$ 61,777	$ —	$ 974,448	$ 813,793	$ 63,239	$ —	$ 877,032
Less: Non-cash amortization of intangible assets	34,665	71	—	34,736	31,323	44	—	31,367
Net operating expense before amortization and impairment	$ 878,006	$ 61,706	$ —	$ 939,712	$ 782,470	$ 63,195	$ —	$ 845,665
Net earned premium	$3,907,811	$ 210,231	$ —	$4,118,042	$3,545,441	$ 186,761	$ —	$3,732,202
Net operating expense ratio before amortization and impairment (non-GAAP)	22.5%	29.4%	—%	22.8%	22.1%	33.8%	—%	22.7%

On August 1, 2019, we completed the acquisition of National Farmers Union Property and Casualty Company ("Farmers Union Insurance"). The purchase price for the transaction was approximately $52.8 million.

In 2017, we entered into an Auto Quota Share Agreement (the "Auto Quota Share Agreement") covering our auto line of business. Effective January 1, 2019, we ceded 7.0% of net liability. On July 1, 2019, we renewed our Auto Quota Share Agreement for a two-year term. Effective July 1, 2019, we ceded 10.0% of net liability with the ability to increase the cession to up to 30.0% and decrease the cession down to 5.0% under certain conditions. We receive a 31.2% provisional ceding commission on premiums ceded to the reinsurer during the term of the Auto Quota Share Agreement, subject to a sliding scale adjustment to a maximum of 32.8% if the loss ratio for the reinsured business is 64.7% or less and a minimum of 30.0% if the loss ratio is 67.5% or higher. Effective January 1, 2020, we cede 5.0% of net liability under new and renewal auto policies written.

In 2017, we entered into a Homeowners Quota Share Agreement (the "HO Quota Share Agreement") covering our homeowners line of business. On July 1, 2019, we renewed our HO Quota Share Agreement for a one-year term. Effective July 1, 2019, we cede 40.0% of net liability and receive a 36.0% ceding commission on new and renewal business and a portion of the in-force business. A portion of the in-force business is being run-off under the prior agreements. The weighted average expected ceding commission for all in-force business and new and renewal homeowners business is 37.5% over the contract term.

On December 2, 2019, we sold our Euro Accident Health and Care Insurance Sweden operation ("Euroaccident") to an investor group focused on Nordic healthcare investments. The sale price for this transaction was $139.0 million and resulted in a $26.4 million gain recorded in other income.

Farmers Union Insurance, and the Auto Quota Share and the HO Quota Share Agreements (collectively, the "Quota Shares") impacted our P&C segment. The sale of Euroaccident impacted our A&H segment. As a result of these transactions, comparisons between the 2019 and 2018 results will be less meaningful.

Consolidated Results of Operations for the Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

Gross premium written. Gross premium written increased by $166.2 million, or 3.1%, from $5,416.8 million for the year ended December 31, 2018 to $5,583.1 million for the year ended December 31, 2019, due to an increase of $95.7 million from the P&C segment, primarily driven by the acquisition of Farmers Union Insurance ($77.3 million); and an increase of $70.5 million from the A&H segment primarily as a result of growth in our small group self-funded and individual products ($81.4 million), partially offset by the fourth quarter sale of our international business.

Net premium written. Net premium written increased by $396.9 million, or 10.4%, from $3,827.7 million for the year ended December 31, 2018 to $4,224.6 million for the year ended December 31, 2019. Net premium written for the P&C segment increased by $362.8 million for the year ended December 31, 2019 compared to the same period in 2018, primarily as a result of decreased ceded premium to the Quota Shares ($232.0 million) upon commencement of the reduced Auto Quota Share Agreement cession in 2019, the acquisition of Farmers Union Insurance ($71.8 million) and decreased ceded premium by the Reciprocal Exchanges ($50.9 million). Net premium written for the A&H segment increased by $34.1 million for the year ended December 31, 2019 compared to the same period in 2018, primarily as a result of growth in our small group self-funded and individual products ($66.0 million), partially offset by the fourth quarter sale of our international business.

Net earned premium. Net earned premium increased by $385.8 million, or 10.3%, from $3,732.2 million for the year ended December 31, 2018 to $4,118.0 million for the year ended December 31, 2019. The change by segment was: P&C increased by $339.2 million and A&H increased by $46.6 million. The increase in the P&C segment was attributable to organic growth ($185.1 million), decreased ceded earned premium to the Quota Shares ($57.2 million), the acquisition of Farmers Union Insurance ($73.4 million), and an increase in the Reciprocal Exchanges ($23.5 million). The increase in the A&H segment was primarily due to growth in our small group self-funded and individual products ($66.3 million), partially offset by the fourth quarter sale of our international business.

Ceding commission income. Ceding commission income increased by $13.8 million, from $224.7 million for the year ended December 31, 2018 to $238.5 million for the year ended December 31, 2019.

Service and fee income. Service and fee income increased by $80.4 million, or 14.3%, from $561.6 million for the year ended December 31, 2018 to $642.0 million for the year ended December 31, 2019, primarily driven by our group administration fees and third party technology services fees.

The components of service and fee income are as follows:

	Year Ended December 31,			
	2019	2018	Change	% Change
	(amounts in thousands)			
Commission revenue	$ 170,962	$ 163,321	$ 7,641	4.7%
Finance and processing fees	134,499	125,593	8,906	7.1%
Group health administrative fees	100,951	79,411	21,540	27.1%
Installment fees	97,997	92,785	5,212	5.6%
Late payment fees	34,519	33,851	668	2.0%
Other service and fee income	103,037	66,622	36,415	54.7%
Total	$ 641,965	$ 561,583	$ 80,382	14.3%

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $192.2 million, or 7.2%, from $2,662.2 million for the year ended December 31, 2018 to $2,854.5 million for the year ended December 31, 2019, primarily reflecting decreased ceded losses to the Quota Shares ($94.2 million), the acquisition of Farmers Union Insurance ($54.1 million) and unfavorable prior year loss development. The changes by segment were: P&C increased by $202.9 million and A&H decreased by $10.7 million. Losses related to P&C weather-related events, excluding the Reciprocal Exchanges, were $51.2 million in 2019 compared to $128.7 million in 2018, a decrease of $77.5 million year over year.

Loss and LAE for the year ended December 31, 2019 included $5.2 million of unfavorable development on prior accident year loss and LAE reserves. The development was composed of $50.5 million of unfavorable development in the P&C segment (including $3.9 million of unfavorable development for the Reciprocal Exchanges) primarily driven by the small business auto product line, and $45.4 million of favorable development in the A&H segment primarily driven by overall improvement in loss ratio estimates. Loss and LAE for the year ended December 31, 2018 included $34.0 million of favorable development on prior accident year loss and LAE reserves. The development was composed of $3.1 million of favorable development in the P&C segment (including $1.7 million of unfavorable development for the Reciprocal Exchanges), and $31.0 million of favorable development in the A&H segment primarily driven by favorable development in the domestic A&H stop loss and short-term medical products.

Our consolidated net loss ratio decreased from 71.3% for the year ended December 31, 2018 to 69.3% for the year ended December 31, 2019.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $92.1 million, or 12.5%, from $735.3 million for the year ended December 31, 2018 to $827.4 million for the year ended December 31, 2019, due to an increase of $54.5 million in the P&C segment and an increase of $37.6 million in the A&H segment, primarily due to premium growth.

General and administrative expenses. General and administrative expenses increased by $103.7 million, or 11.1%, from $938.0 million for the year ended December 31, 2018 to $1,041.8 million for the year ended December 31, 2019, primarily due to an increase of $47.1 million in the P&C segment, and an increase of $52.4 million in the A&H segment. The increase in the P&C segment was primarily driven by the acquisition of Farmers Union Insurance, while the increase in the A&H segment was primarily due to domestic organic growth.

Net operating expense (non-GAAP); net operating expense ratio (non-GAAP). Net operating expense increased by $97.4 million, or 11.1%, from $877.0 million for the year ended December 31, 2018 to $974.4 million for the year ended December 31, 2019, due to an increase of $74.8 million from the P&C segment and an increase of $22.6 million from the A&H segment. The increase in the P&C segment was primarily driven by increased general and administrative expenses, the acquisition of Farmers Union Insurance and decreased cession to the Quota Shares in 2019.

The consolidated net operating expense ratio increased from 23.5% for the year ended December 31, 2018 to 23.7% for the year ended December 31, 2019. Excluding the Reciprocal Exchanges, the net operating expense ratio was 23.4% and 23.0% for the years ended December 31, 2019 and 2018, respectively. The Reciprocal Exchanges' net operating expense ratio was 29.4% and 33.9% for the years ended December 31, 2019 and 2018, respectively.

Net investment income. Net investment income increased by $22.2 million, or 18.6%, from $119.0 million for the year ended December 31, 2018 to $141.2 million for the year ended December 31, 2019. The increase was primarily due to increased income from our debt securities.

Net gain (loss) on investments. Net gain (loss) on investments increased by $43.0 million, from a $29.5 million loss for the year ended December 31, 2018 to a $13.5 million gain for the year ended December 31, 2019. The increase was mainly attributable to sales at gain from repositioning our debt securities portfolio.

Interest expense. Interest expense for the years ended December 31, 2019 and 2018 was $51.5 million and $51.4 million, respectively.

Provision for income taxes. Income tax expense increased by $23.5 million, from $53.5 million for the year ended December 31, 2018, reflecting an effective tax rate of 24.2%, to $77.0 million for the year ended December 31, 2019, reflecting an effective tax rate of 19.0%.

P&C Segment - Results of Operations

	Year Ended December 31,							
	2019				2018			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
Underwriting revenues:	*(amounts in thousands, except percentages)*							
Gross premium written	$4,367,016	$ 447,447	$ —	$4,814,463	$4,271,408	$ 448,923	$ (1,601)	$4,718,730
Ceded premiums	(1,037,473)	(212,975)	—	(1,250,448)	(1,253,799)	(265,358)	1,601	(1,517,556)
Net premium written	$3,329,543	$ 234,472	$ —	$3,564,015	$3,017,609	$ 183,565	$ —	$3,201,174
Change in unearned premium	(84,751)	(24,241)	—	(108,992)	(88,581)	3,196	—	(85,385)
Net earned premium	$3,244,792	$ 210,231	$ —	$3,455,023	$2,929,028	$ 186,761	$ —	$3,115,789
Ceding commission income	164,013	63,501	—	227,514	160,945	56,749	—	217,694
Service and fee income	455,519	5,755	(68,796)	392,478	439,483	5,751	(69,631)	375,603
Total underwriting revenues	$3,864,324	$ 279,487	$ (68,796)	$4,075,015	$3,529,456	$ 249,261	$ (69,631)	$3,709,086
Underwriting expenses:								
Loss and loss adjustment expense	2,366,676	177,112	—	2,543,788	2,178,163	162,718	—	2,340,881
Acquisition costs and other underwriting expenses	559,980	45,039	—	605,019	508,557	41,983	—	550,540
General and administrative expenses	756,093	85,994	(68,796)	773,291	712,113	83,756	(69,631)	726,238
Total underwriting expenses	$3,682,749	$ 308,145	$ (68,796)	$3,922,098	$3,398,833	$ 288,457	$ (69,631)	$3,617,659
Underwriting income (loss)	$ 181,575	$ (28,658)	$ —	$ 152,917	$ 130,623	$ (39,196)	$ —	$ 91,427
Underwriting ratios:								
Net loss ratio	72.9%	84.2%	—%	73.6%	74.4%	87.1%	—%	75.1%
Net operating expense ratio (non-GAAP)	21.5%	29.4%	—%	21.9%	21.2%	33.9%	—%	21.9%
Net combined ratio (non-GAAP)	94.4%	113.6%	—%	95.5%	95.6%	121.0%	—%	97.0%
Underwriting ratios before amortization and impairment (non-GAAP):								
Net loss ratio	72.9%	84.2%	—%	73.6%	74.4%	87.1%	—%	75.1%
Net operating expense ratio before amortization and impairment (non-GAAP)	20.6%	29.4%	—%	21.1%	20.4%	33.8%	—%	21.2%
Net combined ratio before amortization and impairment (non-GAAP)	93.5%	113.6%	—%	94.7%	94.8%	120.9%	—%	96.3%
Reconciliation of net operating expense ratio (non-GAAP):								
Total expenses	$3,682,749	$ 308,145	$ (68,796)	$3,922,098	$3,398,833	$ 288,457	$ (69,631)	$3,617,659
Less: Loss and loss adjustment expense	2,366,676	177,112	—	2,543,788	2,178,163	162,718	—	2,340,881
Less: Ceding commission income	164,013	63,501	—	227,514	160,945	56,749	—	217,694
Less: Service and fee income	455,519	5,755	(68,796)	392,478	439,483	5,751	(69,631)	375,603
Net operating expense	$ 696,541	$ 61,777	$ —	$ 758,318	$ 620,242	$ 63,239	$ —	$ 683,481
Net earned premium	$3,244,792	$ 210,231	$ —	$3,455,023	$2,929,028	$ 186,761	$ —	$3,115,789
Net operating expense ratio (non-GAAP)	21.5%	29.4%	—%	21.9%	21.2%	33.9%	—%	21.9%
Net operating expense	$ 696,541	$ 61,777	$ —	$ 758,318	$ 620,242	$ 63,239	$ —	$ 683,481
Less: Non-cash amortization of intangible assets	27,920	71	—	27,991	23,960	44	—	24,004
Net operating expense before amortization and impairment	$ 668,621	$ 61,706	$ —	$ 730,327	$ 596,282	$ 63,195	$ —	$ 659,477
Net earned premium	$3,244,792	$ 210,231	$ —	$3,455,023	$2,929,028	$ 186,761	$ —	$3,115,789
Net operating expense ratio before amortization and impairment (non-GAAP)	20.6%	29.4%	—%	21.1%	20.4%	33.8%	—%	21.2%

P&C Segment Results of Operations for the Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

Gross premium written. Gross premium written increased by $95.7 million, or 2.0%, from $4,718.7 million for the year ended December 31, 2018 to $4,814.5 million for the year ended December 31, 2019, primarily driven by the acquisition of Farmers Union Insurance ($77.3 million).

Net premium written. Net premium written increased by $362.8 million, or 11.3%, from $3,201.2 million for the year ended December 31, 2018 to $3,564.0 million for the year ended December 31, 2019, primarily as a result of decreased ceded premium to the Quota Shares ($232.0 million) upon commencement of the reduced Auto Quota Share Agreement cession in 2019, the acquisition of Farmers Union Insurance ($71.8 million) and decreased ceded premium by the Reciprocal Exchanges ($50.9 million).

Net earned premium. Net earned premium increased by $339.2 million, or 10.9%, from $3,115.8 million for the year ended December 31, 2018 to $3,455.0 million for the year ended December 31, 2019, attributable to organic growth ($185.1 million), decreased ceded earned premium to the Quota Shares ($57.2 million), the acquisition of Farmers Union Insurance ($73.4 million), and an increase in the Reciprocal Exchanges ($23.5 million).

Ceding commission income. Ceding commission income increased by $9.8 million, from $217.7 million for the year ended December 31, 2018 to $227.5 million for the year ended December 31, 2019.

Service and fee income. Service and fee income increased by $16.9 million, from $375.6 million for the year ended December 31, 2018 to $392.5 million for the year ended December 31, 2019.

The components of service and fee income are as follows:

	Year Ended December 31,			
	2019	2018	Change	% Change
	(amounts in thousands)			
Finance and processing fees	$ 128,302	$ 121,058	$ 7,244	6.0 %
Installment fees	97,997	92,785	5,212	5.6 %
Commission revenue	87,486	93,235	(5,749)	(6.2)%
Late payment fees	34,210	33,765	445	1.3 %
Other service and fee income	44,483	34,760	9,723	28.0 %
Total	$ 392,478	$ 375,603	$ 16,875	4.5 %

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $202.9 million, or 8.7%, from $2,340.9 million for the year ended December 31, 2018 to $2,543.8 million for the year ended December 31, 2019, primarily reflecting decreased ceded losses to the Quota Shares ($94.2 million), the acquisition of Farmers Union Insurance ($54.1 million) and unfavorable prior year loss development. Losses related to weather-related events, excluding the Reciprocal Exchanges, were $51.2 million in 2019 compared to $128.7 million in 2018, a decrease of $77.5 million year over year.

Our P&C segment net loss ratio, which includes the Reciprocal Exchanges, decreased from 75.1% for the year ended December 31, 2018 to 73.6% for the year ended December 31, 2019. Excluding the Reciprocal Exchanges, the net loss ratio was 72.9% and 74.4% for the years ended December 31, 2019 and 2018, respectively. The Reciprocal Exchanges' net loss ratio was 84.2% and 87.1% for the years ended December 31, 2019 and 2018, respectively.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $54.5 million, from $550.5 million for the year ended December 31, 2018 to $605.0 million for the year ended December 31, 2019. The increase was primarily due to premium growth.

General and administrative expenses. General and administrative expenses increased by $47.1 million, from $726.2 million for the year ended December 31, 2018 to $773.3 million for the year ended December 31, 2019. The increase was primarily driven by organic growth and the acquisition of Farmers Union Insurance.

Net operating expense (non-GAAP); net operating expense ratio (non-GAAP). Net operating expense increased by $74.8 million, or 10.9%, from $683.5 million for the year ended December 31, 2018 to $758.3 million for the year ended December 31, 2019. The increase was primarily driven by increased general and administrative expenses, the acquisition of Farmers Union Insurance and decreased cession to the Quota Shares in 2019. Our P&C segment net operating expense ratio was 21.9% for the year ended December 31, 2018 compared to 21.9% for the year ended December 31, 2019.

Underwriting income; net combined ratio (non-GAAP). Underwriting income increased by $61.5 million, or 67.3%, from $91.4 million for the year ended December 31, 2018 to $152.9 million for the year ended December 31, 2019. The increase was primarily driven by organic growth, partially offset by decreased cession to the Quota Shares in 2019. Our P&C segment net combined ratio decreased from 97.0% for the year ended December 31, 2018 to 95.5% for the year ended December 31, 2019. The decrease in net combined ratio was driven by lower net loss ratio.

A&H Segment - Results of Operations

	Year Ended December 31,	
	2019	2018
Underwriting revenues:	*(amounts in thousands, except percentages)*	
Gross premium written	$ 768,617	$ 698,109
Ceded premiums	(108,011)	(71,570)
Net premium written	$ 660,606	$ 626,539
Change in unearned premium	2,413	(10,126)
Net earned premium	$ 663,019	$ 616,413
Ceding commission income	10,939	7,003
Service and fee income	249,487	185,980
Total underwriting revenues	$ 923,445	$ 809,396
Underwriting expenses:		
Loss and loss adjustment expense	310,680	321,345
Acquisition costs and other underwriting expenses	222,348	184,726
General and administrative expenses	254,208	201,808
Total underwriting expenses	$ 787,236	$ 707,879
Underwriting income	$ 136,209	$ 101,517
Underwriting ratios:		
Net loss ratio	46.9%	52.1%
Net operating expense ratio (non-GAAP)	32.6%	31.4%
Net combined ratio (non-GAAP)	79.5%	83.5%
Underwriting ratios before amortization and impairment (non-GAAP):		
Net loss ratio	46.9%	52.1%
Net operating expense ratio before amortization and impairment (non-GAAP)	31.6%	30.2%
Net combined ratio before amortization and impairment (non-GAAP)	78.5%	82.3%
Reconciliation of net operating expense ratio (non-GAAP):		
Total expenses	$ 787,236	$ 707,879
Less: Loss and loss adjustment expense	310,680	321,345
Less: Ceding commission income	10,939	7,003
Less: Service and fee income	249,487	185,980
Net operating expense	$ 216,130	$ 193,551
Net earned premium	$ 663,019	$ 616,413
Net operating expense ratio (non-GAAP)	32.6%	31.4%
Net operating expense	$ 216,130	$ 193,551
Less: Non-cash amortization of intangible assets	6,745	7,363
Net operating expense before amortization and impairment	$ 209,385	$ 186,188
Net earned premium	$ 663,019	$ 616,413
Net operating expense ratio before amortization and impairment (non-GAAP)	31.6%	30.2%

A&H Segment Results of Operations for the Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

Gross premium written. Gross premium written increased by $70.5 million, or 10.1%, from $698.1 million for the year ended December 31, 2018 to $768.6 million for the year ended December 31, 2019, primarily as a result of growth in our small group self-funded and individual products ($81.4 million), partially offset by the fourth quarter sale of our international business.

Net premium written. Net premium written increased by $34.1 million, or 5.4%, from $626.5 million for the year ended December 31, 2018 to $660.6 million for the year ended December 31, 2019, primarily as a result of growth in our small group self-funded and individual products ($66.0 million), partially offset by the fourth quarter sale of our international business.

Net earned premium. Net earned premium increased by $46.6 million, or 7.6%, from $616.4 million for the year ended December 31, 2018 to $663.0 million for the year ended December 31, 2019, primarily due to growth in our small group self-funded and individual products ($66.3 million), partially offset by the fourth quarter sale of our international business.

Service and fee income. Service and fee income increased by $63.5 million, or 34.1%, from $186.0 million for the year ended December 31, 2018 to $249.5 million for the year ended December 31, 2019, primarily driven by our group administration fees and third party technology services fees.

The components of service and fee income are as follows:

	Year Ended December 31,			
	2019	2018	Change	% Change
	(amounts in thousands)			
Group health administrative fees	$ 100,951	$ 79,411	$ 21,540	27.1%
Commission revenue	83,476	70,086	13,390	19.1%
Finance and processing fees	6,197	4,535	1,662	36.6%
Other service and fee income	58,863	31,948	26,915	84.2%
Total	$ 249,487	$ 185,980	$ 63,507	34.1%

Loss and loss adjustment expense; net loss ratio. Loss and LAE decreased by $10.7 million, from $321.3 million for the year ended December 31, 2018 to $310.7 million for the year ended December 31, 2019. Our A&H net loss ratio decreased from 52.1% for the year ended December 31, 2018 to 46.9% for the year ended December 31, 2019. The loss ratio decrease was primarily as a result of favorable prior year loss development of $45.4 million in 2019, compared to a $31.0 million favorable prior year loss development in 2018.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $37.6 million, or 20.4%, from $184.7 million for the year ended December 31, 2018 to $222.3 million for the year ended December 31, 2019, primarily from domestic organic growth.

General and administrative expenses. General and administrative expenses increased by $52.4 million, or 26.0%, from $201.8 million for the year ended December 31, 2018 to $254.2 million for the year ended December 31, 2019, primarily from domestic organic growth.

Net operating expense (non-GAAP); net operating expense ratio (non-GAAP). Net operating expense increased by $22.6 million, or 11.7%, from $193.6 million for the year ended December 31, 2018 to $216.1 million for the year ended December 31, 2019. Our A&H net operating expense ratio increased from 31.4% for the year ended December 31, 2018 to 32.6% for the year ended December 31, 2019.

Underwriting income; net combined ratio (non-GAAP). Underwriting income increased by $34.7 million, or 34.2%, from $101.5 million for the year ended December 31, 2018 to $136.2 million for the year ended December 31, 2019. The increase was primarily due to domestic organic growth. Our A&H net combined ratio decreased from 83.5% for the year ended December 31, 2018 to 79.5% for the year ended December 31, 2019. The net combined ratio decrease was primarily due to lower net loss ratio due to higher favorable prior year loss development in 2019 compared to 2018, partially offset by higher operating expense ratio.

Balance Sheets

	December 31, 2019			
	NGHC	Reciprocal Exchanges	Eliminations	Total
ASSETS	(amounts in thousands)			
Investments:				
Debt securities, available-for-sale, at fair value	$ 4,152,109	$ 324,249	$ —	$ 4,476,358
Equity securities, at fair value	5,257	—	—	5,257
Short-term investments	62,108	5,245	—	67,353
Other investments	413,486	—	(107,456)	306,030
Total investments	4,632,960	329,494	(107,456)	4,854,998
Cash and cash equivalents	134,983	959	—	135,942
Restricted cash and cash equivalents	28,497	24	—	28,521
Accrued investment income	63,752	2,001	(34,826)	30,927
Premiums and other receivables, net	1,373,089	55,859	—	1,428,948
Deferred acquisition costs	240,216	23,307	—	263,523
Reinsurance recoverable	1,275,183	119,125	—	1,394,308
Prepaid reinsurance premiums	469,853	105,894	—	575,747
Property and equipment, net	403,586	241	—	403,827
Intangible assets, net	362,598	3,225	—	365,823
Goodwill	179,328	—	—	179,328
Prepaid and other assets	91,121	3,521	—	94,642
Total assets	$ 9,255,166	$ 643,650	$ (142,282)	$ 9,756,534
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Unpaid loss and loss adjustment expense reserves	$ 2,680,628	$ 205,786	$ —	$ 2,886,414
Unearned premiums and other revenue	2,059,688	252,553	—	2,312,241
Reinsurance payable	527,155	35,689	—	562,844
Accounts payable and accrued expenses	306,869	43,323	(34,826)	315,366
Debt	686,006	107,456	(107,456)	686,006
Other liabilities	345,366	30,803	—	376,169
Total liabilities	$ 6,605,712	$ 675,610	$ (142,282)	$ 7,139,040
Stockholders' equity:				
Common stock	$ 1,134	$ —	$ —	$ 1,134
Preferred stock	450,000	—	—	450,000
Additional paid-in capital	1,065,634	—	—	1,065,634
Accumulated other comprehensive income	74,548	—	—	74,548
Retained earnings	1,058,138	—	—	1,058,138
Total National General Holdings Corp. Stockholders' Equity	2,649,454	—	—	2,649,454
Noncontrolling interest	—	(31,960)	—	(31,960)
Total stockholders' equity	$ 2,649,454	$ (31,960)	$ —	$ 2,617,494
Total liabilities and stockholders' equity	$ 9,255,166	$ 643,650	$ (142,282)	$ 9,756,534

	December 31, 2018			
	NGHC	Reciprocal Exchanges	Eliminations	Total
ASSETS	(amounts in thousands)			
Investments:				
Debt securities, available-for-sale, at fair value	$ 3,263,949	$ 297,083	$ —	$ 3,561,032
Equity securities, at fair value	10,949	—	—	10,949
Short-term investments	331,221	17,328	—	348,549
Other investments	407,580	—	(101,304)	306,276
Total investments	4,013,699	314,411	(101,304)	4,226,806
Cash and cash equivalents	193,858	—	—	193,858
Restricted cash and cash equivalents	39,525	200	—	39,725
Accrued investment income	50,981	1,596	(25,400)	27,177
Premiums and other receivables, net	1,338,485	61,327	—	1,399,812
Deferred acquisition costs	231,401	20,007	—	251,408
Reinsurance recoverable	1,494,670	117,068	—	1,611,738
Prepaid reinsurance premiums	529,241	136,433	—	665,674
Property and equipment, net	306,309	1,695	—	308,004
Intangible assets, net	376,532	3,405	—	379,937
Goodwill	180,183	—	—	180,183
Prepaid and other assets	150,377	4,581	—	154,958
Total assets	$ 8,905,261	$ 660,723	$ (126,704)	$ 9,439,280
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Unpaid loss and loss adjustment expense reserves	$ 2,778,689	$ 178,470	$ —	$ 2,957,159
Unearned premiums and other revenue	2,014,965	265,763	—	2,280,728
Reinsurance payable	615,872	40,393	—	656,265
Accounts payable and accrued expenses	390,338	33,120	(25,400)	398,058
Debt	705,795	101,304	(101,304)	705,795
Other liabilities	178,764	61,640	—	240,404
Total liabilities	$ 6,684,423	$ 680,690	$ (126,704)	$ 7,238,409
Stockholders' equity:				
Common stock	$ 1,129	$ —	$ —	$ 1,129
Preferred stock	450,000	—	—	450,000
Additional paid-in capital	1,057,783	—	—	1,057,783
Accumulated other comprehensive loss	(52,130)	—	—	(52,130)
Retained earnings	764,056	—	—	764,056
Total National General Holdings Corp. Stockholders' Equity	2,220,838	—	—	2,220,838
Noncontrolling interest	—	(19,967)	—	(19,967)
Total stockholders' equity	$ 2,220,838	$ (19,967)	$ —	$ 2,200,871
Total liabilities and stockholders' equity	$ 8,905,261	$ 660,723	$ (126,704)	$ 9,439,280

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, debt securities and, to a lesser extent, other investments. 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 debt securities include obligations of the U.S. Treasury or U.S. government agencies, obligations of local governments, U.S. denominated corporate obligations, 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.

The average yield on our investment portfolio was 3.1% for both years ended December 31, 2019 and 2018, and the average duration of the portfolio was 4.2 years as of December 31, 2019 and 2018.

For more information related to our investments, see Note 3, "Investments" 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 and 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. 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 debt securities and, to a lesser extent, other investments. 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 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 $340.0 million credit agreement, under which there was $140.0 million outstanding as of December 31, 2019. The proceeds of borrowings under the credit agreement may be used for working capital, acquisitions and general corporate purposes.

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 $403.0 million and $287.9 million as of December 31, 2019 and 2018, respectively, taking into account dividends paid in the prior twelve month periods. During the years ended December 31, 2019, 2018 and 2017, there were $7.0 million, $156.7 million and $339.4 million, respectively, of dividends or return of capital paid by our insurance subsidiaries.

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 $2.8 billion, $2.5 billion and $2.5 billion in the years ended December 31, 2019, 2018 and 2017,

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 $4.0 billion at December 31, 2017 to $4.5 billion at December 31, 2018, and increased to $5.0 billion at December 31, 2019. We do not anticipate selling securities in our investment portfolio to pay claims or to fund operating expenses. Should circumstances arise that would require us to do so, we may incur losses on such sales, which would adversely affect our results of operations and financial condition and could reduce investment income in future periods.

We file a consolidated Federal income tax return and participate in a Federal income tax allocation agreement. Under the tax allocation agreement, each subsidiary computes and pays to the Company its respective share of the federal income tax liability primarily based on separate return calculations. The Reciprocal Exchanges are not a party to the tax allocation agreement and file separate tax returns.

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

	Year Ended December 31,			
	2019	2018	Change	% Change
	(amounts in thousands)			
Net cash provided by operating activities	$ 521,611	$ 598,133	$ (76,522)	(12.8)%
Net cash used in investing activities	(498,251)	(790,774)	292,523	(37.0)%
Net cash (used in) provided by financing activities	(89,361)	73,463	(162,824)	(221.6)%
Effect of exchange rate changes on cash and cash equivalents	(3,119)	(4,723)	1,604	(34.0)%
Net (decrease) increase in cash, cash equivalents, and restricted cash	$ (69,120)	$ (123,901)	$ 54,781	(44.2)%

Comparison of Years Ended December 31, 2019 and 2018

Net cash provided by operating activities decreased by $76.5 million, primarily due to higher claim payments and settlement of reinsurance balances in 2019.

Net cash used in investing activities decreased by $292.5 million, primarily due to increased cash received from sales of investments and sale of a business in 2019 compared to 2018.

Net cash provided by financing activities decreased by $162.8 million, primarily due to cash received from issuance of common and preferred stock in 2018 compared to 2019.

Off-Balance Sheet Arrangements

As of December 31, 2019 we did not have any off-balance sheet arrangements that have or are likely to have a material effect on our financial condition, results of operations, liquidity or capital resources.

Reinsurance

We utilize various excess of loss, quota share, state-based industry pools or facilities, and catastrophe reinsurance programs to limit our exposure. Reinsurance agreements transfer portions of the underlying risk of the business we write. 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 the recoverables are fully collateralized. 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 large loss events.

For more information about our reinsurance agreements, see Note 9 "Reinsurance" in the notes to our consolidated financial statements.

Debt

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, 2019, 2018 and 2017 was $23.6 million, $23.6 million and $23.7 million, respectively.

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, 2019, 2018 and 2017 was $7.6 million, $7.6 million and $7.5 million, respectively.

Subordinated Debentures

We have junior subordinated debentures (the "Subordinated Debentures") relating to the issuance of trust preferred securities. The Subordinated Debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The Subordinated Debentures' principal amounts of $41.2 million and $30.9 million mature in 2035 and 2037, respectively, and bear interest at an annual rate equal to LIBOR plus 3.40% and LIBOR plus 4.25%, respectively. The Subordinated Debentures are redeemable by us at a redemption price equal to 100% of their principal amount. Interest expense on the Subordinated Debentures for the years ended December 31, 2019, 2018 and 2017, was $4.5 million, $4.3 million and $3.8 million, respectively.

Revolving Credit Agreement

On February 25, 2019 we refinanced our existing credit agreement and entered into a new credit agreement (the "2019 Credit Agreement"), with JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and Fifth Third Bank, as Co-Syndication Agents, and the various lending institutions party thereto. The 2019 Credit Agreement is currently a $340.0 million base revolving credit facility with a letter of credit sublimit of $150.0 million and an expansion feature of up to $50.0 million. Borrowings under the 2019 Credit Agreement bear interest at either the Alternate Base Rate ("ABR") or the LIBO rate. ABR borrowings under the 2019 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 LIBO rate for a one-month interest period on such day plus 1 percent. Eurodollar borrowings under the 2019 Credit Agreement will bear interest at the adjusted LIBO rate plus the Eurodollar spread for the interest period in effect. Fees payable by us under the 2019 Credit Agreement include a letter of credit participation fee, 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 0.175% to 0.25% based on our consolidated leverage ratio, which rate was 0.225% as of December 31, 2019). The 2019 Credit Agreement has a maturity date of February 25, 2023. As of December 31, 2019, there was $140.0 million outstanding under the 2019 Credit Agreement.

For more information about our debt, including other outstanding debt, ranking and restrictive covenants, refer to Note 11, "Debt" in the notes to our consolidated financial statements.

Preferred Stock

For information about our preferred stock, refer to Note 15, "Stockholders' Equity" in the notes to our consolidated financial statements.

Contractual Obligations and Commitments

The following table sets forth certain of our contractual obligations as of December 31, 2019:

	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]	$ 2,886,414	$ 1,490,041	$ 788,438	$ 228,816	$ 379,119
Debt and interest[2]	1,131,457	47,153	83,964	546,728	453,612
Operating leases	146,414	28,913	48,344	34,857	34,300
Finance lease obligations	22,930	7,547	9,184	3,438	2,761
Employment agreement obligations	12,639	5,560	5,021	2,058	—
Contributions to partnerships	6,213	2,301	1,530	650	1,732
Total	$ 4,206,067	$ 1,581,515	$ 936,481	$ 816,547	$ 871,524

[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, 2019, 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, 2019 was as follows: $40.8 million - less than 1 year, $81.0 million - 1 - 3 years, $56.7 million - 3 - 5 years and $281.4 million - more than 5 years.

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 debt securities and the financial condition of our reinsurers.

We address the credit risk related to the issuers of our debt securities by investing primarily in debt securities that are rated "BBB-" or higher by Standard & Poor's. We also monitor the financial condition of all issuers of our debt 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 the recoverables are fully collateralized, 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 debt securities with a fair value of $4.5 billion as of December 31, 2019, 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 debt 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 debt securities as of December 31, 2019, 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 debt securities primarily as available for sale. Temporary changes in the fair value of our debt 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 debt securities 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 debt securities and on our stockholders' equity, each as of December 31, 2019.

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	$ 4,101,463	$ (374,895)	(11.3)%
100 basis point increase	4,289,067	(187,291)	(5.7)
No change	4,476,358	—	—
100 basis point decrease	4,663,380	187,022	5.6
200 basis point decrease	4,848,120	371,762	11.2

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. As of December 31, 2019, we held $662.2 million principal amount of debt instruments (excluding finance lease and other liabilities), of which $450.0 million were 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 $2.1 million before income tax, on an annual basis, but would not affect the fair market value of the variable-rate debt.

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, 2019, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to 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 (the "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.

Our assessment of the effectiveness of disclosure controls and procedures excludes the operations and related assets of the National Farmers Union Property and Casualty Company, which closed on July 31, 2019. We are in the process of evaluating internal control over financial reporting for National Farmers Union Property and Casualty Company and, accordingly, have excluded its controls from our evaluation of disclosure controls and procedures. For the year ended December 31, 2019, National Farmers Union Property and Casualty Company's revenues related to operations represented 1.5% of our consolidated total revenues. As of December 31, 2019, the National Farmers Union Property and Casualty Company's assets related to operations represented less than 2.1% of our consolidated total assets.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. 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, 2019, 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.

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 2019 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, 2019, 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, 2019, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of National Farmers Union Property and Casualty Company, which is included in the 2019 consolidated financial statements of the Company and constituted 2.1% of total assets, as of December 31, 2019 and 1.5% of revenues, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of National Farmers Union Property and Casualty Company.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of National General Holdings Corp. as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and the financial statement schedules listed in the Index at Item 15(a), and our report dated February 20, 2020 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 20, 2020

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 April 29, 2020 (the "Proxy Statement") under the captions "Proposal 1: Election of Directors," "Information About our Executive Officers," "Certain Relationships and Related Transactions — Family Relationships," "Corporate Governance — Code of Business Conduct and Ethics," "Corporate Governance — Audit Committee," "Corporate Governance — Board Committees" and "Security Ownership of Management — Delinquent Section 16(a) Reports." The Proxy Statement, or an amendment to this Annual Report on Form 10-K containing the information, will be filed with the SEC before April 29, 2020.

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 — Oversight of Risk Management," "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 April 29, 2020.

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 April 29, 2020.

Equity Compensation Plan Information

The table below shows information regarding awards outstanding and shares of common stock available for issuance as of December 31, 2019, under our equity incentive plans.

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	4,059,218	$ 9.83	2,462,558
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	4,059,218	$ 9.83	2,462,558

[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 18, "Stock-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 April 29, 2020.

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 April 29, 2020.

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 Index

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)
3.6	Certificate of Designations of Fixed/Floating Rate Non-Cumulative Convertible Preferred Stock, Series D (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on July 9, 2018)
4.1	Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934
4.2	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)
4.3	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)
4.4	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)
4.5	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)
4.6	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)
4.7	Form of 6.750% Notes due 2024 (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 May 28, 2014)
4.8	Form of 7.625% Subordinated Notes due 2055 (included as Exhibit A to Exhibit 4.11) (incorporated by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K filed on August 18, 2015)
4.9	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)
4.10	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)
4.11	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)

Exhibit No.	Exhibit Description
4.12	Deposit Agreement, dated March 27, 2015, 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 March 27, 2015)
4.13	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)
4.14	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 March 27, 2015)
4.15	Form of depositary receipt (included as Exhibit A to Exhibit 4.13) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 7, 2016)
10.1*	National General Holdings Corp. 2019 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 6, 2019)
10.2*	Form of Non-Qualified Stock Option Agreement under the NGHC 2019 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 6, 2019)
10.3*	Form of Restricted Share Unit Agreement under the NGHC 2019 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on May 6, 2019)
10.4*	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)
10.5*	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)
10.6*	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)
10.7*	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)
10.8*	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)
10.9*	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)
10.10*	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)
10.11*	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)
10.12*	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)
10.13	Credit Agreement, dated February 25, 2019, among the Company, JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and Fifth Third Bank as Co-Syndication Agents, and Associated Bank, National Association and The Bank of Nova Scotia, as Co-Documentation Agents, and the various lending institutions party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 25, 2019)
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)
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)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

Exhibit No.	Exhibit Description
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.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document (filed herewith)
101.SCH	Inline XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)
104	The Cover Page from the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Inline XBRL contained in Exhibit 101

* 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 20, 2020	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	Chief Executive Officer, Co-Chairman and Director (Principal Executive Officer)	February 20, 2020
/s/ Michael Weiner Michael Weiner	Chief Financial Officer (Principal Financial Officer)	February 20, 2020
/s/ Lawrence J. Moloney Lawrence J. Moloney	Chief Accounting Officer (Principal Accounting Officer)	February 20, 2020
/s/ Robert Karfunkel Robert Karfunkel	President, Co-Chairman and Director	February 20, 2020
/s/ Barry Zyskind Barry Zyskind	Director	February 20, 2020
/s/ Donald DeCarlo Donald DeCarlo	Director	February 20, 2020
/s/ Patrick Fallon Patrick Fallon	Director	February 20, 2020
/s/ Barbara Paris Barbara Paris	Director	February 20, 2020
/s/ John Marshaleck John Marshaleck	Director	February 20, 2020
/s/ John Nichols John Nichols	Director	February 20, 2020

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 sheets of National General Holdings Corp. (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and the financial statement schedules listed in the Index at Item 15(a) (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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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 20, 2020 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 audits. 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 audits 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 audits 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 audits 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 audits provide a reasonable basis for our opinion.

