BANK BRADESCO
Form 424B3
September 17, 2004

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Registration No. 333-117839

PROSPECTUS

BANCO BRADESCO S.A.
(Bank Bradesco)
(a company incorporated under the laws of the Federative Republic of Brazil),
acting through its Grand Cayman branch

U.S.$500,000,000 8.75% Subordinated Notes due 2013

The exchange offer	We are offering to exchange new notes registered with the Securities and Exchange Commission, for existing notes that we previously issued in an offering exempt from the SEC s registration requirements. The terms and conditions of the exchange offer are summarized below and more fully described in this prospectus.
Expiration date	5:00 p.m. (New York City time) (for the Depository Trust Company ("DTC") portion) and 5:00 p.m. (London Time) (for the Euroclear Bank S.A./N.V., as operator of the Euroclear System, or "Euroclear", and Clearstream Banking, société anonyme, or "Clearsteram, Luxembourg" portion) on October 11, 2004, unless extended.
Withdrawal rights	Any time before 5:00 p.m. (New York City time) (for the DTC portion) and 5:00 p.m. (London time) (for the Euroclear/Clearstream portion) on the expiration date.
Integral multiples	Old notes may only be tendered in integral multiples of U.S.$10,000.
Expenses	Paid for by Banco Bradesco S.A.
Exchange notes	The exchange notes will have the same terms and conditions as the existing notes they are replacing, which are summarized below and described more fully in this prospectus. The exchange notes will not contain terms with respect to transfer restrictions or interest rate increases.
Listing	Application has been made to list the exchange notes on the Luxembourg Stock Exchange.

Consider carefully the risk factors beginning on page 11 of this prospectus.

We are relying on the position of the SEC staff in certain interpretative letters to third parties to remove the transfer restrictions on the exchange notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these notes or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

September 13, 2004

IMPORTANT NOTICE ABOUT INFORMATION PRESENTED IN THIS PROSPECTUS

You should rely only on the information provided in this prospectus including the information incorporated by reference. We have not authorized anyone to provide you with different information. We are not offering the notes in any state where the offer is not permitted. We do not claim the accuracy of the information in this prospectus as of any date other than the date stated on the cover.

We include cross-references in this prospectus to captions where you can find further related discussions. The following Table of Contents provides the pages on which these captions are located.

BRADESCO

In this prospectus, unless the context otherwise requires, (i) references to we , our or to us mean Banco Bradesco S.A. and its consolidated subsidiaries and (ii) references to our Grand Cayman branch or the issuer mean Banco Bradesco S.A., acting through its Grand Cayman branch.

The notes have not been, and will not be, registered with the Comissão de Valores Mobiliários, or CVM, the securities and exchange commission of Brazil. Any public offering or distribution, as defined under Brazilian laws and regulations, of the notes in Brazil is not legal without such prior registration under Law 6385/76, as amended. If a Brazilian resident acquires any note, such note can neither circulate in Brazil in bearer form nor be repaid in Brazil in a currency other than the Brazilian currency at the time such payment is made.

This prospectus incorporates important business and financial information about Bradesco that is not included in or delivered with this prospectus. This information is available to you without charge upon written or oral request to The Bank of New York, Corporate Trust Operations, Reorganization Unit, 101 Barclay Street 7 East, New York, New York 10286, Attention: Mr. Kin Lau, telephone (212) 315 3750, facsimile (212) 298 1915. To obtain timely delivery, you must request this information no later than five business days before the expiration date of this exchange offer.

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AVAILABLE INFORMATION

We are filing with the SEC a registration statement on Form F-4 relating to the exchange notes. This prospectus is a part of the registration statement, but the registration statement includes additional information and also includes exhibits that are referenced in this prospectus.