Critical Audit Matter

Valuation of incurred but not reported reserves

Description of the Matter

At December 31, 2019, the Company's unpaid losses and loss adjustment expense reserves were $2,886 million of which a significant portion is incurred but not reported reserves. As explained in Note 8 of the consolidated financial statements, the unpaid loss and loss adjustment expense reserves represent management's estimate of the ultimate liability for claims that have been reported, claims that have been incurred but not reported, and expenses associated with processing and settling claims. Incurred but not reported reserves includes a provision for claims that have occurred but have not yet been reported, as well as a provision for future development on reported claims. There is significant uncertainty inherent in determining management's estimate of the ultimate cost of all claims that have occurred which is used to determine the incurred but not reported reserves. In particular, the estimate is sensitive to the selection and weighting of actuarial methodologies applied to project the ultimate costs and the selection of assumptions such as severity, frequency, payment patterns that are used to determine loss factors and initial expected loss ratios.

Auditing management's estimate of incurred but not reported reserves was complex due to the highly judgmental nature of the significant assumptions used in the valuation of the estimate. The significant judgment was primarily due to the sensitivity of management's estimate to the actuarial methods applied and the assumptions used in the determination of the loss factors and ultimate costs.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's incurred but not reported reserving process. This included, among others, controls over the review and approval processes that management has in place for the methods and assumptions used in estimating the incurred but not reported reserves.

To test the Company's estimate of incurred but not reported reserves, our audit procedures included among others, the assistance of our actuarial specialists to assess the selection and the weighting of actuarial methods used by management with those methods and weightings used in prior periods and those used in the industry. To evaluate the assumptions used in the actuarial methods, we compared the significant assumptions, including severity, frequency, payment patterns and expected loss ratios to factors historically used and current industry benchmarks. We also performed a review of historical results of the development of the loss and loss adjustment expense reserves related to prior years. In addition, we developed a range of reasonable reserve estimates including performing independent projections for a sample of lines of business and compared the range of reserve estimates to the Company's recorded reserves.

/s/ Ernst & Young LLP

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

New York, New York
February 20, 2020

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

	December 31,	
	2019	**2018**
ASSETS		
Investments:		
Debt securities, available-for-sale, at fair value (Exchanges - $324,249 and $297,083)	$ 4,476,358	$ 3,561,032
Equity securities, at fair value	5,257	10,949
Short-term investments (Exchanges - $5,245 and $17,328)	67,353	348,549
Other investments (related parties - $238,841 and $233,723)	306,030	306,276
Total investments	4,854,998	4,226,806
Cash and cash equivalents (Exchanges - $959 and $0)	135,942	193,858
Restricted cash and cash equivalents (Exchanges - $24 and $200)	28,521	39,725
Accrued investment income (related parties - $2,391 and $2,362) (Exchanges - $2,001 and $1,596)	30,927	27,177
Premiums and other receivables, net (Exchanges - $55,859 and $61,327)	1,428,948	1,399,812
Deferred acquisition costs (Exchanges - $23,307 and $20,007)	263,523	251,408
Reinsurance recoverable (related parties - $0 and $7,425) (Exchanges - $119,125 and $117,068)	1,394,308	1,611,738
Prepaid reinsurance premiums (Exchanges - $105,894 and $136,433)	575,747	665,674
Property and equipment, net (Exchanges - $241 and $1,695)	403,827	308,004
Intangible assets, net (Exchanges - $3,225 and $3,405)	365,823	379,937
Goodwill	179,328	180,183
Prepaid and other assets (Exchanges - $3,521 and $4,581)	94,642	154,958
Total assets	$ 9,756,534	$ 9,439,280

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,	
	2019	**2018**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unpaid loss and loss adjustment expense reserves (Exchanges - $205,786 and $178,470)	$ 2,886,414	$ 2,957,159
Unearned premiums and other revenue (Exchanges - $252,553 and $265,763)	2,312,241	2,280,728
Reinsurance payable (Exchanges - $35,689 and $40,393)	562,844	656,265
Accounts payable and accrued expenses (related parties - $639 and $69,874) (Exchanges - $8,497 and $7,720)	315,366	398,058
Debt	686,006	705,795
Other liabilities (Exchanges - $30,803 and $61,640)	376,169	240,404
Total liabilities	$ 7,139,040	$ 7,238,409
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common stock, $0.01 par value - authorized 150,000,000 shares, issued and outstanding 113,368,811 shares - 2019; authorized 150,000,000 shares, issued and outstanding 112,940,595 shares - 2018.	$ 1,134	$ 1,129
Preferred stock, $0.01 par value - authorized 10,000,000 shares, issued and outstanding 2,565,120 shares - 2019; authorized 10,000,000 shares, issued and outstanding 2,565,120 shares - 2018. Aggregate liquidation preference $450,000 - 2019, $450,000 - 2018.	450,000	450,000
Additional paid-in capital	1,065,634	1,057,783
Accumulated other comprehensive income:		
Unrealized foreign currency translation adjustment, net of tax	(202)	(14,461)
Unrealized gains (losses) on investments, net of tax	74,750	(37,669)
Total accumulated other comprehensive income (loss)	74,548	(52,130)
Retained earnings	1,058,138	764,056
Total National General Holdings Corp. Stockholders' Equity	2,649,454	2,220,838
Noncontrolling interest	(31,960)	(19,967)
Total stockholders' equity	$ 2,617,494	$ 2,200,871
Total liabilities and stockholders' equity	$ 9,756,534	$ 9,439,280

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2019	**2018**	**2017**
Revenues:			
Net earned premium	$ 4,118,042	$ 3,732,202	$ 3,654,176
Ceding commission income	238,453	224,697	116,456
Service and fee income	641,965	561,583	502,927
Net investment income	141,233	119,034	101,950
Net gain (loss) on investments	13,473	(29,545)	46,763
Other income (expense)	26,428	—	(198)
Total revenues	5,179,594	4,607,971	4,422,074
Expenses:			
Loss and loss adjustment expense	2,854,468	2,662,226	2,626,082
Acquisition costs and other underwriting expenses	827,367	735,266	672,429
General and administrative expenses	1,041,772	938,046	912,996
Interest expense	51,544	51,425	47,086
Total expenses	4,775,151	4,386,963	4,258,593
Income before provision for income taxes	404,443	221,008	163,481
Provision for income taxes	77,013	53,484	61,273
Net income	327,430	167,524	102,208
Net loss attributable to noncontrolling interest	20,639	39,830	3,637
Net income attributable to NGHC	348,069	207,354	105,845
Dividends on preferred stock	(33,600)	(32,492)	(31,500)
Net income attributable to NGHC common stockholders	$ 314,469	$ 174,862	$ 74,345
Earnings per common share ("EPS"):			
Basic EPS	$ 2.78	$ 1.62	$ 0.70
Diluted EPS	$ 2.73	$ 1.59	$ 0.68

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2019	**2018**	**2017**
Net income	$ 327,430	$ 167,524	$ 102,208
Other comprehensive income:			
Foreign currency translation adjustment	18,055	(8,425)	(6,317)
Income tax effect	(3,796)	1,774	827
Total foreign currency translation adjustment, net of tax	14,259	(6,651)	(5,490)
Gross unrealized gain (loss) on investments before reclassifications	172,968	(71,936)	41,477
Income tax effect	(36,323)	15,107	(8,710)
Total change in net unrealized gain (loss) on investments, net of tax	136,645	(56,829)	32,767
Reclassification adjustments for investments gain/loss to net income:			
Net realized (gain) loss on investments	(19,721)	18,270	(63,298)
Other-than-temporary impairment loss	—	—	25
Income tax effect	4,141	(3,837)	13,288
Total (gain) loss on investments reclassifications to net income, net of tax	(15,580)	14,433	(49,985)
Other comprehensive income (loss) before income tax effect	171,302	(62,091)	(28,113)
Income tax effect	(35,978)	13,044	5,405
Other comprehensive income (loss), net of tax	135,324	(49,047)	(22,708)
Comprehensive income	462,754	118,477	79,500
Comprehensive loss attributable to noncontrolling interest	11,993	44,823	6,758
Comprehensive income attributable to NGHC	$ 474,747	$ 163,300	$ 86,258

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, 2019, 2018 and 2017

	Common Stock		Preferred Stock						
	Shares	$	Shares	$	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Total
Balance January 1, 2017	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 AOCI 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 noncontrolling interest	—	—	—	—	(3,843)	—	—	(243)	(4,086)
Common stock dividends declared	—	—	—	—	—	—	(17,034)	—	(17,034)
Preferred stock dividends declared	—	—	—	—	—	—	(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)
Stock-based compensation	—	—	—	—	8,324	—	—	—	8,324
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
Cumulative-effect adjustment of change in accounting principles	—	—	—	—	—	36	8,794	—	8,830
Net income (loss)	—	—	—	—	—	—	207,354	(39,830)	167,524
Foreign currency translation adjustment, net of tax	—	—	—	—	—	(6,651)	—	—	(6,651)
Change in unrealized loss on investments, net of tax	—	—	—	—	—	(37,403)	—	(4,993)	(42,396)
Issuance of common stock	5,750,000	58	—	—	132,172	—	—	—	132,230
Issuance of preferred stock	—	—	120	30,000	(110)	—	—	—	29,890
Common stock dividends declared	—	—	—	—	—	—	(17,463)	—	(17,463)
Preferred stock dividends declared	—	—	—	—	—	—	(32,492)	—	(32,492)
Common stock issued under employee stock plans and exercises of stock options	618,147	4	—	—	1,974	—	—	—	1,978
Shares withheld related to net share settlement	(125,200)	—	—	—	(3,024)	—	—	—	(3,024)
Stock-based compensation	—	—	—	—	9,020	—	—	—	9,020
Balance December 31, 2018	112,940,595	$ 1,129	2,565,120	$ 450,000	$ 1,057,783	$ (52,130)	$ 764,056	$ (19,967)	$2,200,871

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, 2019, 2018 and 2017

	Common Stock		Preferred Stock						
	Shares	$	Shares	$	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Total
Balance January 1, 2019	112,940,595	$ 1,129	2,565,120	$ 450,000	$ 1,057,783	$ (52,130)	$ 764,056	$ (19,967)	$2,200,871
Net income (loss)	—	—	—	—	—	—	348,069	(20,639)	327,430
Foreign currency translation adjustment, net of tax	—	—	—	—	—	14,259	—	—	14,259
Change in unrealized loss on investments, net of tax	—	—	—	—	—	112,419	—	8,646	121,065
Common stock dividends declared	—	—	—	—	—	—	(20,387)	—	(20,387)
Preferred stock dividends declared	—	—	—	—	—	—	(33,600)	—	(33,600)
Common stock issued under employee stock plans and exercises of stock options	578,201	5	—	—	589	—	—	—	594
Shares withheld related to net share settlement	(149,985)	—	—	—	(3,734)	—	—	—	(3,734)
Stock-based compensation	—	—	—	—	10,996	—	—	—	10,996
Balance December 31, 2019	113,368,811	$ 1,134	2,565,120	$ 450,000	$ 1,065,634	$ 74,548	$1,058,138	$ (31,960)	$2,617,494

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	$ 327,430	$ 167,524	$ 102,208
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Net (gain) loss on investments and gain on sale of a business	(39,901)	29,545	(46,763)
Bad debt expense	88,247	74,214	63,819
Depreciation, amortization and goodwill impairment	96,279	86,346	103,303
Stock-based compensation expense	10,996	9,020	8,324
Other, net	3,644	11,685	30,220
Changes in assets and liabilities:			
Accrued investment income	(5,553)	(7,568)	5,129
Premiums and other receivables	(112,627)	(168,445)	(276,557)
Deferred acquisition costs	(15,055)	(38,713)	4,751
Reinsurance recoverable	194,648	(318,344)	(347,848)
Prepaid reinsurance premiums	93,257	(148,552)	(360,152)
Prepaid expenses and other assets	58,086	(17,785)	(17,543)
Unpaid loss and loss adjustment expense reserves	(62,965)	302,730	382,299
Unearned premiums and other revenue	(21,474)	265,102	328,753
Reinsurance payable	(42,355)	259,699	298,925
Accounts payable and accrued expenses	(7,983)	98,276	(82,188)
Other liabilities	(43,063)	(6,601)	120,621
Net cash provided by operating activities	521,611	598,133	317,301
Cash flows from investing activities:			
Purchases of:			
Debt securities	(2,140,359)	(1,802,668)	(2,144,879)
Equity securities	—	(1,297)	(33,374)
Short-term investments	(2,773,361)	(2,919,422)	(5,728,031)
Other investments	(5,848)	(37,722)	(59,384)
Property and equipment	(91,664)	(102,390)	(95,668)
Proceeds from:			
Sale of debt securities, available-for-sale	974,474	1,010,339	2,078,119
Maturity of debt securities, available-for-sale	347,948	314,685	27,805
Sale of equity securities	1,700	28,384	22,207
Sale of short-term investments	3,066,577	2,610,788	5,707,331
Sale and return of other investments	15,033	121,982	73,778
Sale of a business, net of cash and cash equivalents sold	92,290	—	—
Other investing activities, net	14,959	(13,453)	(19,376)
Net cash used in investing activities	$ (498,251)	$ (790,774)	$ (171,472)

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2019	**2018**	**2017**
Cash flows from financing activities:			
Proceeds from debt	$ —	$ —	$ 140,000
Payments of debt issuance costs	(1,134)	—	—
Repayments of debt, principal payments under capital leases obligations and purchase of noncontrolling interests	(32,306)	(39,000)	(172,839)
Issuance of common stock, net (fees $0 - 2019, $5,770 - 2018, and $0 - 2017)	—	132,230	—
Issuance of preferred stock, net (fees $0 - 2019, $110 - 2018, and $0 - 2017)	—	29,890	—
Issuance of common stock — employee share options	594	1,978	1,259
Taxes paid related to net share settlement of equity awards	(3,734)	(3,024)	(1,773)
Dividends paid to common shareholders	(19,239)	(17,111)	(17,050)
Dividends paid to preferred shareholders	(33,542)	(31,500)	(31,500)
Net cash (used in) provided by financing activities	(89,361)	73,463	(81,903)
Effect of exchange rate changes on cash and cash equivalents	(3,119)	(4,723)	7,658
Net (decrease) increase in cash, cash equivalents, and restricted cash	(69,120)	(123,901)	71,584
Cash, cash equivalents, and restricted cash at beginning of the year	233,583	357,484	285,900
Cash, cash equivalents, and restricted cash at end of the year	$ 164,463	$ 233,583	$ 357,484
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	$ 38,723	$ 26,763	$ 20,800
Cash paid for interest	42,159	44,884	49,498
Supplemental disclosures of non-cash financing activities:			
Accrued common stock dividends	5,669	4,518	4,268
Accrued preferred stock dividends	8,925	8,867	7,875

See accompanying notes to consolidated financial statements.

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, direct-response marketing programs and retail storefronts. The Company is licensed to operate throughout the fifty states and the District of Columbia.

2. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and variable interest entities ("VIEs") of which the Company is the primary beneficiary. All significant intercompany transactions and accounts have been eliminated in consolidation.

As of December 31, 2018, the Company reclassified finance lease liabilities in the amount of $30,346 from "Other liabilities" to "Debt" on the consolidated balance sheets to conform to the current-year presentation.

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 recoverable, 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 stock-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.

Significant Accounting Policies

Premiums and Other Receivables

The Company recognizes earned premium 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.

Cash and Cash Equivalents

The Company's cash and cash equivalents include cash on hand, money market instruments and other debt instruments with a maturity of 90 days or less when purchased. Certain securities with original maturities of 90 days or less that are held as a portion of fixed maturity 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.

Short-term Investments

Short-term investments include commercial paper, U.S. Treasury bills and money market funds with maturities between 91 days and less than one year at the date of acquisition.

Deferred Acquisition Costs

Deferred acquisition costs include commissions, premium taxes, payments to affinity partners, and other direct sales costs that are directly related to successful 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. Anticipated investment income is considered in determining the recoverability of these costs. Management believes that these costs are recoverable.

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 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 Expense

Loss and loss adjustment expense (“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 are included in the period in which adjustments are determined.

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 noncontrolling 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 of 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 (net loss reserve discount) or another liability (net loss reserve plus a risk premium), as applicable and is amortized proportionately to the reduction in the related loss reserves (e.g., over the estimated payout period of the acquired loss and LAE reserves). The Company assigns fair values to intangible assets acquired based on valuation techniques including the income and market approaches. The Company records contingent consideration at fair value based on the terms of the purchase agreement with subsequent changes in fair value recorded through earnings. The 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. 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 the 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 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.

Intangible assets that have finite lives, including but not limited to, agent and customer relationships and trademarks, are amortized over the estimated useful life of the asset. For intangible assets with finite lives, impairment is recognized if the carrying amount is not recoverable and exceeds the fair value of the intangible asset. Generally intangible assets with finite lives are only tested for impairment if there are indicators of impairment ("triggers") identified. Triggers include, but are not limited to, a significant adverse change in the extent, manner or length of time in which the intangible asset is being used or a significant adverse change in legal factors or in the business climate that could affect the value of the other intangible asset.

Investments

The Company accounts for its investments in accordance with ASC 320, "Investments - Debt Securities," and certain equity investments with ASC 321, "Investments - Equity Securities." In accordance with ASC 320, the Company has classified its debt securities as available for sale measured at fair value with unrealized gains and losses reported as a separate component of comprehensive income. Equity investments (except those accounted for under the equity method, and those that result in consolidation of the investee and certain other investments) are measured at fair value with all gains and losses reported in net income in accordance with ASC 321. The Company may sell its available-for-sale and equity securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors. Available-for-sale and equity securities are reported at their estimated fair values based on quoted market prices or recognized pricing services.

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 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 Company uses a set of quantitative and qualitative criteria to review the 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 Company 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, 2019 and 2018, the Company had the following major types of investments:

(i) Debt securities are classified as available-for-sale and are carried at fair value. Unrealized gains or losses on available-for-sale securities are reported as a component of accumulated other comprehensive income.
(ii) Mortgage and structured securities are carried at fair value. 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 debt securities, available-for-sale in the consolidated balance sheets.
(iii) Equity securities consisted of common stock carried at fair value. Gains or losses on equity securities are reported within net gain (loss) on investments.
(iv) 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. Income from short-term investments is reported within net investment income.
(v) Other investments consisted of equity method investments, in which the company has the power to influence the operating or financial decisions but does not require consolidation; notes receivable; long-term certificates of deposits; and other instruments carried at fair value and at cost or amortized cost. Income from other investments is reported within net investment income.

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 debt securities 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.

Equity Method Investments

The Company uses the equity method of accounting for investments in which its ownership interest enables the Company to influence operating or financial decisions of the investee, 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.

Stock Compensation Expense

The Company recognizes stock-based compensation expense 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 recognized on a straight-line basis 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 over a service period of three or four years.

Earnings Per Share

Basic earnings per share are computed by dividing income available to common stockholders by the number of weighted average common shares outstanding. Dilutive earnings per share are computed by dividing income available to common stockholders, adjusted for the effects of the presumed issuance of potential common shares, by the number of weighted average common shares outstanding, plus potentially issuable shares, such as options, unvested stock-based payment awards and convertible securities.

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 a Federal income tax allocation agreement. Under the tax allocation agreement, 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 agreement 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 debt securities. 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 for tax positions that are more likely than not to be sustained upon examination by taxing authorities. The Company's policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision.

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 to the extent the ceding commission exceeds acquisition costs. Reinsurance recoverable is reported based on the portion of reserves and paid losses and LAE that are ceded to other companies. If the Company determines that a reinsurance contract does not transfer sufficient risk, it accounts for the contract under deposit accounting.

Property and Equipment

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

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.

Variable Interest Entities

A VIE is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity. The Company's consolidation principles require the inclusion of VIEs in which the Company is deemed the primary beneficiary. The primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect that entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

The consolidated financial statements 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, the "Reciprocal Exchanges" or "Exchanges"), VIEs of which the Company is the primary beneficiary. The Company does not own the Reciprocal Exchanges but is paid a fee to manage them.

The Company consolidates the Reciprocal Exchanges as it has determined that these are VIEs of which 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 Company receives a management fee for the services provided to the Reciprocal Exchanges. The Reciprocal Exchanges are insurance carriers organized as unincorporated associations. 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 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 results of operations of the Reciprocal Exchanges and the management companies are included in the Company's Property and Casualty ("P&C") segment.

Noncontrolling Interest

Non-redeemable noncontrolling interest is the portion of equity (net assets) not attributable, directly or indirectly, to a parent. The Company has no ownership interest in the Reciprocal Exchanges. Therefore, the difference between the value of their assets and liabilities represent the value of the noncontrolling interest.

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, 2019 and 2018, 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 9, "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 Remeasurement and Translation

Financial statement accounts in currencies other than an operation's functional currency are remeasured into the functional currency and the resulting foreign exchange gains and losses are reflected in Net gains (losses) on investments. Functional currency assets and liabilities expressed in foreign currencies are translated into U.S. dollars using period end exchange rates. The related translation adjustments are recorded as a separate component of Accumulated Other Comprehensive Income ("AOCI"), net of any related taxes. Income statement amounts expressed in functional currencies are translated using average exchange rates.

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 time when the policy is sold. The allowance for estimated third-party cancellations is periodically evaluated and adjusted as necessary.

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 in these administrative activities. Group health administrative fees are recognized pro-rata over the term of the administrative contract with the employer, which generally covers twelve months.

Accounting Standards

Recent Accounting Standards, Adopted

Standard	Description	Date of Adoption	Effect on the Company
ASU 2016-02, Leases (Topic 842) and related amendments.	This standard was issued 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 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.	January 1, 2019	The Company adopted the standard as of the beginning of the year of adoption using the modified retrospective transition approach and did not adjust prior comparative periods. On January 1, 2019, the Company recorded the recognition of the ROU asset and lease liability net of deferred rent, inducement costs and deferred tax impact of $85,000, in both assets and liabilities on its consolidated balance sheets. The adoption of the standard did not have a material effect on the Company's results of operations and had no impact on cash flows. See Note 12, "Leases" for additional information.

Recent Accounting Standards, Not Yet Adopted

Standard	Description	Effective Date	Effect on the Company
ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and related amendments.	This standard significantly changes the impairment model for most financial assets and certain other instruments. ASU 2016-13 requires 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 FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, which clarifies that receivables arising from operating leases are not within the scope of Topic 326 and impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases. The FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, which clarifies that an entity should include recoveries when estimating the allowance for credit losses. The FASB issued ASU 2019-05, Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief, which eases transition to the credit losses standard by providing the option to measure certain types of assets at fair value. The standard requires using a modified retrospective approach, recognizing a cumulative-effect adjustment as of the beginning of the first reporting period in which the standard is effective.	January 1, 2020	The Company estimates that the credit allowance to be a reduction in opening retained earnings of less than $10,000, pre-tax, driven by premiums receivable and reinsurance recoverable as of the adoption date. Upon adoption, the standard did not have a material impact in the Company's other financial assets and certain other instruments.
ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.	This standard establishes 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.	January 1, 2020	The adoption of the standard did not have a material impact on the Company's consolidated financial statements.
ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.	This standard simplifies the accounting for income taxes by eliminating some exceptions to the general approach in Accounting Standards Codification ("ASC") 740, Income Taxes. It also clarifies certain aspects of the existing guidance to promote more consistent application, among other things.	January 1, 2021	The Company is currently evaluating the impact this guidance will have on its consolidated financial condition, results of operations, cash flows and disclosures.
ASU 2018-12, Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts and related amendments.	This standard makes targeted improvements to the existing recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. The standard is intended to: (i) improve the timeliness of recognizing changes in the liability for future policy benefits and modify the rate used to discount future cash flows, (ii) simplify and improve the accounting for certain market-based options or guarantees associated with deposit or account balance contracts, (iii) simplify the amortization of deferred acquisition costs and (iv) improve the effectiveness of the required disclosures.	January 1, 2022	The Company is currently evaluating the impact this guidance will have on its consolidated financial condition, results of operations, cash flows and disclosures.

3. Investments

(a) Available-For-Sale Debt Securities

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

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$ 65,037	$ 1,992	$ (23)	$ 67,006
Federal agencies	3,907	8	—	3,915
States and political subdivision bonds	298,345	4,778	(1,441)	301,682
Foreign government	1,762	40	—	1,802
Corporate bonds	1,859,736	59,184	(2,357)	1,916,563
Residential mortgage-backed securities	1,265,830	15,747	(4,117)	1,277,460
Commercial mortgage-backed securities	585,044	27,261	(112)	612,193
Asset-backed securities	74,465	1,194	(48)	75,611
Structured securities	222,565	226	(2,665)	220,126
Total	$ 4,376,691	$ 110,430	$ (10,763)	$ 4,476,358
NGHC	$ 4,057,501	$ 104,951	$ (10,343)	$ 4,152,109
Reciprocal Exchanges	319,190	5,479	(420)	324,249
Total	$ 4,376,691	$ 110,430	$ (10,763)	$ 4,476,358

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	$ 64,829	$ 1,026	$ (262)	$ 65,593
Federal agencies	37,842	22	(389)	37,475
States and political subdivision bonds	274,367	1,369	(3,539)	272,197
Foreign government	151,443	993	(70)	152,366
Corporate bonds	1,283,061	3,094	(25,450)	1,260,705
Residential mortgage-backed securities	944,365	716	(19,965)	925,116
Commercial mortgage-backed securities	548,192	3,757	(6,974)	544,975
Asset-backed securities	60,563	705	(121)	61,147
Structured securities	249,947	99	(8,588)	241,458
Total	$ 3,614,609	$ 11,781	$ (65,358)	$ 3,561,032
NGHC	$ 3,311,639	$ 11,206	$ (58,896)	$ 3,263,949
Reciprocal Exchanges	302,970	575	(6,462)	297,083
Total	$ 3,614,609	$ 11,781	$ (65,358)	$ 3,561,032

As of December 31, 2019 and 2018, the Company had no OTTI in AOCI related to available-for-sale debt securities.

The amortized cost and fair value of available-for-sale debt securities held as of December 31, 2019, by contractual maturity, are shown in the table below. Actual maturities may differ from contractual maturities because some borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	NGHC		Reciprocal Exchanges		Total	
December 31, 2019	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 61,536	$ 61,749	$ 110	$ 110	$ 61,646	$ 61,859
Due after one year through five years	879,910	904,718	115,566	117,815	995,476	1,022,533
Due after five years through ten years	1,043,657	1,072,865	92,236	93,239	1,135,893	1,166,104
Due after ten years	241,110	243,216	17,227	17,382	258,337	260,598
Mortgage-backed securities	1,831,288	1,869,561	94,051	95,703	1,925,339	1,965,264
Total	$ 4,057,501	$ 4,152,109	$ 319,190	$ 324,249	$ 4,376,691	$ 4,476,358

(b) Gross Unrealized Losses

The tables below summarize the gross unrealized losses on debt securities classified as available for sale, by length of time the security has continuously been in an unrealized loss position.

	Less Than 12 Months		12 Months or More		Total	
December 31, 2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	$ 19,903	$ (23)	$ 500	$ —	$ 20,403	$ (23)
States and political subdivision bonds	106,103	(1,415)	2,580	(26)	108,683	(1,441)
Corporate bonds	586,817	(2,253)	5,976	(104)	592,793	(2,357)
Residential mortgage-backed securities	410,484	(4,074)	3,983	(43)	414,467	(4,117)
Commercial mortgage-backed securities	18,250	(105)	748	(7)	18,998	(112)
Asset-backed securities	5,406	(29)	920	(19)	6,326	(48)
Structured securities	40,979	(94)	109,880	(2,571)	150,859	(2,665)
Total	$ 1,187,942	$ (7,993)	$ 124,587	$ (2,770)	$ 1,312,529	$ (10,763)
NGHC	$ 1,104,244	$ (7,654)	$ 117,681	$ (2,689)	$ 1,221,925	$ (10,343)
Reciprocal Exchanges	83,698	(339)	6,906	(81)	90,604	(420)
Total	$ 1,187,942	$ (7,993)	$ 124,587	$ (2,770)	$ 1,312,529	$ (10,763)

	Less Than 12 Months		12 Months or More		Total	
December 31, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	$ 474	$ (2)	$ 21,540	$ (260)	$ 22,014	$ (262)
Federal agencies	23,729	(351)	1,493	(38)	25,222	(389)
States and political subdivision bonds	57,090	(902)	119,759	(2,637)	176,849	(3,539)
Foreign government	45,748	(70)	—	—	45,748	(70)
Corporate bonds	586,359	(12,891)	321,115	(12,559)	907,474	(25,450)
Residential mortgage-backed securities	234,396	(1,637)	551,623	(18,328)	786,019	(19,965)
Commercial mortgage-backed securities	13,229	(239)	148,700	(6,735)	161,929	(6,974)
Asset-backed securities	25,978	(78)	1,494	(43)	27,472	(121)
Structured securities	222,154	(8,136)	6,167	(452)	228,321	(8,588)
Total	$ 1,209,157	$ (24,306)	$ 1,171,891	$ (41,052)	$ 2,381,048	$ (65,358)
NGHC	$ 1,115,823	$ (22,668)	$ 1,018,975	$ (36,228)	$ 2,134,798	$ (58,896)
Reciprocal Exchanges	93,334	(1,638)	152,916	(4,824)	246,250	(6,462)
Total	$ 1,209,157	$ (24,306)	$ 1,171,891	$ (41,052)	$ 2,381,048	$ (65,358)

The Company's debt securities portfolio is sensitive to interest rate fluctuations, which impact the fair value of individual securities. Unrealized losses on debt securities reported above were primarily caused by the effects of the interest rate environment. Therefore, the Company does not believe the unrealized losses represent an OTTI as of December 31, 2019 and 2018.

There were 1,337 and 1,662 individual security lots at December 31, 2019 and 2018, respectively, that accounted for the gross unrealized loss, none of which are deemed by the Company to be other-than-temporary impairments. As of December 31, 2019 and 2018, of the $2,770 and $41,052, respectively, of unrealized losses in unrealized loss positions for a period of twelve or more consecutive months, none of those securities were greater than or equal to 25% of its amortized cost.

Factors influencing management's determination that none of these securities were OTTI included the length of time and/or magnitude of unrealized losses in relation to cost, the nature of the investment, the current financial condition of the issuer and its future prospects, the ability to recover to cost in the near term, and management's intent not to sell these securities and it being more likely than not that the Company will not be required to sell these investments before anticipated recovery of fair value to the Company's cost basis. The Company regularly monitors its investments that have fair values less than cost or amortized cost for indicators of OTTI, an assessment that requires management judgment regarding the evidence known. Such judgments could change in the future as more information becomes known, which could negatively impact the amounts reported.

Among the factors that management considers for debt securities are the financial condition of the issuer including receipt of scheduled principal and interest cash flows, and intent to sell, including if it is more likely than not that the Company will be required to sell the investments before recovery. When a debt security has been determined to have an other-than-temporary impairment and the Company does not have the intention to sell, the impairment charge is separated into an amount representing the credit loss, which is recognized in earnings as a realized loss, and the amount related to non-credit factors, which is recognized in AOCI. Future increases or decreases in fair value, if not other-than-temporary, are included in AOCI. For the years ended December 31, 2019, 2018 and 2017, the Company did not recognize any impairment charges due to non-credit factors.

The Company considers different factors to determine the amount of projected future cash flows and discounting methods for corporate bonds and residential and commercial mortgage-backed or structured securities. For corporate bond securities, the split between the credit and non-credit losses is driven by assumptions regarding the amount and timing of projected future cash flows. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the security at the date of acquisition. For residential and commercial mortgage-backed and structured securities, cash flow estimates, including prepayment assumptions, are based on data from third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral including default rates, recoveries and changes in value. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment at the balance sheet date. The discounted cash flows become the new amortized cost basis of the debt security.

(c) Equity Securities

The fair values of equity securities were as follows:

	December 31,	
	2019	2018
Common stock	$ 5,257	$ 10,949
Total	$ 5,257	$ 10,949
NGHC	$ 5,257	$ 10,949
Reciprocal Exchanges	—	—
Total	$ 5,257	$ 10,949

(d) Net Investment Income

The components of net investment income consisted of the following:

	Year Ended December 31,		
	2019	2018	2017
Cash and short-term investments	$ 4,075	$ 1,659	$ 1,506
Debt securities	124,379	107,077	106,002
Equity securities	6	665	345
Other, net [1]	17,347	13,932	2,289
Investment income	145,807	123,333	110,142
Investment expenses	(4,574)	(4,299)	(8,192)
Net investment income	$ 141,233	$ 119,034	$ 101,950
NGHC	$ 132,595	$ 110,159	$ 92,625
Reciprocal Exchanges	8,638	8,875	9,325
Net investment income	$ 141,233	$ 119,034	$ 101,950

[1] Includes $7,718, $4,876, and $(4,141), income (expense) from related parties, for the years ended December 31, 2019, 2018 and 2017, respectively.

(e) Net Gain (Loss) on Investments

The table below indicates realized gains and losses on investments. Purchases and sales of investments are recorded on a trade date basis. Realized gains and losses are determined based on the specific identification method.

	Year Ended December 31,		
	2019	2018	2017
Debt securities, available-for-sale:			
Gross gains	$ 19,870	$ 4,590	$ 58,405
Gross losses	(3,457)	(22,860)	(3,754)
Net gain (loss) on debt securities, available-for-sale	16,413	(18,270)	54,651
Equity securities	(3,992)	(12,305)	(9,562)
OTTI on investments	—	(3,000)	(25)
Other, net	1,052	4,030	1,699
Net gain (loss) on investments	$ 13,473	$ (29,545)	$ 46,763
NGHC	$ 13,603	$ (26,179)	$ 40,640
Reciprocal Exchanges	(130)	(3,366)	6,123
Net gain (loss) on investments	$ 13,473	$ (29,545)	$ 46,763

Net gains and losses recognized during the reporting period on equity securities and debt securities classified as trading still held at the reporting date were as follows:

	Year Ended December 31,		
	2019	2018	2017
	Equity Securities	Equity Securities	Equity Securities and Debt Securities
Net losses recognized during the year	$ (3,992)	$ (12,305)	$ (20,096)
Less: Net losses recognized during the year on securities sold during the year	—	(864)	(11,851)
Net losses recognized during the reporting period on securities still held at the reporting date	$ (3,992)	$ (11,441)	$ (8,245)

(f) Credit Quality of Investments

The tables below summarize the credit quality of debt securities, as rated by Standard & Poor's ("S&P"). If a security is not rated by S&P, an S&P equivalent is determined based on ratings from similar rating agencies. Securities that are not rated are included in the "BB+ and lower" category.

	NGHC			Reciprocal Exchanges		
December 31, 2019	Amortized Cost	Fair Value	Percentage	Amortized Cost	Fair Value	Percentage
U.S. Treasury	$ 52,108	$ 53,599	1.3%	$ 12,929	$ 13,407	4.1%
AAA	515,869	537,508	12.9%	20,947	21,555	6.6%
AA, AA+, AA-	1,677,787	1,697,220	40.9%	120,113	121,720	37.5%
A, A+, A-	954,312	976,468	23.5%	116,747	119,041	36.7%
BBB, BBB+, BBB-	795,594	823,239	19.8%	48,021	48,093	14.8%
BB+ and lower	61,831	64,075	1.6%	433	433	0.3%
Total	$ 4,057,501	$ 4,152,109	100.0%	$ 319,190	$ 324,249	100.0%

	NGHC			Reciprocal Exchanges		
December 31, 2018	Amortized Cost	Fair Value	Percentage	Amortized Cost	Fair Value	Percentage
U.S. Treasury	$ 52,122	$ 52,759	1.6%	$ 12,707	$ 12,834	4.3%
AAA	586,639	589,078	18.0%	18,335	18,109	6.1%
AA, AA+, AA-	1,385,709	1,358,528	41.6%	142,525	140,114	47.2%
A, A+, A-	591,219	581,106	17.8%	118,535	115,618	38.9%
BBB, BBB+, BBB-	653,645	641,554	19.7%	10,834	10,374	3.5%
BB+ and lower	42,305	40,924	1.3%	34	34	—%
Total	$ 3,311,639	$ 3,263,949	100.0%	$ 302,970	$ 297,083	100.0%

The tables below summarize the investment quality of the corporate bond holdings and industry concentrations.

December 31, 2019	AAA	AA+, AA, AA-	A+,A,A-	BBB+, BBB, BBB-	BB+ or Lower	Fair Value	% of Corporate Bonds Portfolio
Financial Institutions	—%	3.6%	25.0%	12.1%	0.3%	$ 785,910	41.0%
Industrials	0.7%	2.7%	24.1%	29.0%	0.1%	1,083,959	56.6%
Utilities/Other	—%	—%	1.0%	1.4%	—%	46,694	2.4%
Total	0.7%	6.3%	50.1%	42.5%	0.4%	$ 1,916,563	100.0%
NGHC	0.3%	5.1%	44.0%	40.0%	0.4%	$ 1,720,962	89.8%
Reciprocal Exchanges	0.4%	1.2%	6.1%	2.5%	—%	195,601	10.2%
Total	0.7%	6.3%	50.1%	42.5%	0.4%	$ 1,916,563	100.0%

December 31, 2018	AAA	AA+, AA, AA-	A+,A,A-	BBB+, BBB, BBB-	BB+ or Lower	Fair Value	% of Corporate Bonds Portfolio
Financial Institutions	—%	4.3%	23.1%	14.2%	0.9%	$ 535,373	42.5%
Industrials	0.4%	6.1%	21.5%	26.7%	0.6%	697,324	55.3%
Utilities/Other	—%	—%	1.8%	0.4%	—%	28,008	2.2%
Total	0.4%	10.4%	46.4%	41.3%	1.5%	$ 1,260,705	100.0%
NGHC	—%	6.3%	37.3%	40.6%	1.4%	$ 1,079,099	85.6%
Reciprocal Exchanges	0.4%	4.1%	9.1%	0.7%	0.1%	181,606	14.4%
Total	0.4%	10.4%	46.4%	41.3%	1.5%	$ 1,260,705	100.0%

(g) Cash and Cash Equivalents, Restricted Cash and Restricted Investments

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

Cash, cash equivalents, and restricted cash are as follows:

	December 31,	
	2019	2018
Cash and cash equivalents	$ 135,942	$ 193,858
Restricted cash and cash equivalents	28,521	39,725
Total cash, cash equivalents and restricted cash	$ 164,463	$ 233,583

Restricted investments are as follows:

	December 31,	
	2019	2018
Securities on deposit with state regulatory authorities	$ 74,061	$ 73,119
Restricted investments to trusts in certain reinsurance transactions	49,502	70,470
Total restricted investments	$ 123,563	$ 143,589

(h) Other Investments

The table below summarizes the composition of other investments:

	December 31,	
	2019	2018
Equity method investments (related parties - $109,612 and $106,031)	$ 143,511	$ 142,921
Notes receivable (related parties - $129,229 and $127,692) [(1)]	129,299	128,893
Long-term Certificates of Deposit (CDs), at cost	20,150	20,252
Investments, at fair value	4,108	6,542
Investments, at cost or amortized cost	8,962	7,668
Total	$ 306,030	$ 306,276

(1) See Note 13, “Related Party Transactions” for additional information.

Equity method investments represent limited liability companies and limited partnership investments in real estate. Investments at fair value primarily represent the Company’s right to receive the excess servicing spread related to servicing rights, for which the Company has elected the fair value option with changes in fair value recorded in earnings. Investments at cost or amortized cost, represent limited partnerships, loans and trusts. The Company believes its exposure to risk associated with these investments is generally limited to the investment carrying amounts.

The Company’s other investments are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment might not be recoverable. During the years ended December 31, 2019, 2018 and 2017, the Company recorded OTTI on other investments of $0, $3,000 and $0, respectively.

Equity Method Investments - Related Parties

The significant shareholder of the Company has an ownership interest in AmTrust Financial Services, Inc. (“AmTrust”) and ACP Re Ltd. (“ACP Re”).

Limited Liability Companies and Limited Partnerships

The following entities are VIEs, for which the Company is not the primary beneficiary. The Company accounts for these entities using the equity method of accounting. The Company believes its exposure to risk associated with these investments is generally limited to the investment carrying amounts.

LSC Entity

The Company has a 50% ownership interest in an entity (the “LSC Entity”) initially formed to acquire life settlement contracts, with AmTrust owning the remaining 50%. The LSC Entity 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. The LSC Entity has a 30% noncontrolling equity interest in a limited partnership managed by a third party. As of December 31, 2019, the LSC Entity directly held one life settlement contract. The life settlement contract is accounted for using the fair value method.

The following table presents the Company's 50% investment activity in the LSC Entity:

	Year Ended December 31,		
	2019	2018	2017
Balance, beginning of the year	$ 48,324	$ 160,683	$ 185,992
Distributions	(2,500)	(118,635)	(45,127)
Contributions	258	2,000	21,040
Equity in earnings (losses)	3,395	4,276	(1,222)
Change in equity method investments	1,153	(112,359)	(25,309)
Balance, end of the year	$ 49,477	$ 48,324	$ 160,683

800 Superior, LLC

The Company holds an investment in 800 Superior, LLC, a limited liability company that owns an office building in Cleveland, Ohio, with AmTrust. AmTrust has been appointed managing member of 800 Superior, LLC. The Company and AmTrust each have a 50% ownership interest in 800 Superior, LLC. Previously, the Company and AmTrust each also had a 50% ownership interest in East Ninth & Superior, LLC and a 24.5% ownership interest in 800 Superior NMTC Investment Fund II, LLC. During the third quarter of 2019, the net assets of East Ninth & Superior, LLC were combined with 800 Superior, LLC and East Ninth & Superior, LLC and 800 Superior NMTC Investment Fund II, LLC were dissolved.

The Company's equity interest in 800 Superior, LLC as of December 31, 2019 and 2018 was $9,365 and $5,125, respectively. For the years ended December 31, 2019, 2018 and 2017, the Company recorded equity in earnings (losses) from 800 Superior, LLC of $1,953, $(531) and $(12), respectively, and made contributions of $2,287, $0 and $0, respectively. Additionally, the Company has a lease agreement with 800 Superior, LLC. The Company paid 800 Superior, LLC $2,967, $2,889 and $2,812 in rent for the years ended December 31, 2019, 2018 and 2017, respectively.

North Dearborn Building Company, L.P.

The Company holds an investment in North Dearborn Building Company, L.P. ("North Dearborn"), a limited partnership that owns an office building in Chicago, Illinois. AmTrust is also a limited partner in North Dearborn, and the general partner is NA Advisors GP LLC ("NA Advisors"), a related party, owned by Karfunkel family members which is managed by an unrelated third party. The Company and AmTrust each hold a 45% limited partnership interest in North Dearborn, while NA Advisors holds a 10% general partnership interest and a 10% profit interest, which NA Advisors pays to the unrelated third-party manager. North Dearborn appointed NA Advisors as the general manager to oversee the day-to-day operations of the office building.

The Company's equity interest in North Dearborn as of December 31, 2019 and 2018 was $5,317 and $6,214, respectively. For the years ended December 31, 2019, 2018 and 2017, the Company recorded equity in earnings (losses) from North Dearborn of $(357), $(243) and $(812), respectively, and received distributions of $540, $1,125 and $0, respectively.

4455 LBJ Freeway, LLC

The Company holds an investment in 4455 LBJ Freeway, LLC, a limited liability company that owns an office building in Dallas, Texas, with AmTrust. AmTrust has been appointed managing member of 4455 LBJ Freeway, LLC. The Company and AmTrust each have a 50% ownership interest in 4455 LBJ Freeway, LLC.

The Company's equity interest in 4455 LBJ Freeway, LLC as of December 31, 2019 and 2018 was $1,074 and $793, respectively. For the years ended December 31, 2019, 2018 and 2017, the Company recorded equity in earnings (losses) from 4455 LBJ Freeway, LLC of $281, $53 and $(160), respectively. Additionally, the Company has a lease agreement with 4455 LBJ Freeway, LLC. The Company paid 4455 LBJ Freeway, LLC $2,422, $2,225 and $2,303 in rent for the years ended December 31, 2019, 2018 and 2017, respectively.

Illinois Center Building, L.P.

The Company holds an investment in Illinois Center Building, L.P. ("Illinois Center"), a limited partnership that owns an office building in Chicago, Illinois. AmTrust and ACP Re are also limited partners in Illinois Center and the general partner is NA Advisors. The Company and AmTrust each hold a 37.5% limited partnership interest in Illinois Center, while ACP Re holds a 15.0% limited partnership interest. NA Advisors holds a 10.0% general partnership interest and a 10.0% profit interest, which NA Advisors pays to the unrelated third-party manager. Illinois Center appointed NA Advisors as the general manager to oversee the day-to-day operations of the office building.

The Company's equity interest in Illinois Center as of December 31, 2019 and 2018 was $44,379 and $45,575, respectively. For the years ended December 31, 2019, 2018 and 2017, the Company recorded equity in earnings (losses) from Illinois Center of $(2,321), $(3,390) and $(6,645), respectively, and made contributions of $1,125, $2,250 and $5,625, respectively.

4. Fair Value of Financial Instruments

The Company carries certain financial instruments at fair value. Assets and liabilities recorded at fair value in the consolidated balance sheets are measured and classified in accordance with a fair value hierarchy consisting of three "levels" based on the observability of valuation inputs:

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 following describes the valuation techniques used by the Company to determine the fair value measurements on a recurring basis of financial instruments held as of December 31, 2019 and 2018. The Company utilizes a pricing service ("pricing service") to estimate fair value measurements for all its debt and equity securities.

Level 1 measurements:

- U.S. Treasury and federal agencies. The fair values of U.S. government securities are based on quoted market prices in active markets. The Company believes the market for U.S. government securities is an actively traded market given the high level of daily trading volume.
- Common stock. The pricing service utilizes market quotations for equity securities that have quoted market prices in active markets and their respective quoted prices are provided at fair value.
- Short-term investments. Comprised of money market funds that are traded in active markets and fair values are based on quoted market prices.

Level 2 measurements:

- States and political subdivision bonds, and foreign government. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active.
- 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, the Company obtains 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.
- Residential and commercial mortgage-backed securities, asset-backed securities 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.

Level 3 measurements:

- States and political subdivision bonds. The Company holds 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.

- Corporate bonds. The Company holds 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.
- Common stock and preferred stock. From time to time, the Company also holds certain equity securities that are issued by privately-held entities or direct equity investments that do not have an active market. The Company estimates the fair value of these securities primarily based on inputs such as third-party broker quotes, 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.
- Other investments, at fair value. Comprised of the Company's right to receive the Excess Servicing Spread ("ESS") related to servicing rights. The Company uses a discounted cash flow method 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 recorded in earnings.

Assets measured at fair value on a recurring basis are as follows:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Available-for-sale debt securities:				
U.S. Treasury	$ 67,006	$ —	$ —	$ 67,006
Federal agencies	3,915	—	—	3,915
States and political subdivision bonds	—	298,582	3,100	301,682
Foreign government	—	1,802	—	1,802
Corporate bonds	—	1,908,235	8,328	1,916,563
Residential mortgage-backed securities	—	1,277,460	—	1,277,460
Commercial mortgage-backed securities	—	612,193	—	612,193
Asset-backed securities	—	75,611	—	75,611
Structured securities	—	220,126	—	220,126
Total available-for-sale debt securities	70,921	4,394,009	11,428	4,476,358
Equity securities:				
Common stock	4,881	—	376	5,257
Total equity securities	4,881	—	376	5,257
Short-term investments	59,953	7,400	—	67,353
Other investments	—	—	4,108	4,108
Total	$ 135,755	$ 4,401,409	$ 15,912	$ 4,553,076
NGHC	$ 116,602	$ 4,091,068	$ 15,912	$ 4,223,582
Reciprocal Exchanges	19,153	310,341	—	329,494
Total	$ 135,755	$ 4,401,409	$ 15,912	$ 4,553,076

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Available-for-sale debt securities:				
U.S. Treasury	$ 65,593	$ —	$ —	$ 65,593
Federal agencies	37,475	—	—	37,475
States and political subdivision bonds	—	268,601	3,596	272,197
Foreign government	—	152,366	—	152,366
Corporate bonds	—	1,248,938	11,767	1,260,705
Residential mortgage-backed securities	—	925,116	—	925,116
Commercial mortgage-backed securities	—	544,975	—	544,975
Asset-backed securities	—	61,147	—	61,147
Structured securities	—	241,458	—	241,458
Total available-for-sale debt securities	103,068	3,442,601	15,363	3,561,032
Equity securities:				
Common stock	9,898	—	1,051	10,949
Total equity securities	9,898	—	1,051	10,949
Short-term investments	348,549	—	—	348,549
Other investments	—	—	6,542	6,542
Total	$ 461,515	$ 3,442,601	$ 22,956	$ 3,927,072
NGHC	$ 429,502	$ 3,160,203	$ 22,956	$ 3,612,661
Reciprocal Exchanges	32,013	282,398	—	314,411
Total	$ 461,515	$ 3,442,601	$ 22,956	$ 3,927,072

During the years ended December 31, 2019 and 2018, there were no transfers between Level 2 and Level 3. The following tables provide a reconciliation of recurring fair value measurements of the Level 3 financial assets:

	States and political subdivision bonds	Corporate bonds	Common stock	Other investments	Total
Balance as of January 1, 2019	$ 3,596	$ 11,767	$ 1,051	$ 6,542	$ 22,956
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—
Total gains (losses) for the period:					
Included in earnings	—	—	(675)	(1,176)	(1,851)
Included in other comprehensive income	(496)	(3,439)	—	—	(3,935)
Sales	—	—	—	(1,258)	(1,258)
Balance as of December 31, 2019	$ 3,100	$ 8,328	$ 376	$ 4,108	$ 15,912
Change in unrealized gains (losses) for the period included in net income for assets held at the end of the reporting period	$ —	$ —	$ (675)	$ (1,176)	$ (1,851)
Change in unrealized gains (losses) for the period included in other comprehensive income for assets held at the end of the reporting period	$ (496)	$ (3,439)	$ —	$ —	$ (3,935)

	States and political subdivision bonds	Corporate bonds	Common stock	Preferred stock	Other investments	Total
Balance as of January 1, 2018	$ 4,081	$ 24,545	$ 5,052	$ 270	$ 10,782	$ 44,730
Transfers into Level 3	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—
Total gains (losses) for the period:						
Included in earnings	—	—	(4,001)	(270)	1,057	(3,214)
Included in other comprehensive income	(485)	(12,778)	—	—	—	(13,263)
Sales	—	—	—	—	(5,297)	(5,297)
Balance as of December 31, 2018	$ 3,596	$ 11,767	$ 1,051	$ —	$ 6,542	$ 22,956
Change in unrealized gains (losses) for the period included in net income for assets held at the end of the reporting period	$ —	$ —	$ (4,001)	$ (270)	$ 606	$ (3,665)
Change in unrealized gains (losses) for the period included in other comprehensive income for assets held at the end of the reporting period	$ (485)	$ (12,778)	$ —	$ —	$ —	$ (13,263)

At December 31, 2019 and 2018, the carrying values of the Company's cash and cash equivalents, premiums and other receivables, and accounts payable approximate the fair value given their short-term nature and were classified as Level 1. Other than goodwill, the Company did not measure any assets or liabilities at fair value on a nonrecurring basis at December 31, 2019 and 2018. Goodwill is classified as Level 3 in the fair value hierarchy. See Note 7, "Goodwill and Intangible Assets" for additional information on how the Company tested goodwill for impairment.

Fair value information about financial liabilities not measured at fair value

Debt - The amount reported in the accompanying consolidated balance sheets for these financial instruments represents the carrying value of the debt. See Note 11, "Debt" for additional information.

The following table presents the carrying amount and estimated fair value of debt not carried at fair value, excluding finance lease and other liabilities, as well as the input level used to determine the fair value:

		December 31, 2019		December 31, 2018	
	Input Level	Carrying amount	Fair value	Carrying amount	Fair value
7.625% Notes	Level 2	$ 96,928	$ 103,560	$ 96,842	$ 90,400
6.75% Notes	Level 3	347,091	371,366	346,439	353,756
Subordinated Debentures	Level 3	72,168	72,103	72,168	72,109
2016 Credit Agreement	Level 3	—	—	160,000	163,222
2019 Credit Agreement	Level 3	140,000	148,272	—	—

5. Deferred Acquisition Costs

The following table reflects the amounts of policy acquisition costs deferred and amortized:

	Year Ended December 31,								
	2019			2018			2017		
	Property and Casualty	Accident and Health	Total	Property and Casualty	Accident and Health	Total	Property and Casualty	Accident and Health	Total
Balance, beginning of the year	$ 226,188	$ 25,220	$ 251,408	$ 198,283	$ 18,106	$ 216,389	$ 207,597	$ 13,325	$ 220,922
Additions	552,921	39,491	592,412	522,914	22,898	545,812	478,426	26,930	505,356
Amortization	(539,816)	(37,541)	(577,357)	(495,009)	(15,784)	(510,793)	(487,740)	(22,149)	(509,889)
Disposition	—	(2,940)	(2,940)	—	—	—	—	—	—
Change in DAC	13,105	(990)	12,115	27,905	7,114	35,019	(9,314)	4,781	(4,533)
End of the year	$ 239,293	$ 24,230	$ 263,523	$ 226,188	$ 25,220	$ 251,408	$ 198,283	$ 18,106	$ 216,389
NGHC	$ 215,986	$ 24,230	$ 240,216	$ 206,181	$ 25,220	$ 231,401	$ 177,446	$ 18,106	$ 195,552
Reciprocal Exchanges	23,307	—	23,307	20,007	—	20,007	20,837	—	20,837
Balance, end of the year	$ 239,293	$ 24,230	$ 263,523	$ 226,188	$ 25,220	$ 251,408	$ 198,283	$ 18,106	$ 216,389

6. Property and Equipment

The composition of property and equipment consisted of the following:

	December 31,					
	2019			2018		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
Land	$ 5,788	$ —	$ 5,788	$ 6,073	$ —	$ 6,073
Buildings	24,997	(2,669)	22,328	31,489	(2,554)	28,935
Leasehold improvements	34,238	(12,372)	21,866	35,469	(9,152)	26,317
Other equipment	24,627	(3,044)	21,583	28,774	(5,670)	23,104
Hardware and software	387,618	(196,294)	191,324	385,059	(161,484)	223,575
Finance lease right-of-use assets	37,515	(16,511)	21,004	—	—	—
Operating lease right-of-use assets	119,934	—	119,934	—	—	—
Total	$ 634,717	$ (230,890)	$ 403,827	$ 486,864	$ (178,860)	$ 308,004
NGHC	$ 625,658	$ (222,072)	$ 403,586	$ 477,804	$ (171,495)	$ 306,309
Reciprocal Exchanges	9,059	(8,818)	241	9,060	(7,365)	1,695
Total	$ 634,717	$ (230,890)	$ 403,827	$ 486,864	$ (178,860)	$ 308,004

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2019, 2018 and 2017 was $61,965, $55,928 and $39,323**,** respectively.

7. Goodwill and Intangible Assets

Goodwill and intangible assets, net of amortization, are recorded as a consequence of business acquisitions. Goodwill represents the excess, if any, of the purchase price over the fair value of their net assets as of the date of acquisition. Intangible assets are recorded at their fair value as of the acquisition date. Intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. Goodwill and intangible assets that have an indefinite useful life are not subject to amortization.

Goodwill and intangible assets deemed to have an indefinite useful life are tested annually in the fourth quarter of every year for impairment. Goodwill and intangible assets are also tested whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. If it is determined that an asset has been impaired, the asset is written down by the amount of the impairment, with a corresponding charge to earnings.

With respect to goodwill, a qualitative assessment is first made to determine whether it is necessary to perform quantitative testing. This initial assessment includes, among other factors, consideration of: (i) past, current and projected future earnings and equity; (ii) recent trends and market conditions; and (iii) valuation metrics involving similar companies that are publicly-traded and acquisitions of similar companies, if available. If this initial qualitative assessment indicates that the fair value of an operating segment may be less than its carrying amount, a second step is taken, involving a comparison between the estimated fair values of the Company's operating subsidiary with its respective carrying amount including goodwill. If the carrying value exceeds estimated fair value, there is an indication of impairment. As of December 31, 2019, there were no circumstances that indicate that the carrying amount of goodwill and intangible assets deemed to have an indefinite useful life may not be recoverable.

During the year ended December 31, 2019, the Company purchased certain intangible assets and completed several business acquisitions, as well as a business disposition, that were not material to the Company's consolidated financial statements, either individually or in the aggregate.

The changes in the carrying amounts of goodwill by segments are as follows:

	Property and Casualty	Accident and Health	Total
Balance as of January 1, 2019	$ 100,888	$ 79,295	$ 180,183
Acquisitions	1,414	5,312	6,726
Disposition	—	(7,581)	(7,581)
Balance as of December 31, 2019	$ 102,302	$ 77,026	$ 179,328

The composition of intangible assets and loss reserve premium consisted of the following:

December 31, 2019	Gross Balance	Accumulated Amortization	Net Value	Weighted-average amortization period
Agent/Customer relationships	$ 175,157	$ (76,156)	$ 99,001	13.6 years
Renewal rights	48,566	(41,257)	7,309	5.8 years
Other intangibles	49,511	(27,923)	21,588	7.8 years
Total intangible assets subject to amortization	273,234	(145,336)	127,898	12.2 years
Management contracts	118,600	—	118,600	indefinite life
State licenses	89,325	—	89,325	indefinite life
Trademarks	30,000	—	30,000	indefinite life
Total intangible assets	$ 511,159	$ (145,336)	$ 365,823	
NGHC	$ 507,259	$ (144,661)	$ 362,598	
Reciprocal Exchanges	3,900	(675)	3,225	
Total intangible assets	$ 511,159	$ (145,336)	$ 365,823	
Net loss reserve plus a risk premium [1]	$ (17,266)	$ 9,947	$ (7,319)	6.1 years
Total	$ (17,266)	$ 9,947	$ (7,319)	
NGHC	$ (13,253)	$ 6,017	$ (7,236)	
Reciprocal Exchanges	(4,013)	3,930	(83)	
Total	$ (17,266)	$ 9,947	$ (7,319)	

December 31, 2018	Gross Balance	Accumulated Amortization	Net Value
Agent/Customer relationships	$ 184,617	$ (72,876)	$ 111,741
Renewal rights	51,057	(36,342)	14,715
Other intangibles	33,901	(14,845)	19,056
Total intangible assets subject to amortization	269,575	(124,063)	145,512
Management contracts	118,600	—	118,600
State licenses	85,825	—	85,825
Trademarks	30,000	—	30,000
Total intangible assets	$ 504,000	$ (124,063)	$ 379,937
NGHC	$ 500,100	$ (123,568)	$ 376,532
Reciprocal Exchanges	3,900	(495)	3,405
Total intangible assets	$ 504,000	$ (124,063)	$ 379,937
Net loss reserve plus a risk premium [1]	$ (6,203)	$ 5,659	$ (544)
Total	$ (6,203)	$ 5,659	$ (544)
NGHC	$ (2,190)	$ 1,839	$ (351)
Reciprocal Exchanges	(4,013)	3,820	(193)
Total	$ (6,203)	$ 5,659	$ (544)

[1] Net loss reserve plus a risk premium is recorded as a liability.

The changes in the carrying amounts of intangibles assets are as follows:

	Gross Balance	Accumulated Amortization	Net Value
Balance as of January 1, 2019	$ 504,000	$ (124,063)	$ 379,937
Acquisitions	35,421	—	35,421
Amortization	—	(39,024)	(39,024)
Reclassification	(11,837)	6,924	(4,913)
Disposition	(16,425)	10,827	(5,598)
Balance as of December 31, 2019	$ 511,159	$ (145,336)	$ 365,823

Intangible assets amortization expense consisted of the following:

	Year Ended December 31,		
	2019	2018	2017
Amortization	$ 39,024	$ 31,999	$ 59,868
Amortization of loss reserve premium	(4,288)	(632)	(1,257)
Total	$ 34,736	$ 31,367	$ 58,611
NGHC	$ 34,665	$ 31,323	$ 51,729
Reciprocal Exchanges	71	44	6,882
Total	$ 34,736	$ 31,367	$ 58,611

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

Year ending	NGHC	Reciprocal Exchanges	Total
2020	$ 20,385	$ 131	$ 20,516
2021	16,259	23	16,282
2022	14,559	(9)	14,550
2023	12,385	(2)	12,383
2024	11,451	(1)	11,450
Thereafter	45,398	—	45,398
Total	$ 120,437	$ 142	$ 120,579

8. Unpaid Losses and Loss Adjustment Expense Reserves

The unpaid losses and loss adjustment expense ("LAE") reserves is an estimate of the Company's liability from incurred claims at the reporting period. The unpaid losses and loss adjustment expense reserves are the result of ongoing analysis of recent loss development trends and emerging historical experience. Original estimates are increased or decreased as additional information becomes known regarding individual claims. In setting its reserves, the Company reviews its loss data to estimate expected loss development. Management believes that its use of standard actuarial methodology applied to its analyses of its historical experience provides a reasonable estimate of future losses. However, actual future losses may differ from the Company's estimate, and future events beyond the control of management, such as changes in law, judicial interpretations of law and inflation, may favorably or unfavorably impact the ultimate settlement of the Company's losses and LAE.

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

The following tables present a reconciliation of beginning and ending balances for unpaid losses and LAE:

	Year Ended December 31, 2019				
	Property and Casualty	Accident and Health	NGHC	Reciprocal Exchanges	Total
Gross balance at beginning of the year	$ 2,507,409	$ 271,280	$ 2,778,689	$ 178,470	$ 2,957,159
Less: Reinsurance recoverable at beginning of the year	(1,182,588)	(24,575)	(1,207,163)	(77,979)	(1,285,142)
Net balance at beginning of the year	1,324,821	246,705	1,571,526	100,491	1,672,017
Incurred losses and LAE related to:					
Current year	2,320,053	356,036	2,676,089	173,215	2,849,304
Prior year	46,623	(45,356)	1,267	3,897	5,164
Total incurred	2,366,676	310,680	2,677,356	177,112	2,854,468
Paid losses and LAE related to:					
Current year	(1,430,072)	(219,234)	(1,649,306)	(111,380)	(1,760,686)
Prior year	(841,613)	(109,653)	(951,266)	(44,611)	(995,877)
Total paid	(2,271,685)	(328,887)	(2,600,572)	(155,991)	(2,756,563)
Acquired losses and LAE reserves	92,574	—	92,574	—	92,574
Disposed losses and LAE reserves	—	(87,890)	(87,890)	—	(87,890)
Net balance at end of the year	1,512,386	140,608	1,652,994	121,612	1,774,606
Plus: Reinsurance recoverable at end of the year	1,016,368	11,266	1,027,634	84,174	1,111,808
Gross balance at end of the year	$ 2,528,754	$ 151,874	$ 2,680,628	$ 205,786	$ 2,886,414

	Year Ended December 31, 2018				
	Property and Casualty	Accident and Health	NGHC	Reciprocal Exchanges	Total
Gross balance at beginning of the year	$ 2,270,551	$ 249,653	$ 2,520,204	$ 143,353	$ 2,663,557
Less: Reinsurance recoverable at beginning of the year	(1,067,495)	(9,840)	(1,077,335)	(52,408)	(1,129,743)
Net balance at beginning of the year	1,203,056	239,813	1,442,869	90,945	1,533,814
Incurred losses and LAE related to:					
Current year	2,182,923	352,322	2,535,245	161,015	2,696,260
Prior year	(4,760)	(30,977)	(35,737)	1,703	(34,034)
Total incurred	2,178,163	321,345	2,499,508	162,718	2,662,226
Paid losses and LAE related to:					
Current year	(1,336,359)	(188,014)	(1,524,373)	(110,053)	(1,634,426)
Prior year	(720,039)	(117,653)	(837,692)	(43,119)	(880,811)
Total paid	(2,056,398)	(305,667)	(2,362,065)	(153,172)	(2,515,237)
Unrealized foreign exchange gain	—	(8,786)	(8,786)	—	(8,786)
Net balance at end of the year	1,324,821	246,705	1,571,526	100,491	1,672,017
Plus: Reinsurance recoverable at end of the year	1,182,588	24,575	1,207,163	77,979	1,285,142
Gross balance at end of the year	$ 2,507,409	$ 271,280	$ 2,778,689	$ 178,470	$ 2,957,159

	Year Ended December 31, 2017				
	Property and Casualty	Accident and Health	NGHC	Reciprocal Exchanges	Total
Gross balance at beginning of the year	$ 1,936,391	$ 200,400	$ 2,136,791	$ 137,075	$ 2,273,866
Less: Reinsurance recoverable at beginning of the year	(827,672)	(10,933)	(838,605)	(42,192)	(880,797)
Net balance at beginning of the year	1,108,719	189,467	1,298,186	94,883	1,393,069
Incurred losses and LAE related to:					
Current year	2,172,506	327,289	2,499,795	118,938	2,618,733
Prior year	15,273	(8,826)	6,447	902	7,349
Total incurred	2,187,779	318,463	2,506,242	119,840	2,626,082
Paid losses and LAE related to:					
Current year	(1,364,011)	(166,669)	(1,530,680)	(81,371)	(1,612,051)
Prior year	(729,431)	(107,992)	(837,423)	(42,407)	(879,830)
Total paid	(2,093,442)	(274,661)	(2,368,103)	(123,778)	(2,491,881)
Unrealized foreign exchange loss	—	6,544	6,544	—	6,544
Net balance at end of the year	1,203,056	239,813	1,442,869	90,945	1,533,814
Plus: Reinsurance recoverable at end of the year	1,067,495	9,840	1,077,335	52,408	1,129,743
Gross balance at end of the year	$ 2,270,551	$ 249,653	$ 2,520,204	$ 143,353	$ 2,663,557

Gross unpaid losses and loss adjustment expense reserves at December 31, 2019 decreased by $70,745 from December 31, 2018, primarily reflecting lower reserves from catastrophic events. Gross unpaid losses and loss adjustment expense reserves at December 31, 2018 increased by $293,602 from December 31, 2017, primarily reflecting increases from organic growth in the property and casualty segment.

Prior year loss development, net of reinsurance

Prior year development is based upon numerous estimates by line of business and accident year. No additional premiums or return premiums have been accrued as a result of the prior year effects.

2019. Loss and LAE for the year ended December 31, 2019 included $5,164 of unfavorable development on prior accident year loss and LAE reserves. The $50,520 of unfavorable development in the property and casualty segment (including $3,897 of unfavorable development for the Reciprocal Exchanges) was primarily driven by adverse

development in the small business auto product line, while the $45,356 of favorable development in the accident and health segment was primarily driven by overall improvement in loss ratio estimates.

2018. Loss and LAE for the year ended December 31, 2018 included $34,034 of favorable development on prior accident year loss and LAE reserves driven by $3,057 of favorable development in the property and casualty segment (including $1,703 of unfavorable development for the Reciprocal Exchanges), and $30,977 of favorable development in the accident and health segment primarily driven by favorable development in the domestic accident and health stop loss and short-term medical products.

2017. Loss and LAE for the year ended December 31, 2017 included $7,349 of unfavorable development on prior accident year loss and LAE reserves. The $16,175 of unfavorable development in the property and casualty segment (including $902 of unfavorable development for the Reciprocal Exchanges) was primarily driven by higher than expected development in auto liability coverages, while the $8,826 of favorable development in the accident and health segment was primarily driven by favorable development in the Company's domestic products.

Short-duration contracts

The following is information by reserving subgroups within segments about incurred and paid claims development as of December 31, 2019, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities ("IBNR") plus expected development on reported claims included within the net incurred claims amounts. The information about incurred and paid claims development for the years ended prior to December 31, 2019, is presented as unaudited supplementary information.

Property and Casualty - auto liability, including recreational vehicles and motorcycles:

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,										December 31, 2019	
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total of IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	(unaudited)											
2010	$596,995	$ 593,187	$ 592,353	$ 593,992	$ 594,348	$ 595,763	$ 595,337	$ 595,157	$ 595,215	$ 595,609	$ 270	241,703
2011		490,230	485,762	489,010	494,922	493,873	497,109	497,324	496,408	497,424	566	238,315
2012			511,797	522,296	529,140	527,386	528,090	527,531	529,885	531,887	196	249,877
2013				544,833	556,262	556,290	563,834	567,410	572,538	575,521	1,637	250,090
2014					740,531	759,577	760,566	766,640	779,992	783,869	1,293	270,033
2015						820,213	838,040	849,051	872,064	892,244	6,218	291,691
2016							932,350	940,849	976,749	1,005,184	23,596	301,660
2017								929,211	912,370	941,837	33,880	295,454
2018									1,047,041	1,033,488	131,044	306,943
2019										1,162,750	436,809	386,846
Total (A)										$ 8,019,813		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,									
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(unaudited)									
2010	$287,058	$ 474,640	$ 534,107	$ 562,918	$ 579,237	$ 590,417	$ 592,932	$ 594,168	$ 594,696	$ 594,914
2011		224,676	385,749	442,365	468,059	482,861	489,191	494,145	495,833	496,680
2012			242,285	413,018	470,515	501,819	518,079	523,703	527,695	530,570
2013				259,665	440,751	504,569	540,497	559,064	567,949	571,643
2014					342,710	601,980	694,002	728,256	757,933	773,124
2015						385,592	679,461	761,150	820,007	864,226
2016							400,052	737,927	855,407	937,997
2017								392,084	706,151	832,553
2018									429,231	777,888
2019										470,341
Total (B)										$ 6,849,936
Unpaid loss and allocated loss adjustment expense reserves before 2010, net of reinsurance (C)										1,186
Unpaid loss and allocated loss adjustment expense reserves, net of reinsurance (A) - (B) + (C)										$ 1,171,063

Average Annual Percentage Payout of Accident Year Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
	(unaudited)									
Property and Casualty - auto liability, including recreational vehicles and motorcycles	42.8%	33.3%	11.4%	5.9%	3.6%	1.6%	0.7%	0.4%	0.1%	0.2%

Property and Casualty - auto physical damage, including recreational vehicles, motorcycles and lender placed auto:

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,										December 31, 2019	
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total of IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
					(unaudited)							
2010	$389,966	$ 382,067	$ 381,499	$ 381,748	$ 381,818	$ 381,826	$ 381,795	$ 381,410	$ 381,138	$ 381,113	$ —	309,114
2011		315,273	308,729	308,298	308,486	308,760	308,512	308,536	308,249	308,132	—	298,034
2012			308,056	298,208	295,984	296,257	296,050	295,970	295,026	294,710	—	292,486
2013				335,454	329,049	328,748	328,284	328,262	328,010	327,506	—	285,748
2014					496,227	487,302	486,206	486,383	486,373	486,156	—	311,595
2015						541,008	544,097	544,769	544,510	544,684	—	329,097
2016							626,643	622,456	621,717	620,546	(550)	337,775
2017								600,813	570,699	567,411	1,180	384,794
2018									548,063	526,092	(5,823)	359,565
2019										577,970	43,820	349,043
Total (A)										$ 4,634,320		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,									
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					(unaudited)					
2010	$351,865	$ 382,575	$ 381,955	$ 381,926	$ 381,829	$ 381,811	$ 381,789	$ 381,425	$ 381,129	$ 381,109
2011		283,501	308,824	308,634	308,608	308,578	308,571	308,557	308,266	308,131
2012			268,989	298,381	295,978	295,975	296,029	295,995	294,975	294,702
2013				291,064	328,832	328,456	328,299	328,280	327,976	327,510
2014					430,998	487,531	486,364	486,309	486,251	486,108
2015						478,268	544,754	544,707	544,485	544,699
2016							542,970	622,930	621,529	621,181
2017								533,907	568,639	566,918
2018									483,149	532,083
2019										512,074
Total (B)										$ 4,574,515
Unpaid loss and allocated loss adjustment expense reserves before 2010, net of reinsurance (C)										4
Unpaid loss and allocated loss adjustment expense reserves, net of reinsurance (A) - (B) + (C)										$ 59,809

Average Annual Percentage Payout of Accident Year Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
					(unaudited)					
Property and Casualty - auto physical damage, including recreational vehicles, motorcycles and lender placed auto	90.1%	10.3%	(0.3)%	—%	—%	—%	—%	(0.1)%	—%	—%

Property and Casualty - homeowners & other property, including lender placed homeowners:

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,										December 31, 2019	
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total of IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	(unaudited)											
2010	$422,123	$ 414,378	$ 413,664	$ 413,623	$ 412,187	$ 411,689	$ 411,304	$ 410,997	$ 411,290	$ 411,263	$ —	86,466
2011		506,352	499,170	498,050	498,184	497,244	495,246	494,825	495,170	495,148	3	107,869
2012			485,454	480,353	478,880	477,577	476,538	474,649	476,166	475,792	—	112,053
2013				306,761	300,868	299,561	296,618	296,907	296,756	296,760	77	75,904
2014					318,488	306,471	303,925	304,496	304,237	304,350	34	73,477
2015						357,023	349,559	351,747	353,688	351,305	1,935	69,874
2016							350,737	341,762	340,711	343,525	1,109	60,954
2017								402,798	365,092	370,068	11,847	58,961
2018									327,462	328,721	13,210	72,612
2019										247,760	43,234	60,676
Total (A)										$ 3,624,692		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,									
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(unaudited)									
2010	$247,802	$ 370,301	$ 393,226	$ 404,490	$ 408,195	$ 409,781	$ 410,875	$ 410,994	$ 411,249	$ 411,243
2011		314,139	457,480	485,054	489,778	493,408	494,198	494,525	494,904	494,922
2012			300,271	452,589	466,266	471,084	473,190	473,781	475,765	475,762
2013				219,937	279,743	289,302	293,101	295,332	296,383	296,442
2014					198,781	278,255	289,456	297,640	301,742	303,100
2015						233,264	319,284	336,921	342,156	345,257
2016							227,650	320,564	331,102	337,889
2017								258,234	338,065	349,600
2018									227,908	298,212
2019										172,462
Total (B)										$ 3,484,889
Unpaid loss and allocated loss adjustment expense reserves before 2010, net of reinsurance (C)										225
Unpaid loss and allocated loss adjustment expense reserves, net of reinsurance (A) - (B) + (C)										$ 140,028

Average Annual Percentage Payout of Accident Year Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
	(unaudited)									
Property and Casualty - homeowners & other property, including lender placed homeowners	66.3%	26.0%	4.3%	2.0%	0.8%	0.4%	0.2%	—%	—%	—%

Accident and Health

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,										December 31, 2019	
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total of IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	(unaudited)											
2010	$ 4,847	$ 4,731	$ 4,703	$ 4,703	$ 4,703	$ 4,703	$ 4,703	$ 4,703	$ 4,703	$ 4,703	$ —	10,115
2011		4,804	4,483	4,481	4,481	4,481	4,481	4,481	4,481	4,481	—	8,139
2012			4,400	4,227	4,161	4,161	4,161	4,110	4,110	4,110	—	7,630
2013				23,253	28,578	26,457	26,361	26,272	26,274	26,274	—	34,176
2014					52,245	52,694	52,311	52,026	52,022	52,034	—	69,799
2015						176,104	184,586	181,536	181,740	181,717	21	242,784
2016							215,097	200,817	202,155	201,722	173	320,530
2017								211,293	186,415	182,865	1,346	297,140
2018									234,558	205,152	3,695	272,136
2019										256,745	98,399	215,703
Total (A)										$ 1,119,803		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,									
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(unaudited)									
2010	$ 3,604	$ 4,742	$ 4,703	$ 4,703	$ 4,703	$ 4,703	$ 4,703	$ 4,703	$ 4,703	$ 4,703
2011		2,528	4,469	4,481	4,481	4,481	4,481	4,481	4,481	4,481
2012			3,330	4,095	4,110	4,110	4,161	4,110	4,110	4,110
2013				15,421	25,754	26,327	26,242	26,154	26,155	26,155
2014					31,765	52,053	52,405	52,147	52,140	52,153
2015						123,576	178,918	181,459	181,719	181,696
2016							125,845	196,421	201,720	201,549
2017								104,809	178,047	181,519
2018									126,269	201,457
2019										158,345
Total (B)										$ 1,016,168
Unpaid loss and allocated loss adjustment expense reserves before 2010, net of reinsurance (C)										—
Unpaid loss and allocated loss adjustment expense reserves, net of reinsurance (A) - (B) + (C)										$ 103,635

Average Annual Percentage Payout of Accident Year Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
	(unaudited)									
Accident and Health	62.1%	35.9%	1.8%	0.2%	—%	—%	(0.3)%	0.3%	—%	—%

Reciprocal Exchanges - auto liability:

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	Year Ended December 31,										December 31, 2019	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total of IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	(unaudited)											
2010	$ 61,956	$ 59,169	$ 57,079	$ 56,991	$ 57,453	$ 57,268	$ 57,218	$ 57,222	$ 57,568	$ 57,605	$ —	5,822
2011		47,666	47,834	47,459	48,841	51,107	50,898	50,998	51,161	51,247	—	5,065
2012			44,834	47,275	48,044	48,665	50,370	50,767	50,303	50,538	—	4,999
2013				43,684	44,341	45,479	50,180	51,263	49,854	50,595	—	5,097
2014					38,656	40,850	45,930	48,246	49,168	49,369	—	4,871
2015						35,573	33,409	34,390	34,615	34,268	303	4,333
2016							24,619	24,460	26,109	24,310	604	4,001
2017								26,214	28,762	28,804	4,229	4,919
2018									32,339	33,891	7,325	6,068
2019										49,757	23,246	5,882
Total (A)										$ 430,384		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	Year Ended December 31,									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(unaudited)									
2010	$ 18,879	$ 32,181	$ 41,020	$ 49,764	$ 53,635	$ 55,155	$ 55,700	$ 56,522	$ 56,961	$ 57,232
2011		15,857	26,603	35,911	41,931	46,559	49,570	50,481	50,979	51,121
2012			13,568	29,286	37,241	42,768	46,358	48,990	49,836	50,090
2013				14,683	29,218	35,105	41,787	47,449	48,449	49,605
2014					13,925	26,070	32,382	39,328	46,001	48,389
2015						11,910	19,501	24,614	29,538	31,587
2016							7,516	13,478	16,994	20,567
2017								9,111	17,136	19,529
2018									10,755	19,471
2019										15,504
Total (B)										$ 363,095
Unpaid loss and allocated loss adjustment expense reserves before 2010, net of reinsurance (C)										42
Unpaid loss and allocated loss adjustment expense reserves, net of reinsurance (A) - (B) + (C)										$ 67,331

Average Annual Percentage Payout of Accident Year Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
	(unaudited)									
Reciprocal Exchanges - auto liability	30.6%	25.3%	14.1%	13.5%	8.9%	4.1%	1.3%	0.9%	0.4%	0.7%

Reciprocal Exchanges - auto physical damage:

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,										December 31, 2019	
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total of IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	(unaudited)											
2010	$ 29,664	$ 24,572	$ 24,652	$ 24,700	$ 24,682	$ 24,665	$ 24,659	$ 24,653	$ 24,653	$ 24,651	$ —	12,374
2011		26,936	26,055	26,022	26,060	26,037	26,029	26,023	26,028	26,028	—	12,041
2012			25,752	26,459	26,189	25,914	25,842	25,841	25,845	25,842	—	11,301
2013				23,375	25,214	25,292	24,709	24,703	24,704	24,704	—	11,066
2014					29,240	27,424	25,806	25,588	25,882	26,074	—	11,526
2015						21,247	18,592	18,673	18,789	18,842	—	10,280
2016							12,270	12,921	12,985	13,213	(12)	8,742
2017								15,301	15,410	15,612	112	10,674
2018									19,146	19,272	26	13,598
2019										27,212	(1,625)	13,652
Total (A)										$ 221,450		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,									
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(unaudited)									
2010	$ 25,583	$ 24,873	$ 24,725	$ 24,701	$ 24,681	$ 24,665	$ 24,661	$ 24,654	$ 24,653	$ 24,651
2011		28,274	26,269	26,106	26,056	26,037	26,033	26,027	26,028	26,028
2012			23,760	26,651	26,172	25,914	25,854	25,850	25,845	25,842
2013				22,651	25,088	24,549	24,725	24,716	24,704	24,704
2014					24,528	26,165	25,772	25,427	25,685	25,946
2015						19,080	18,797	18,750	18,748	18,719
2016							12,579	13,147	13,080	13,137
2017								15,438	16,141	15,500
2018									18,925	19,246
2019										27,974
Total (B)										$ 221,747
Unpaid loss and allocated loss adjustment expense reserves before 2010, net of reinsurance (C)										—
Unpaid loss and allocated loss adjustment expense reserves, net of reinsurance (A) - (B) + (C)										$ (297)

Average Annual Percentage Payout of Accident Year Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
	(unaudited)									
Reciprocal Exchanges - auto physical damage	98.8%	2.3%	(1.3)%	0.2%	—%	—%	—%	—%	—%	—%

Reciprocal Exchanges - homeowners & other property:

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,										December 31, 2019	
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total of IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	(unaudited)											
2010	$ 38,125	$ 37,831	$ 37,161	$ 36,347	$ 36,691	$ 35,788	$ 35,723	$ 35,639	$ 35,181	$ 35,737	$ —	5,066
2011		38,470	28,869	28,511	28,209	27,954	27,950	28,002	28,075	28,095	—	6,652
2012			25,289	20,625	21,184	19,971	20,403	20,876	20,251	20,301	—	8,427
2013				22,638	21,232	20,132	20,309	20,615	20,367	23,109	—	3,165
2014					27,706	24,846	25,625	26,614	27,141	27,231	—	4,231
2015						30,081	21,031	21,527	22,007	21,881	72	5,448
2016							36,838	35,274	34,851	34,501	306	4,786
2017								48,222	50,871	51,852	2,089	8,817
2018									76,925	78,166	3,836	12,950
2019										65,888	11,427	11,311
Total (A)										$ 386,761		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31,									
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(unaudited)									
2010	$ 23,881	$ 31,051	$ 32,488	$ 34,587	$ 35,265	$ 35,428	$ 35,388	$ 35,497	$ 35,101	$ 35,574
2011		21,474	24,997	25,799	26,700	27,661	27,656	27,692	27,758	27,803
2012			11,087	18,021	19,367	19,847	19,961	20,668	20,121	20,256
2013				11,277	17,435	18,107	19,104	19,653	19,626	20,232
2014					15,344	22,834	23,820	25,230	26,170	27,003
2015						12,979	18,518	19,834	20,339	20,733
2016							20,978	30,615	31,632	32,933
2017								33,166	46,003	47,517
2018									55,519	69,672
2019										45,432
Total (B)										$ 347,155
Unpaid loss and allocated loss adjustment expense reserves before 2010, net of reinsurance (C)										1,907
Unpaid loss and allocated loss adjustment expense reserves, net of reinsurance (A) - (B) + (C)										$ 41,513

Average Annual Percentage Payout of Accident Year Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
	(unaudited)									
Reciprocal Exchanges - homeowners & other property	64.9%	22.1%	3.1%	3.6%	1.9%	1.4%	1.0%	0.8%	0.5%	0.8%

The reconciliation of the net incurred and paid claims development tables to the liability for unpaid loss and loss adjustment expense reserves is as follows:

	December 31, 2019
Net outstanding liabilities:	
Property and Casualty - Auto Liability	$ 1,171,063
Property and Casualty - Auto Physical Damage	59,809
Property and Casualty - Homeowners and Other Property	140,028
Accident and Health	103,635
Reciprocal Exchanges - Auto Liability	67,331
Reciprocal Exchanges - Auto Physical Damage	(297)
Reciprocal Exchanges - Homeowners and Other Property	41,513
Net reserve for claims and allocated claim adjustment expenses	$ 1,583,082
Reinsurance recoverable:[1]	
Property and Casualty - Auto Liability	$ 848,885
Property and Casualty - Auto Physical Damage	11,873
Property and Casualty - Homeowners and Other Property	155,610
Accident and Health	11,266
Reciprocal Exchanges - Auto Liability	33,022
Reciprocal Exchanges - Auto Physical Damage	297
Reciprocal Exchanges - Homeowners and Other Property	50,855
Reinsurance recoverable on unpaid claims and allocated claim adjustment expenses	$ 1,111,808
Insurance lines other than short-duration	$ 32,032
Acquisition	61,589
Unallocated claims adjustment expenses (“ULAE”)	97,903
Subtotal	$ 191,524
Gross reserve for claims and claim adjustment expenses	$ 2,886,414

[1] Includes $548,370 from MCCA and $146,496 from NCRF. See Note 9, “Reinsurance” for additional information.