Bradesco. Bradesco is currently subject to the information requirements of the Exchange Act applicable to a foreign private issuer, and accordingly files or furnishes reports, including annual reports on Form 20-F, reports on Form 6-K, and other information with the U.S. Securities and Exchange Commission. These reports and other information filed can be inspected at, and subject to the payment of any required fees, copies may be obtained from, the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549, and at its regional offices at The Woolworth Building, 233 Broadway, New York, New York 10279, and Northwest Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. The SEC can be reached at 1-800-SEC-0330 for more information on the public reference rooms and their copy charges. These reports and other information may also be inspected and copied at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. As a foreign private issuer, however, Bradesco is exempt from the proxy requirements of Section 14 of the Exchange Act and from the short-swing profit recovery rules of Section 16 of the Exchange Act, although the rules of the New York Stock Exchange may require Bradesco to solicit proxies from its shareholders under some circumstances.

The insurers. Only limited information concerning the insurers is included in this prospectus. The availability of information regarding the insurers is discussed in this prospectus under the caption The Insurers and the Insurance Policy - The Insurers .

The trustee and the paying agent. The trustee will furnish to holders of notes copies of documents referred to herein. Holders of notes should contact the trustee, The Bank of New York, at 101 Barclay Street, 21W, New York, New York 10286.

The Luxembourg paying agent. The Luxembourg paying agent will furnish to holders of notes copies of documents referred to herein. Holders of the notes should contact the Luxembourg paying agent, Dexia Banque Internationale à Luxembourg, 69 Route d Esch, L-1470 Luxembourg.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

Bradesco files with or furnishes to the SEC documents including:

- annual reports on Form 20-F; and
- periodic reports on Form 6-K.

The Form 6-K furnished to the SEC by Bradesco on May 4, 2004 shall be deemed to be incorporated by reference into this prospectus.

All documents filed by Bradesco pursuant to Section 13(a), 13(c) or 15(d) of the Exchange Act after the date of this prospectus and prior to the consummation of this offering shall be deemed to be incorporated by reference into this prospectus and be a part of it from the dates of filing of these documents.

Any statement contained in a document incorporated or deemed incorporated by reference into this prospectus is superseded to the extent that a statement contained in this prospectus, or in any other document subsequently filed with or furnished to the SEC is inconsistent therewith.

Copies of all documents incorporated by reference herein may be obtained free of charge from the SEC website at *http://www.sec.gov* or at the office of the trustee and the Luxembourg paying agent.

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PRESENTATION OF FINANCIAL INFORMATION

Our audited consolidated financial statements as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001, including the notes thereto, have been prepared in accordance with generally accepted accounting principles in the United States, known as U.S. GAAP .

Certain additional information contained herein has been prepared in accordance with accounting principles prescribed by accounting practices adopted in Brazil. Accounting practices adopted in Brazil differ significantly from U.S. GAAP in some respects. For more information, see Summary of Certain Differences Between Accounting Practices adopted in Brazil and U.S. GAAP .

References herein to the *real* , *reais* or R$ are the Brazilian *real*, the official currency of Brazil. References to U.S. dollar , U.S.$, $ or do to United States dollars. References to EUR or Euro are to the Euro, the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended. References to Yen are to Japanese Yen.

The exchange rate of *reais* to U.S. dollars was R$2.3120 to U.S.$1.00 at December 31, 2001, R$3.5400 to U.S.$1.00 at December 31, 2002, R$2.8950 to U.S.$1.00 at December 31, 2003 and R$3.063 to U.S. $1.00 at July 27, 2004, based on the noon buying rate in New York City as reported by the Federal Reserve Bank of New York. The exchange rate of *reais* to U.S. dollars was R$2.3204 to U.S.$1.00 at December 31, 2001, R$3.5333 to U.S.$1.00 at December 31, 2002, R$2.8892 to U.S. $1.00 at December 31, 2003 and R$3.067 to U.S.$1.00 at July 27, 2004 based on the U.S. dollar selling rate as reported by the Central Bank of Brazil, which we call the Central Bank , at closing. As a result of recent fluctuations in the *real*-U.S. dollar exchange rate, the closing selling exchange rate at December 31, 2003 may not be indicative of current or future exchange rates. Therefore, you should not read these exchange rate conversions as representations that any such amounts have been or could be converted into U.S. dollars at those or any other exchange rates.