The reconciliation of the net incurred and paid loss information in the loss reserve rollforward table and development tables with respect to the current accident year is as follows:

	2019 - Current Accident Year Incurred				2019 - Current Accident Year Paid			
	Property and Casualty	Accident and Health	Reciprocal Exchanges	Total	Property and Casualty	Accident and Health	Reciprocal Exchanges	Total
Rollforward table	$ 2,320,053	$ 356,036	$ 173,215	$ 2,849,304	$ 1,430,072	$ 219,234	$ 111,380	$ 1,760,686
Development tables	1,988,480	256,745	142,857	2,388,082	1,154,877	158,345	88,910	1,402,132
Variance	$ 331,573	$ 99,291	$ 30,358	$ 461,222	$ 275,195	$ 60,889	$ 22,470	$ 358,554
Unallocated claims adjustment expenses	$ 287,425	$ 12,912	$ 30,358	$ 330,695	$ 221,095	$ 8,211	$ 22,470	$ 251,776
Long-duration contracts	—	32,859	—	32,859	—	17,851	—	17,851
Acquisition	44,148	—	—	44,148	54,100	—	—	54,100
Sale of Euroaccident	—	53,520	—	53,520	—	34,827	—	34,827
Variance	$ 331,573	$ 99,291	$ 30,358	$ 461,222	$ 275,195	$ 60,889	$ 22,470	$ 358,554

The reconciliation of the net incurred and paid loss information in the loss reserve rollforward table and development tables with respect to the prior accident year is as follows:

	2019 - Prior Accident Year Incurred				2019 - Prior Accident Year Paid			
	Property and Casualty	Accident and Health	Reciprocal Exchanges	Total	Property and Casualty	Accident and Health	Reciprocal Exchanges	Total
Rollforward table	$ 46,623	$ (45,356)	$ 3,897	$ 5,164	$ 841,613	$ 109,653	$ 44,611	$ 995,877
Development tables	53,726	(33,400)	6,748	27,074	763,888	78,479	40,360	882,727
Variance	$ (7,103)	$ (11,956)	$ (2,851)	$ (21,910)	$ 77,725	$ 31,174	$ 4,251	$ 113,150
Unallocated claims adjustment expenses	$ (7,666)	$ 89	$ (2,987)	$ (10,564)	$ 55,276	$ 5,339	$ 3,902	$ 64,517
Accident years prior to 2011	563	—	136	699	874	—	349	1,223
Delaware captive subsidiaries	—	(269)	—	(269)	—	(269)	—	(269)
Long-duration contracts	—	(6,583)	—	(6,583)	—	7,441	—	7,441
Acquisition	—	—	—	—	21,575	—	—	21,575
Sale of Euroaccident	—	(5,193)	—	(5,193)	—	18,663	—	18,663
Variance	$ (7,103)	$ (11,956)	$ (2,851)	$ (21,910)	$ 77,725	$ 31,174	$ 4,251	$ 113,150

The $53,726 of unfavorable prior year development for Property and Casualty on a combined basis for the incurred development tables relates to Loss and Allocated Claims Adjustment Expenses ("ALAE"), which does not include ULAE and other items excluded from the development tables as identified in the reconciliation table and further identified in the prior accident year incurred reconciliation table above. The reserve rollforward table shows prior year development for Loss and LAE, which includes development from ULAE and other items excluded from the development tables as identified in the reconciliation table and further identified in the prior accident year incurred reconciliation table above. Favorable prior year development of $7,103 in total attributable to liabilities excluded from the incurred development tables resulted in total P&C Loss and LAE unfavorable prior year development of $46,623 shown in the reserve rollforward table.

The $33,400 of favorable prior year development for Accident and Health shown in the incurred development table relates to Loss and ALAE, which does not include ULAE and other items excluded from the development tables as identified in the reconciliation table and further identified in the prior accident year incurred reconciliation table above. The reserve rollforward table shows prior year development for Loss and LAE, which includes prior year development from ULAE and other items excluded from the development tables as identified in the reconciliation table and further identified in the prior accident year incurred reconciliation table above. Favorable prior year development of $11,956 in total attributable to liabilities excluded from the incurred development table resulted in total Accident and Health Loss and LAE favorable prior year development of $45,356 shown in the reserve rollforward table.

The $6,748 of unfavorable prior year development for the Reciprocal Exchanges on a combined basis for the incurred development tables relates to Loss and ALAE, which does not include ULAE and other items excluded from the development tables as identified in the reconciliation table and further identified in the prior accident year incurred reconciliation table above. The reserve rollforward table shows prior year development for Loss and LAE, which includes development from ULAE and other items excluded from the development tables as identified in the reconciliation table and further identified in the prior accident year incurred reconciliation table above. Favorable prior year development of $2,851 in total attributable to liabilities excluded from the incurred development tables resulted in total Reciprocal Exchanges Loss and LAE unfavorable prior year development of $3,897 shown in the reserve rollforward table.

Methodology for Estimating Incurred-But-Not-Reported Reserves

Loss and loss adjustment expense reserves represent management's estimate of the ultimate liability for claims that have been reported and claims that have been incurred but not yet reported as of the balance sheet date. Because the establishment of loss and loss adjustment expense reserves is a process involving estimates and judgment, currently estimated reserves may change. The Company reflects changes to the reserves in the results of operations for the period during which the estimates are changed.

Incurred-but-not-reported 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. Therefore, the IBNR also includes provision for expected development on reported claims.

The Company’s internal actuarial analysis of the historical data provides the factors the Company uses in its actuarial analysis in estimating its 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. In accordance with Actuarial Standards of Practice, the Company generally uses multiple traditional methods in determining our estimates of the ultimate unpaid claim liabilities. Each of these methods require actuarial judgment and assumptions. The techniques can include, but are not limited to:

- 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. The Company then analyzes 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.

Methodology for Determining Cumulative Number of Reported Claims

When the Company is notified of an incident of potential liability that may lead to demand for payment(s), a claim file is created. Methods used to summarize claim counts have not changed significantly over the time periods reported in the tables above. The methodology of counting claims for each of the Company's segments may be summarized as follows:

Property and Casualty

The Company's P&C claims are counted by claim number assigned to each claimant per insured event. However, if an insured event occurs and demand for payment is made with respect to more than one coverage (e.g., an automobile claim arising from the same incident demanding separate payment for liability and physical damage), there would be one claim counted for each coverage for which a demand for payment was made. Claims closed without payment are included in the cumulative number of reported P&C claims.

Accident and Health

The Company's A&H claims are counted by claim number assigned to each claimant per illness, injury or death, regardless of number of services rendered for each incident. Claims closed without payment are not included in the cumulative number of reported A&H claims.

Reciprocal Exchanges

The Company's Reciprocal Exchanges claims are counted by claim number assigned to each claimant per insured event. However, if an insured event occurs and demand for payment is made with respect to more than one statutory annual statement line of business (e.g., an automobile claim arising from the same incident demanding separate payment for liability and physical damage), there would be one claim counted for each line of business for which a demand for payment was made. Claims closed without payment are not included in the cumulative number of reported Reciprocal Exchanges claims.

9. Reinsurance

The Company utilizes various excess of loss, quota share, state-based industry pools or facilities, and catastrophe reinsurance programs to limit its exposure. Reinsurance agreements transfer portions of the underlying risk of the business the Company writes. Reinsurance does not discharge or diminish the Company's obligation to pay claims covered by the insurance policies it issues; however, it does permit the Company to recover certain incurred losses from its reinsurers and the Company's reinsurance recoveries reduce the maximum loss that it may incur as a result of a covered loss event. The Company's reinsurers generally carry at least an A.M. Best rating of "A-" (Excellent) or the recoverables are fully collateralized. The total amount, cost and limits relating to the reinsurance coverage the Company purchases may vary from year to year based upon a variety of factors, including the availability of quality reinsurance at an acceptable price and the level of risk that the Company chooses to retain for its own account.

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

Reinsurance recoverable consists of the following:

	December 31,	
	2019	2018
Reinsurance recoverable on paid losses	$ 282,500	$ 326,596
Reinsurance recoverable on unpaid losses	1,111,808	1,285,142
Reinsurance recoverable	$ 1,394,308	$ 1,611,738

The following is the effect of reinsurance on unpaid loss and LAE reserves and unearned premiums:

	December 31,			
	2019		2018	
	Assumed	Ceded	Assumed	Ceded
Unpaid loss and LAE reserves	$ 50,884	$ 1,111,808	$ 84,469	$ 1,285,142
Unearned premiums	15,278	575,747	21,015	665,674

The following is the effect of reinsurance on premiums and loss and LAE:

	Year Ended December 31,					
	2019		2018		2017	
Premium:	Written	Earned	Written	Earned	Written	Earned
Direct	$ 5,508,245	$ 5,486,835	$ 5,317,742	$ 5,049,512	$ 4,637,911	$ 4,233,184
Assumed	74,835	80,572	99,097	123,265	118,074	239,230
Total Gross Premium	5,583,080	5,567,407	5,416,839	5,172,777	4,755,985	4,472,414
Ceded	(1,358,459)	(1,449,365)	(1,589,126)	(1,440,575)	(1,178,390)	(818,238)
Net Premium	$ 4,224,621	$ 4,118,042	$ 3,827,713	$ 3,732,202	$ 3,577,595	$ 3,654,176

	Year Ended December 31,					
	2019		2018		2017	
	Assumed	Ceded	Assumed	Ceded	Assumed	Ceded
Loss and LAE	$ 32,745	$ 801,041	$ 29,290	$ 1,041,286	$ 128,418	$ 790,524

Quota Share Agreements

In 2017, the Company entered into an Auto Quota Share Agreement (the "Auto Quota Share Agreement") covering the Company's auto line of business. Effective January 1, 2019, the Company ceded 7.0% of net liability. On July 1, 2019, the Company renewed its Auto Quota Share Agreement for a two-year term. Effective July 1, 2019, the Company ceded 10.0% of net liability with the ability to increase the cession to up to 30.0% and decrease the cession down to 5.0% under certain conditions. The Company receives a 31.2% provisional ceding commission on premiums ceded to the reinsurer during the term of the Auto Quota Share Agreement, subject to a sliding scale adjustment to a maximum of 32.8% if the loss ratio for the reinsured business is 64.7% or less and a minimum of 30.0% if the loss ratio is 67.5% or higher. Effective January 1, 2020, the Company cedes 5.0% of net liability under new and renewal auto policies written.

In 2017, the Company entered into a Homeowners Quota Share Agreement (the "HO Quota Share Agreement") covering the Company's homeowners line of business. On July 1, 2019, the Company renewed its HO Quota Share Agreement for a one-year term. Effective July 1, 2019, the Company cedes 40.0% of net liability and receives a 36.0% ceding commission on new and renewal business and a portion of the in-force business. A portion of the in-force business is being run-off under the prior agreements. The weighted average expected ceding commission for all in-force business and new and renewal homeowners business is 37.5% over the contract term.

Effective July 1, 2019, the Reciprocal Exchanges entered into a personal lines quota share agreement for a one-year term. The Reciprocal Exchanges cede 28.5% of net liability on new and renewal homeowners multiple peril, dwelling fire, and automobile physical damage (comprehensive only) policies written in the states of New Jersey and New York.

Catastrophe Reinsurance

Effective May 1, 2019, the Company's reinsurance property catastrophe excess of loss program, protecting the Company against catastrophic events and other large losses, provides a total of $650,000 in coverage with one reinstatement with a $70,000 retention for the first event and $50,000 for the second event. As of July 1, 2018, the casualty program provides $35,000 in coverage in excess of a $5,000 retention. Effective October 1, 2019, the Company renewed the casualty program, for which coverage and retention will remain in effect and unchanged. The Company pays a premium as consideration for ceding the risk.

Effective July 1, 2019, the Reciprocal Exchanges renewed their property catastrophe excess of loss program providing a total of $480,000 in coverage with a $20,000 retention, with one reinstatement.

Industry Pools and Facilities

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

MCCA is a reinsurance mechanism that covers no-fault first party medical losses of retentions in excess of $555 in the first half of 2019 and $580 until June 30, 2021. Insurers are reimbursed for their covered losses in excess of this threshold. All automobile insurers doing business in Michigan are required to participate in MCCA. Funding for MCCA comes from assessments against automobile insurers based upon their share of insured automobiles in the state. Insurers are allowed to pass along this cost to Michigan automobile policyholders.

Reinsurance recoverable from MCCA are as follows:

	December 31,	
	2019	2018
Reinsurance recoverable on paid losses	$ 9,940	$ 7,470
Reinsurance recoverable on unpaid losses	548,370	590,188
Reinsurance recoverable	$ 558,310	$ 597,658

The following is a summary of premiums and losses ceded to MCCA:

	Year Ended December 31,		
	2019	2018	2017
Ceded earned premiums	$ 9,867	$ 9,676	$ 9,323
Ceded Loss and LAE	(23,616)	(54,105)	14,304

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

Reinsurance recoverable from NCRF are as follows:

	December 31,	
	2019	2018
Reinsurance recoverable on paid losses	$ 44,759	$ 36,418
Reinsurance recoverable on unpaid losses	146,496	134,916
Reinsurance recoverable	$ 191,255	$ 171,334

The following is a summary of premiums and losses ceded to NCRF:

	Year Ended December 31,		
	2019	2018	2017
Ceded earned premiums	$ 234,370	$ 232,270	$ 190,809
Ceded Loss and LAE	222,796	210,297	186,051

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

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

		Recoverable on				
December 31, 2019	A.M. Best Rating	Unpaid Losses	Paid Losses	Prepaid Reinsurance	Funds Held	Net
Reinsurer:						
MCCA	NR [1]	$ 548,370	$ 9,940	$ 3,927	$ —	$ 562,237
NCRF	NR [1]	146,496	44,759	88,022	—	279,277
Hannover Ruck SE	A+	155,223	101,064	134,878	(254,558)	136,607
Other reinsurers' balances - each less than 5% of total [2]	—	261,719	126,737	348,920	(4,884)	732,492
Total		$ 1,111,808	$ 282,500	$ 575,747	$ (259,442)	$ 1,710,613
NGHC		$ 1,027,634	$ 247,549	$ 469,853	$ (259,442)	$ 1,485,594
Reciprocal Exchanges		84,174	34,951	105,894	—	225,019
Total		$ 1,111,808	$ 282,500	$ 575,747	$ (259,442)	$ 1,710,613

		Recoverable on				
December 31, 2018	A.M. Best Rating	Unpaid Losses	Paid Losses	Prepaid Reinsurance	Funds Held	Net
Reinsurer:						
MCCA	NR [1]	$ 590,188	$ 7,470	$ 3,894	$ —	$ 601,552
NCRF	NR [1]	134,916	36,418	82,550	—	253,884
Hannover Ruck SE	A+	182,184	120,624	192,700	(282,129)	213,379
Other reinsurers' balances - each less than 5% of total [2]	—	377,854	162,084	386,530	(4,861)	921,607
Total		$ 1,285,142	$ 326,596	$ 665,674	$ (286,990)	$ 1,990,422
NGHC		$ 1,207,163	$ 287,507	$ 529,241	$ (286,990)	$ 1,736,921
Reciprocal Exchanges		77,979	39,089	136,433	—	253,501
Total		$ 1,285,142	$ 326,596	$ 665,674	$ (286,990)	$ 1,990,422

[1] NR - not rated by A.M. Best
[2] Rated A- or higher by A.M. Best or collateralized

Funds held for reinsurers are recorded within reinsurance payable in the consolidated balance sheets. Additionally, collateral is available to the Company in the form of letters of credit and trust agreements in the amounts of $143,069 and $165,004, as of December 31, 2019 and 2018, respectively.

10. Income Taxes

The Company files a consolidated Federal income tax return and is a party to a Federal income tax allocation agreement. Under the tax allocation agreement, each subsidiary computes and pays to the Company its respective share of the federal income tax liability primarily based on separate return calculations. The Reciprocal Exchanges are not a party to the tax allocation agreement and file separate tax returns.

Federal income tax expense consisted of the following:

	Year Ended December 31,								
	2019			2018			2017		
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total
Current tax expense (benefit)									
Federal	$ 69,985	$ (2,257)	$ 67,728	$ 27,039	$ (2,290)	$ 24,749	$ 13,876	$ 2,840	$ 16,716
Foreign	2,621	—	2,621	1,376	—	1,376	2,057	—	2,057
Total current tax expense (benefit)	$ 72,606	$ (2,257)	$ 70,349	$ 28,415	$ (2,290)	$ 26,125	$ 15,933	$ 2,840	$ 18,773
Deferred tax expense (benefit)									
Federal	$ 13,497	$ (6,833)	$ 6,664	$ 28,015	$ (1,260)	$ 26,755	$ 59,304	$ (8,485)	$ 50,819
Foreign	—	—	—	604	—	604	(8,319)	—	(8,319)
Total deferred tax expense (benefit)	$ 13,497	$ (6,833)	$ 6,664	$ 28,619	$ (1,260)	$ 27,359	$ 50,985	$ (8,485)	$ 42,500
Provision (benefit) for income taxes	$ 86,103	$ (9,090)	$ 77,013	$ 57,034	$ (3,550)	$ 53,484	$ 66,918	$ (5,645)	$ 61,273

The domestic and foreign components of income before taxes are as follows:

	Year Ended December 31,								
	2019			2018			2017		
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total
Domestic	$ 358,079	$ (29,729)	$ 328,350	$ 244,463	$ (43,380)	$ 201,083	$ 221,833	$ (9,282)	$ 212,551
Foreign	76,093	—	76,093	19,925	—	19,925	(49,070)	—	(49,070)
Income (loss)	$ 434,172	$ (29,729)	$ 404,443	$ 264,388	$ (43,380)	$ 221,008	$ 172,763	$ (9,282)	$ 163,481

The Tax Cuts and Jobs Act was enacted on December 22, 2017 (the “TCJA”). The TCJA reduced the U.S. federal corporate tax rate from 35% to 21%, and enacted other changes to the tax code impacting the Company and the overall insurance industry.

The TCJA included provisions for Global Intangible Low-Taxed Income (“GILTI”), which imposes a minimum tax on global intangible low-tax income, defined as the excess income of foreign subsidiaries over a 10 percent rate of routine return on tangible business assets, and for Base Erosion and Anti-Abuse tax (“BEAT”) which imposes tax on certain base eroding payments to affiliated foreign companies. Consistent with accounting guidance, the Company treats both GILTI and BEAT as an in period tax charges when incurred in future periods for which no deferred taxes need be provided. The Company analyzed the impact of both GILTI and BEAT on its operations for the period and determined that for the year ended December 31, 2019, the Company was subject to GILTI but was not subject to the BEAT.

Deferred income taxes are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The tax effects of temporary differences that give rise to the net deferred tax asset or liability are presented below based upon the 2019 enacted rate of 21%.

	December 31,					
	2019			2018		
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total
Deferred tax assets:						
Accrued expenses	$ 3,178	$ 683	$ 3,861	$ 6,481	$ —	$ 6,481
Unearned premiums and other revenue	64,155	5,146	69,301	57,573	4,128	61,701
Bad debt	4,876	114	4,990	4,021	222	4,243
Loss reserve discount	10,355	1,042	11,397	9,902	767	10,669
Net operating loss carryforwards	102,535	13,962	116,497	87,457	11,403	98,860
Surplus note interest	2,081	—	2,081	—	—	—
Unrealized capital losses	—	—	—	10,013	1,236	11,249
Other	9,740	4,882	14,622	14,522	805	15,327
Gross deferred tax assets	196,920	25,829	222,749	189,969	18,561	208,530
Less: Valuation allowance	(65,257)	(6,523)	(71,780)	(53,716)	(6,628)	(60,344)
Total deferred tax assets	131,663	19,306	150,969	136,253	11,933	148,186
Deferred tax liabilities:						
Deferred acquisition costs	49,828	4,894	54,722	47,415	4,201	51,616
Intangible assets	36,495	700	37,195	42,264	918	43,182
Goodwill	4,204	—	4,204	3,007	—	3,007
Property and equipment	28,922	—	28,922	18,920	—	18,920
Surplus note interest	—	13,828	13,828	—	12,355	12,355
Unrealized capital gains	19,870	1,062	20,932	—	—	—
Other	11,671	81	11,752	1,090	255	1,345
Gross deferred tax liabilities	150,990	20,565	171,555	112,696	17,729	130,425
Deferred tax asset	$ —	$ —	$ —	$ 23,557	$ —	$ 23,557
Deferred tax liability	$ (19,327)	$ (1,259)	$ (20,586)	$ —	$ (5,796)	$ (5,796)

Excluding the Reciprocal Exchanges, there were $65,257 and $53,716 of deferred tax asset valuation allowances as of December 31, 2019 and 2018, respectively. In assessing the reliability of gross deferred tax assets, management considers whether it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Management believes that it is more likely than not that the results of future operations will not generate sufficient taxable income to realize all of the deferred tax assets related to the Net Operating Loss ("NOL") from foreign operations within a reasonable time period. For the year ended December 31, 2019, the Company recorded a change in valuation allowance of $11,541 against these NOLs.

For the Reciprocal Exchanges, the Company had a partial valuation allowance against the net deferred tax assets as of December 31, 2019 and 2018, respectively, and no tax benefit from consolidated pre-tax losses generated for the years ended December 31, 2019 and 2018, was recognized. For the year ended December 31, 2019, New Jersey Skylands Insurance Association ("NJSIA"), has negative evidence in the form of a multi-year history of net operating losses for tax purposes that supported the determination that the realized net deferred tax asset should have a full valuation allowance recorded against it. Further, NJSIA did not have sufficient existing taxable temporary differences that could be considered as a source of taxable income to provide assurance of the realization of their deferred tax asset.

Excluding the Reciprocal Exchanges, the Company had U.S. federal NOLs of $67,406, $58,082 and $64,795 available for tax purposes for the years ended December 31, 2019, 2018 and 2017, respectively. The NOLs expire between December 31, 2029 and December 31, 2037.

The Reciprocal Exchanges had NOLs of $66,484, $54,300 and $18,592 available for the years ended December 31, 2019, 2018 and 2017, respectively. The NOLs expire between December 31, 2020 and December 31, 2039.

The Company's income tax expense (benefit) differs from the statutory U.S. federal amount computed by applying the federal income tax rate of 21% for the years ended December 31, 2019 and 2018, and 35% for the year ended December 31, 2017. The reasons for such differences are as follows:

	Year Ended December 31, 2019					
	NGHC	Tax Rate	Reciprocal Exchanges	Tax Rate	Total	Tax Rate
Income (loss) before provision for income taxes	$ 434,172		$ (29,729)		$ 404,443	
Tax rate	21.0%		21.0%		21.0%	
Computed "expected" tax expense	$ 91,176	21.0%	$ (6,243)	21.0%	$ 84,933	21.0%
Tax effects resulting from:						
Tax-exempt interest	(810)	(0.2)	(28)	0.1	(838)	(0.2)
Effect of foreign operations	(1,192)	(0.3)	—	—	(1,192)	(0.3)
State taxes	(2,357)	(0.5)	210	(0.7)	(2,147)	(0.5)
Change in valuation allowance	11,541	2.7	(105)	0.4	11,436	2.8
Benefits of operating loss carryforwards	(11,541)	(2.7)	—	—	(11,541)	(2.9)
Other permanent items	(714)	(0.2)	(2,924)	9.8	(3,638)	(0.9)
Provision (benefit) for income taxes	$ 86,103	19.8%	$ (9,090)	30.6%	$ 77,013	19.0%

	Year Ended December 31, 2018					
	NGHC	Tax Rate	Reciprocal Exchanges	Tax Rate	Total	Tax Rate
Income (loss) before provision for income taxes	$ 264,388		$ (43,380)		$ 221,008	
Tax rate	21.0%		21.0%		21.0%	
Computed "expected" tax expense	$ 55,521	21.0%	$ (9,110)	21.0%	$ 46,411	21.0%
Tax effects resulting from:						
Tax-exempt interest	(910)	(0.3)	(30)	0.1	(940)	(0.4)
Effect of foreign operations	2,807	1.1	—	—	2,807	1.3
State taxes	4,578	1.7	—	—	4,578	2.1
Change in valuation allowance	53,716	20.3	1,218	(2.8)	54,934	24.9
Benefits of operating loss carryforwards	(53,716)	(20.3)	—	—	(53,716)	(24.3)
Effects of TCJA	(951)	(0.4)	(366)	0.8	(1,317)	(0.6)
Other permanent items	(4,011)	(1.5)	4,738	(10.9)	727	0.2
Provision (benefit) for income taxes	$ 57,034	21.6%	$ (3,550)	8.2%	$ 53,484	24.2%

	Year Ended December 31, 2017					
	NGHC	Tax Rate	Reciprocal Exchanges	Tax Rate	Total	Tax Rate
Income before provision for income taxes	$ 172,763		$ (9,282)		$ 163,481	
Tax rate	35.0%		35.0%		35.0%	
Computed “expected” tax expense	$ 60,467	35.0%	$ (3,249)	35.0%	$ 57,218	35.0%
Tax effects resulting from:						
Tax-exempt interest	(2,634)	(1.5)	(110)	1.2	(2,744)	(1.7)
Effect of foreign operations	(4,940)	(2.9)	—	—	(4,940)	(3.0)
Goodwill impairment	1,709	1.0	—	—	1,709	1.0
Statutory equalization reserves	(8,319)	(4.8)	—	—	(8,319)	(5.1)
Change in valuation allowance	—	—	(1,725)	18.6	(1,725)	(1.1)
Effects of TCJA	25,783	14.9	(5,194)	56.0	20,589	12.6
Other permanent items	(5,148)	(3.0)	4,633	(50.0)	(515)	(0.2)
Provision (benefit) for income taxes	$ 66,918	38.7%	$ (5,645)	60.8%	$ 61,273	37.5%

As permitted by ASC 740, “Income Taxes,” the Company recognizes interest and penalties, if any, related to unrecognized tax positions in its income tax provision. The Company has not recorded an unrecognized tax position and has not recorded any related interest and penalties for any of the years ended December 31, 2019, 2018 and 2017.

All tax liabilities are payable to the Internal Revenue Service (“IRS”) and various state and local taxing agencies. The Company’s subsidiaries are not currently under audit by the IRS, but remain open to audit years for the tax year 2016 and thereafter for federal tax purposes. For state and local tax purposes, the Company is open to audit for tax years ended December 31, 2014 forward, depending on jurisdiction.

11. Debt

The following table represents the Company's debt:

	Interest Rate	Maturity	December 31, 2019	December 31, 2018
Fixed-rate:				
6.75% Notes	6.75%	2024	$ 350,000	$ 350,000
7.625% Notes	7.625%	2055	100,000	100,000
Floating-rate:				
Subordinated Debentures I [1]	LIBOR + 3.40%	2035	41,238	41,238
Subordinated Debentures II [2]	LIBOR + 4.25%	2037	30,930	30,930
2016 Credit Agreement [3]	LIBOR + 2.00%	—	—	160,000
2019 Credit Agreement [4]	LIBOR + 1.75%	2023	140,000	—
Finance lease liabilities	Various	Various	20,477	14,824
Other	3.5%	Various	9,342	15,522
Unamortized debt issuance costs and unamortized discount			(5,981)	(6,719)
Total carrying amount of debt			$ 686,006	$ 705,795

[1] Interest rate was 5.29% and 6.19%, as of December 31, 2019 and 2018, respectively.
[2] Interest rate was 6.14% and 7.04%, as of December 31, 2019 and 2018, respectively.
[3] Weighted-average interest rate was 4.58% as of December 31, 2018.
[4] Weighted-average interest rate was 3.59% as of December 31, 2019.

The following table presents the Company's interest expense:

	Interest Payment Frequency	Year Ended December 31, 2019	2018	2017
6.75% Notes	Semiannually	$ 23,625	$ 23,625	$ 23,688
7.625% Notes	Quarterly	7,625	7,625	7,454
Subordinated Debentures	Quarterly	4,536	4,346	3,768
2016 Credit Agreement	Quarterly	1,211	7,491	4,229
2019 Credit Agreement	Quarterly	5,340	—	—
Finance lease liabilities	Various	1,176	621	894
Other [1]	Various	8,030	7,717	7,053
Total interest expense		$ 51,543	$ 51,425	$ 47,086

[1] Includes interest for other liabilities, interest credited on funds held balances and accretion of debt issuance costs.

Notes

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

The 7.625% Notes are the Company's subordinated unsecured obligations and rank (i) senior in right of payment to any future junior subordinated debt, (ii) equal in right of payment with any unsecured, subordinated debt that the Company incurs in the future that ranks equally with the 7.625% Notes, and (iii) subordinate in right of payment to any of the Company's existing and future senior debt, including amounts outstanding under the Company's revolving credit facility, the Company's 6.75% notes and certain of the Company's other obligations. In addition, the 7.625% Notes are structurally subordinated to all existing and future indebtedness, liabilities and other obligations of the Company's subsidiaries. The 7.625% Notes mature on September 15, 2055, unless earlier redeemed or purchased by the Company.

Subordinated Debentures

The Company, through a subsidiary, is the issuer of junior subordinated debentures (the "Subordinated Debentures") relating to the issuance of trust preferred securities. The Subordinated Debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The Subordinated Debentures' principal amounts of $41,238 and $30,930 mature in 2035 and 2037, respectively, and bear interest at an annual rate equal to LIBOR plus 3.40% and LIBOR plus 4.25%, respectively. The Subordinated Debentures are redeemable by the Company at a redemption price equal to 100% of their principal amount.

Credit Agreement

On February 25, 2019, the Company refinanced its existing credit agreement and entered into a new credit agreement (the "2019 Credit Agreement"), with JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and Fifth Third Bank, as Co-Syndication Agents, and the various lending institutions party thereto. The 2019 Credit Agreement is currently a $340,000 base revolving credit facility with a letter of credit sublimit of $150,000 and an expansion feature of up to $50,000. Borrowings under the 2019 Credit Agreement bear interest at either the Alternate Base Rate ("ABR") or the LIBO rate. ABR borrowings under the 2019 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 LIBO rate for a one-month interest period on such day plus 1 percent. Eurodollar borrowings under the 2019 Credit Agreement will bear interest at the adjusted LIBO rate plus the Eurodollar spread for the interest period in effect. Fees payable by the Company under the 2019 Credit Agreement include a letter of credit participation fee, 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 0.175% to 0.25% based on the Company's consolidated leverage ratio; as of December 31, 2019, the rate was 0.225%). The 2019 Credit Agreement has a maturity date of February 25, 2023.

Maturities of the Company's debt for the years subsequent to December 31, 2019 are as follows:

	2020	2021	2022	2023	2024	Thereafter	Total
6.75% Notes	$ —	$ —	$ —	$ —	$ 350,000	$ —	$ 350,000
7.625% Notes	—	—	—	—	—	100,000	100,000
Subordinated Debentures I	—	—	—	—	—	41,238	41,238
Subordinated Debentures II	—	—	—	—	—	30,930	30,930
2019 Credit Agreement	—	—	—	140,000	—	—	140,000
Finance lease liabilities	6,653	5,278	2,997	1,750	1,242	2,557	20,477
Other	6,399	2,943	—	—	—	—	9,342
Total principal amount of debt	$ 13,052	$ 8,221	$ 2,997	$ 141,750	$ 351,242	$ 174,725	$ 691,987
Unamortized debt issuance costs and unamortized discount							(5,981)
Carrying amount of debt							$ 686,006

Covenants and Compliance

The indenture relating to the 6.75% Notes and 7.625% Notes contains customary covenants, such as reporting of annual and quarterly financial results, and restrictions on certain mergers and consolidations, as well as covenants relating to the incurrence of debt if the Company's consolidated leverage ratio would exceed 0.35 to 1.00, a limitation on liens, a limitation on the disposition of stock of certain of the Company's subsidiaries and a limitation on transactions with certain of the Company's affiliates.

The 2019 Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. There are also financial covenants that require the Company to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum risk-based capital and a minimum rating.

The 2019 Credit Agreement also provides for customary events of default, with grace periods where customary, including failure to pay principal when due, failure to pay interest or fees within three business days after becoming due, failure to comply with covenants, breaches of representations and warranties, default under certain other indebtedness, certain insolvency or receivership events affecting the Company and its subsidiaries, the occurrence of certain material judgments, or a change in control of the Company. Upon the occurrence and during the continuation of an event of default, the administrative agent, upon 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 2019 Credit Agreement, declare the Company's obligations under the 2019 Credit Agreement to become immediately due and payable and/or exercise any and all remedies and other rights under the 2019 Credit Agreement.

As of December 31, 2019, the Company was in compliance with the covenants contained in the Company's debt agreements.

12. Leases

The Company determines if an arrangement is a lease at inception. Operating lease ROU assets and operating leases liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The Company uses an incremental borrowing rate at commencement date in determining the present value of future payments. The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. The Company elected the package of practical expedients permitted under the transition guidance within the new standard. Application of the package of practical expedients allowed the Company not to reassess a) whether any expired or existing contracts contain leases, b) existing lease classification, c) initial direct cost for existing leases, and d) land easements that existed before the Company's adoption of the new standard.

The Company leases certain retail stores, office space, land, and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheets; the Company recognizes lease expense for these leases over the lease term.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to five years or more. The exercise of lease renewal options is at the Company's sole discretion. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Certain of the Company's lease agreements include rental payments adjusted periodically for inflation. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company rents or subleases certain real estate to third parties.

Supplemental balance sheet information related to leases is as follow:

Leases	Classification	December 31, 2019
Assets:		
Finance	Buildings and improvements	$ 9,068
Finance	Vehicle	7,660
Finance	Hardware, software and other equipment	4,276
Total finance leases	Finance lease right-of-use assets	21,004
Operating	Buildings	119,276
Operating	Hardware, software and other equipment	658
Total operating leases	Operating lease right-of-use assets	119,934
Total lease right-of-use assets	Property and equipment	$ 140,938
Liabilities:		
Finance	Debt	$ 20,477
Operating	Other liabilities	124,960
Total lease liabilities		$ 145,437

The components of lease cost are as follows:

Lease Cost	Classification	Year Ended December 31, 2019
Finance lease cost:		
Amortization of leased assets	General and administrative expenses	$ 7,859
Interest on lease liabilities	Interest expense	1,176
Finance lease cost		$ 9,035
Operating lease cost	General and administrative expenses	$ 32,901

Maturities of the Company's lease liabilities for the years subsequent to December 31, 2019 are as follows:

	Operating Leases	Finance Leases	Total
2020	$ 28,913	$ 7,547	$ 36,460
2021	26,245	5,817	32,062
2022	22,099	3,367	25,466
2023	18,541	2,010	20,551
2024	16,316	1,428	17,744
Thereafter	34,300	2,761	37,061
Total lease payments	$ 146,414	$ 22,930	$ 169,344
Less: Interest	(21,454)	(2,453)	
Present value of lease liabilities	$ 124,960	$ 20,477	

Supplemental information related to term and discount rate are as follow:

Leases	Classification	December 31, 2019
Weighted-average remaining lease term:		
Finance	Buildings and improvements	7.2 years
Finance	Vehicle	2.8 years
Finance	Hardware, software and other equipment	1.6 years
Operating	Operating lease right-of-use assets	6.0 years
Weighted-average discount rate:		
Finance	Buildings and improvements	5.9%
Finance	Vehicle	4.1%
Finance	Hardware, software and other equipment	3.9%
Operating	Operating lease right-of-use assets	5.3%

Supplemental cash flow information related to leases is as follow:

	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	$ 990
Financing cash flows from finance leases	5,664
Operating cash flows from operating leases	23,105
Leased assets obtained in exchange for new finance lease liabilities	11,317
Leased assets obtained in exchange for new operating lease liabilities	35,456

13. Related Party Transactions

The significant shareholder of the Company has an ownership interest in AmTrust, Maiden Holdings Ltd. (“Maiden”) and ACP Re. The Company entered in the following transactions with these related entities:

NGHC Quota Share Agreement

The Company participated in a quota share reinsurance treaty with ACP Re, Maiden and AmTrust, whereby the Company ceded 50% of the total net earned premiums, net of a ceding commission, and net incurred losses and LAE on business with effective dates after March 1, 2010 (“NGHC Quota Share”) through August 2013, when the Company terminated the NGHC Quota Share agreement on a run-off basis. In October 2019, the NGHC Quota Share Agreement was commuted based on the then-current reserves and no gain or loss was recorded. The net reinsurance recoverable was $7,425 at December 31, 2018. Ceded losses and LAE under the agreement was $624, $2,157 and $3,356 during the years ended December 31, 2019, 2018 and 2017, respectively.

Equity Method Investments

The Company has an ownership interest in an LSC Entity, limited liability companies and limited partnerships with related parties. See Note 3, “Investments - Equity Method Investments - Related Parties” for additional information.

Agreements with ACP Re

Credit Agreement

The Company is party to a credit agreement (the "ACP Re Credit Agreement") by and among AmTrust, as administrative agent, ACP Re Holdings, LLC, a Delaware limited liability company owned by a related party trust, the Michael Karfunkel Family 2005 Trust (the "Trust"), as borrower, and AmTrust and the Company, as lenders of $250,000 ($125,000 each lender). The amounts borrowed are secured by equity interests, cash and, other investments held by ACP Re Holdings, LLC in an amount equal to 115% of the outstanding loan balance. The maturity date of the loan is September 20, 2036. The interest rate on the outstanding principal balance is a fixed annual rate of 3.7%, provided that up to 1.2% thereof may be paid in kind. The Trust is required to cause ACP Re Holdings, LLC to maintain assets having a value greater than 115% of the outstanding loan balance, and if there is a shortfall, the Trust will make a contribution to ACP Re Holdings, LLC of assets having a market value of at least the shortfall (the "Maintenance Covenant"). Commencing on September 20, 2026, and for each year thereafter, two percent of the then outstanding principal balance of the loan (inclusive of any amounts previously paid in kind) is due and payable. A change of control of greater than 50% and an uncured breach of the Maintenance Covenant are included as events of default.

As of December 31, 2019 and 2018 the Company had a receivable for the principal amount related to the ACP Re Credit Agreement of $129,229 and $127,692, respectively. The Company recorded interest income of $4,767, $4,711 and $4,654 for the years ended December 31, 2019, 2018 and 2017, respectively, under the ACP Re Credit Agreement. Management determined no impairment reserve was needed for the carrying value of the loan at December 31, 2019 and 2018 based on the collateral levels maintained.

Other Related Party Transactions

Lease Agreements

The Company leases office space at 59 Maiden Lane in New York, New York from 59 Maiden Lane Associates LLC, an entity that is wholly-owned by the Karfunkel family. The lease term is through 2022. The Company paid $830, $830 and $783 in rent for the years ended December 31, 2019, 2018 and 2017, respectively.

The Company leases office space at 30 North LaSalle Street, Chicago, Illinois from 30 North LaSalle Street Partners LLC, an entity that is wholly-owned by the Karfunkel family. The lease term is through 2025. The Company paid $309, $302 and $297 in rent for the years ended December 31, 2019, 2018 and 2017, respectively.

14. Commitments and Contingencies

Lease Commitments

The Company leases certain retail stores, office space, land, and equipment. See Note 12, "Leases" for additional information.

Employment Agreements

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

December 31,	
2020	$ 5,560
2021	2,601
2022	2,420
2023	1,285
2024	773
Total	$ 12,639

Litigation

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

On July 25, 2019, the City of North Miami Beach Police Officers' and Firefighters' Retirement Plan filed a complaint in the U.S. District Court for the Central District of California against the Company and certain of its officers. The plaintiff purports to represent a class of individuals and entities who purchased or otherwise acquired shares of the Company's common stock between August 5, 2015 and August 9, 2017. The complaint asserts claims under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder based on allegedly false and misleading statements made by the Company in its SEC filings in relationship to the Company's involvement in the historical and no longer existing Wells Fargo collateral protection insurance program. The complaint seeks damages in an amount to be proven at trial. On November 19, 2019, the U.S. District Court for the Central District of California granted the Company's Motion to Transfer the case to the Southern District of New York. On January 10, 2020, lead plaintiffs Town of Davie Police Officers Retirement System and Massachusetts Laborers' Pension Fund filed an amended Complaint alleging similar claims under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder on behalf of a purported class of individuals and entities who purchased or otherwise acquired shares of the Company's common stock between July 15, 2015 and August 9, 2017. Management believes that the claims set forth in the amended complaint are unfounded and without merit and intend to vigorously contest them. The Company note, however, that in light of the inherent uncertainty in legal proceedings, the Company can give no assurance as to the ultimate resolution of the matter, and an estimate of the possible loss or range of loss, if any, cannot be made at this time.

15. Stockholders' Equity

Preferred Stock

In 2014, the Company 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 the Company has not declared a dividend before the dividend payment date for any dividend period, the Company will have no obligation to pay dividends for that dividend period, whether or not dividends on the Series A Preferred Stock are declared for any future dividend payment. The Series A Preferred Stock is not redeemable prior to July 15, 2019. After that date, the Company may redeem at its 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.

In 2015, the Company completed a public offering of 6,600,000 of its depositary shares, each representing a 1/40th interest in a share of its 7.50% Non-Cumulative Preferred Stock, Series B, $0.01 par value per share (the "Series B Preferred Stock"), with a liquidation preference of $1,000 per share (equivalent to $25 per depositary share). Each depositary share entitles the holder to a proportional fractional interest in all rights and preferences of the Series B Preferred Stock represented thereby (including any dividend, liquidation, redemption and voting rights). Dividends on the Series B Preferred Stock represented by the depositary shares will be payable on the liquidation preference amount, on a non-cumulative basis, when, as and if declared by the Company's Board of Directors, at a rate of 7.50% per annum, quarterly in arrears, on January 15, April 15, July 15, and October 15 of each year. 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 the Company has not declared a dividend before the dividend payment date for any dividend period, the Company will have no obligation to pay dividends for that dividend period, whether or not dividends on the Series 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, the Company may redeem at its option, in whole or in part, the Series B Preferred Stock represented by the depositary shares at a redemption price of $1,000 per share (equivalent to $25 per depositary share) plus any declared and unpaid dividends for prior dividend periods and accrued but unpaid dividends (whether or not declared) for the then current dividend period. A total of 6,600,000 depositary shares (equivalent to 165,000 shares of Series B Preferred Stock) were issued.

In 2016, the Company completed a public offering of 8,000,000 of its depositary shares, each representing a 1/40th interest in a share of its 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 the Company's Board of Directors, at a rate of 7.50% per annum, quarterly in arrears, on January 15, April 15, July 15, and October 15 of each year. 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 the Company has not declared a dividend before the dividend payment date for any dividend period, the Company will have no obligation to pay dividends for that dividend period, whether or not dividends on the Series 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, the Company may redeem at its 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.

In 2018, the Company completed a private placement of 120 shares of a new series of preferred stock, par value $0.01 per share, designated as its Fixed/Floating Rate Non-Cumulative Convertible Preferred Stock, Series D (the "Series D Preferred Stock"), with a liquidation preference of $250,000 per share, for aggregate proceeds of $30,000. Holders of Series D Preferred Stock will be entitled to receive, when, as and if declared by the Company's board of directors, non-cumulative cash dividends per share at the per annum rate of 7.00% prior to July 15, 2023, and thereafter at the annual rate of six-month LIBOR plus 5.4941%. Dividends will be payable semi-annually in arrears on the 15th day of January and July of each year, commencing on January 15, 2019. On or after July 15, 2023 (or in the event of a fundamental change of the Company, at any time), the Series D Preferred Stock may be converted at the holder's option into shares of the Company's common stock at a conversion rate of 6,578.9474 shares of common stock for each share of Series D Preferred Stock, subject to adjustment, which equates to an initial conversion price of $38 per share. In lieu of converting any shares of Series D Preferred Stock, the Company may, at its option, redeem such shares as described below.

On or after July 15, 2023 (or in the event of a fundamental change of the Company at any time), the Company will have the right to redeem the Series D Preferred Stock in whole or from time to time in part at a cash redemption price equal to the redemption amount specified in the Certificate of Designations governing the Series D Preferred Stock plus the sum of declared and unpaid dividends for prior dividend periods, if any, and accrued but unpaid dividends for the then-current dividend period (whether or not declared) to the redemption date. In addition, if the Company fails to pay a declared dividend on the Series D Preferred Stock when due and payable, a holder of the Series D Preferred Stock may require the Company to redeem its Series D Preferred Stock in whole or in part. In the case of any redemption, the redemption amount will equal the liquidation preference of the shares of Series D Preferred Stock to be redeemed unless (i) the accumulated earned premium produced under the business collaboration agreement entered into between the Company and the purchaser of the Series D Preferred Stock equals or exceeds $50,000 at the time of redemption and (ii) the trading price of the Company's common stock equals or exceeds the then-applicable conversion price of the Series D Preferred Stock. In such case, the redemption amount will be a cash amount equal to the conversion value of the shares issuable upon conversion of the Series D Preferred Stock. The Series D Preferred Stock ranks senior to the common stock and on parity with the Company's Series A, B and C preferred stock and all other parity classes of preferred stock that may be issued by the Company in the future.

A summary description of the terms of these series of preferred stock is presented in the table below:

Series	Dividend rate per year	Shares of preferred stock issued	Depositary shares issued	Liquidation preference (Per Share)	Aggregate liquidation preference
A	7.50%	2,200,000	—	$ 25	$ 55,000
B	7.50%	165,000	6,600,000	$ 1,000	$ 165,000
C	7.50%	200,000	8,000,000	$ 1,000	$ 200,000
D	Fixed/ Floating[1]	120	—	$ 250,000	$ 30,000

[1] Dividend rate is fixed at 7.00% prior to July 15, 2023 and floating at six-month LIBOR plus 5.4941% thereafter.

Common Stock and Preferred Stock Dividends

Dividends are payable on the Company's common and preferred stock only when, as and if declared by the Company's Board of Directors in its discretion, from funds legally available for this purpose. The following tables present the class of stock, declaration date and dividends paid per share in 2019, 2018 and 2017:

Class of Stock	Declaration Date	Dividend Per Share	Dividend Per Depositary Share
Common stock	October 30, 2019	$ 0.05	
Common stock	July 29, 2019	$ 0.05	
Common stock	May 6, 2019	$ 0.04	
Common stock	February 25, 2019	$ 0.04	
Preferred stock Series A	October 30, 2019	$ 0.46875	
Preferred stock Series A	July 29, 2019	$ 0.46875	
Preferred stock Series A	May 6, 2019	$ 0.46875	
Preferred stock Series A	February 25, 2019	$ 0.46875	
Preferred stock Series B and Series C	October 30, 2019	$ 18.75	$ 0.46875
Preferred stock Series B and Series C	July 29, 2019	$ 18.75	$ 0.46875
Preferred stock Series B and Series C	May 6, 2019	$ 18.75	$ 0.46875
Preferred stock Series B and Series C	February 25, 2019	$ 18.75	$ 0.46875
Preferred stock Series D	October 30, 2019	$ 8,750.00	
Preferred stock Series D	May 6, 2019	$ 8,750.00	

Class of Stock	Declaration Date	Dividend Per Share	Dividend Per Depositary Share
Common stock	October 29, 2018	$ 0.04	
Common stock	August 6, 2018	$ 0.04	
Common stock	May 7, 2018	$ 0.04	
Common stock	February 26, 2018	$ 0.04	
Preferred stock Series A	October 29, 2018	$ 0.46875	
Preferred stock Series A	August 6, 2018	$ 0.46875	
Preferred stock Series A	May 7, 2018	$ 0.46875	
Preferred stock Series A	February 26, 2018	$ 0.46875	
Preferred stock Series B and Series C	October 29, 2018	$ 18.75	$ 0.46875
Preferred stock Series B and Series C	August 6, 2018	$ 18.75	$ 0.46875
Preferred stock Series B and Series C	May 7, 2018	$ 18.75	$ 0.46875
Preferred stock Series B and Series C	February 26, 2018	$ 18.75	$ 0.46875
Preferred stock Series D	October 29, 2018	$ 8,263.89	

Class of Stock	Declaration Date	Dividend Per Share	Dividend Per Depositary Share
Common stock	November 6, 2017	$ 0.04	
Common stock	August 7, 2017	$ 0.04	
Common stock	May 9, 2017	$ 0.04	
Common stock	February 24, 2017	$ 0.04	
Preferred stock Series A	November 6, 2017	$ 0.46875	
Preferred stock Series A	August 7, 2017	$ 0.46875	
Preferred stock Series A	May 9, 2017	$ 0.46875	
Preferred stock Series A	February 24, 2017	$ 0.46875	
Preferred stock Series B and Series C	November 6, 2017	$ 18.75	$ 0.46875
Preferred stock Series B and Series C	August 7, 2017	$ 18.75	$ 0.46875
Preferred stock Series B and Series C	May 9, 2017	$ 18.75	$ 0.46875
Preferred stock Series B and Series C	February 24, 2017	$ 18.75	$ 0.46875

16. Benefits Plan

A significant number of the Company's employees participate in a defined contribution plan. Employer contributions vary based on criteria specific to the plan. Contribution expense was $10,212, $9,292 and $8,049 for the years ended December 31, 2019, 2018 and 2017, respectively.

17. Statutory Financial Data, Risk-Based Capital and Dividend Restrictions

The Company's insurance subsidiaries file financial statements in accordance with statutory accounting practices ("SAP") prescribed or permitted by domestic or foreign insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between domestic and foreign jurisdictions. The principal differences relate to: (1) acquisition costs incurred in connection with acquiring new business which are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) ceding commission revenues are earned when ceded premiums are written except for ceding commission revenues in excess of anticipated acquisition costs, which are deferred and amortized as ceded premiums are earned. GAAP requires that all ceding commission revenues be earned as the underlying ceded premiums are earned over the term of the reinsurance agreements; (3) certain assets including certain receivables, a portion of the net deferred tax asset, prepaid expenses and furniture and equipment are not admitted; (4) limitation on net deferred tax assets created by the tax effects of temporary differences; (5) unpaid losses and loss expense, and unearned premium reserves are presented gross of reinsurance with a corresponding asset recorded; and (6) debt securities portfolios that are carried at fair value and changes in fair value are reflected directly in unassigned surplus, net of related deferred taxes.

Risk-Based Capital

Insurance companies in the U.S. are subject to certain Risk-Based Capital ("RBC") requirements as specified by the National Association of Insurance Commissioners ("NAIC"). Under such requirements, the amount of statutory capital and surplus maintained by an insurance company is to be determined on asset risk, underwriting risk and other risk factors. As of December 31, 2019 and 2018, the statutory capital and surplus of all of the Company's insurance subsidiaries domiciled in the U.S. exceeded the RBC requirements.

National General Re Ltd., the Company's foreign reinsurance subsidiary, is a Class 3A insurer. As a result, the revised regulations require that the available statutory capital and surplus be equal to or exceed the value of both its Minimum Margin of Solvency ("MMS") and the Enhanced Capital Requirement ("ECR"). The capital and solvency return will be filed with the Bermuda monetary authority on April 30, 2020 and the ECR based on the economic balance sheet will not be available until this filing is completed. The capital and surplus requirement is based on the statutory capital MMS prior to the ECR and the 25% of ECR criteria being calculated. The required MMS on this basis was $255,393 and $227,544 as of December 31, 2019 and 2018, respectively.

Statutory Financial Data

During 2019, the Company acquired one domestic property and casualty insurance company and sold one foreign life insurance company. The following tables present the statutory capital and surplus, and net income under SAP:

	December 31,	
Statutory capital and surplus	2019	2018
Property and Casualty Insurance Companies:		
Domestic	$ 1,547,091	$ 1,305,640
Foreign	755,545	583,872
Total	$ 2,302,636	$ 1,889,512
Life Insurance Companies:		
Domestic	$ 53,334	$ 40,813

	Year Ended December 31,		
Statutory net income (loss)	2019	2018	2017
Property and Casualty Insurance Companies:			
Domestic	$ 156,404	$ 16,737	$ 194,677
Foreign	102,584	64,810	9,275
Total	$ 258,988	$ 81,547	$ 203,952
Life Insurance Companies:			
Domestic	$ 7,232	$ 9,827	$ 8,987

Reciprocal Exchanges

The Reciprocal Exchanges prepare their statutory basis financial statements under SAP. As of December 31, 2019 and 2018, the Reciprocal Exchanges had combined statutory capital and surplus of $87,421 and $103,582, respectively. For the years ended December 31, 2019, 2018 and 2017, the Reciprocal Exchanges had combined SAP net income (loss) of $(22,237), $(24,194) and $1,411, respectively. The Reciprocal Exchanges are required to maintain minimum capital and surplus in accordance with regulatory requirements. As of December 31, 2019 and 2018, the capital and surplus levels of the Reciprocal Exchanges exceeded such required levels. The Reciprocal Exchanges are not owned by the Company but managed through management agreements. Accordingly, the Reciprocal Exchanges' net assets are not available to the Company.

Due to the finalization of the Company's combined statutory filings, amounts for 2018 and 2017 have changed compared to the previously reported in our Annual Report on Form 10-K for the year ended December 31, 2018.

Dividend Restrictions

The Company's insurance subsidiaries are subject to statutory and regulatory restrictions, applicable to insurance companies, imposed by the states of domicile, which limit the amount of cash dividends or distributions that they may pay unless special permission is received from the state of domicile. This limit was approximately $402,970 and $287,896 as of December 31, 2019 and 2018, respectively. During the years ended December 31, 2019, 2018 and 2017, there were $7,000, $156,660 and $339,398 of dividends and return of capital paid by the Company's insurance subsidiaries to their parent company or the Company, respectively.

18. Stock-Based Compensation

Effective May 6, 2019, the Company's stockholders approved the 2019 Omnibus Incentive Plan (the "2019 Plan"). The 2019 Plan authorizes up to 2.5 million shares of the Company's stock for awards of stock options, stock appreciation rights, restricted stock, restricted stock units, performance share units, performance units, cash-based awards or other stock-based awards. The number of shares of common stock for which awards may be issued may not exceed 2.5 million shares, subject to the authority of the Company's Board of Directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, recapitalization or similar transaction affecting the Company's common stock. The 2019 Plan serves as a successor of the Company's prior equity incentive plans. Outstanding awards under the prior plans continue to be outstanding and subject to their terms and conditions. As of December 31, 2019, approximately 2.5 million shares of the Company's common stock remained available for grants under the 2019 Plan.

The Company grants RSUs with a grant date value equal to the closing stock price of the Company's stock on the dates the units are granted. RSUs vest over three or four years. RSUs are net share settled. Under the net share settlement procedures, upon each settlement date, RSUs were withheld to cover the required withholding tax, which is based on the value of the RSUs on the settlement date as determined by the closing price of the Company's common stock on the trading day immediately preceding the applicable settlement date. The remaining amounts are delivered to the recipient as shares of the Company's common stock. The amount remitted to the tax authorities for the employees' tax obligation to the tax authorities is reflected as a financing activity in the consolidated statements of cash flows. These shares withheld by the Company as a result of the net settlement of RSUs are no longer considered outstanding on a diluted basis, thereby reducing the Company's diluted shares used to calculate earnings per share.

Stock Options

A summary of the stock option awards granted under the prior plans is shown below:

	Shares Subject to Options Outstanding			
Year Ended December 31, 2019	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value [(1)]
Outstanding at beginning of year	3,184,352	$ 9.53		
Exercised	(158,765)	3.76		
Outstanding and exercisable at end of year	3,025,587	$ 9.83	3.15	$ 37,122

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock option awards and the closing price of the Company's common stock of $22.10, as reported on the Nasdaq Global Market on December 31, 2019.

No options were granted, forfeited or expired during the year ended December 31, 2019. The total intrinsic value of the options exercised during the years ended December 31, 2019, 2018 and 2017 was $3,105, $5,011 and $1,782, respectively. The total fair value of stock options vested for the years ended December 31, 2019, 2018 and 2017 was $239, $783 and $501, respectively.

Restricted Stock Units

A summary of the RSUs is shown below:

	RSUs	
Year Ended December 31, 2019	Number of RSUs	Weighted-Average Grant Date Fair Value
Non-vested at beginning of year	938,795	$ 22.28
Granted	538,741	25.42
Vested	(419,436)	22.07
Forfeited	(24,469)	23.29
Non-vested at end of year	1,033,631	$ 23.98

The weighted-average grant-date fair value of RSUs for the years ended December 31, 2019, 2018 and 2017 was $25.42, $21.36 and $24.06, respectively. The total fair value of the RSUs vested for the years ended December 31, 2019, 2018 and 2017 was $9,259, $7,068 and $3,661, respectively.

Stock-Based Compensation Expense

Stock-based compensation expense, included in general and administrative expenses, for all stock-based compensation plans was $10,996, $9,020 and $8,324 for the years ended December 31, 2019, 2018 and 2017, respectively.

As of December 31, 2019, the Company had approximately $16,205 of stock-based compensation expense related to nonvested awards not yet recognized, all of which was related to RSUs. This stock-based compensation expense is expected to be recognized over a weighted-average period of approximately 1.4 years.

19. Earnings Per Share

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

	Year Ended December 31,		
	2019	2018	2017
Numerator:			
Net income attributable to NGHC	$ 348,069	$ 207,354	$ 105,845
Preferred stock dividends - nonconvertible	(31,500)	(31,500)	(31,500)
Preferred stock dividends - convertible	(2,100)	(992)	—
Numerator for basic EPS	314,469	174,862	74,345
Effect of dilutive securities:			
Preferred stock dividends - convertible	2,100	992	—
Numerator for diluted EPS - after assumed conversions	$ 316,569	$ 175,854	$ 74,345
Denominator:			
Denominator for basic EPS - weighted-average shares outstanding	113,199,501	107,659,813	106,588,402
Effect of dilutive securities:			
Employee stock options	1,833,736	2,053,681	1,947,546
RSUs	274,262	319,089	216,314
Convertible preferred stock	789,473	789,473	—
Dilutive potential common shares	2,897,471	3,162,243	2,163,860
Denominator for diluted EPS - weighted-average shares outstanding and assumed conversions	116,096,972	110,822,056	108,752,262
Basic EPS	$ 2.78	$ 1.62	$ 0.70
Diluted EPS	$ 2.73	$ 1.59	$ 0.68

20. Segment Information

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

The Property and Casualty segment, which includes the Reciprocal Exchanges and the management companies, reports the management fees earned by the Company from the Reciprocal Exchanges for underwriting, investment management and other services as service and fee income. The effects of these transactions between the Company and the Reciprocal Exchanges are eliminated in consolidation to derive consolidated net income. However, the management fee income is reported in net income attributable to NGHC and included in the basic and diluted earnings per share.

The following tables summarize the results of operations of the operating segments:

	Year Ended December 31, 2019			
	Property and Casualty	Accident and Health	Corporate and Other	Total
Underwriting revenues:				
Gross premium written	$ 4,814,463	$ 768,617	$ —	$ 5,583,080
Ceded premiums	(1,250,448)	(108,011)	—	(1,358,459)
Net premium written	3,564,015	660,606	—	4,224,621
Change in unearned premium	(108,992)	2,413	—	(106,579)
Net earned premium	3,455,023	663,019	—	4,118,042
Ceding commission income	227,514	10,939	—	238,453
Service and fee income	392,478	249,487	—	641,965
Total underwriting revenues	4,075,015	923,445	—	4,998,460
Underwriting expenses:				
Loss and loss adjustment expense	2,543,788	310,680	—	2,854,468
Acquisition costs and other underwriting expenses	605,019	222,348	—	827,367
General and administrative expenses	773,291	254,208	14,273	1,041,772
Total underwriting expenses	3,922,098	787,236	14,273	4,723,607
Underwriting income	152,917	136,209	(14,273)	274,853
Net investment income	—	—	141,233	141,233
Net gain on investments	—	—	13,473	13,473
Other income	—	—	26,428	26,428
Interest expense	—	—	(51,544)	(51,544)
Provision for income taxes	—	—	(77,013)	(77,013)
Net loss attributable to noncontrolling interest	—	—	20,639	20,639
Net income attributable to NGHC	$ 152,917	$ 136,209	$ 58,943	$ 348,069

	Year Ended December 31, 2018			
	Property and Casualty	Accident and Health	Corporate and Other	Total
Underwriting revenues:				
Gross premium written	$ 4,718,730	$ 698,109	$ —	$ 5,416,839
Ceded premiums	(1,517,556)	(71,570)	—	(1,589,126)
Net premium written	3,201,174	626,539	—	3,827,713
Change in unearned premium	(85,385)	(10,126)	—	(95,511)
Net earned premium	3,115,789	616,413	—	3,732,202
Ceding commission income	217,694	7,003	—	224,697
Service and fee income	375,603	185,980	—	561,583
Total underwriting revenues	3,709,086	809,396	—	4,518,482
Underwriting expenses:				
Loss and loss adjustment expense	2,340,881	321,345	—	2,662,226
Acquisition costs and other underwriting expenses	550,540	184,726	—	735,266
General and administrative expenses	726,238	201,808	10,000	938,046
Total underwriting expenses	3,617,659	707,879	10,000	4,335,538
Underwriting income	91,427	101,517	(10,000)	182,944
Net investment income	—	—	119,034	119,034
Net loss on investments	—	—	(29,545)	(29,545)
Interest expense	—	—	(51,425)	(51,425)
Provision for income taxes	—	—	(53,484)	(53,484)
Net loss attributable to noncontrolling interest	—	—	39,830	39,830
Net income attributable to NGHC	$ 91,427	$ 101,517	$ 14,410	$ 207,354

	Year Ended December 31, 2017			
	Property and Casualty	Accident and Health	Corporate and Other	Total
Underwriting revenues:				
Gross premium written	$ 4,174,583	$ 581,402	$ —	$ 4,755,985
Ceded premiums	(1,132,284)	(46,106)	—	(1,178,390)
Net premium written	3,042,299	535,296	—	3,577,595
Change in unearned premium	78,594	(2,013)	—	76,581
Net earned premium	3,120,893	533,283	—	3,654,176
Ceding commission income	115,443	1,013	—	116,456
Service and fee income	348,313	154,614	—	502,927
Total underwriting revenues	3,584,649	688,910	—	4,273,559
Underwriting expenses:				
Loss and loss adjustment expense	2,307,619	318,463	—	2,626,082
Acquisition costs and other underwriting expenses	517,550	154,879	—	672,429
General and administrative expenses	741,499	171,497	—	912,996
Total underwriting expenses	3,566,668	644,839	—	4,211,507
Underwriting income	17,981	44,071	—	62,052
Net investment income	—	—	101,950	101,950
Net gain on investments	—	—	46,763	46,763
Other expense	—	—	(198)	(198)
Interest expense	—	—	(47,086)	(47,086)
Provision for income taxes	—	—	(61,273)	(61,273)
Net loss attributable to noncontrolling interest	—	—	3,637	3,637
Net income attributable to NGHC	$ 17,981	$ 44,071	$ 43,793	$ 105,845

The following tables summarize the financial position of the operating segments:

	December 31, 2019			
	Property and Casualty	Accident and Health	Corporate and Other	Total
Premiums and other receivables, net	$ 1,292,813	$ 131,877	$ 4,258	$ 1,428,948
Deferred acquisition costs	239,293	24,230	—	263,523
Reinsurance recoverable	1,377,284	17,024	—	1,394,308
Prepaid reinsurance premiums	575,712	35	—	575,747
Intangible assets, net and Goodwill	436,724	108,427	—	545,151
Prepaid and other assets	56,960	32,852	4,830	94,642
Corporate and other assets	—	—	5,454,215	5,454,215
Total assets	$ 3,978,786	$ 314,445	$ 5,463,303	$ 9,756,534

	December 31, 2018			
	Property and Casualty	Accident and Health	Corporate and Other	Total
Premiums and other receivables, net	$ 1,245,530	$ 153,896	$ 386	$ 1,399,812
Deferred acquisition costs	226,188	25,220	—	251,408
Reinsurance recoverable	1,585,008	26,730	—	1,611,738
Prepaid reinsurance premiums	665,660	14	—	665,674
Intangible assets, net and Goodwill	443,163	116,957	—	560,120
Prepaid and other assets	20,941	22,472	111,545	154,958
Corporate and other assets	—	—	4,795,570	4,795,570
Total assets	$ 4,186,490	$ 345,289	$ 4,907,501	$ 9,439,280

The following table shows an analysis of the premiums by geographical location:

	Year Ended December 31,								
	2019			2018			2017		
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total
Gross premium written - North America	$4,996,296	$ 447,447	$5,443,743	$4,817,658	$ 448,923	$5,266,581	$4,252,691	$ 383,773	$4,636,464
Gross premium written - Europe	139,337	—	139,337	150,258	—	150,258	119,521	—	119,521
Total	$5,135,633	$ 447,447	$5,583,080	$4,967,916	$ 448,923	$5,416,839	$4,372,212	$ 383,773	$4,755,985
Net premium written - North America	$3,900,980	$ 234,472	$4,135,452	$3,523,060	$ 183,565	$3,706,625	$3,282,425	$ 175,649	$3,458,074
Net premium written - Europe	89,169	—	89,169	121,088	—	121,088	119,521	—	119,521
Total	$3,990,149	$ 234,472	$4,224,621	$3,644,148	$ 183,565	$3,827,713	$3,401,946	$ 175,649	$3,577,595
Net earned premium - North America	$3,816,441	$ 210,231	$4,026,672	$3,434,386	$ 186,761	$3,621,147	$3,367,695	$ 169,871	$3,537,566
Net earned premium - Europe	91,370	—	91,370	111,055	—	111,055	116,610	—	116,610
Total	$3,907,811	$ 210,231	$4,118,042	$3,545,441	$ 186,761	$3,732,202	$3,484,305	$ 169,871	$3,654,176

The following table summarizes service and fee income by source within each operating segment:

	Year Ended December 31,								
	2019			2018			2017		
	Property and Casualty	Accident and Health	Total	Property and Casualty	Accident and Health	Total	Property and Casualty	Accident and Health	Total
Commission revenue	$ 87,486	$ 83,476	$ 170,962	$ 93,235	$ 70,086	$ 163,321	$ 78,678	$ 67,015	$ 145,693
Finance and processing fees	128,302	6,197	134,499	121,058	4,535	125,593	117,122	7,183	124,305
Group health administrative fees	—	100,951	100,951	—	79,411	79,411	—	62,217	62,217
Installment fees	97,997	—	97,997	92,785	—	92,785	83,883	—	83,883
Late payment fees	34,210	309	34,519	33,765	86	33,851	27,184	121	27,305
Other service and fee income	44,483	58,554	103,037	34,760	31,862	66,622	41,446	18,078	59,524
Total	$ 392,478	$ 249,487	$ 641,965	$ 375,603	$ 185,980	$ 561,583	$ 348,313	$ 154,614	$ 502,927
NGHC	$ 386,723	$ 249,487	$ 636,210	$ 369,852	$ 185,980	$ 555,832	$ 342,519	$ 154,614	$ 497,133
Reciprocal Exchanges	5,755	—	5,755	5,751	—	5,751	5,794	—	5,794
Total	$ 392,478	$ 249,487	$ 641,965	$ 375,603	$ 185,980	$ 561,583	$ 348,313	$ 154,614	$ 502,927

The following tables show an analysis of premiums and fee income by product line:

	Year Ended December 31,		
Gross Premium Written	2019	2018	2017
Property and Casualty			
Personal Auto	$ 2,721,202	$ 2,637,176	$ 2,334,838
Homeowners	718,819	688,006	558,827
RV/Packaged	212,746	208,394	187,475
Small Business Auto	315,569	319,299	316,958
Lender-placed Insurance	342,267	363,056	345,354
Other	56,413	53,876	47,358
Total Property and Casualty	4,367,016	4,269,807	3,790,810
Accident and Health			
Group	288,549	239,729	206,340
Individual	340,731	308,122	255,541
International	139,337	150,258	119,521
Total Accident and Health	768,617	698,109	581,402
Total NGHC	$ 5,135,633	$ 4,967,916	$ 4,372,212
Reciprocal Exchanges			
Personal Auto	$ 152,688	$ 153,129	$ 132,844
Homeowners	290,972	291,907	247,460
Other	3,787	3,887	3,469
Total Reciprocal Exchanges	$ 447,447	$ 448,923	$ 383,773
Total Gross Premium Written	$ 5,583,080	$ 5,416,839	$ 4,755,985

	Year Ended December 31,		
Net Premium Written	2019	2018	2017
Property and Casualty			
Personal Auto	$ 2,260,385	$ 2,016,858	$ 1,824,932
Homeowners	404,278	331,120	275,013
RV/Packaged	198,737	206,740	185,993
Small Business Auto	249,067	233,456	246,072
Lender-placed Insurance	198,171	202,069	313,124
Other	18,905	27,366	21,516
Total Property and Casualty	3,329,543	3,017,609	2,866,650
Accident and Health			
Group	231,388	197,386	160,234
Individual	340,049	308,065	255,541
International	89,169	121,088	119,521
Total Accident and Health	660,606	626,539	535,296
Total NGHC	$ 3,990,149	$ 3,644,148	$ 3,401,946
Reciprocal Exchanges			
Personal Auto	$ 134,958	$ 61,759	$ 68,292
Homeowners	98,009	120,875	105,536
Other	1,505	931	1,821
Total Reciprocal Exchanges	$ 234,472	$ 183,565	$ 175,649
Total Net Premium Written	$ 4,224,621	$ 3,827,713	$ 3,577,595

	Year Ended December 31,		
Net Earned Premium	2019	2018	2017
Property and Casualty			
Personal Auto	$ 2,190,748	$ 1,927,667	$ 1,828,304
Homeowners	405,306	329,850	349,709
RV/Packaged	195,639	197,258	175,888
Small Business Auto	252,359	237,587	251,576
Lender-placed Insurance	182,231	215,811	321,995
Other	18,509	20,855	23,550
Total Property and Casualty	3,244,792	2,929,028	2,951,022
Accident and Health			
Group	231,398	197,406	160,280
Individual	340,251	307,952	256,393
International	91,370	111,055	116,610
Total Accident and Health	663,019	616,413	533,283
Total NGHC	$ 3,907,811	$ 3,545,441	$ 3,484,305
Reciprocal Exchanges			
Personal Auto	$ 106,549	$ 59,923	$ 66,565
Homeowners	101,964	125,806	101,648
Other	1,718	1,032	1,658
Total Reciprocal Exchanges	$ 210,231	$ 186,761	$ 169,871
Total Net Earned Premium	$ 4,118,042	$ 3,732,202	$ 3,654,176

Fee Income	Year Ended December 31, 2019	2018	2017
Property and Casualty			
Service and Fee Income	$ 386,723	$ 369,852	$ 342,519
Ceding Commission Income	164,013	160,945	55,263
Total Property and Casualty	550,736	530,797	397,782
Accident and Health			
Service and Fee Income			
Group	134,206	104,504	76,173
Individual	9,650	9,304	14,392
Third Party Fee	105,631	72,172	64,049
Total Service and Fee Income	249,487	185,980	154,614
Ceding Commission Income	10,939	7,003	1,013
Total Accident and Health	260,426	192,983	155,627
Total NGHC	$ 811,162	$ 723,780	$ 553,409
Reciprocal Exchanges			
Service and Fee Income	$ 5,755	$ 5,751	$ 5,794
Ceding Commission Income	63,501	56,749	60,180
Total Reciprocal Exchanges	$ 69,256	$ 62,500	$ 65,974
Total Fee Income	$ 880,418	$ 786,280	$ 619,383

21. Selected Quarterly Financial Data (Unaudited)

The following tables summarize quarterly financial data:

	2019 March 31,	June 30,	September 30,	December 31,
Total revenues	$ 1,232,665	$ 1,269,652	$ 1,308,172	$ 1,369,105
Total expenses	1,124,820	1,170,353	1,231,186	1,248,792
Provision for income taxes	22,506	22,241	16,747	15,519
Net income	85,339	77,058	60,239	104,794
Net income attributable to NGHC	91,758	77,876	71,154	107,281
Net income attributable to NGHC common stockholders	83,883	68,951	63,279	98,356
Basic EPS	$ 0.74	$ 0.61	$ 0.56	$ 0.87
Diluted EPS	$ 0.72	$ 0.60	$ 0.54	$ 0.85

	2018 March 31,	June 30,	September 30,	December 31,
Total revenues	$ 1,117,257	$ 1,135,106	$ 1,168,843	$ 1,186,765
Total expenses	1,045,035	1,091,655	1,097,096	1,153,177
Provision for income taxes	16,202	6,541	15,518	15,223
Net income	56,020	36,910	56,229	18,365
Net income attributable to NGHC	68,208	44,548	68,382	26,216
Net income attributable to NGHC common stockholders	60,333	36,673	60,507	17,349
Basic EPS	$ 0.57	$ 0.34	$ 0.56	$ 0.16
Diluted EPS	$ 0.55	$ 0.34	$ 0.55	$ 0.16

Due to changes in number of shares outstanding from quarter to quarter, the total earnings per share of the four quarters may not necessarily equal the earnings per share for the year.

22. Business Disposition

Sale of Euro Accident Health and Care Insurance

On December 2, 2019, the Company sold its Euro Accident Health and Care Insurance Sweden operation to an investor group focused on Nordic healthcare investments. The sale price for this transaction was $139,021 and resulted in a $26,428 gain included in other income (expense). This transaction impacted the Company's Accident and Health segment.

The following table summarizes the carrying amounts transferred to the buyer in the connection of the sale:

Assets:		
Debt securities, available-for-sale, at fair value	$	145,485
Cash and cash equivalents		46,731
Accrued investment income		970
Premiums and other receivables, net		29,015
Deferred acquisition costs		2,940
Reinsurance recoverable		36,819
Prepaid reinsurance premiums		4,151
Property and equipment, net		2,456
Prepaid and other assets		858
Total assets	$	269,425
Liabilities:		
Unpaid loss and loss adjustment expense reserves	$	114,220
Unearned premiums and other revenue		26,020
Reinsurance payable		50,748
Accounts payable and accrued expenses		3,622
Other liabilities		119
Total liabilities	$	194,729
Net assets sold	$	74,696

Reconciliation of the gain on sale:		
Cash received	$	139,021
Net assets sold		(74,696)
Realized AOCI		(21,126)
Other expenses		(3,592)
Goodwill and intangible assets disposition		(13,179)
Gain on sale	$	26,428

Schedule I

NATIONAL GENERAL HOLDINGS CORP.
SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES
(In Thousands)

December 31, 2019	Cost[1]	Value	Amount at which shown in the Balance Sheet
Debt Securities:			
Bonds:			
U.S. government and government agencies and authorities	$ 68,944	$ 70,921	$ 70,921
States, municipalities and political subdivisions	298,345	301,682	301,682
Foreign governments	1,762	1,802	1,802
Public utilities	45,204	46,694	46,694
All other corporate bonds[2]	3,962,436	4,055,259	4,055,259
Total Debt Securities	4,376,691	4,476,358	4,476,358
Equity Securities:			
Common stock:			
Industrial, miscellaneous and all other	29,513	5,257	5,257
Total Equity Securities	29,513	5,257	5,257
Other Investments[3]	67,189	67,189	67,189
Other Short-term Investments[3]	67,353	67,353	67,353
Total Investments (other than investments in related parties)	$ 4,540,746	$ 4,616,157	$ 4,616,157

[1] Original cost of equity securities and, as to debt securities, original cost reduced by repayments and adjusted for amortization of premiums or accrual of discounts.

[2] Includes structured securities, residential and commercial mortgage-backed securities.

[3] Approximates market value.

Schedule II

NATIONAL GENERAL HOLDINGS CORP.
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEETS — PARENT COMPANY ONLY
(In Thousands)

	December 31,	
	2019	2018
ASSETS		
Investments:		
Debt securities, available-for-sale, at fair value (amortized cost - $95,527 and $79,454)	$ 98,187	$ 78,365
Short-term investments	4,807	117,135
Other investments	—	4,310
Equity investment in subsidiaries	2,937,575	2,491,024
Total investments	3,040,569	2,690,834
Cash and cash equivalents	852	3,956
Accrued investment income	835	728
Property and equipment, net	158,670	172,943
Prepaid and other assets	26,658	30,688
Total assets	$ 3,227,584	$ 2,899,149
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 26,071	$ 94,997
Debt	584,019	603,281
Total liabilities	$ 610,090	$ 698,278
Stockholders' equity:		
Total stockholders' equity	$ 2,617,494	$ 2,200,871
Total liabilities and stockholders' equity	$ 3,227,584	$ 2,899,149

See accompanying notes to condensed financial statements.

Schedule II

NATIONAL GENERAL HOLDINGS CORP.
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME — PARENT COMPANY ONLY
(In Thousands)

	Year Ended December 31,		
	2019	2018	2017
Revenues:			
Service and fee income	$ 48,781	$ 44,932	$ 9,256
Investment income	3,929	1,205	3,004
Net gain (loss) on investments	1,026	(1,571)	4,032
Equity in undistributed net income of subsidiaries	365,932	232,101	116,367
Total revenues	419,668	276,667	132,659
Expenses:			
Interest expense	38,670	39,380	40,954
Other expense, net	38,499	30,847	7,236
Total expenses	77,169	70,227	48,190
Income before provision (benefit) for income taxes	342,499	206,440	84,469
Benefit for income taxes	(5,570)	(914)	(21,376)
Net income attributable to NGHC	348,069	207,354	105,845
Dividends on preferred stock	(33,600)	(32,492)	(31,500)
Net income attributable to NGHC common stockholders	$ 314,469	$ 174,862	$ 74,345
Net income attributable to NGHC	$ 348,069	$ 207,354	$ 105,845
Other comprehensive income (loss), net of tax	126,678	(44,054)	(19,587)
Comprehensive income attributable to NGHC	$ 474,747	$ 163,300	$ 86,258

See accompanying notes to condensed financial statements.