For your convenience, certain amounts have been converted from *reais* to U.S. dollars. These conversions have been calculated using the U.S. dollar selling rate at closing published by the Central Bank. See Exchange Controls and Foreign Exchange Rates for more information regarding the exchange rates applicable to the Brazilian currency since January 1, 1999.

Certain figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

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FORWARD-LOOKING STATEMENTS

This prospectus contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements appear in a number of places in this prospectus, principally in Risk Factors , Management s Discussion and Analysis of Financial Condition and Results of Operations and Business , and include statements regarding our intent, belief or current expectations or those of our officers with respect to, among other things, the use of proceeds of the offering, our financing plans, trends affecting our financial condition or results of operations, the impact of competition and future plans and strategies. These statements reflect our views with respect to such matters and are subject to risks, uncertainties and assumptions, including, among other things:

- general economic, political and business conditions, both in Brazil and abroad;
- management s expectations and estimates concerning our future financial performance, financing plans and programs, and the effects of competition;
- the continued growth of our insurance, leasing, asset management and other businesses complementary to banking services;
- our level of capitalization and debt;

- anticipated trends and competition in the Brazilian banking and financial services industries;
- the market value of Brazilian government securities;
- interest rate fluctuations, inflation and devaluation of the *real* in relation to the U.S. dollar;
- existing and future governmental regulation and tax matters;
- increases in defaults by borrowers and other loan delinquencies and increases in the provision for loan losses;
- customer loss, revenue loss and deposit attrition;
- our ability to sustain or improve performance;
- credit and other risks of lending and investment activities; and
- other risk factors as set forth under Risk Factors .

The words believe , may , will , estimate , continue , anticipate , intend , expect , plan , target , project , forecast , guideline , are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or other factors. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this prospectus might not occur. Our actual results could differ substantially from those anticipated in our forward-looking statements.

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SUMMARY

This summary highlights selected information from this prospectus. Because this is a summary, it does not contain all of the information that may be important to you. You should carefully read the entire prospectus to understand fully the terms of the exchange offer and the notes, as well as the tax and other considerations that are important to you in making your investment decision and participating in the exchange offer. You should pay special attention to the Risk Factors section beginning on page 11 of this prospectus.

Banco Bradesco

We believe we are the largest private-sector (non-government-controlled) bank in Brazil and in Latin America as a whole in terms of total net worth. We provide a wide range of banking and financial products and services, in Brazil and abroad, to individuals, small to mid-sized companies and major local and international corporations and institutions. We have the most extensive private-sector branch and service network in Brazil, which permits us to reach a diverse customer base. Our services and products encompass banking operations such as lending and deposit-taking, credit card issuance, insurance, leasing, payment collection and processing, pension plans, asset management and brokerage services.

According to information published by *Superintendência de Seguros Privados* (the Superintendency of Private Insurance, which is known as SUSEP) and by the *Agência Nacional de Saúde Suplementar* (the National Agency of Supplemental Health, known as ANS), we are the largest insurance, pension plan and *título de capitalização*, or certificated savings plan, provider in Brazil on a consolidated basis in terms of insurance premiums, pension plan contributions and income from certificated savings plans. We are also one of the leaders among private-sector financial institutions in third-party resource management and in the underwriting of debt securities, according to information published by the National Association of Investment Banks, known as ANBID . In December 2003, according to information published by the Brazilian Federal Revenue Service, we accounted for 20.7% of the total nationwide collections of a tax called the Provisional Contribution on Financial Transactions, known as CPMF. Since the CPMF tax is levied on virtually all Brazilian financial transactions, this statistic provides a measure of the percentage of Brazilian financial transactions that we handle.

At December 31, 2003, we had, on a consolidated basis:

- R$166.3 billion in total assets;
- R$54.8 billion in total loans;
- R$58.0 billion in total deposits; and
- R$13.6 billion in shareholders equity.

Although our customer base includes individuals of all income levels as well as large, mid-sized and small businesses, the common citizens of Brazil have traditionally formed the backbone of our clientele. Since the 1960s, we have been a leader in the middle to low-end retail banking market in Brazil. This segment still has great potential for development and provides us with higher margins than other segments, such as corporate credit operations and securities trading, where we face greater price competition.

The breadth of our retail and corporate banking and insurance operations is illustrated by the following operating data, which is shown on a consolidated basis at December 31, 2003:

- 32.3 million savings accounts;
- 14.5 million checking accounts;
- 9.4 million insurance policyholders;
- 1,198 of the largest Brazilian and multinational groups of affiliated companies in Brazil as corporate customers;
- 6.2 million clients using Internet banking;
- a nationwide network consisting of 3,052 branches, 21,605 ATMs and 2,062 special banking service posts and outlets located on the premises of selected corporate clients; and
- seven branches and six subsidiaries located in New York, the Cayman Islands, the Bahamas, Japan, Argentina and Luxembourg.

Our large banking network allows us to be closer to our customers, which, in turn, permits our managers to have personal and direct knowledge of our customers, economically active regions and other conditions relevant to our business. This knowledge helps us in assessing and limiting credit risks in credit operations, among other risks, as well as in servicing the particular needs of our clients. Approximately 9.0 million transactions are executed through our Bradesco network every day.

In recent years, we have taken important steps to offer our products and services through the Internet and to help our customers and employees gain access to the Internet. We were one of the first banks worldwide to introduce on-line Internet banking. In December 1999 we became the first bank in Latin America, and among the first in the world, to provide free limited Internet access to clients. We also provide computers in many of our branches and service centers that permit clients to access the Internet in order to conduct banking transactions, pay bills and shop on-line. Our Internet banking services, along with our customer service center, make our banking services available to our customers 24 hours a day, seven days a week.

We are headquartered in São Paulo, Brazil, and our Grand Cayman branch is headquartered in George Town, Grand Cayman, British West Indies. Our address is Cidade de Deus, Vila Yara, 06029 - 900, Osasco, SP, Brazil, and our general phone number is (55-11) 3235-9566.

Summary of Consolidated Financial Data

The following financial data should be read in conjunction with the consolidated financial statements, Selected Financial Information and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. Our consolidated financial statements at and for the years ended December 31, 2003, 2002, 2001, 2000 and 1999 have been prepared in accordance with generally accepted accounting principles in the United States, commonly called U.S. GAAP .

	At and for the year ended December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
	(R$ in millions, except %)				
Consolidated Income Statement Data					
Net interest income	R$ 14,999	R$ 13,467	R$ $9,493	R$ 6,846	R$ 7,021
excluding provision for loan losses	12,965	10,924	7,730	5,602	5,176
Fee and commission income	3,463	2,894	2,866	2,593	2,100
Net income	2,302	2,142	2,270	1,799	744
Consolidated Balance Sheet Data					
Total assets	166,330	129,875	108,295	91,852	80,036
Loan and leasing portfolio	54,795	52,324	44,994	39,439	28,019
Securities and interbank deposits	51,702	33,929	31,923	24,113	25,467
Shareholders equity	R$ 13,592	R$ 10,852	R$ 9,789	R$ 7,881	R$ 7,343
Other Financial/Operating Data					
Return on equity[1]	16.9%	19.7%	23.2%	22.8%	10.1%
Return on assets[2]	1.4%	1.6%	2.1%	2.0%	0.9%
Efficiency ratio[3]	64.7%	60.5%	57.4%	62.6%	65.0%
Funds under management	72,494	45,100	41,905	38,097	26,520
Number of branches[4]	3,052	2,954	2,610	2,579	2,431
Active customers (in millions)[5]	14.5	13.0	12.0	10.8	8.7
Employees[6]	75,781	74,393	65,713	65,804	63,511

Notes:

(1) Net income divided by period-end shareholders equity.
(2) Net income divided by period-end total assets.
(3) (Salaries and Benefits plus Administrative Expenses) divided by (Net Interest Income plus Non-interest Income less Non-Interest Expenses excluding Salaries and Benefits and Administrative Expenses).
(4) Excluding customer site branches.
(5) Represent active customers at period-end. A client is considered active when it performs one or more current account transactions per month or has an average positive balance over a period of three months.
(6) Actual number of full-time and part-time employees at period-end.