Schedule II

NATIONAL GENERAL HOLDINGS CORP.
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOWS — PARENT COMPANY ONLY
(In Thousands)

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income attributable to NGHC	$ 348,069	$ 207,354	$ 105,845
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Net (gain) loss on investments	(1,026)	1,571	(4,032)
Depreciation and amortization	23,280	20,668	4,799
Net amortization of premium net of discount on debt securities	233	581	842
Stock-based compensation expense	10,996	9,020	8,324
Equity in undistributed net income of subsidiaries	(365,932)	(232,101)	(116,367)
Changes in assets and liabilities:			
Accrued investment income	(108)	(500)	6
Other assets	4,927	23,334	(13,007)
Other liabilities	(1,728)	8,993	(6,057)
Net cash provided by (used in) operating activities	18,711	38,920	(19,647)
Cash flows from investing activities:			
Purchases of:			
Debt securities, available-for-sale	(46,832)	(70,308)	(235,837)
Short-term investments	(284,875)	(342,137)	—
Property and equipment	(75,673)	(73,563)	(58,181)
Proceeds from:			
Sale and maturity of debt securities, available-for-sale	30,941	18,260	250,102
Sale of short-term investments	397,945	225,395	—
Distributions received from subsidiaries	50,825	130,772	126,051
Acquisition of subsidiaries, net of cash	(17,091)	(9,875)	(210)
Net cash provided by (used in) investing activities	55,240	(121,456)	81,925
Cash flows from financing activities:			
Proceeds from debt	—	—	140,000
Payments of debt issuance costs	(1,134)	—	—
Repayments of debt and return of capital	(20,000)	(30,000)	(172,794)
Issuances of common and preferred stock, net of fees	—	162,120	—
Issuance of common stock — employee share options	594	1,978	1,259
Taxes paid related to net share settlement of equity awards	(3,734)	(3,024)	(1,773)
Dividends paid to common and preferred shareholders	(52,781)	(48,611)	(48,550)
Net cash (used in) provided by financing activities	(77,055)	82,463	(81,858)
Net decrease in cash and cash equivalents	(3,104)	(73)	(19,580)
Cash and cash equivalents, beginning of the year	3,956	4,029	23,609
Cash and cash equivalents, end of the year	$ 852	$ 3,956	$ 4,029

See accompanying notes to condensed financial statements.

NATIONAL GENERAL HOLDINGS CORP.
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
NOTES — PARENT COMPANY ONLY

1. Basis of Presentation

In the parent-company-only financial statements, the Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. The Company's share of net income of its unconsolidated subsidiaries is included in consolidated income using the equity method. The parent-company-only financial statements should be read in conjunction with the Company's consolidated financial statements. Certain prior period amounts have been reclassified to conform to the current-year presentation.

2. Debt

For information relating to debt, see Note 11, "Debt" in the notes to the Company's consolidated financial statements.

3. Dividends

For information relating to cash dividends paid to the registrant or the Company by its consolidated subsidiaries and investees accounted for by the equity method, see Note 17, "Statutory Financial Data, Risk-Based Capital and Dividend Restrictions" in the notes to the Company's consolidated financial statements.

Schedule III

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

	As of December 31,			Year Ended December 31,					
Segment	Deferred Acquisition Costs	Unpaid Loss and Loss Adjustment Expense Reserves	Unearned Premiums	Net Earned Premium	Net Investment Income	Loss and Loss Adjustment Expense Incurred	Deferred Acquisition Costs Amortization	Other Operating Expenses	Net Written Premium
2019									
Property and Casualty	$ 239,293	$ 2,734,540	$2,210,851	$ 3,455,023	$ —	$ 2,543,788	$ 539,816	$ 65,203	$3,564,015
Accident and Health	24,230	151,874	8,368	663,019	—	310,680	37,541	184,807	660,606
Corporate and Other	—	—	—	—	141,233	—	—	—	—
Total	$ 263,523	$ 2,886,414	$2,219,219	$ 4,118,042	$ 141,233	$ 2,854,468	$ 577,357	$ 250,010	$4,224,621
2018									
Property and Casualty	$ 226,188	$ 2,685,879	$2,120,283	$ 3,115,789	$ —	$ 2,340,881	$ 495,009	$ 55,531	$3,201,174
Accident and Health	25,220	271,280	36,554	616,413	—	321,345	15,784	168,942	626,539
Corporate and Other	—	—	—	—	119,034	—	—	—	—
Total	$ 251,408	$ 2,957,159	$2,156,837	$ 3,732,202	$ 119,034	$ 2,662,226	$ 510,793	$ 224,473	$3,827,713
2017									
Property and Casualty	$ 198,283	$ 2,413,904	$1,886,359	$ 3,120,893	$ —	$ 2,307,619	$ 487,740	$ 29,810	$3,042,299
Accident and Health	18,106	249,653	37,226	533,283	—	318,463	22,149	132,730	535,296
Corporate and Other	—	—	—	—	101,950	—	—	—	—
Total	$ 216,389	$ 2,663,557	$1,923,585	$ 3,654,176	$ 101,950	$ 2,626,082	$ 509,889	$ 162,540	$3,577,595

Schedule IV

NATIONAL GENERAL HOLDINGS CORP.
REINSURANCE
(In Thousands)

Year Ended December 31,	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percent of Amount Assumed to Net
2019					
Earned Premiums	$ 5,486,835	$ (1,449,365)	$ 80,572	$ 4,118,042	2.0%
2018					
Earned Premiums	$ 5,049,512	$ (1,440,575)	$ 123,265	$ 3,732,202	3.3%
2017					
Earned Premiums	$ 4,233,184	$ (818,238)	$ 239,230	$ 3,654,176	6.5%

Schedule V

NATIONAL GENERAL HOLDINGS CORP.
VALUATION AND QUALIFYING ACCOUNTS
(In Thousands)

		Additions			
Year Ended December 31,	Balance at beginning of the year	Charge (Benefit) to costs and expenses	Charge to other accounts	Deductions	Balance at end of the year
2019					
Allowance for uncollectible accounts	$ 20,208	$ 88,247	$ —	$ (84,388)	$ 24,067
Valuation allowance for deferred taxes	60,344	11,436	—	—	71,780
2018					
Allowance for uncollectible accounts	$ 18,546	$ 74,214	$ —	$ (72,552)	$ 20,208
Valuation allowance for deferred taxes	5,410	54,934	—	—	60,344
2017					
Allowance for uncollectible accounts	$ 16,219	$ 63,819	$ —	$ (61,492)	$ 18,546
Valuation allowance for deferred taxes	7,135	(1,725)	—	—	5,410

Schedule VI

NATIONAL GENERAL HOLDINGS CORP.
SUPPLEMENTAL INFORMATION CONCERNING
PROPERTY-CASUALTY INSURANCE OPERATIONS
(In Thousands)

Year Ended December 31,	Losses and Loss Adjustment Expenses Incurred Related to: Current Year	Losses and Loss Adjustment Expenses Incurred Related to: Prior Years	Paid Losses and Loss Adjustment Expenses
2019			
Property and Casualty [1]	$ 2,493,268	$ 50,520	$ 2,427,676
Accident and Health	356,036	(45,356)	328,887
Total	$ 2,849,304	$ 5,164	$ 2,756,563
2018			
Property and Casualty [1]	$ 2,343,938	$ (3,057)	$ 2,209,570
Accident and Health	352,322	(30,977)	305,667
Total	$ 2,696,260	$ (34,034)	$ 2,515,237
2017			
Property and Casualty [1]	$ 2,291,444	$ 16,175	$ 2,217,220
Accident and Health	327,289	(8,826)	274,661
Total	$ 2,618,733	$ 7,349	$ 2,491,881

[1] Property and Casualty includes the Reciprocal Exchanges.

EXHIBIT 4.1

DESCRIPTION OF SECURITIES
REGISTERED UNDER SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The Company has five classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): (1) our common stock, par value $0.01 per share, (2) our 7.50% Non-Cumulative Preferred Stock, Series A, (3) our Depositary Shares, each Representing 1/40th of a Share of 7.50% Non-Cumulative Preferred Stock, Series B, (4) our Depositary Shares, each Representing 1/40th of a Share of 7.50% Non-Cumulative Preferred Stock, Series C and (5) our 7.625% Subordinated Notes due 2055.

DESCRIPTION OF COMMON STOCK

The following description set forth below of our common stock is only a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our certificate of incorporation (as amended and restated, the "Certificate of Incorporation") and our bylaws (as amended and restated, the "Bylaws"), each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part, and applicable Delaware law. We encourage you to read our Certificate of Incorporation, our Bylaws and the applicable provisions of Delaware law.

Our Certificate of Incorporation authorizes the issuance of 150,000,000 shares of common stock, $0.01 par value per share.

Our common stock is listed on the Nasdaq Global Market under the symbol "NGHC."

Voting Power

The holders of our common stock are entitled to one vote per share on any matter to be voted upon by stockholders.

The holders of common stock are not entitled to cumulative voting rights with respect to the election of directors, which means that the holders of a majority of the voting power of our common stock voted can elect all of the directors then standing for election.

Dividend

Holders of shares of common stock are entitled to receive ratably the dividends, if any, as may be declared from time to time by the board of directors out of funds legally available therefor, subject to any contractual restrictions on the payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock or debt securities. As described below, holders of our 7.50% Non-Cumulative Preferred Stock, Series A, 7.50% Non-Cumulative Preferred Stock, Series B, and 7.50% Non-Cumulative Preferred Stock, Series C are entitled to receive dividends in preference to and in priority over dividends on common stock and dividends on any future series of preferred stock may be cumulative or non-cumulative as determined by our board of directors.

Preemptive or Other Rights

Holders of our common stock have no preemptive or conversion rights or other subscription rights and there are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of our outstanding 7.50% Non-Cumulative Preferred Stock, Series A, 7.50% Non-Cumulative Preferred Stock, Series B,

and 7.50% Non-Cumulative Preferred Stock, Series C, and the holders of shares of any series of preferred stock which we may designate in the future.

Liquidation

In the event of our liquidation, dissolution or winding up, the holders of our common stock are entitled to share ratably in the assets legally available for distribution to stockholders after the payment of all of our known debts and liabilities and after adequate provision has been made for each class of stock then outstanding that has preference over our common stock.

Certain Anti-Takeover Effects of Provisions of Our Bylaws and Delaware Law

Special Meetings of Stockholders

Our Certificate of Incorporation generally provides that special meetings of our stockholders may be called only by the chairman of the board of directors, the chief executive officer, the president or by resolution of the board of directors. Stockholders are not permitted to call a special meeting or require our board of directors to call a special meeting. At any special meeting of our stockholders, only such business will be conducted as has been specified in the notice of meeting given by or at the direction of our board of directors or otherwise properly brought before the special meeting by or at the direction of our board of directors.

No Cumulative Voting

The Delaware General Corporation Law (the "DGCL") provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless a corporation's certificate of incorporation provides otherwise. Our Certificate of Incorporation does not provide for cumulative voting in the election of directors.

Advance Notice Requirements for Stockholder Proposals and Director Nominations

Our Bylaws provide that stockholders seeking to bring business before a meeting of stockholders, or to nominate candidates for election as directors at a meeting of stockholders, must provide timely notice of their intent in writing. To be timely, a stockholder's notice must be delivered to our principal executive offices not less than 90 days nor more than 120 days prior to the one year anniversary of the date of the preceding year's annual meeting of stockholders. Our Bylaws also specify certain requirements as to the form and content of a stockholder's notice, including the stockholder's ownership of the Company, synthetic equity transactions engaged in by the stockholder related to the Company, any proxies or voting agreements pursuant to which such stockholder has a right to vote shares of the Company, any stock borrowing agreements entered into by the stockholder related to the Company, any performance related fees the stockholder is entitled to based on changes in the value of the stock of the Company and any other information that would be required to be made in connection with a solicitation of proxies by such stockholder pursuant to Section 14(a) of the Exchange Act. Our Bylaws also require that such stockholder provide information concerning each item of business proposed by the stockholder and individuals nominated for election as a director, as applicable. Failure to timely comply with these provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders.

Stockholder-Initiated Bylaws Amendments

Our Bylaws may be adopted, amended, altered or repealed by stockholders only upon approval of at least a majority of the voting power of all the then outstanding shares of our common stock. Additionally, our Bylaws may be amended, altered or repealed by the board of directors by a majority vote.

Authorized but Unissued Shares

Our authorized but unissued shares of common stock are available for future issuances without stockholder approval and can be utilized for a variety of corporate purposes, including future offerings to raise additional capital, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock

could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

“Blank Check Preferred Stock”

Our board of directors is authorized, without further action by our stockholders, to issue shares of preferred stock in one or more classes or series, and with respect to each series, to fix the number of shares constituting that series, and establish the rights and terms of that series. The board of directors may also from time to time authorize the issuance of additional shares of preferred stock, in one or more series, without stockholder action. The purpose of authorizing the board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays and uncertainties associated with a stockholder vote on specific issuances. The issuance of preferred stock while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or discourage a third party from acquiring, a majority of our outstanding voting shares. Our board of directors may issue preferred stock with voting and conversion rights that could adversely affect the voting power of the holders of our common stock.

Section 203 of the DGCL

We are subject to Section 203 of the DGCL. Subject to certain exceptions, Section 203 of the DGCL prohibits a public Delaware corporation from engaging in a business combination (as defined in such section) with an “interested stockholder” (defined generally as any person who beneficially owns 15% or more of the outstanding voting stock of such corporation or any person affiliated with such person) for a period of three years following the time that such stockholder became an interested stockholder, unless: (1) prior to such time the board of directors of such corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (2) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of such corporation at the time the transaction commenced (excluding for purposes of determining the voting stock of such corporation outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned (a) by persons who are directors and also officers of such corporation and (b) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer); or (3) on or subsequent to such time, the business combination is approved by the board of directors of such corporation and authorized at a meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock of such corporation not owned by the interested stockholder.

Limitation of Liability and Indemnification Matters

As permitted by the DGCL, our Certificate of Incorporation includes provisions that limit or eliminate the personal liability of our directors for a breach of their fiduciary duty of care as a director. The duty of care generally requires that, when acting on behalf of the corporation, directors exercise an informed business judgment based on all material information reasonably available to them. Consequently, a director will not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted under Delaware law.

Our Certificate of Incorporation also authorizes us to indemnify our officers, directors and other agents to the fullest extent permitted under Delaware law, and we may advance expenses to our directors, officers and employees in connection with a legal proceeding, subject to limited exceptions. As permitted by the DGCL, our Certificate of Incorporation provides that:

- we will indemnify our directors and officers to the fullest extent permitted by the DGCL, subject to limited exceptions; and

- we may purchase and maintain insurance on behalf of our current or former directors, officers, employees or agents against any liability asserted against them and incurred by them in any such capacity, or arising out of their status as such.

In addition, we have entered into indemnification agreements with each of our executive officers and directors pursuant to which each executive officer and director will be indemnified as described above (or furnished contribution by us if indemnification is unavailable) and will be advanced costs and expenses subject to delivery of an undertaking to repay any advanced amounts if it is ultimately determined that such executive officer or director is not entitled to indemnification for such costs and expenses.

Forum

Our Bylaws provide that, subject to certain exceptions, unless we consent in writing to an alternative forum, a state or federal court located in the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of fiduciary duty owed by any director, officer, employee or agent of the Company to the Company or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, our Certificate of Incorporation or our Bylaws, or (iv) any action asserting a claim governed by the internal affairs doctrine. The Bylaws further provide that any person or entity purchasing or otherwise acquiring an interest in our shares of capital stock is deemed to have notice of and consented to the foregoing. Although we believe this provision benefits the Company by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, it may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees.

Transfer Agent

Our registrar and transfer agent for the shares is American Stock Transfer & Trust Company.

Insurance Regulations Concerning 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 purchase of our shares that would result in the purchaser owning more than 10% of our voting securities will be presumed to result in the acquisition of control of our insurance subsidiaries and require prior regulatory approval.

DESCRIPTION OF THE SERIES A PREFERRED STOCK

The following description set forth below of our 7.50% Non-Cumulative Preferred Stock, Series A ("Series A Preferred Stock") is only a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Certificate of Incorporation and our Certificate of Designations for our 7.50% Non-Cumulative Preferred Stock, Series A, each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part. You should refer to such certificate for specific information on the Series A Preferred Stock.

General

The Certificate of Designations sets forth the specific rights, preferences, limitations and other terms of the Series A Preferred Stock. The Series A Preferred Stock is a single series of authorized preferred stock consisting of 2,200,000 shares.

Our Certificate of Incorporation permits us to authorize the issuance of up to 10,000,000 shares of preferred stock, in one or more series without stockholder action. The Series A Preferred Stock constitute a series of our authorized preferred stock. We may from time to time, without notice to or the consent of holders of the Series A Preferred Stock, issue shares of preferred stock that rank equally with or junior to the Series A Preferred Stock. We may also from time to time, without notice to or consent of holders of the Series A Preferred Stock, issue additional shares of the Series A Preferred Stock; provided, that any such additional shares of Series A Preferred Stock are not treated as "disqualified preferred stock" within the meaning of Section 1059(f)(2) of the Internal Revenue Code (or any successor provision) and such additional shares of Series A Preferred Stock are otherwise treated as fungible with our already outstanding Series A Preferred Stock for U.S. federal income tax purposes. The additional shares of Series A Preferred Stock would form a single series with our already outstanding Series A Preferred Stock. We have the authority to issue fractional shares of Series A Preferred Stock.

The Series A Preferred Stock are fully paid and non-assessable. Holders of the Series A Preferred Stock do not have preemptive or similar rights to acquire any of our capital stock. Holders do not have the right to convert Series A Preferred Stock into, or exchange Series A Preferred Stock for, shares of any other class or series of shares or other securities of ours. The Series A Preferred Stock has no stated maturity and is not subject to any sinking fund, retirement fund or purchase fund or other obligation of the Company to redeem or purchase the Series A Preferred Stock.

Ranking

The Series A Preferred Stock rank senior to our common stock and any other junior stock with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding-up, equally with the Series B Preferred Stock, the Series C Preferred Stock and each other series of our preferred stock that we may issue the terms of which provide that they rank equally with the Series A Preferred Stock with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding-up and junior to each other series of our preferred stock that we may issue in the future the terms of which provide that they rank senior to the Series A Preferred Stock with respect to the payment of dividends and distributions of assets upon our liquidation, dissolution or winding-up.

Dividends

Dividends on the Series A Preferred Stock are not mandatory. Holders of Series A Preferred Stock are entitled to receive dividends only when, as and if declared by the Board of Directors of the Company or a duly authorized committee of the Board, out of lawfully available funds for the payment of dividends, non-cumulative cash dividends from the original issue date, quarterly on the 15th day of January, April, July and October of each year, commencing on October 15, 2014. These dividends will accrue with respect to a particular dividend period on the liquidation preference amount of $25.00 per share at an annual rate of 7.50%. In the event that we issue additional Series A Preferred Stock after the original issue date, dividends on such additional shares may accrue from the original issue date or any other date we specify at the time such additional shares are issued.

Dividends, if so declared, will be payable to holders of record of the Series A Preferred Stock as they appear on our books on the applicable record date, which shall be January 1, April 1, July 1 and October 1, as applicable, immediately preceding the applicable dividend payment date or such other record date fixed by our Board of Directors (or a duly authorized committee of the Board) that is not more than 60 nor less than 10 days prior to such dividend payment date (each, a "dividend record date"). These dividend record dates will apply regardless of whether a particular dividend record date is a business day.

A dividend period is the period from and including a dividend payment date to but excluding the next dividend payment date. Dividends payable on the Series A Preferred Stock are computed on the basis of a 360-day year consisting of twelve 30-day months. If any date on which dividends would otherwise be payable is not a business day, then the dividend payment date will be the next succeeding business day with the same force and effect as if made on the original dividend payment date, and no additional dividends shall accrue on the amount so payable from such date to such next succeeding business day.

Dividends on the Series A Preferred Stock are not cumulative. Accordingly, if our Board of Directors, or a duly authorized committee of the Board, does not declare a dividend on the Series A Preferred Stock payable in respect of any dividend period before the related dividend payment date, such dividend will not accumulate and will not be payable and we will have no obligation to pay a dividend for that dividend period on the dividend payment date or at any future time or to pay interest with respect to such dividends, whether or not dividends are declared for any future dividend period on the Series A Preferred Stock or any other parity stock we may issue in the future.

So long as any Series A Preferred Stock remain outstanding for any dividend period, unless the full dividends for the latest completed dividend period on all outstanding Series A Preferred Stock and parity stock (as defined below) have been declared and paid (or declared and a sum sufficient for the payment thereof has been set aside):

- no dividend shall be paid or declared on our common stock, or any other junior stock (other than a dividend payable solely in common stock or other junior stock);

- no common stock or other junior stock shall be purchased, redeemed or otherwise acquired for consideration by us, directly or indirectly (other than (1) as a result of a reclassification of junior stock for or into other junior stock, or the exchange or conversion of one share of junior stock for or into another share of junior stock, or (2) through the use of the proceeds of a substantially contemporaneous sale of junior stock) nor shall any monies be paid to or made available for a sinking fund for the redemption of such stock (it being understood that the provisions of this bullet point shall not apply to grants or settlements of grants pursuant to any equity compensation plan adopted by us); and

- no shares of Series A Preferred Stock or parity stock shall be repurchased, redeemed or otherwise acquired for consideration by us other than pursuant to pro rata offers to purchase all, or a pro rata portion, of the Series A Preferred Stock and such parity stock except by conversion into or exchange for junior stock.

As used in this Exhibit 4.1, “junior stock” means any class or series of our capital stock that ranks junior to the Series A Preferred Stock either as to the payment of dividends or as to the distribution of assets upon our liquidation, dissolution or winding-up. As of the date of this Exhibit 4.1, junior stock consists solely of our common stock.

As used in this Exhibit 4.1, “parity stock” means any class or series of our capital stock that ranks equally with the Series A Preferred Stock with respect to the payment of dividends and in the distribution of assets on our liquidation, dissolution or winding-up. As of the date of this Exhibit 4.1, parity stock consists of our Series B Preferred Stock and Series C Preferred Stock.

When dividends are not paid (or duly provided for) in full on any dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates pertaining to the Series A Preferred Stock, on a dividend payment date falling within the related dividend period for the Series A Preferred Stock) upon the Series A Preferred Stock and any parity stock, all dividends declared by our Board of Directors or a duly authorized committee of the Board upon the Series A Preferred Stock and all such parity stock and payable on such dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates pertaining to the Series A Preferred Stock, on a dividend payment date falling within the related dividend period for the Series A Preferred Stock) shall be declared by the Board or such committee pro rata so that the respective amounts of such dividends shall bear the same ratio to each other as all declared dividends per share of Series A Preferred Stock and all parity stock payable on such dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates pertaining to the Series A

Preferred Stock, on a dividend payment date falling within the related dividend period for the Series A Preferred Stock) bear to each other.

Our ability to pay dividends on the Series A Preferred Stock may be limited by the terms of our agreements governing our existing and future indebtedness and by the provisions of other existing and future agreements.

In addition, 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 capital stock, including the Series A Preferred Stock.

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.

Liquidation Rights

Upon our voluntary or involuntary liquidation, dissolution or winding-up, holders of the Series A Preferred Stock and any parity stock are entitled to receive out of our assets available for distribution to stockholders, after satisfaction of liabilities to creditors, if any, but before any distribution of assets is made to holders of our common stock or any of our other junior stock, a liquidating distribution in the amount equal to the liquidation preference of $25.00 per share of Series A Preferred Stock or the amount of the liquidation preference of such parity stock, as applicable, plus any declared and unpaid dividends. Holders of the Series A Preferred Stock will not be entitled to any other amounts from us after they have received their full liquidation preference plus any declared and unpaid dividends.

In any such distribution, if our assets are not sufficient to pay the liquidation distributions in full to all holders of the Series A Preferred Stock and all holders of any parity stock, the amounts paid to the holders of Series A Preferred Stock and to the holders of any parity stock will be paid pro rata in accordance with the respective aggregate liquidation distributions of those holders. In any such distribution, the liquidation distribution to any holder of preferred stock means the amount payable to such holder in such distribution, including any declared but unpaid dividends (and any unpaid, accrued cumulative dividends in the case of any holder of shares on which dividends accrue on a cumulative basis). If the liquidation distributions have been paid in full to all holders of shares of the Series A Preferred Stock and any holders of shares of parity stock and shares ranking senior to the Series A Preferred Stock with respect to the distribution of assets upon liquidation, dissolution or winding-up, the holders of our other classes of capital stock will be entitled to receive all of our remaining assets according to their respective rights and preferences.

For purposes of this section, a consolidation or merger involving the Company with any other entity, including the consolidation or merger in which the holders of Series A Preferred Stock receive cash, securities or other property for their shares, or the sale or transfer of all or substantially all of the property and assets of the Company for cash, securities or other property, will not be deemed to constitute a liquidation, dissolution or winding-up.

Redemption

The Series A Preferred Stock is not subject to any mandatory redemption, sinking fund, retirement fund, purchase fund or other similar provisions.

As of July 15, 2019, the Series A Preferred Stock are redeemable at our option, in whole or in part, upon not less than 30 days nor more than 60 days notice, at a redemption price equal to $25.00 per share plus declared and unpaid dividends on the shares of Series A Preferred Stock called for redemption for prior dividend periods, if any, plus accrued but unpaid dividends (whether or not declared) thereon for the then-current dividend period, to, but excluding, the date of redemption, without accumulation of any other undeclared dividends. Holders of the Series A Preferred Stock have no right to require the redemption of the Series A Preferred Stock.

The redemption price for any shares of Series A Preferred Stock shall be payable on the redemption date to the holders of such shares against book entry transfer or surrender of the certificate(s) evidencing such shares to us or our agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the dividend record date for a dividend period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such dividend record date relating to the dividend payment date provided in "-Dividends" above.

If shares of the Series A Preferred Stock are to be redeemed, the notice of redemption shall be given by first class mail to the holders of record of the Series A Preferred Stock to be redeemed, mailed not less than 30 days nor more than 60 days prior to the date fixed for redemption thereof (provided that, if the Series A Preferred Stock is held in book-entry form through The Depository Trust Company, or "DTC," we may give such notice in any manner permitted by DTC). Each notice of redemption will include a statement setting forth:

- the redemption date;
- the number of shares of Series A Preferred Stock to be redeemed and, if less than all the shares of Series A Preferred Stock held by such holder are to be redeemed, the number of such shares of Series A Preferred Stock to be redeemed from such holder;
- the redemption price; and
- that the shares should be delivered via book entry transfer or the place or places where holders may surrender certificates evidencing the Series A Preferred Stock for payment of the redemption price.

If notice of redemption of any shares of Series A Preferred Stock has been given and if the funds necessary for such redemption and to pay declared and unpaid dividends have been set aside by us for the benefit of the holders of such shares of Series A Preferred Stock so called for redemption, then, from and after the redemption date, no further dividends will be declared on such shares of Series A Preferred Stock, such shares of Series A Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares of Series A Preferred Stock will terminate, except the right to receive the redemption price, without interest.

In case of any redemption of only part of the shares of Series A Preferred Stock at the time outstanding, the shares of Series A Preferred Stock to be redeemed shall be selected either pro rata or in such other manner as we may determine to be fair and equitable.

Our ability to redeem the Series A Preferred Stock as described above may be limited by the terms of our agreements governing our existing and future indebtedness and by the provisions of other existing and future agreements.

Voting Rights

Except as provided below or as otherwise may be required by applicable law, the holders of the Series A Preferred Stock have no voting rights.

Whenever dividends on any Series A Preferred Stock shall have not been declared and paid for the equivalent of six or more dividend periods, whether or not for consecutive dividend periods (a "nonpayment event"), the holders of the Series A Preferred Stock, voting together as a single class with holders of any and all other series of voting preferred stock (as defined below) then outstanding, will be entitled to vote for the election of a total of two additional members of the Board of Directors of the Company (the "preferred stock directors"), provided that the election of any such directors shall not cause us to violate the corporate governance requirement of any exchange on which our securities may be listed or quoted that listed or quoted companies must have a majority of independent directors. The number of preferred stock directors will not be more than two at any time. In the event of a non-payment event the number of directors on our Board of Directors shall automatically increase by two and the new directors shall be elected at a special meeting called at the request of the holders of record of at least 20% of the aggregate voting power of the Series A Preferred Stock or of any other series of voting preferred stock (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders of the Company, in which event such election shall be held at such next annual or special meeting of stockholders), and at each subsequent annual meeting.

As used in this Exhibit 4.1, "voting preferred stock" means, with regard to any election or removal of a preferred stock director or any other matter as to which the holders of Series A Preferred Stock are entitled to vote, any other class or series of our parity stock upon which like voting rights have been conferred and are exercisable. Whether a plurality, majority or other portion of the Series A Preferred Stock and any other voting preferred stock have been voted in favor of any matter shall be determined by reference to the aggregate voting power of the Series A Preferred Stock and voting preferred stock voted.

If and when dividends for at least four consecutive dividend periods following a nonpayment event have been paid in full (or declared and a sum sufficient for such payment shall have been set aside), the holders of the Series A Preferred Stock shall be divested of the foregoing voting rights (subject to revesting in the event of each subsequent nonpayment event) and, if such voting rights for all other holders of voting preferred stock have terminated, the term of office of each preferred stock director so elected shall terminate and the number of directors on the Board of Directors of the Company shall automatically decrease by two. In determining whether dividends have been paid for four dividend periods following a nonpayment event, we may take account of any dividend we elect to pay for such a dividend period after the regular dividend payment date for that period has passed.

Any preferred stock director may be removed at any time without cause by the holders of record of a majority of the aggregate voting power, as determined under our Certificate of Incorporation, of the Series A Preferred Stock and any other shares of voting preferred stock then outstanding (voting together as a single class) when they have the voting rights described above. So long as a nonpayment event shall continue, any vacancy in the office of a preferred stock director (other than prior to the initial election after a nonpayment event) may be filled by the written consent of the preferred stock director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series A Preferred Stock and any other shares of voting preferred stock then outstanding (voting together as a single class) when they have the voting rights described above. Any vote of stockholders to remove, or to fill a vacancy in the office of, a preferred stock director may be taken at a special or annual meeting of such stockholders, called as provided above for an initial election of preferred stock director after a nonpayment event (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders of the Company, in which event such election shall be held at such next annual or special meeting of stockholders). The preferred stock directors shall each be entitled to one vote per director on any matter. Each preferred stock director elected at any special or annual meeting of stockholders or by written consent of the other preferred stock director shall hold office until the next annual meeting of the stockholders of the Company if such office shall not have previously terminated as above provided.

So long as any shares of Series A Preferred Stock remain outstanding and subject in all cases to any other vote of stockholders required under applicable law or our Certificate of Incorporation:

- we will not, without the affirmative vote or consent of the holders of at least two-thirds of the voting power of Series A Preferred Stock and all other series of voting preferred stock entitled to vote thereon, voting together as a single class, given in person or by proxy, either in writing without a meeting or at a meeting, authorize or create, or increase the authorized amount of, any specific class or series of capital stock ranking senior to the Series A Preferred Stock with respect to the payment of dividends or the distribution of our assets upon our liquidation, dissolution or winding up;

- we will not, without the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock given in person or by proxy, either in writing without a meeting or at a meeting:

- amend, alter or repeal the provisions of our Certificate of Incorporation or the Certificate of Designations for the Series A Preferred Stock so as to adversely affect the rights, preferences, privileges and voting powers of the Series A Preferred Stock; or

- consummate a binding share exchange or reclassification involving the Series A Preferred Stock or a merger or consolidation of us with another entity, unless in each case (i) shares of Series A Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which we are not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, in each case, that is an entity organized and existing under the laws of the United States of America, any state thereof or the District of Columbia, and (ii) such shares of Series A Preferred Stock remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers and limitations and restrictions, taken as a whole, as are not less favorable to the holders thereof than the rights, preferences, privileges and voting powers and limitations and restrictions of the Series A Preferred Stock, taken as a whole, provided, however, that (1) any increase in the amount of our authorized but unissued shares of preferred stock, (2) any increase in the authorized or issued shares of Series A Preferred Stock, and (3) the creation and issuance, or an increase in the authorized or issued amount, of other series of preferred stock ranking equally with or junior to the Series A Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and/or the distribution of assets upon our liquidation, dissolution or winding up, will not be deemed to adversely affect the rights, preferences, privileges or voting powers of the Series A Preferred Stock.

Without the consent of the holders of the Series A Preferred Stock, so long as such action does not adversely affect the rights, preferences, privileges and voting powers and limitations and restrictions of the Series A Preferred Stock, the Board of Directors of the Company may, subject to any vote of our stockholders required by applicable law or our Certificate of Incorporation, by resolution, amend, alter, supplement or repeal any terms of the Series A Preferred Stock:

- to cure any ambiguity, or to cure, correct or supplement any provision contained in the Certificate of Designations for the Series A Preferred Stock that may be defective or inconsistent; or

- to make any provision with respect to matters or questions arising with respect to the Series A Preferred Stock that is not inconsistent with the provisions of the Certificate of Designations;

provided that any such amendment, alteration, supplement or repeal of any terms of the Series A Preferred Stock effected in order to conform the terms thereof to the description of the terms of the Series A Preferred Stock set forth under “Description of the Series A Preferred Stock” in this Exhibit 4.1 shall be deemed not to adversely affect the rights, preferences, privileges and voting powers of the Series A Preferred Stock.

On each matter on which holders of Series A Preferred Stock are entitled to vote, each share of Series A Preferred Stock will be entitled to one vote, and when shares of any other class or series of our preferred stock have

the right to vote with the Series A Preferred Stock as a single class on any matter, the Series A Preferred Stock and the shares of each such other class or series will have one vote for each $25.00 of liquidation preference (excluding accrued and unpaid dividends).

The foregoing voting provisions will not apply with respect to the Series A Preferred Stock if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding Series A Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been set aside by us for the benefit of the holders of Series A Preferred Stock to effect such redemption.

Conversion

Holders do not have the right to convert Series A Preferred Stock into, or exchange Series A Preferred Stock for, any other securities or property of the Company.

Listing of the Series A Preferred Stock

The Series A Preferred Stock are listed on the Nasdaq Global Market under the symbol "NGHCP."

Transfer Agent, Registrar, Dividend Disbursing Agent and Redemption Agent

American Stock Transfer & Trust Company is the transfer agent, registrar, dividend disbursing agent and redemption agent for the Series A Preferred Stock.

Book-Entry; Delivery and Form

The Series A Preferred Stock are represented by one or more global securities that are deposited with and registered in the name of DTC or its nominee. The global securities are issued to DTC, the depository for the Series A Preferred Stock, who keeps a computerized record of its participants whose clients have purchased the Series A Preferred Stock. Each participant will then keep a record of its clients. Unless exchanged in whole or in part for a certificated security, a global security may not be transferred. However, DTC, its nominees, and their successors may transfer a global security as a whole to one another. Beneficial interests in the global securities will be shown on, and transfers of the global securities will be made only through, records maintained by DTC and its participants.

Purchases of Series A Preferred Stock through the DTC system must be made by or through a direct participant, who receives credit for the Series A Preferred Stock on DTC's records. The beneficial owner's ownership interest is only recorded in the direct (or indirect) participants' records. DTC has no knowledge of the beneficial owner's individual ownership of the Series A Preferred Stock. DTC's records only show the identity of the direct participants and the amount of the Series A Preferred Stock held by or through them. The beneficial owner does not receive a written confirmation of its purchase or sale or any periodic account statement directly from DTC. The beneficial owner receives these from its direct (or indirect) participant. Thus, the direct (or indirect) participants are responsible for keeping accurate account of the holdings of their customers.

We wire dividend payments to DTC's nominee and we treat DTC's nominee as the owner of the global securities for all purposes. Accordingly, we have no direct responsibility or liability to pay amounts due on the global securities to any other beneficial owner in the global securities.

Any redemption notices will be sent by us directly to DTC, who will in turn inform the direct participants, who will then contact the beneficial holders.

It is DTC's current practice, upon receipt of any payment of dividends or liquidation amount, to credit direct participants' accounts on the payment date based on their holdings of beneficial interests in the global securities as shown on DTC's records. In addition, it is DTC's current practice to assign any consenting or voting rights to direct participants whose accounts are credited with preferred securities on a record date, by using an omnibus proxy. Payments by participants to owners of beneficial interests in the global securities, and voting by participants, will be

based on the customary practices between the participants and owners of beneficial interests, as is the case with the Series A Preferred Stock held for the account of customers registered in "street name." However, payments will be the responsibility of the participants and not of DTC or us.

Shares of Series A Preferred Stock represented by global securities are exchangeable for certificated securities with the same terms in authorized denominations only if:

- DTC is unwilling or unable to continue as depositary or if DTC ceases to be a clearing agency registered under applicable law and a successor depositary is not appointed by us within 90 days; or
- we determine not to require all of the Series A Preferred Stock to be represented by global securities.

If the book-entry-only system is discontinued, the transfer agent will keep the registration books for the Series A Preferred Stock at its corporate office.

DESCRIPTION OF THE SERIES B PREFERRED STOCK

The following description set forth below of our 7.50% Non-Cumulative Preferred Stock, Series B ("Series B Preferred Stock") is only a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Certificate of Incorporation and our Certificate of Designations for our 7.50% Non-Cumulative Preferred Stock, Series B, each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part. You should refer to such certificate for specific information on the Series B Preferred Stock.

General

The Certificate of Designations sets forth the specific rights, preferences, limitations and other terms of the Series B Preferred Stock as represented by the depositary shares. The Series B Preferred Stock is a single series of authorized preferred stock consisting of 165,000 shares.

The Certificate of Incorporation permits us to authorize the issuance of up to 10,000,000 shares of preferred stock, in one or more series without stockholder action. The Series B Preferred Stock constitutes a series of our authorized preferred stock. We may from time to time, without notice to or the consent of holders of the Series B Preferred Stock (or the consent of the holders of the depositary shares), issue shares of preferred stock that rank equally with or junior to the Series B Preferred Stock. We may also from time to time, without notice to or consent of holders of the Series B Preferred Stock (or the consent of the holders of the depositary shares), issue additional shares of the Series B Preferred Stock; provided, that any such additional shares of Series B Preferred Stock are not treated as "disqualified preferred stock" within the meaning of Section 1059(f)(2) of the Internal Revenue Code (or any successor provision) and such additional shares of Series B Preferred Stock are otherwise treated as fungible with our already outstanding Series B Preferred Stock as represented by the depositary shares for U.S. federal income tax purposes. The additional shares of Series B Preferred Stock would form a single series with our already outstanding Series B Preferred Stock represented by the depositary shares. We have the authority to issue fractional shares of Series B Preferred Stock.

The Series B Preferred Stock is fully paid and non-assessable. Holders of the Series B Preferred Stock do not have preemptive or similar rights to acquire any of our capital stock. Holders do not have the right to convert Series B Preferred Stock into, or exchange Series B Preferred Stock for, shares of any other class or series of shares or other securities of ours. The Series B Preferred Stock has no stated maturity and is not subject to any sinking fund, retirement fund or purchase fund or other obligation of the Company to redeem or purchase the Series B Preferred Stock represented by the depositary shares.

Ranking

The Series B Preferred Stock rank senior to our common stock and any other junior stock (as defined herein) with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding-up, equally with our Series A Preferred Stock and Series C Preferred Stock and each other series of our preferred stock that we may issue the terms of which provide that they rank equally with the Series B Preferred Stock with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding-up and junior to each other series of our preferred stock that we may issue in the future the terms of which provide that they rank senior to the Series B Preferred Stock with respect to the payment of dividends and distributions of assets upon our liquidation, dissolution or winding-up.

Dividends

Dividends on the Series B Preferred Stock are not mandatory. Holders of Series B Preferred Stock are entitled to receive dividends only when, as and if declared by the Board of Directors of the Company or a duly authorized committee of the Board, out of lawfully available funds for the payment of dividends, non-cumulative cash dividends from the original issue date, quarterly on the 15th day of January, April, July and October of each year, commencing on July 15, 2015. These dividends will accrue with respect to a particular dividend period on the liquidation preference amount of $1,000 per share at an annual rate of 7.50% from and including the original issue date or the most recent dividend payment date. In the event that we issue additional Series B Preferred Stock after the original issue date, dividends on such additional shares may accrue from the original issue date or the most recent dividend payment date at the time such additional shares are issued.