Summary of this Exchange Offer

In October 2003, we completed an offering of U.S.$500 million principal amount of notes that was exempt from the SEC s registration requirements. In connection with that offering, we agreed, among other things, to deliver this prospectus to you, to use our reasonable best efforts to cause this exchange offer to be declared effective by September 30, 2004 and to consummate this exchange offer by October 31, 2004.

This Exchange Offer

We are offering to exchange U.S.$10,000 principal amount of notes which have been registered under the Securities Act for each U.S.$10,000 of outstanding principal amount of notes.

The form and terms of the notes that we are offering in this exchange offer are identical in all material respects to the form and terms of the existing notes which were issued on October 24, 2003 in an offering that was exempt from the SEC s registration requirements, except that the notes that we are offering in this exchange offer have been registered under the Securities Act. The notes that we are offering in this exchange offer will evidence the same obligations as, and will replace, the existing notes and will be issued under the same indenture.

If you wish to exchange an outstanding note, you must properly tender it in accordance with the terms described in this prospectus. We will exchange all outstanding notes that are validly tendered and are not validly withdrawn.

As of this date, there are U.S.$500 million principal amount of existing notes outstanding. The exchange offer is not contingent upon any minimum aggregate principal amount of existing notes being tendered for exchange. We will issue registered notes on or promptly after the expiration of the exchange offer.

Registration Rights Agreement

We are making this exchange offer in order to satisfy our obligation under the registration rights agreement, entered into on October 24, 2003, to cause our registration statement to become effective under the Securities Act. You are entitled to exchange your notes for registered notes with substantially identical terms. After the exchange offer is complete, you will generally no longer be entitled to any registration rights with respect to your notes.

Resales of the Exchange Notes

Based on an interpretation by the staff of the SEC set forth in no-action letters issued to third parties, we believe that the exchange notes may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act provided that:

- you acquire any new note in the ordinary course of your business;
- you are not participating, do not intend to participate, and have no arrangement or understanding with any person to participate, in the distribution of the exchange notes;
- you are not a broker-dealer who purchased existing notes for resale pursuant to Rule 144A or any other available exemption under the Securities Act; and

- you are not an affiliate (as defined in Rule 405 under the Securities Act) of Bradesco.

If our belief is inaccurate and you transfer any new note without delivering a prospectus meeting the requirements of the Securities Act or without an exemption from registration of your notes from such requirements, you may incur liability under the Securities Act. We do not assume or indemnify you against this liability.

Each broker-dealer that is issued exchange notes for its own account in exchange for notes that it acquired as a result of market-making or other trading activities must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the exchange notes. The letter of transmittal states that, by making this acknowledgment and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. A broker-dealer who acquired existing notes as a result of market-making or other trading activities may use this prospectus for an offer to resell, resale or other retransfer of the exchange notes. We believe that no registered holder of the existing notes is an affiliate (as the term is defined in Rule 405 of the Securities Act) of Bradesco.

Expiration Date — This exchange offer will expire at 5:00 p.m., New York City time, (for the DTC portion) and 5:00 p.m. (London time) (for the Euroclear/Clearstream portion) October 11, 2004, unless we decide to extend the expiration date.

Conditions to this Exchange Offer — The exchange offer is not subject to any conditions other than that it not violate applicable law or any applicable interpretation of the staff of the SEC.

Withdrawal Rights — You may withdraw the tender of your notes at any time prior to 5:00 p.m., New York City time, (for the DTC portion) and 5:00 p.m. (London time) (for the Euroclear/Clearstream portion) October 11, 2004.

U.S. Federal Income Tax Consequences — The exchange of notes should not be a taxable exchange for United States federal income tax purposes. For a discussion of other U.S. federal income tax consequences resulting from the exchange, acquisition, ownership and disposition of the exchange notes, see "Taxation United States Tax Considerations". We will not recognize any gain or loss for accounting purposes upon the completion of the exchange offer. The expenses of the exchange offer that we pay will increase our differed financing costs in accordance with generally accepted accounting principles.

Use of Proceeds — We will not receive any proceeds from the issuance of notes in this exchange offer. We will pay all registration expenses incident to this exchange offer.

Exchange Agent — The Bank of New York is serving as exchange agent in connection with the exchange offer.

Summary of Terms of the Exchange Notes

Issuer	Banco Bradesco S.A., acting through its Grand Cayman branch.
The Notes	U.S.$500 million aggregate principal amount of 8.75% Subordinated Notes due 2013. We may issue additional tranches of notes.
Maturity Date	October 24, 2013, *provided,* that: ● the maturity date may be extended for a period of up to 18 months if we have sufficient funds in Brazilian *reais* or U.S. dollars to satisfy our obligations under the notes but we cannot, as the case may be, due to actions or failures to act by the Brazilian government, convert sufficient funds in *reais* into U.S. dollars and transfer those funds outside Brazil to the trustee and/or transfer available funds in U.S. dollars outside Brazil; and ● interest and principal payments may be deferred under the circumstances described in Deferral of Interest and Principal below.
Indenture	The notes will be issued under the indenture dated as of October 24, 2003 between The Bank of New York Trust Company (Cayman) Limited, as trustee, and us.
Interest	The notes will bear interest from October 24, 2003 at the rate of 8.75% per annum, or the note rate, payable semiannually in arrears. Default interest will accrue at the note rate plus 1% per annum. Principal and interest amounts deferred as described in Deferral of Interest and Principal below will also accrue interest at the note rate plus 1% per annum. The note rate will be increased by 1% per annum if we fail to meet our obligations described under This Exchange Offer; Registration Rights above. See Registration Rights Agreement .
Interest Payment Dates	April 24 and October 24 of each year, commencing April 24, 2004.
Deferral of Interest and Principal	If the payment of interest on any interest payment date or any redemption date or the payment of principal on the maturity date or any redemption date would cause our required net worth (*Patrimônio Líquido Exigido*) and other financial ratios to fall below the minimum levels required by current or future regulations generally applicable to Brazilian banks, or the risk-based capital requirements, we shall defer that payment of interest or principal or other amounts payable in respect of the notes until the date on which we are no longer in violation of the risk-based capital requirements or the payment of that interest or principal amount, or any portion thereof, would no longer cause us to violate the risk-based capital requirements. The deferral of any payment will not be an event of default under the notes. Any amounts payable to the trustee pursuant to the insurance policy as a result of a currency convertibility/non-transfer event (as defined below) will also be deferred until we are no longer in violation of the risk-based capital requirements. Noteholders will receive payment of any such amounts in arrears within 14 days after we are no longer entitled to defer payment of those amounts.

Each amount in arrears will bear interest at the note rate plus 1% per annum (if it is an interest amount, as if it constituted the principal of the notes). See Description of the Notes Deferral of Interest and Principal .

Ranking

The notes will at all times constitute our unsecured, subordinated obligations, and, in the event of our bankruptcy, liquidation or dissolution under Brazilian law, the notes will rank:

- junior in right of payment to the payment of all our indebtedness other than the notes and our other subordinated indebtedness;
- *pari passu* among themselves;
- at least *pari passu* with all our other subordinated indebtedness; and
- in priority to payments to holders of all classes of our share capital.

In addition, our obligations to the noteholders will be subordinate to our obligation to Sovereign Risk Insurance Ltd. after payment of a claim under the insurance policy in accordance with the terms of the insurance policy and the issuer consent agreement. See Description of the Notes Ranking and The Insurers and the Insurance Policy and The Insurers and the Insurance Policy The Issuer Consent Agreement .