Dividends, if so declared, are payable to holders of record of the Series B Preferred Stock as represented by the depositary shares as they appear on our books on the applicable record date, which shall be January 1, April 1, July 1 and October 1, as applicable, immediately preceding the applicable dividend payment date or such other record date fixed by our Board of Directors (or a duly authorized committee of the Board) that is not more than 60 nor less than 10 days prior to such dividend payment date (each, a “dividend record date”). These dividend record dates will apply regardless of whether a particular dividend record date is a business day.

A dividend period is the period from and including a dividend payment date to but excluding the next dividend payment date. Dividends payable on the Series B Preferred Stock are computed on the basis of a 360-day year consisting of twelve 30-day months. If any date on which dividends would otherwise be payable is not a business day, then the dividend payment date will be the next succeeding business day with the same force and effect as if made on the original dividend payment date, and no additional dividends shall accrue on the amount so payable from such date to such next succeeding business day.

Dividends on the Series B Preferred Stock are not cumulative. Accordingly, if our Board of Directors, or a duly authorized committee of the Board, does not declare a dividend on the Series B Preferred Stock payable in respect of any dividend period before the related dividend payment date, such dividend will not accumulate and will not be payable and we will have no obligation to pay a dividend for that dividend period on the dividend payment date or at any future time or to pay interest with respect to such dividends, whether or not dividends are declared for any future dividend period on the Series B Preferred Stock or any other parity stock we may issue in the future.

So long as any Series B Preferred Stock remains outstanding for any dividend period, unless the full dividends for the latest completed dividend period on all outstanding Series B Preferred Stock and parity stock (as defined below) have been declared and paid (or declared and a sum sufficient for the payment thereof has been set aside):

- no dividend shall be paid or declared on our common stock, or any other junior stock (other than a dividend payable solely in common stock or other junior stock);

- no common stock or other junior stock shall be purchased, redeemed or otherwise acquired for consideration by us, directly or indirectly (other than (1) as a result of a reclassification of junior stock for or into other junior stock, or the exchange or conversion of one share of junior stock for or into another

share of junior stock, or (2) through the use of the proceeds of a substantially contemporaneous sale of junior stock or (3) in connection with grants or settlements of grants (including any "cashless exercise" or "net share settlement") pursuant to any equity compensation plan adopted by us)) nor shall any monies be paid to or made available for a sinking fund for the redemption of such stock; and

- no shares of Series B Preferred Stock or parity stock shall be repurchased, redeemed or otherwise acquired for consideration by us other than pursuant to pro rata offers to purchase all, or a pro rata portion, of the Series B Preferred Stock and such parity stock except by conversion into or exchange for junior stock.

As used in this Exhibit 4.1, "junior stock" means any class or series of our capital stock that ranks junior to the Series B Preferred Stock either as to the payment of dividends or as to the distribution of assets upon our liquidation, dissolution or winding-up. As of the date of this Exhibit 4.1, junior stock consists solely of our common stock.

As used in this Exhibit 4.1, "parity stock" means any class or series of our capital stock that ranks equally with the Series B Preferred Stock with respect to the payment of dividends and in the distribution of assets on our liquidation, dissolution or winding-up. As of the date of this Exhibit 4.1, parity stock consists of our Series A Preferred Stock and Series C Preferred Stock.

When dividends are not paid (or duly provided for) in full on any dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates pertaining to the Series B Preferred Stock as represented by the depositary shares, on a dividend payment date falling within the related dividend period for the Series B Preferred Stock) upon the Series B Preferred Stock and any parity stock, all dividends declared by our Board of Directors or a duly authorized committee of the Board upon the Series B Preferred Stock and all such parity stock and payable on such dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates pertaining to the Series B Preferred Stock, on a dividend payment date falling within the related dividend period for the Series B Preferred Stock) shall be declared by the Board or such committee pro rata based on the liquidation preference of Series B Preferred Stock and all such parity stock so that the respective amounts of such dividends shall bear the same ratio to each other as all declared dividends per share of Series B Preferred Stock and all parity stock payable on such dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates pertaining to the Series B Preferred Stock, on a dividend payment date falling within the related dividend period for the Series B Preferred Stock) bear to each other.

Our ability to pay dividends on the Series B Preferred Stock may be limited by the terms of our agreements governing our existing and future indebtedness and by the provisions of other existing and future agreements.

In addition, 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 capital stock, including the Series B Preferred Stock.

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.

Liquidation Rights

Upon our voluntary or involuntary liquidation, dissolution or winding-up, holders of the Series B Preferred Stock and any parity stock are entitled to receive out of our assets available for distribution to stockholders, after satisfaction of liabilities to creditors, if any, but before any distribution of assets is made to holders of our common stock or any of our other junior stock, a liquidating distribution in the amount equal to the liquidation preference of $1,000 per share of Series B Preferred Stock or the amount of the liquidation preference of such parity stock, as applicable, plus any declared and unpaid dividends. Holders of the Series B Preferred Stock will not be entitled to any other amounts from us after they have received their full liquidation preference plus any declared and unpaid dividends.

In any such distribution, if our assets are not sufficient to pay the liquidation distributions in full to all holders of the Series B Preferred Stock and all holders of any parity stock, the amounts paid to the holders of Series B Preferred Stock and to the holders of any parity stock will be paid pro rata in accordance with the respective aggregate liquidation distributions of those holders. In any such distribution, the liquidation distribution to any holder of preferred stock means the amount payable to such holder in such distribution, including liquidation preference and any declared but unpaid dividends (and any unpaid, accrued cumulative dividends in the case of any holder of shares on which dividends accrue on a cumulative basis). If the liquidation distributions have been paid in full to all holders of shares of the Series B Preferred Stock and any holders of shares of parity stock and shares ranking senior to the Series B Preferred Stock with respect to the distribution of assets upon liquidation, dissolution or winding-up, the holders of our other classes of capital stock will be entitled to receive all of our remaining assets according to their respective rights and preferences.

For purposes of this section, a consolidation or merger involving the Company with any other entity, including the consolidation or merger in which the holders of Series B Preferred Stock receive cash, securities or other property for their shares, or the sale or transfer of all or substantially all of the property and assets of the Company for cash, securities or other property, will not be deemed to constitute a liquidation, dissolution or winding-up.

Redemption

The Series B Preferred Stock represented by the depositary shares is not subject to any mandatory redemption, sinking fund, retirement fund, purchase fund or other similar provisions.

The Series B Preferred Stock is not redeemable prior to April 15, 2020. On and after that date, the Series B Preferred Stock will be redeemable at our option, in whole or in part, upon not less than 30 days nor more than 60 days notice, at a redemption price equal to $1,000 per share plus declared and unpaid dividends on the shares of Series B Preferred Stock called for redemption for prior dividend periods, if any, plus accrued but unpaid dividends (whether or not declared) thereon for the then-current dividend period, to, but excluding, the date of redemption, without accumulation of any other undeclared dividends. Holders of the Series B Preferred Stock and, in turn, the holders of the depositary shares have no right to require the redemption of the Series B Preferred Stock.

The redemption price for any shares of Series B Preferred Stock shall be payable on the redemption date to the holders of such shares against book entry transfer or surrender of the certificate(s) evidencing such shares to us or our agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the dividend record date for a dividend period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such dividend record date relating to the dividend payment date provided in "-Dividends" above.

If shares of the Series B Preferred Stock are to be redeemed, the notice of redemption shall be given by first class mail to the holders of record of the Series B Preferred Stock to be redeemed, mailed not less than 30 days nor more than 60 days prior to the date fixed for redemption thereof (provided that, if the Series B Preferred Stock is held in book-entry form through The Depository Trust Company, or "DTC," we may give such notice in any manner permitted by DTC). Each notice of redemption will include a statement setting forth:

- the redemption date;
- the number of shares of Series B Preferred Stock to be redeemed and, if less than all the shares of Series B Preferred Stock held by such holder are to be redeemed, the number of such shares of Series B Preferred Stock to be redeemed from such holder;
- the redemption price; and
- that the shares should be delivered via book entry transfer or the place or places where holders may surrender certificates evidencing the Series B Preferred Stock for payment of the redemption price.

If notice of redemption of any shares of Series B Preferred Stock has been given and if the funds necessary for such redemption and to pay declared and unpaid dividends have been set aside by us for the benefit of the holders of such shares of Series B Preferred Stock so called for redemption, then, from and after the redemption date, no further dividends will be declared on such shares of Series B Preferred Stock as represented by the depositary shares, such shares of Series B Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares of Series B Preferred Stock will terminate, except the right to receive the redemption price, without interest.

In case of any redemption of only part of the shares of Series B Preferred Stock at the time outstanding, the shares of Series B Preferred Stock to be redeemed shall be selected either pro rata or by lot.

Our ability to redeem the Series B Preferred Stock as described above may be limited by the terms of our agreements governing our existing and future indebtedness and by the provisions of other existing and future agreements.

Voting Rights

Except as provided below or as otherwise may be required by applicable law, the holders of the Series B Preferred Stock and, in turn, the holders of the depositary shares representing the Series B Preferred Stock have no voting rights.

Whenever dividends on any Series B Preferred Stock shall not have been declared and paid for the equivalent of six or more dividend periods, whether or not for consecutive dividend periods (a "nonpayment event"), the holders of the Series B Preferred Stock, voting together as a single class with holders of any and all other series of voting preferred stock (as defined below) then outstanding, will be entitled to vote for the election of a total of two additional members of the Board of Directors of the Company (the "preferred stock directors"), provided that the election of any such directors shall not cause us to violate the corporate governance requirement of any exchange on which our securities may be listed or quoted that listed or quoted companies must have a majority of independent directors. The number of preferred stock directors will not be more than two at any time. In the event that the holders of the Series B Preferred Stock, and any such other holders of voting preferred stock, shall be entitled to vote for the election of the preferred stock directors following a nonpayment event, the number of directors on the Company's Board of Directors shall automatically be increased by two and such directors shall be initially elected following such nonpayment event at a special or annual meeting called at the request of the holders of record of at least 20% of the aggregate voting power of the Series B Preferred Stock and any other such series of voting preferred stock then outstanding (provided that if such request is received less than 90 days before the date fixed for an annual or special meeting of the stockholders of the Company, then such election shall not be held at such annual or special meeting of stockholders but at a subsequent annual or special meeting), and at each subsequent annual meeting of stockholders of the Company, so long as the rights related to a nonpayment event remain in effect.

As used in this Exhibit 4.1, "voting preferred stock" means, with regard to any election or removal of a preferred stock director or any other matter as to which the holders of Series B Preferred Stock are entitled to vote, any other class or series of our parity stock upon which like voting rights have been conferred and are exercisable.

If and when dividends, for at least four consecutive dividend periods following a nonpayment event have been paid in full (or declared and a sum sufficient for such payment shall have been set aside), the holders of the Series B Preferred Stock shall be divested of the foregoing voting rights (subject to revesting in the event of each subsequent nonpayment event) and, if such voting rights for all other holders of voting preferred stock have terminated, the term of office of each preferred stock director so elected shall terminate and the number of directors on the Board of Directors of the Company shall automatically decrease by two. In determining whether dividends have been paid for four dividend periods following a nonpayment event, we may take account of any dividend we elect to pay for such a dividend period after the regular dividend payment date for that period has passed.

Any preferred stock director may be removed at any time without cause by the holders of record of a majority of the aggregate voting power, as determined under the Certificate of Incorporation, of the Series B Preferred Stock and any other shares of voting preferred stock then outstanding (voting together as a single class) when they have the voting rights described above. So long as a nonpayment event shall continue, any vacancy in the office of a preferred stock director (other than prior to the initial election after a nonpayment event) may be filled by the written consent of the preferred stock director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series B Preferred Stock and any other shares of voting preferred stock then outstanding (voting together as a single class) when they have the voting rights described above. Any vote of stockholders to remove, or to fill a vacancy in the office of, a preferred stock director may be taken at a special or annual meeting of such stockholders, called as provided above for an initial election of preferred stock director after a nonpayment event (provided that if such request is received less than 90 days before the date fixed for an annual or special meeting of the stockholders of the Company, then such election shall not be held at such annual or special meeting of stockholders but at a subsequent annual or special meeting). The preferred stock directors shall each be entitled to one vote per director on any matter. Each preferred stock director elected at any special or annual meeting of stockholders or by written consent of the other preferred stock director shall hold office until the next annual meeting of the stockholders of the Company if such office shall not have previously terminated as above provided.

So long as any shares of Series B Preferred Stock remain outstanding and subject in all cases to any other vote of stockholders required under applicable law or the Certificate of Incorporation:

- we will not, without the affirmative vote or consent of the holders of at least two-thirds of the voting power of Series B Preferred Stock and all other series of voting preferred stock entitled to vote thereon, voting together as a single class, given in person or by proxy, either in writing without a meeting or at a meeting, authorize or create, or increase the authorized amount of, any specific class or series of capital stock ranking senior to the Series B Preferred Stock with respect to the payment of dividends or the distribution of our assets upon our liquidation, dissolution or winding up;

- we will not, without the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of Series B Preferred Stock given in person or by proxy, either in writing without a meeting or at a meeting:

- amend, alter or repeal the provisions of the Certificate of Incorporation or the Certificate of Designations so as to adversely affect the rights, preferences, privileges and voting powers of the Series B Preferred Stock; or

- consummate a binding share exchange or reclassification involving the Series B Preferred Stock or a merger or consolidation of us with another entity, unless in each case (i) shares of Series B Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which we are not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, in each case, that is an entity organized and existing under the laws of the United States of America, any state thereof or the District of Columbia, and (ii) such shares of Series B Preferred Stock remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers and limitations and restrictions, taken as a whole, as are not less favorable to the holders thereof than the rights, preferences, privileges and voting powers and limitations and restrictions of the Series B Preferred Stock, taken as a whole, provided, however, that (1) any increase

in the amount of our authorized but unissued shares of preferred stock, (2) any increase in the authorized or issued shares of Series B Preferred Stock, and (3) the creation and issuance, or an increase in the authorized or issued amount, of other series of preferred stock ranking equally with or junior to the Series B Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and/ or the distribution of assets upon our liquidation, dissolution or winding up, will not be deemed to adversely affect the rights, preferences, privileges or voting powers of the Series B Preferred Stock.

Without the consent of the holders of the Series B Preferred Stock so long as such action does not adversely affect the rights, preferences, privileges and voting powers and limitations and restrictions of the Series B Preferred Stock, the Board of Directors of the Company may, subject to any vote of our stockholders required by applicable law or the Certificate of Incorporation, by resolution, amend, alter, supplement or repeal any terms of the Series B Preferred Stock:

- to cure any ambiguity, or to cure, correct or supplement any provision contained in the Certificate of Designations that may be defective or inconsistent; or
- to make any provision with respect to matters or questions arising with respect to the Series B Preferred Stock that is not inconsistent with the provisions of the Certificate of Designations;

provided that any such amendment, alteration, supplement or repeal of any terms of the Series B Preferred Stock effected in order to conform the terms thereof to the description of the terms of the Series B Preferred Stock set forth under “Description of the Series B Preferred Stock” in this Exhibit 4.1 shall be deemed not to adversely affect the rights, preferences, privileges and voting powers of the Series B Preferred Stock.

On each matter on which holders of Series B Preferred Stock are entitled to vote, each share of Series B Preferred Stock will be entitled to one vote, and when shares of any other class or series of our preferred stock have the right to vote with the Series B Preferred Stock as a single class on any matter, the Series B Preferred Stock and the shares of each such other class or series will have one vote for each $25.00 of liquidation preference (excluding accrued and unpaid dividends)(equivalent to one per depositary share).

The foregoing voting provisions will not apply with respect to the Series B Preferred Stock if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding Series B Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been set aside by us for the benefit of the holders of Series B Preferred Stock to effect such redemption.

Conversion

Holders do not have the right to convert Series B Preferred Stock into, or exchange Series B Preferred Stock for, any other securities or property of the Company.

Listing of the Series B Preferred Stock

The Series B Preferred Stock are not listed on any exchange except as represented by the depositary shares.

DESCRIPTION OF THE DEPOSITARY SHARES REPRESENTING INTERESTS IN THE SERIES B PREFERRED STOCK

The following description set forth below of our depositary shares representing fractional interests in the Series B Preferred Stock is only a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the terms and provisions of the Series B Deposit Agreement (as defined below), the form of depositary receipts, which contain the terms and provisions of the depositary shares, our Certificate of Incorporation and our Certificate of Designations for our 7.50% Non-Cumulative Preferred Stock, Series B, each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part.

General

Each depositary share represents a 1/40th interest in a share of the Series B Preferred Stock and is evidenced by a depositary receipt. We deposited the underlying shares of the Series B Preferred Stock with the depositary pursuant to a deposit agreement among us, American Stock Transfer & Trust Company, LLC, acting as depositary, and the holders from time to time of the depositary receipts (the "Series B Deposit Agreement"). Subject to the terms of the Series B Deposit Agreement, each owner of a depositary receipt is entitled, in proportion to the fractional interest of a share of Series B Preferred Stock represented by the depositary shares evidenced by that depositary receipt, to all the rights and preferences of Series B Preferred Stock represented by those depositary shares (including any dividend, liquidation, redemption and voting rights).

The depositary shares are evidenced by depositary receipts issued pursuant to the Series B Deposit Agreement. Immediately following the issuance and delivery of the Series B Preferred Stock by us to the depositary, we caused the depositary to issue, on our behalf, the depositary receipts.

Dividends and Other Distributions

Any dividend or other distribution (including upon our voluntary or involuntary liquidation, dissolution or winding-up) paid in respect of a depositary share will be in an amount equal to 1/40th of the dividend declared or distribution payable, as the case may be, on the underlying share of the Series B Preferred Stock. The depositary will distribute all cash dividends and other cash distributions received on the Series B Preferred Stock to the holders of record of the depositary receipts in proportion to the number of depositary shares held by each holder on the relevant record date. In the event of a distribution other than in cash, the depositary will distribute property received by it to the holders of record of the depositary receipts in proportion to the number of depositary shares held by each holder, unless the depositary determines that this distribution is not feasible, in which case the depositary may, with our approval, adopt a method of distribution that it deems practicable, including the sale of the property and distribution of the net proceeds of that sale to the holders of the depositary receipts.

Record dates for the payment of dividends and other matters relating to the depositary shares will be the same as the corresponding record dates for the Series B Preferred Stock represented by the depositary shares.

The amount paid as dividends or otherwise distributable by the depositary with respect to the depositary shares or the underlying Series B Preferred Stock will be reduced by any amounts required to be withheld by us or the depositary on account of taxes or other governmental charges. The depositary may refuse to make any payment or distribution, or any transfer, exchange or withdrawal of any depositary shares or the shares of the Series B Preferred Stock until such taxes or other governmental charges are paid.

Withdrawal of Series B Preferred Stock

Unless the related depositary shares have been previously called for redemption, a holder of depositary shares may surrender his or her depositary receipts at the corporate trust office of the depositary, pay any taxes, charges and fees provided for in the Series B Deposit Agreement and comply with any other requirements of the Series B Deposit Agreement for the number of shares of Series B Preferred Stock and any money or other property represented by such holder's depositary receipts. A holder of depositary shares who withdraws shares of Series B Preferred Stock will be entitled to receive whole shares of Series B Preferred Stock on the basis set forth herein; partial shares of Series B Preferred Stock will not be issued.

However, holders of whole shares of Series B Preferred Stock will not be entitled to deposit those shares under the Series B Deposit Agreement or to receive depositary receipts for those shares after the withdrawal. If the depositary shares surrendered by the holder in connection with the withdrawal exceed the number of depositary shares that represent the number of whole shares of Series B Preferred Stock to be withdrawn, the depositary will deliver to the holder at the same time a new depositary receipt evidencing the excess number of depositary shares.

Redemption

If the Series B Preferred Stock underlying the depositary shares is redeemed, in whole or in part, a corresponding number of depositary shares will be redeemed with the proceeds received by the depositary from the redemption of the Series B Preferred Stock held by the depositary. The redemption price per depositary share will be equal to 1/40th of the applicable redemption price per share payable in respect of such Series B Preferred Stock.

Whenever we redeem shares of Series B Preferred Stock held by the depositary, the depositary will redeem, as of the same redemption date, the number of depositary shares representing shares of Series B Preferred Stock so redeemed. If fewer than all of the outstanding depositary shares are redeemed, the depositary will select the depositary shares to be redeemed pro rata or by lot. The depositary will mail notice of redemption to holders of the depositary receipts not less than 30 and not more than 60 days prior to the date fixed for redemption of the Series B Preferred Stock represented by the depositary shares and the related depositary shares.

Voting Rights

Because each depositary share represents a 1/40th interest in a share of the Series B Preferred Stock, holders of depositary receipts will be entitled to 1/40th of a vote per share of the Series B Preferred Stock under those limited circumstances in which holders of the Series B Preferred Stock represented by the depositary shares are entitled to vote. Holders of the depositary shares representing the Series B Preferred Stock do not have any voting rights, except for the limited voting rights described under "Description of the Series B Preferred Stock-Voting Rights."

When the depositary receives notice of any meeting at which the holders of the Series B Preferred Stock are entitled to vote, the depositary will mail (or otherwise transmit by an authorized method) the information contained in the notice to the record holders of the depositary shares relating to the Series B Preferred Stock. Each record holder of the depositary shares on the record date, which will be the same date as the record date for the Series B Preferred Stock, may instruct the depositary to vote the number of the Series B Preferred Stock votes represented by the holder's depositary shares. To the extent possible, the depositary will vote the number of the Series B Preferred Stock votes represented by depositary shares in accordance with the instructions it receives.

We will agree to take all reasonable actions that the depositary determines are necessary to enable the depositary to vote as instructed. If the depositary does not receive specific instructions from the holders of any depositary shares representing the Series B Preferred Stock, it will vote all depositary shares held by it proportionately with instructions received.

Conversion

Holders of depositary receipts do not have the right to convert depositary shares representing the Series B Preferred Stock into, or exchange depositary shares representing the Series B Preferred Stock for, any other securities or property of the Company.

Amendment and Termination of the Series B Deposit Agreement

The form of depositary receipt evidencing the depositary shares and any provision of the Series B Deposit Agreement may be amended by agreement between us and the depositary. However, any amendment that materially and adversely alters the rights of the existing holders of depositary shares will not be effective unless the amendment has been approved by the record holders of at least a majority of the depositary shares then outstanding. Either we or the depositary may terminate the Series B Deposit Agreement if there has been a final distribution in respect of the Series B Preferred Stock in connection with our liquidation, dissolution, or winding up.

Charges of Depositary

We will pay all transfer and other taxes, assessments, and governmental charges arising solely from the existence of the depositary arrangements, and we paid the fees of the depositary in connection with the initial

deposit of the Series B Preferred Stock represented by the depositary shares. Holders of depositary receipts will pay transfer and other taxes, assessments, and governmental charges and any other charges as are expressly provided in the Series B Deposit Agreement to be for their accounts. The depositary may refuse to effect any transfer of a depositary receipt or any withdrawals of Series B Preferred Stock evidenced by a depositary receipt until all taxes, assessments, and governmental charges with respect to the depositary receipt or Series B Preferred Stock are paid by their holders.

Resignation and Removal of Depositary

The depositary may resign at any time by delivering to us notice of its election to do so, and we may remove the depositary at any time. Any resignation or removal will take effect only upon the appointment of a successor depositary and the successor depositary's acceptance of the appointment. Any successor depositary must be a U.S. bank or trust company.

Miscellaneous

The depositary will forward to the holders of depositary shares all of our reports and communications which are delivered to the depositary and which we are required to furnish to the holders of our Series B Preferred Stock.

Neither we nor the depositary will be liable if we are prevented or delayed by law or any circumstance beyond our control in performing our obligations under the Series B Deposit Agreement. All of our obligations as well as the depositary's obligations under the Series B Deposit Agreement are limited to performance in good faith of our respective duties set forth in the Series B Deposit Agreement, and neither of us will be obligated to prosecute or defend any legal proceeding relating to any depositary shares or Series B Preferred Stock unless provided with satisfactory indemnity. We, and the depository, may rely upon written advice of counsel or accountants, or information provided by persons presenting Series B Preferred Stock for deposit, holders of depositary shares, or other persons believed to be competent and on documents believed to be genuine.

Listing of the Depositary Shares

The depositary shares representing the Series B Preferred Stock are listed on the Nasdaq Global Market under the symbol "NGHCO."

Transfer Agent, Registrar, Dividend Disbursing Agent and Redemption Agent

American Stock Transfer & Trust Company, LLC is the transfer agent, registrar, dividend disbursing agent and redemption agent for the depositary shares representing the Series B Preferred Stock.

Book-Entry; Delivery and Form

The depositary shares are represented by one or more global securities that are deposited with and registered in the name of DTC or its nominee. The global securities are issued to DTC, the depository for the depositary shares, who keeps a computerized record of its participants whose clients have purchased the depositary shares. Each participant will then keep a record of its clients. Unless exchanged in whole or in part for a certificated security, a global security may not be transferred. However, DTC, its nominees, and their successors may transfer a global security as a whole to one another. Beneficial interests in the global securities will be shown on, and transfers of the global securities will be made only through, records maintained by DTC and its participants.

Purchases of depositary shares through the DTC system must be made by or through a direct participant, who receives credit for the depositary shares on DTC's records. The beneficial owner's ownership interest is only recorded in the direct (or indirect) participants' records. DTC's records only show the identity of the direct participants and the amount of the depositary shares held by or through them. The beneficial owner does not receive a written confirmation of the purchase or sale or any periodic account statement directly from DTC. The beneficial

owner receives these from its direct (or indirect) participant. Thus, the direct (or indirect) participants are responsible for keeping accurate account of the holdings of their customers.

We wire dividend payments to DTC's nominee and we treat DTC's nominee as the owner of the global securities for all purposes. Accordingly, we have no direct responsibility or liability to pay amounts due on the global securities to any beneficial owner in the global securities.

Any redemption notices will be sent by us directly to DTC, who will in turn inform the direct participants, who will then contact the beneficial holders.

It is DTC's current practice, upon receipt of any payment of dividends or liquidation amount, to credit direct participants' accounts on the payment date based on their holdings of beneficial interests in the global securities as shown on DTC's records. In addition, it is DTC's current practice to assign any consenting or voting rights to direct participants whose accounts are credited with preferred securities on a record date, by using an omnibus proxy. Payments by participants to owners of beneficial interests in the global securities, and voting by participants, will be based on the customary practices between the participants and owners of beneficial interests, as is the case with the Series B Preferred Stock held for the account of customers registered in "street name." However, payments will be the responsibility of the participants and not of DTC or us.

Depositary Shares represented by global securities will be exchangeable for certificated securities with the same terms in authorized denominations only if:

- DTC is unwilling or unable to continue as depositary or if DTC ceases to be a clearing agency registered under applicable law and a successor depositary is not appointed by us within 90 days; or

- we determine not to require all of the depositary shares to be represented by global securities.

If the book-entry-only system is discontinued, the transfer agent will keep the registration books for the depositary shares at its corporate office.

DESCRIPTION OF THE SERIES C PREFERRED STOCK

The following description set forth below of our 7.50% Non-Cumulative Preferred Stock, Series C ("Series C Preferred Stock") is only a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Certificate of Incorporation and our Certificate of Designations for our 7.50% Non-Cumulative Preferred Stock, Series C, each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part. You should refer to such certificate for specific information on the Series C Preferred Stock.

General

The Certificate of Designations sets forth the specific rights, preferences, limitations and other terms of the Series C Preferred Stock as represented by the depositary shares. The Series C Preferred Stock is a single series of authorized preferred stock consisting of 200,000 shares.

The Certificate of Incorporation permits us to authorize the issuance of up to 10,000,000 shares of preferred stock, in one or more series without stockholder action. The Series C Preferred Stock constitutes a series of our authorized preferred stock. We may from time to time, without notice to or the consent of holders of the Series C Preferred Stock (or the consent of the holders of the depositary shares), issue shares of preferred stock that rank equally with or junior to the Series C Preferred Stock. We may also from time to time, without notice to or consent of holders of the Series C Preferred Stock (or the consent of the holders of the depositary shares), issue additional shares of the Series C Preferred Stock; provided, that any such additional shares of Series C Preferred Stock are not

treated as “disqualified preferred stock” within the meaning of Section 1059(f)(2) of the Internal Revenue Code (or any successor provision) and such additional shares of Series C Preferred Stock are otherwise treated as fungible with the already outstanding Series C Preferred Stock as represented by the depositary shares for U.S. federal income tax purposes. The additional shares of Series C Preferred Stock would form a single series with the already outstanding Series C Preferred Stock represented by the depositary shares. We have the authority to issue fractional shares of Series C Preferred Stock.

The Series C Preferred Stock is fully paid and non-assessable. Holders of the Series C Preferred Stock do not have preemptive or similar rights to acquire any of our capital stock. Holders do not have the right to convert Series C Preferred Stock into, or exchange Series C Preferred Stock for, shares of any other class or series of shares or other securities of ours. The Series C Preferred Stock has no stated maturity and is not subject to any sinking fund, retirement fund or purchase fund or other obligation of the Company to redeem or purchase the Series C Preferred Stock as represented by the depositary shares.

Ranking

The Series C Preferred Stock rank senior to our common stock and any other junior stock (as defined herein) with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding-up, equally with our Series A Preferred Stock, Series B Preferred Stock and each other series of our preferred stock that we may issue the terms of which provide that they rank equally with the Series C Preferred Stock with respect to the payment of dividends and distributions of assets upon liquidation, dissolution or winding-up and junior to each other series of our preferred stock that we may issue in the future the terms of which provide that they rank senior to the Series C Preferred Stock with respect to the payment of dividends and distributions of assets upon our liquidation, dissolution or winding-up.

Dividends

Dividends on the Series C Preferred Stock are not mandatory. Holders of Series C Preferred Stock are entitled to receive only when, as and if declared by the Board of Directors of the Company or a duly authorized committee of the Board, out of lawfully available funds for the payment of dividends, non-cumulative cash dividends from the original issue date, quarterly on the 15th day of January, April, July and October of each year, commencing on October 15, 2016. These dividends will accrue with respect to a particular dividend period on the liquidation preference amount of $1,000 per share at an annual rate of 7.50% from and including the original issue date or the most recent dividend payment date. In the event that we issue additional Series C Preferred Stock after the original issue date, dividends on such additional shares may accrue from the original issue date or the most recent dividend payment date at the time such additional shares are issued.

Dividends, if so declared, are payable to holders of record of the Series C Preferred Stock as represented by the depositary shares as they appear on our books on the applicable record date, which shall be January 1, April 1, July 1 and October 1, as applicable, immediately preceding the applicable dividend payment date or such other record date fixed by our Board of Directors (or a duly authorized committee of the Board) that is not more than 60 nor less than 10 days prior to such dividend payment date (each, a “dividend record date”). These dividend record dates will apply regardless of whether a particular dividend record date is a business day.

A dividend period is the period from and including a dividend payment date to but excluding the next dividend payment date. Dividends payable on the Series C Preferred Stock will be computed on the basis of a 360-day year consisting of twelve 30-day months. If any date on which dividends would otherwise be payable is not a business day, then the dividend payment date will be the next succeeding business day with the same force and effect as if made on the original dividend payment date, and no additional dividends shall accrue on the amount so payable from such date to such next succeeding business day.

Dividends on the Series C Preferred Stock are not cumulative. Accordingly, if our Board of Directors, or a duly authorized committee of the Board, does not declare a dividend on the Series C Preferred Stock payable in respect of any dividend period before the related dividend payment date, such dividend will not accumulate and will

not be payable and we will have no obligation to pay a dividend for that dividend period on the dividend payment date or at any future time or to pay interest with respect to such dividends, whether or not dividends are declared for any future dividend period on the Series C Preferred Stock or any other parity stock we may issue in the future.

So long as any Series C Preferred Stock remains outstanding for any dividend period, unless the full dividends for the latest completed dividend period on all outstanding Series C Preferred Stock and parity stock (as defined below) have been declared and paid (or declared and a sum sufficient for the payment thereof has been set aside):

- no dividend shall be paid or declared on our common stock, or any other junior stock (other than a dividend payable solely in common stock or other junior stock);

- no common stock or other junior stock shall be purchased, redeemed or otherwise acquired for consideration by us, directly or indirectly (other than (1) as a result of a reclassification of junior stock for or into other junior stock, or the exchange or conversion of one share of junior stock for or into another share of junior stock, or (2) through the use of the proceeds of a substantially contemporaneous sale of junior stock or (3) in connection with grants or settlements of grants (including any "cashless exercise" or "net share settlement") pursuant to any equity compensation plan adopted by us) nor shall any monies be paid to or made available for a sinking fund for the redemption of such stock; and

- no shares of Series C Preferred Stock or parity stock shall be repurchased, redeemed or otherwise acquired for consideration by us other than pursuant to pro rata offers to purchase all, or a pro rata portion, of the Series C Preferred Stock and such parity stock except by conversion into or exchange for junior stock.

As used in this Exhibit 4.1, "junior stock" means any class or series of our capital stock that ranks junior to the Series C Preferred Stock either as to the payment of dividends or as to the distribution of assets upon our liquidation, dissolution or winding-up. As of the date of this Exhibit 4.1, junior stock consists solely of our common stock.

As used in this Exhibit 4.1, "parity stock" means any class or series of our capital stock that ranks equally with the Series C Preferred Stock with respect to the payment of dividends and in the distribution of assets on our liquidation, dissolution or winding-up. As of the date of this Exhibit 4.1, parity stock consists of our Series A Preferred Stock and Series B Preferred Stock.

When dividends are not paid (or duly provided for) in full on any dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates pertaining to the Series C Preferred Stock as represented by the depositary shares, on a dividend payment date falling within the related dividend period for the Series C Preferred Stock) upon the Series C Preferred Stock and any parity stock, all dividends declared by our Board of Directors or a duly authorized committee of the Board upon the Series C Preferred Stock and all such parity stock and payable on such dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates pertaining to the Series C Preferred Stock, on a dividend payment date falling within the related dividend period for the Series C Preferred Stock) shall be declared by the Board or such committee pro rata based on the liquidation preference of Series C Preferred Stock and all such parity stock so that the respective amounts of such dividends shall bear the same ratio to each other as all declared dividends per share of Series C Preferred Stock and all parity stock payable on such dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates pertaining to the Series C Preferred Stock, on a dividend payment date falling within the related dividend period for the Series C Preferred Stock) bear to each other.

Our ability to pay dividends on the Series C Preferred Stock may be limited by the terms of our agreements governing our existing and future indebtedness and by the provisions of other existing and future agreements.

In addition, 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 capital stock, including the Series C Preferred Stock.

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.

Liquidation Rights

Upon our voluntary or involuntary liquidation, dissolution or winding-up, holders of the Series C Preferred Stock and any parity stock are entitled to receive out of our assets available for distribution to stockholders, after satisfaction of liabilities to creditors, if any, but before any distribution of assets is made to holders of our common stock or any of our other junior stock, a liquidating distribution in the amount equal to the liquidation preference of $1,000 per share of Series C Preferred Stock or the amount of the liquidation preference of such parity stock, as applicable, plus any declared and unpaid dividends. Holders of the Series C Preferred Stock will not be entitled to any other amounts from us after they have received their full liquidation preference plus any declared and unpaid dividends.

In any such distribution, if our assets are not sufficient to pay the liquidation distributions in full to all holders of the Series C Preferred Stock and all holders of any parity stock, the amounts paid to the holders of Series C Preferred Stock and to the holders of any parity stock will be paid pro rata in accordance with the respective aggregate liquidation distributions of those holders. In any such distribution, the liquidation distribution to any holder of preferred stock means the amount payable to such holder in such distribution, including liquidation preference and any declared but unpaid dividends (and any unpaid, accrued cumulative dividends in the case of any holder of shares on which dividends accrue on a cumulative basis). If the liquidation distributions have been paid in full to all holders of shares of the Series C Preferred Stock and any holders of shares of parity stock and shares ranking senior to the Series C Preferred Stock with respect to the distribution of assets upon liquidation, dissolution or winding-up, the holders of our other classes of capital stock will be entitled to receive all of our remaining assets according to their respective rights and preferences.

For purposes of this section, a consolidation or merger involving the Company with any other entity, including the consolidation or merger in which the holders of Series C Preferred Stock receive cash, securities or other property for their shares, or the sale or transfer of all or substantially all of the property and assets of the Company for cash, securities or other property, will not be deemed to constitute a liquidation, dissolution or winding-up.

Redemption

The Series C Preferred Stock as represented by the depositary shares is not subject to any mandatory redemption, sinking fund, retirement fund, purchase fund or other similar provisions.

The Series C Preferred Stock is not redeemable prior to July 15, 2021. On and after that date, the Series C Preferred Stock will be redeemable at our option, in whole or in part, upon not less than 30 days nor more than 60 days notice, at a redemption price equal to $1,000 per share plus declared and unpaid dividends on the shares of Series C Preferred Stock called for redemption for prior dividend periods, if any, plus accrued but unpaid dividends (whether or not declared) thereon for the then-current dividend period, to, but excluding, the date of redemption, without accumulation of any other undeclared dividends. Holders of the Series C Preferred Stock and, in turn, the holders of the depositary shares have no right to require the redemption of the Series C Preferred Stock.

The redemption price for any shares of Series C Preferred Stock shall be payable on the redemption date to the holders of such shares against book entry transfer or surrender of the certificate(s) evidencing such shares to us or our agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the dividend record date for a dividend period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such dividend record date relating to the dividend payment date provided in “-Dividends” above.

If shares of the Series C Preferred Stock are to be redeemed, the notice of redemption shall be given by first class mail to the holders of record of the Series C Preferred Stock to be redeemed, mailed not less than 30 days nor more than 60 days prior to the date fixed for redemption thereof (provided that, if the Series C Preferred Stock is held in book-entry form through The Depository Trust Company, or “DTC,” we may give such notice in any manner permitted by DTC). Each notice of redemption will include a statement setting forth:

- the redemption date;
- the number of shares of Series C Preferred Stock to be redeemed and, if less than all the shares of Series C Preferred Stock held by such holder are to be redeemed, the number of such shares of Series C Preferred Stock to be redeemed from such holder;
- the redemption price; and
- that the shares should be delivered via book entry transfer or the place or places where holders may surrender certificates evidencing the Series C Preferred Stock for payment of the redemption price.

If notice of redemption of any shares of Series C Preferred Stock has been given and if the funds necessary for such redemption and to pay declared and unpaid dividends have been set aside by us for the benefit of the holders of such shares of Series C Preferred Stock so called for redemption, then, from and after the redemption date, no further dividends will be declared on such shares of Series C Preferred Stock as represented by the depositary shares, such shares of Series C Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares of Series C Preferred Stock will terminate, except the right to receive the redemption price, without interest.

In case of any redemption of only part of the shares of Series C Preferred Stock at the time outstanding, the shares of Series C Preferred Stock to be redeemed shall be selected either pro rata or by lot.

Our ability to redeem the Series C Preferred Stock as described above may be limited by the terms of our agreements governing our existing and future indebtedness and by the provisions of other existing and future agreements.

Voting Rights

Except as provided below or as otherwise may be required by applicable law, the holders of the Series C Preferred Stock and, in turn, the holders of the depositary shares representing the Series C Preferred Stock will have no voting rights.

Whenever dividends on any Series C Preferred Stock shall not have been declared and paid for the equivalent of six or more dividend periods, whether or not for consecutive dividend periods (a “nonpayment event”), the holders of the Series C Preferred Stock, voting together as a single class with holders of any and all other series of voting preferred stock (as defined below) then outstanding, will be entitled to vote for the election of a total of two additional members of the Board of Directors of the Company (the “preferred stock directors”), provided that the election of any such directors shall not cause us to violate the corporate governance requirement of any exchange on which our securities may be listed or quoted that listed or quoted companies must have a majority of independent directors. The number of preferred stock directors will not be more than two at any time. In the event that the holders of the Series C Preferred Stock, and any such other holders of voting preferred stock, shall be entitled to

vote for the election of the preferred stock directors following a nonpayment event, the number of directors on the Company's Board of Directors shall automatically be increased by two and such directors shall be initially elected following such nonpayment event at a special or annual meeting called at the request of the holders of record of at least 20% of the aggregate voting power of the Series C Preferred Stock and any other such series of voting preferred stock then outstanding (provided that if such request is received less than 90 days before the date fixed for an annual or special meeting of the stockholders of the Company, then such election shall not be held at such annual or special meeting of stockholders but at a subsequent annual or special meeting), and at each subsequent annual meeting of stockholders of the Company, so long as the rights related to a nonpayment event remain in effect.

As used in this Exhibit 4.1, "voting preferred stock" means, with regard to any election or removal of a preferred stock director or any other matter as to which the holders of Series C Preferred Stock are entitled to vote, any other class or series of our parity stock upon which like voting rights have been conferred and are exercisable, including the Series A Preferred Stock and the Series B Preferred Stock.

If and when dividends, for at least four consecutive dividend periods following a nonpayment event have been paid in full (or declared and a sum sufficient for such payment shall have been set aside), the holders of the Series C Preferred Stock shall be divested of the foregoing voting rights (subject to revesting in the event of each subsequent nonpayment event) and, if such voting rights for all other holders of voting preferred stock have terminated, the term of office of each preferred stock director so elected shall terminate and the number of directors on the Board of Directors of the Company shall automatically decrease by two. In determining whether dividends have been paid for four dividend periods following a nonpayment event, we may take account of any dividend we elect to pay for such a dividend period after the regular dividend payment date for that period has passed.

Any preferred stock director may be removed at any time without cause by the holders of record of a majority of the aggregate voting power, as determined under the Certificate of Incorporation, of the Series C Preferred Stock and any other shares of voting preferred stock then outstanding (voting together as a single class) when they have the voting rights described above. So long as a nonpayment event shall continue, any vacancy in the office of a preferred stock director (other than prior to the initial election after a nonpayment event) may be filled by the written consent of the preferred stock director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series C Preferred Stock and any other shares of voting preferred stock then outstanding (voting together as a single class) when they have the voting rights described above. Any vote of stockholders to remove, or to fill a vacancy in the office of, a preferred stock director may be taken at a special or annual meeting of such stockholders, called as provided above for an initial election of preferred stock director after a nonpayment event (provided that if such request is received less than 90 days before the date fixed for an annual or special meeting of the stockholders of the Company, then such election shall not be held at such annual or special meeting of stockholders but at a subsequent annual or special meeting). The preferred stock directors shall each be entitled to one vote per director on any matter. Each preferred stock director elected at any special or annual meeting of stockholders or by written consent of the other preferred stock director shall hold office until the next annual meeting of the stockholders of the Company if such office shall not have previously terminated as above provided.

So long as any shares of Series C Preferred Stock remain outstanding and subject in all cases to any other vote of stockholders required under applicable law or the Certificate of Incorporation:

- we will not, without the affirmative vote or consent of the holders of at least two-thirds of the voting power of Series C Preferred Stock and all other series of voting preferred stock entitled to vote thereon, voting together as a single class, given in person or by proxy, either in writing without a meeting or at a meeting, authorize or create, or increase the authorized amount of, any specific class or series of capital stock ranking senior to the Series C Preferred Stock with respect to the payment of dividends or the distribution of our assets upon our liquidation, dissolution or winding up;

- we will not, without the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of Series C Preferred Stock given in person or by proxy, either in writing without a meeting or at a meeting:

- amend, alter or repeal the provisions of the Certificate of Incorporation or the Certificate of Designations so as to adversely affect the rights, preferences, privileges and voting powers of the Series C Preferred Stock; or

- consummate a binding share exchange or reclassification involving the Series C Preferred Stock or a merger or consolidation of us with another entity, unless in each case (i) shares of Series C Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which we are not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, in each case, that is an entity organized and existing under the laws of the United States of America, any state thereof or the District of Columbia, and (ii) such shares of Series C Preferred Stock remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers and limitations and restrictions, taken as a whole, as are not less favorable to the holders thereof than the rights, preferences, privileges and voting powers and limitations and restrictions of the Series C Preferred Stock, taken as a whole,

provided, however, that (1) any increase in the amount of our authorized but unissued shares of preferred stock, (2) any increase in the authorized or issued shares of Series C Preferred Stock, and (3) the creation and issuance, or an increase in the authorized or issued amount, of other series of preferred stock ranking equally with or junior to the Series C Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and/ or the distribution of assets upon our liquidation, dissolution or winding up, will not be deemed to adversely affect the rights, preferences, privileges or voting powers of the Series C Preferred Stock.

Without the consent of the holders of the Series C Preferred Stock so long as such action does not adversely affect the rights, preferences, privileges and voting powers and limitations and restrictions of the Series C Preferred Stock, the Board of Directors of the Company may, subject to any vote of our stockholders required by applicable law or the Certificate of Incorporation, by resolution, amend, alter, supplement or repeal any terms of the Series C Preferred Stock:

- to cure any ambiguity, or to cure, correct or supplement any provision contained in the Certificate of Designations that may be defective or inconsistent; or

- to make any provision with respect to matters or questions arising with respect to the Series C Preferred Stock that is not inconsistent with the provisions of the Certificate of Designations;

provided that any such amendment, alteration, supplement or repeal of any terms of the Series C Preferred Stock effected in order to conform the terms thereof to the description of the terms of the Series C Preferred Stock set forth under “Description of the Series C Preferred Stock” in this Exhibit 4.1 shall be deemed not to adversely affect the rights, preferences, privileges and voting powers of the Series C Preferred Stock.

On each matter on which holders of Series C Preferred Stock are entitled to vote, each share of Series C Preferred Stock will be entitled to one vote, and when shares of any other class or series of our preferred stock have the right to vote with the Series C Preferred Stock as a single class on any matter, the Series C Preferred Stock and the shares of each such other class or series will have one vote for each $25.00 of liquidation preference (excluding accrued and unpaid dividends)(equivalent to one vote per depositary share).

The foregoing voting provisions will not apply with respect to the Series C Preferred Stock if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding Series C Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been set aside by us for the benefit of the holders of Series C Preferred Stock to effect such redemption.

Conversion

Holders do not have the right to convert Series C Preferred Stock into, or exchange Series C Preferred Stock for, any other securities or property of the Company.

Listing of the Series C Preferred Stock

The Series C Preferred Stock are not listed on any exchange except as represented by the depositary shares.

DESCRIPTION OF THE DEPOSITARY SHARES REPRESENTING INTERESTS IN THE SERIES C PREFERRED STOCK

The following description set forth below of our depositary shares representing fractional interests in the Series C Preferred Stock is only a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the terms and provisions of the Series C Deposit Agreement (as defined below), the form of depositary receipts, which contain the terms and provisions of the depositary shares, our Certificate of Incorporation and our Certificate of Designations for our 7.50% Non-Cumulative Preferred Stock, Series C, each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part.

General

Each depositary share represents a $1/40^{th}$ interest in a share of the Series C Preferred Stock and is evidenced by a depositary receipt. We deposited the underlying shares of the Series C Preferred Stock with the depositary pursuant to a deposit agreement among us, American Stock Transfer & Trust Company, LLC, acting as depositary, and the holders from time to time of the depositary receipts (the "Series C Deposit Agreement"). Subject to the terms of the Series C Deposit Agreement, each owner of a depositary receipt is entitled, in proportion to the fractional interest of a share of Series C Preferred Stock represented by the depositary shares evidenced by that depositary receipt, to all the rights and preferences of Series C Preferred Stock represented by those depositary shares (including any dividend, liquidation, redemption and voting rights).

The depositary shares are evidenced by depositary receipts issued pursuant to the Series C Deposit Agreement. Immediately following the issuance and delivery of the Series C Preferred Stock by us to the depositary, we caused the depositary to issue, on our behalf, the depositary receipts.

Dividends and Other Distributions

Any dividend or other distribution (including upon our voluntary or involuntary liquidation, dissolution or winding-up) paid in respect of a depositary share will be in an amount equal to $1/40^{th}$ of the dividend declared or distribution payable, as the case may be, on the underlying share of the Series C Preferred Stock. The depositary will distribute all cash dividends and other cash distributions received on the Series C Preferred Stock to the holders of record of the depositary receipts in proportion to the number of depositary shares held by each holder on the relevant record date. In the event of a distribution other than in cash, the depositary will distribute property received by it to the holders of record of the depositary receipts in proportion to the number of depositary shares held by each holder, unless the depositary determines that this distribution is not feasible, in which case the depositary may, with our approval, adopt a method of distribution that it deems practicable, including the sale of the property and distribution of the net proceeds of that sale to the holders of the depositary receipts.

Record dates for the payment of dividends and other matters relating to the depositary shares will be the same as the corresponding record dates for the Series C Preferred Stock represented by the depositary shares.

The amount paid as dividends or otherwise distributable by the depositary with respect to the depositary shares or the underlying Series C Preferred Stock will be reduced by any amounts required to be withheld by us or the depositary on account of taxes or other governmental charges. The depositary may refuse to make any payment or

distribution, or any transfer, exchange or withdrawal of any depositary shares or the shares of the Series C Preferred Stock until such taxes or other governmental charges are paid.

Withdrawal of Series C Preferred Stock

Unless the related depositary shares have been previously called for redemption, a holder of depositary shares may surrender his or her depositary receipts at the corporate trust office of the depositary, pay any taxes, charges and fees provided for in the Series C Deposit Agreement and comply with any other requirements of the Series C Deposit Agreement for the number of shares of Series C Preferred Stock and any money or other property represented by such holder's depositary receipts. A holder of depositary shares who withdraws shares of Series C Preferred Stock will be entitled to receive whole shares of Series C Preferred Stock on the basis set forth herein; partial shares of Series C Preferred Stock will not be issued.

However, holders of whole shares of Series C Preferred Stock will not be entitled to deposit those shares under the Series C Deposit Agreement or to receive depositary receipts for those shares after the withdrawal. If the depositary shares surrendered by the holder in connection with the withdrawal exceed the number of depositary shares that represent the number of whole shares of Series C Preferred Stock to be withdrawn, the depositary will deliver to the holder at the same time a new depositary receipt evidencing the excess number of depositary shares.

Redemption

If the Series C Preferred Stock underlying the depositary shares is redeemed, in whole or in part, a corresponding number of depositary shares will be redeemed with the proceeds received by the depositary from the redemption of the Series C Preferred Stock held by the depositary. The redemption price per depositary share will be equal to $1/40^{th}$ of the applicable redemption price per share payable in respect of such Series C Preferred Stock.

Whenever we redeem shares of Series C Preferred Stock held by the depositary, the depositary will redeem, as of the same redemption date, the number of depositary shares representing shares of Series C Preferred Stock so redeemed. If fewer than all of the outstanding depositary shares are redeemed, the depositary will select the depositary shares to be redeemed pro rata or by lot. The depositary will mail notice of redemption to holders of the depositary receipts not less than 30 and not more than 60 days prior to the date fixed for redemption of the Series C Preferred Stock represented by the depositary shares and the related depositary shares.

Voting Rights

Because each depositary share represents a $1/40^{th}$ interest in a share of the Series C Preferred Stock, holders of depositary receipts are entitled to $1/40^{th}$ of a vote per share of the Series C Preferred Stock under those limited circumstances in which holders of the Series C Preferred Stock represented by the depositary shares are entitled to vote. Holders of the depositary shares representing the Series C Preferred Stock do not have any voting rights, except for the limited voting rights described under "Description of the Series C Preferred Stock-Voting Rights."

When the depositary receives notice of any meeting at which the holders of the Series C Preferred Stock are entitled to vote, the depositary will mail (or otherwise transmit by an authorized method) the information contained in the notice to the record holders of the depositary shares relating to the Series C Preferred Stock. Each record holder of the depositary shares on the record date, which will be the same date as the record date for the Series C Preferred Stock, may instruct the depositary to vote the number of the Series C Preferred Stock votes represented by the holder's depositary shares. To the extent possible, the depositary will vote the number of the Series C Preferred Stock votes represented by depositary shares in accordance with the instructions it receives.

We will agree to take all reasonable actions that the depositary determines are necessary to enable the depositary to vote as instructed. If the depositary does not receive specific instructions from the holders of any depositary shares representing the Series C Preferred Stock, it will vote all depositary shares held by it proportionately with instructions received.

Conversion

Holders of depositary receipts do not have the right to convert depositary shares representing the Series C Preferred Stock into, or exchange depositary shares representing the Series C Preferred Stock for, any other securities or property of the Company.

Amendment and Termination of the Series C Deposit Agreement

The form of depositary receipt evidencing the depositary shares and any provision of the Series C Deposit Agreement may be amended by agreement between us and the depositary. However, any amendment that materially and adversely alters the rights of the existing holders of depositary shares will not be effective unless the amendment has been approved by the record holders of at least a majority of the depositary shares then outstanding. Either we or the depositary may terminate the Series C Deposit Agreement if there has been a final distribution in respect of the Series C Preferred Stock in connection with our liquidation, dissolution, or winding up.

Charges of Depositary

We will pay all transfer and other taxes, assessments, and governmental charges arising solely from the existence of the depositary arrangements, and we paid the fees of the depositary in connection with the initial deposit of the Series C Preferred Stock represented by the depositary shares. Holders of depositary receipts will pay transfer and other taxes, assessments, and governmental charges and any other charges as are expressly provided in the Series C Deposit Agreement to be for their accounts. The depositary may refuse to effect any transfer of a depositary receipt or any withdrawals of Series C Preferred Stock evidenced by a depositary receipt until all taxes, assessments, and governmental charges with respect to the depositary receipt or Series C Preferred Stock are paid by their holders.

Resignation and Removal of Depositary

The depositary may resign at any time by delivering to us notice of its election to do so, and we may remove the depositary at any time. Any resignation or removal will take effect only upon the appointment of a successor depositary and the successor depositary's acceptance of the appointment. Any successor depositary must be a U.S. bank or trust company.

Miscellaneous

The depositary will forward to the holders of depositary shares all of our reports and communications which are delivered to the depositary and which we are required to furnish to the holders of our Series C Preferred Stock.

Neither we nor the depositary will be liable if we are prevented or delayed by law or any circumstance beyond our control in performing our obligations under the Series C Deposit Agreement. All of our obligations as well as the depositary's obligations under the Series C Deposit Agreement are limited to performance in good faith of our respective duties set forth in the Series C Deposit Agreement, and neither of us will be obligated to prosecute or defend any legal proceeding relating to any depositary shares or Series C Preferred Stock unless provided with satisfactory indemnity. We, and the depository, may rely upon written advice of counsel or accountants, or information provided by persons presenting Series C Preferred Stock for deposit, holders of depositary shares, or other persons believed to be competent and on documents believed to be genuine.

Listing of the Depositary Shares

The depositary shares representing the Series C Preferred Stock are listed on the Nasdaq Global Market under the symbol "NGHCN."

Transfer Agent, Registrar, Dividend Disbursing Agent and Redemption Agent

American Stock Transfer & Trust Company, LLC is the transfer agent, registrar, dividend disbursing agent and redemption agent for the depositary shares representing the Series C Preferred Stock.

Book-Entry; Delivery and Form

The depositary shares are represented by one or more global securities that are deposited with and registered in the name of DTC or its nominee. The global securities are issued to DTC, the depository for the depositary shares, who keeps a computerized record of its participants whose clients have purchased the depositary shares. Each participant will then keep a record of its clients. Unless exchanged in whole or in part for a certificated security, a global security may not be transferred. However, DTC, its nominees, and their successors may transfer a global security as a whole to one another. Beneficial interests in the global securities will be shown on, and transfers of the global securities will be made only through, records maintained by DTC and its participants.

Purchases of depositary shares through the DTC system must be made by or through a direct participant, who receives credit for the depositary shares on DTC's records. The beneficial owner's ownership interest is only recorded in the direct (or indirect) participants' records. DTC has no knowledge of the beneficial owner's ownership of the depositary shares. DTC's records only show the identity of the direct participants and the amount of the depositary shares held by or through them. The beneficial owner does not receive a written confirmation of its purchase or sale or any periodic account statement directly from DTC. The beneficial owner receives these from its direct (or indirect) participant. Thus, the direct (or indirect) participants are responsible for keeping accurate account of the holdings of their customers.

We wire dividend payments to DTC's nominee and we treat DTC's nominee as the owner of the global securities for all purposes. Accordingly, we have no direct responsibility or liability to pay amounts due on the global securities to any beneficial owner in the global securities.

Any redemption notices will be sent by us directly to DTC, who will in turn inform the direct participants, who will then contact the beneficial holders.

It is DTC's current practice, upon receipt of any payment of dividends or liquidation amount, to credit direct participants' accounts on the payment date based on their holdings of beneficial interests in the global securities as shown on DTC's records. In addition, it is DTC's current practice to assign any consenting or voting rights to direct participants whose accounts are credited with preferred securities on a record date, by using an omnibus proxy. Payments by participants to owners of beneficial interests in the global securities, and voting by participants, will be based on the customary practices between the participants and owners of beneficial interests, as is the case with the Series C Preferred Stock held for the account of customers registered in "street name." However, payments will be the responsibility of the participants and not of DTC or us.

Depositary Shares represented by global securities will be exchangeable for certificated securities with the same terms in authorized denominations only if:

- DTC is unwilling or unable to continue as depositary or if DTC ceases to be a clearing agency registered under applicable law and a successor depositary is not appointed by us within 90 days; or
- we determine not to require all of the depositary shares to be represented by global securities.

If the book-entry-only system is discontinued, the transfer agent will keep the registration books for the depositary shares at its corporate office.

DESCRIPTION OF THE NOTES

The following description set forth below of our 7.625% Subordinated Notes due 2055 (the "Notes") is only a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the pertinent sections of the indenture, which we refer to as the base indenture, dated as of May 23, 2014, between us and The Bank of New York Mellon, as trustee, as supplemented by a supplemental indenture with respect to the Notes, which we refer to as the supplemental indenture. We refer to the base indenture and the supplemental indenture, collectively, as the indenture. The base indenture and supplemental indenture are incorporated by reference as exhibits to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part.

General

We issued $100,000,000 aggregate principal amount of the Notes pursuant to the indenture. The Notes are unsecured, subordinated debt instruments. The Notes are issued in fully-registered book-entry form without coupons and in denominations of $25 and integral multiples of $25 in excess thereof. The Notes have a maturity date of September 15, 2055.

Holders of the Notes and the trustee have no right to accelerate the maturity of the Notes in the event we fail to pay interest or principal on the Notes, fail to perform any other obligation under the Notes or in the indenture or default on any other securities issued by us. See "-Events of Default" below.

The indenture does not require the maintenance of any financial ratios or specified levels of net worth or liquidity. The indenture does not contain provisions that would afford holders of Notes protection in the event of a sudden and dramatic decline in our credit quality resulting from any highly leveraged transaction, reorganization, restructuring, merger or similar transaction involving us that may adversely affect holders. The indenture does not restrict us in any way, now or in the future, from incurring additional indebtedness, including Senior Indebtedness (as defined below) that would rank senior in right of payment to the Notes. The Notes are not entitled to a sinking fund and cannot be redeemed at the option of the holder.

Interest Rate

Subject to applicable law, as described below, interest on the Notes accrues from and including the original issue date to, but excluding, the maturity date or earlier acceleration or redemption at an annual rate equal to 7.625%, and is payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing on December 15, 2015, to the record holders at the close of business on the immediately preceding March 1, June 1, September 1 or December 1, as applicable (whether or not a Business Day). If the interest payment date falls on a day that is not a Business Day, interest will be paid on the next succeeding Business Day (and without any interest or other payment in respect of any such delay).

Interest on the Notes will accrue from the most recent date on which interest has been paid or duly provided for, or if no interest has been paid or duly provided for, the date of initial issuance. Interest on the Notes will cease to accrue upon the earlier of the maturity date and any date of redemption. The amount of interest payable for any interest payment period will be computed on the basis of a 360-day year comprised of twelve 30-day months.

"Business Day" means any day other than a Saturday, a Sunday or a day on which the Federal Reserve Bank of New York is authorized or required by law or executive order to close or to be closed.

Ranking

The payment of the principal of and interest on the Notes is expressly subordinated, to the extent and in the manner set forth in the indenture, to the prior payment in full of all of our Senior Indebtedness.

“Senior Indebtedness” is defined in the indenture to include the principal of (and premium, if any) and unpaid interest on (x) Indebtedness of the Company, whether outstanding on the date of the indenture or thereafter created, incurred, assumed or guaranteed, for money borrowed other than (a) any Indebtedness of the Company which when incurred, and without respect to any election under Section 1111(b) of the Federal Bankruptcy Code, was without recourse to the Company, (b) any Indebtedness of the Company to any of its subsidiaries, (c) Indebtedness to any employee of the Company, (d) any liability for taxes, (e) Trade Payables and (f) any Indebtedness of the Company which is expressly subordinate in right of payment to any other Indebtedness of the Company, and (y) renewals, extensions, modifications and refundings of any such Indebtedness. For purposes of the foregoing and the definition of “Senior Indebtedness,” the phrase “subordinated in right of payment” means debt subordination only and not lien subordination, and accordingly, (i) unsecured indebtedness shall not be deemed to be subordinated in right of payment to secured indebtedness merely by virtue of the fact that it is unsecured, and (ii) junior liens, second liens and other contractual arrangements that provide for priorities among Holders of the same or different issues of indebtedness with respect to any collateral or the proceeds of collateral shall not constitute subordination in right of payment.

“Indebtedness” is defined in the indenture as any and all obligations of a Person (as defined in the indenture) for money borrowed which, in accordance with GAAP, would be reflected on the balance sheet of such Person as a liability on the date as of which Indebtedness is to be determined.

“Trade Payables” is defined in the indenture as accounts payable or any other Indebtedness or monetary obligations to trade creditors created or assumed by the Company or any Subsidiary (as defined in the indenture) of the Company in the ordinary course of business (including guarantees thereof or instruments evidencing such liabilities).

In addition, the Notes are structurally subordinated to all existing and future indebtedness, liabilities and other obligations of our subsidiaries. Because we are a holding company, we rely primarily on dividends and other payments from our subsidiaries to pay interest and principal on our outstanding debt obligations and to make payments on our other securities.

If certain events in bankruptcy, insolvency or reorganization occur relating to us, we will first pay all Senior Indebtedness, including any interest accrued after the events occur, in full before we make any payment or distribution, whether in cash, securities or other property, on account of the principal of or interest on the Notes. In such an event, we will pay or deliver directly to the holders of Senior Indebtedness, any payment or distribution otherwise payable or deliverable to holders of the Notes. We will make the payments to the holders of Senior Indebtedness according to priorities existing among those holders until we have paid all Senior Indebtedness, including accrued interest, in full. If, notwithstanding the preceding sentence, the trustee or the holder of any Note receives any payment or distribution before all Senior Indebtedness is paid in full, and if such fact shall, at or prior to the time of such payment or distribution, have been made known to the trustee or such holder, then such payment or distribution shall be paid over or delivered for application to the payment of all Senior Indebtedness remaining unpaid, to the extent necessary to pay all Senior Indebtedness in full, after giving effect to any concurrent payment or distribution to or for the holders of Senior Indebtedness.

If such events of bankruptcy, insolvency or reorganization occur, after we have paid in full all amounts owed on Senior Indebtedness, the holders of Notes together with the holders of any of our other obligations that rank equally with the Notes will be entitled to receive from our remaining assets any principal, premium or interest due at that time on the Notes and such other obligations before we make any payment or other distribution on account of any of our capital stock or obligations ranking junior to the Notes.

In addition, if any principal, premium or interest in respect of Senior Indebtedness is not paid within any applicable grace period (including at maturity) or any other default on Senior Indebtedness occurs and the maturity of such Senior Indebtedness is accelerated in accordance with its terms, we may not pay the principal of, or premium, if any, or interest on, the Notes or repurchase, redeem or otherwise retire any Notes, unless, in each case, the default has been cured or waived and any such acceleration has been rescinded or such Senior Indebtedness has been paid in full in cash, subject to certain exceptions as provided in the indenture. If the Notes are declared due and

payable before their stated maturity, the holders of Senior Indebtedness outstanding at the time the Notes so become due and payable shall be entitled to receive payment in full of all amounts due or to become due on or in respect of such Senior Indebtedness before the holders of the Notes are entitled to receive any payment on the Notes. If, notwithstanding the foregoing, we make any payment to the trustee or the holder of any Note prohibited by the preceding sentences, and if such fact shall, at or prior to the time of such payment, have been made known to the trustee or such holder, such payment must be paid over and delivered to us.

Because of the subordination provisions of the indenture, if we become insolvent, holders of Senior Indebtedness may receive more, ratably, and holders of the Notes may receive less, ratably, than our other creditors.

The Notes do not limit our or our subsidiaries' ability to incur additional debt, including debt that ranks senior or *pari passu* (i) in right of payment and (ii) upon our liquidation to the Notes. The Notes are our subordinated unsecured obligations and rank (i) senior in right of payment to any existing and future junior subordinated debt, (ii) equally in right of payment with any unsecured subordinated debt that we incur in the future that ranks equally with the Notes, and (iii) subordinate in right of payment to any of our existing and future Senior Indebtedness.

Optional Redemption

We may redeem the Notes in $25 increments in whole or in part on September 15, 2020, or on any date thereafter, at a redemption price equal to 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest to, but not including, the date of redemption. If we redeem only a portion of the Notes on any date of redemption, we may subsequently redeem additional Notes.

If we are redeeming less than all the Notes at any time, the Notes to be redeemed will be selected in accordance with the procedures of DTC and which may provide for the selection or redemption of a portion of the principal amount of any Note so long as the unredeemed portion of the principal amount of any Note is in an authorized denomination.

The notices of redemption will be sent at least 30 days but not more than 60 days before the applicable redemption date to each holder of Notes being redeemed or transmitted otherwise in accordance with the procedures of DTC. If any Note is to be redeemed in part only, any notice of redemption that relates to that Note will state the portion of the principal amount to be redeemed.

Notice of redemption having been given, any Notes to be redeemed shall, on the redemption date, become due and payable at the redemption price and from and after such date (unless we default in the payment of the redemption price) such Notes shall cease to bear interest. Upon surrender of any such Notes for redemption, such Notes shall be paid by us at the redemption price.

If any Notes called for redemption shall not be paid upon surrender for redemption, the principal thereof shall, until paid, bear interest from the redemption date at the rate prescribed in the Notes.

Denominations

The outstanding Notes were issued only in fully-registered book-entry form without coupons in denominations of $25 each and integral multiples of $25 in excess thereof.

Events of Default

The indenture provides that certain events of bankruptcy, insolvency, reorganization or receivership relating to us or a Significant Subsidiary are events of default with respect to the Notes.

"Significant Subsidiary" means a Subsidiary, including its Subsidiaries, that meets any of the conditions set forth in the definition of "significant subsidiary" in Article 1, Rule 1-02 of Regulation S-X. "Subsidiary" means a corporation, company (including any limited liability company), association, partnership, joint venture, trust or other

business entity in which the Company and/or one or more of the Company's other Subsidiaries owns at least 50% of the voting stock thereof.

The indenture defines a default with respect to the Notes as:

- default in any payment of interest on any Note when due and payable, and the default continues for a period of thirty (30) calendar days;
- default in payment of principal or premium, if any, on the Notes when due, regardless of whether such payment became due because of maturity, redemption, acceleration or otherwise; or
- failure to perform any other covenant or warranty in the indenture that applies to the Notes for 90 days after we have received written notice of the failure to perform in the manner specified in the indenture.

There is only a right of acceleration in the case of an event of default. There is no right of acceleration in the case of a default. Accordingly, payment of principal of the Notes may be accelerated only in the case of the bankruptcy, insolvency, reorganization or receivership of us or a Significant Subsidiary. If we default in the payment of principal or interest on the Notes or we fail to perform any other covenant in the indenture, the holders of the Notes have no right to accelerate the maturity of the Notes and declare the Notes immediately due and payable.

If an event of default relating to bankruptcy, insolvency, reorganization or receivership occurs, the principal amount of all the Notes will automatically, and without action by the trustee or any holder, become immediately due and payable. Subject to certain conditions, the holders of a majority in principal amount of the Notes may rescind such declaration.

The indenture provides that if default is made on payment of interest and continues for a 30 day period or if default is made on payment of principal of the Notes, we will, upon demand of the trustee, pay to it, for the benefit of the holder of any such Note, the whole amount then due and payable on such Note for principal, premium, if any, and interest. The indenture further provides that if we fail to pay such amount immediately upon such demand, the trustee may, among other things, institute a judicial proceeding for its collection.

In cases specified in the indenture, the holders of a majority in principal amount of the Notes may waive any default on behalf of all holders of the Notes, except a default in the payment of principal or interest or a default in the performance of a covenant or provision of the indenture which cannot be modified without the consent of each holder. We are required to file annually with the trustee a certificate as to whether or not we are in compliance with all the conditions and covenants applicable to us under the indenture.

Within 90 days after the trustee's knowledge of the occurrence of any default with respect to the Notes, the trustee shall transmit by mail to all holders of Notes, notice of such default unless such default shall have been cured or waived.

The holders of a majority of the aggregate outstanding principal amount of the Notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee with respect to the Notes.

Consolidation, Merger and Sale of Assets

The indenture provides that we shall not amalgamate or consolidate with, merge with or into, or convey, transfer or lease our properties and assets substantially as an entirety to another person, unless (i) the resulting, surviving or transferee person (if not us) shall expressly assume, by supplemental indenture, executed and delivered to the trustee, in form satisfactory to the trustee, all of our obligations under the Notes and the indenture; and (ii) immediately after giving effect to such transaction, no default or event of default has occurred and is continuing

under the indenture with respect to the Notes. Upon any such amalgamation, consolidation, merger, conveyance, transfer or lease, the resulting, surviving or transferee person (if not us) shall succeed to, and may exercise every right and power of ours under the indenture, and we shall be discharged from our obligations under the Notes and the indenture except in the case of any such lease. At our election, this requirement will not apply to any conveyance, transfer or lease of our properties and assets substantially as an entirety to one or more of our subsidiaries.

Modification and Amendment

Subject to certain exceptions, the indenture or the Notes may be amended with the consent of the holders of at least a majority of the principal amount of then outstanding Notes (including without limitation, consents obtained in connection with a repurchase of, or tender or exchange offer for, Notes) and, subject to certain exceptions, any past default or compliance with any provisions may be waived with the consent of the holders of a majority of the principal amount of then outstanding Notes (including, without limitation, consents obtained in connection with a repurchase of, or tender offer or exchange offer for, Notes). However, without the consent of each holder of a then outstanding Note affected, no amendment may, among other things:

- reduce the percentage in aggregate principal amount of Notes outstanding necessary to waive any past default or event of default;
- reduce the rate of interest on any Note or change the time for payment of interest on any Note;
- reduce the principal of any Note or change the maturity date of any Note;
- change the place or currency of payment on any Note;
- impair the right of any holder to receive payment of principal of and interest, if any, on, its Notes or to institute suit for the enforcement of any such payment with respect to such holder's Notes; or
- make any change in the provisions described in this "-Modification and Amendment" section or in the waiver provisions of the indenture that require each holder's consent to modify and amend or to waive.

Without the consent of any holder of the Notes, we and the trustee may amend the indenture or the Notes:

- to cure any ambiguity, omission, defect or inconsistency in the indenture or the Notes, including to eliminate any conflict with the terms of the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act");
- to conform the terms of the indenture or the Notes to the description thereof in the accompanying prospectus relating to the offering of the Notes;
- to evidence the succession by a successor corporation and to provide for the assumption by a successor corporation of our obligations under the indenture;
- to add guarantees with respect to the Notes;
- to secure the Notes;
- to add (or expand) the covenants, restrictions or conditions for the benefit of the holders or to surrender any right or power conferred upon us;
- to make any other change that does not adversely affect the rights of any holder of the Notes in any material respect (other than any holder that consents to such change);

- to provide for a successor trustee;
- to comply with the applicable procedures of the depositary; or
- to comply with any rules or requirements in connection with the qualification of the indenture under the Trust Indenture Act.

Holders do not need to approve the particular form of any proposed amendment. It will be sufficient if such Holders approve the substance of the proposed amendment. After an amendment under the indenture becomes effective, we are required to mail to the Holders a notice briefly describing such amendment. However, the failure to give such notice to all the holders, or any defect in the notice, will not impair or affect the validity of the amendment.

Satisfaction and Discharge; Defeasance

We may satisfy and discharge our obligations under the indenture by delivering to the securities registrar for cancellation all outstanding Notes or by depositing with the trustee or delivering to the holders, as applicable, after the Notes have become due and payable, whether at the maturity date or otherwise, cash sufficient to pay all of the outstanding Notes and paying all other sums payable under the indenture by us. Such discharge is subject to the other terms contained in the indenture, including the requirement that we provide an officer's certificate and opinion to the trustee that all of the conditions precedent to the satisfaction and discharge have been satisfied.

Covenant Defeasance

The "covenant defeasance" provisions of the indenture, which would allow us to cease to comply with any restrictive covenants applicable to the Notes, are not applicable to the Notes because there are no restrictive covenants applicable to the Notes.

Governing Law

The indenture and the Notes are governed by and construed in accordance with the laws of the State of New York. The indenture is subject to the provisions of the Trust Indenture Act.

Listing

The Notes are listed on Nasdaq Global Market under the symbol "NGHCZ."

Further Issuances

We may, from time to time, without the consent of the holders of the Notes, create and issue additional notes having the same terms and conditions as the Notes that are equal in rank to the Notes in all respects (or in all respects except for the issue date, the issue price and, if applicable, the first interest payment date and the initial interest accrual date). These notes will be consolidated and form a single series with the Notes, provided, however, that a separate CUSIP, common code or ISIN, as applicable, will be issued for any additional notes unless the additional notes and the Notes of such series are fungible for U.S. federal income tax purposes.

About the Trustee

The Bank of New York Mellon is the trustee under the indenture and is the principal paying agent and registrar for the Notes.

The trustee under the indenture may resign or be removed with respect to one or more series of debt securities under the indenture and a successor trustee may be appointed to act with respect to such series.

EXHIBIT 21.1

SUBSIDIARIES

Entity Name	Jurisdiction of Incorporation or Formation
1100 Compton, LLC	Delaware
ABC Agency Network of Texas, LLC	Texas
ABC Agency Network, Inc.	Louisiana
Adirondack AIF, LLC	New York
Agent Alliance Insurance Company	Alabama
AgentCubed, LLC	Idaho
Allied Producers Reinsurance Company, Ltd.	Bermuda
America's Health Care/RX Plan Agency, Inc.	Delaware
American Capital Acquisition Investments S.A.	Luxembourg
Assigned Risk Solutions Ltd.	New Jersey
Century-National Insurance Company	California
ClearSide General Insurance Services, LLC	California
Direct Administration, Inc.	Tennessee
Direct Bay, LLC	Florida
Direct General Consumer Products, Inc.	Tennessee
Direct General Financial Services, Inc.	Tennessee
Direct General Insurance Agency, Inc.	Tennessee
Direct General Insurance Company	Indiana
Direct General Insurance Company of Mississippi	Mississippi
Direct General Life Insurance Company	South Carolina
Direct General Premium Finance Company	Tennessee
Direct Insurance Company	North Carolina
Direct National Insurance Company	North Carolina
Health Network Group, LLC	Delaware
Healthcare Solutions Team, LLC	Illinois
HealthCompare Insurance Services, Inc.	Delaware
Imperial Fire and Casualty Insurance Company	North Carolina
Imperial General Agency of Texas, Inc.	Texas
Imperial Insurance Managers, LLC	Texas
Imperial Marketing Corporation	Louisiana
Integon Casualty Insurance Company	North Carolina
Integon General Insurance Corporation	North Carolina
Integon Indemnity Corporation	North Carolina
Integon National Insurance Company	North Carolina
Integon Preferred Insurance Company	North Carolina
Integon Properties S.A. de C.V.	Mexico
Integon Service Co, S.A. de C.V.	Mexico
John Alden Financial Corporation	Delaware
LeadCloud, LLC	Maryland
MIC General Insurance Corporation	Michigan
National Farmers Union Property and Casualty Company	North Carolina

Entity Name	Jurisdiction of Incorporation or Formation
National General Assurance Company	Missouri
National General Georgia, LLC	Delaware
National General Holdings Bermuda, Ltd.	Bermuda
National General Holdings Luxembourg S.à.r.l.	Luxembourg
National General Insurance Company	Missouri
National General Insurance Holdings, Ltd.	Bermuda
National General Insurance Management Ltd.	Bermuda
National General Insurance Marketing, Inc.	Missouri
National General Insurance Online, Inc.	Missouri
National General Lender Services, Inc.	Delaware
National General Management Corp.	Delaware
National General Motor Club, Inc.	North Carolina
National General Premier Insurance Company	California
National General Re Ltd.	Bermuda
National Health Insurance Company	Texas
New Jersey Skylands Management, LLC	Delaware
New South Insurance Company	North Carolina
Newport Management Corporation	California
NG Holdings, LLC	Delaware
NGLS Adjusting, LLC	Delaware
NGLS Insurance Services, Inc.	California
NSM Sales Corporation	Nevada
Personal Express Insurance Services, Inc.	California
Quotit Corporation	California
RAC Insurance Partners, LLC	Florida
Renuant, LLC	Nevada
Right Choice Insurance Agency Inc.	Tennessee
Seattle Specialty Insurance Services, Inc.	Washington
Standard Property and Casualty Insurance Company	Illinois
Syndeste, LLC	Virginia
The Association Benefits Solution, LLC	Delaware
Velapoint, LLC	Washington
Western General Agency, Inc.	California

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements Form S-8 (No. 333-194493) and (No. 333-231256) and Registration Statement Form S-3ASR (No. 333-224717) of National General Holdings Corp. of our reports dated February 20, 2020, with respect to the consolidated financial statements and the effectiveness of internal control over financial reporting of National General Holdings Corp., incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 2019, and the financial statement schedules of National General Holdings Corp. included herein.

/s/ Ernst & Young LLP
New York, New York
February 20, 2020

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Barry Karfunkel, certify that:

1. I have reviewed this Annual Report on Form 10-K of National General Holdings Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 20, 2020

By: /s/ Barry Karfunkel

Barry Karfunkel
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael Weiner, certify that:

1. I have reviewed this Annual Report on Form 10-K of National General Holdings Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 20, 2020

By: /s/ Michael Weiner

Michael Weiner
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Barry Karfunkel, Chief Executive Officer (Principal Executive Officer) of National General Holdings Corp. (the "Company"), hereby certify, that, to my knowledge:

1. The Annual Report on Form 10-K for the year ended December 31, 2019 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 20, 2020

By: /s/ Barry Karfunkel

Barry Karfunkel
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Michael Weiner, Chief Financial Officer (Principal Financial Officer) of National General Holdings Corp. (the "Company"), hereby certify, that, to my knowledge:

1. The Annual Report on Form 10-K for the year ended December 31, 2019 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 20, 2020

By: /s/ Michael Weiner

Michael Weiner
Chief Financial Officer
(Principal Financial Officer)

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59 MAIDEN LANE
38TH FLOOR
NEW YORK, NY 10038

OFFICE LOCATIONS

CORPORATE

National General Corporate Headquarters
59 Maiden Lane, 38th Floor
New York, NY 10038

Winston Salem Operational Center
5630 University Parkway
Winston Salem, NC 27105

Cleveland Operational Center
800 Superior Avenue
Cleveland, OH 44114

Dallas Operational Center
4455 LBJ Freeway
Dallas, TX 75244

National General Bermuda
Purvis House, 29 Victoria Street
Hamilton Bermuda HM10

PROPERTY & CASUALTY

National General Preferred–Buffalo
550 Essjay Road
Williamsville, NY 14221

National General Preferred–Chicago
30 North LaSalle
Chicago, IL 60602

Personal Express
5301 Truxtun Avenue
Bakersfield, CA 93309

RAC Insurance Partners
6161 Blue Lagoon Drive
Miami, FL 33126

National General Lender Services–Arizona
827 West Grove
Mesa, AZ 85210

National General Lender Services–California
16802 Aston Street
Irvine, CA 92606

National General Lender Services–Texas
5001 North Riverside Drive
Fort Worth, TX 76137

Seattle Specialty Insurance Services
332 SW Everett Mall Way
Everett, WA 98204

Assigned Risk Solutions–New York
999 Stewart Avenue
Bethpage, NY

Assigned Risk Solutions–New Jersey
250 Pehle Ave
Saddle Brook, NJ

Direct General
1281 Murfreesboro Road
Nashville, TN 37217

California Branch Office
3800 East Concours Drive
Ontario, CA 91764

St. Louis Branch Office
5757 Phantom Drive
Hazelwood, MO 63042

ACCIDENT & HEALTH

Accident & Health Operational Center
1555 N. Rivercenter
Milwaukee, WI 53212

VelaPoint
1100 Northwest Compton Drive
Hillsboro, OR 97006

Healthcare Solutions Team
1900 South Highland Avenue
Lombard, IL 60148

Quotit® and HealthCompare®
3333 Michelson Drive
Irvine, CA 92606

National General
Holdings Corp.

59 MAIDEN LANE
38TH FLOOR
NEW YORK, NY 10038