Use of Proceeds

We will receive no proceeds from the exchange of the existing notes for the exchange notes.

Insurers

Sovereign Risk Insurance Ltd., as agent (which we refer to in such capacity as Sovereign) on behalf of ACE Bermuda Insurance Ltd., or ACE Bermuda, and XL Insurance Bermuda Ltd, or XLIB, and its successors and assigns. ACE Bermuda and XLIB are each referred to herein as an insurer and, together, the insurers.

Insurance Policy

The trustee, on behalf of the noteholders, will have the benefit of a Policy of Political Risk Insurance for Capital Market Transactions, or the insurance policy, provided by Sovereign covering our inability to convert *reais* into U.S. dollars or transfer outside Brazil amounts converted into U.S. dollars or our inability to use or control such funds (but only to the extent that such funds have been deposited into a bank account owned by us and such funds have been designated by us for the making of the scheduled payment of interest or premium that is the subject of the loss) due to actions or measures taken or approved, or the failure to take or approve actions or measures by the Brazilian government, (each a currency inconvertibility/non-transfer event, as more fully defined below in The Insurers and the Insurance Policy). Sovereign s obligation to pay claims under the insurance policy is limited to eighteen months interest on the notes (which includes the initial refundable premium (as defined below) funded by Sovereign on the issue date for deposit in the reserve account) and certain premium payments due under the insurance policy, and is subject to certain conditions, limitations and exclusions that may affect the ability of the noteholders to receive payments on the insurance policy. The insurance policy is issued to the trustee for the benefit of the noteholders. Nothing in the insurance policy, express or implied, shall give to any noteholder any legal or equitable right, remedy

or claim thereunder. See Risk Factors Risks Relating to the Insurance Policy and The Insurers and the Insurance Policy .

Reserve Account

On the issue date, Sovereign delivered to the Trustee, from amounts paid by us as an initial refundable premium, an amount equal to six months of scheduled interest due on the notes, being U.S.$21,875,000, or the initial refundable premium, to fund a reserve account to be maintained by the trustee. The reserve account will be available for payments on the notes only during a currency inconvertibility/non-transfer event and is intended to satisfy Sovereign s obligation under the insurance policy to cover the first of up to three semi-annual interest payments on the notes. The notes are subordinated and funds on deposit in the reserve account may be made available to holders of our senior obligations. For as long as the insurance policy is in place, we will replenish the reserve account following the withdrawal of funds from such account to an amount equal to U.S.$21,875,000 and the interest that would accrue on such amount at the note rate plus 1% during a 30-day period. On the issue date we also deposited in the reserve account U.S.$22,500 (being an amount equal to 18 months of the trustee s fees and certain expenses pursuant to the terms of the indenture). See Description of the Notes Credit Support Reserve Account .

Covenants

The terms of the indenture require us, among other things, to:

- pay all amounts owed by us under the indenture and the notes when those amounts are due and perform each of our other obligations under the various transaction documents entered into by us in connection with the issuance of the notes;
- if we defer any interest or principal payments as described under Deferral of Interest and Principal above, use reasonable efforts to reenter into compliance with the risk-based capital requirements within 180 days;
- maintain all necessary governmental and third-party approvals and consents;
- maintain our books and records;
- maintain an office or agency in New York where notes may be presented or surrendered for payment or for exchange, transfer or redemption and where notices and demands may be served;
- use the net proceeds from the issuance of the notes for general corporate purposes;
- give notice to the trustee of any default or event of default under the indenture, of any currency inconvertibility/non-transfer event, of a deferral of payment of interest or principal and of certain other events;
- provide certain financial statements and compliance certificates to the trustee;

- provide certain information to noteholders required by Rule 144A;
- replace the trustee upon any resignation or removal thereof; and
- preserve our corporate existence.

In addition, the terms of the indenture will require us to meet certain conditions if we consolidate, merge or transfer substantially all our assets to another person without the consent of the holders of at least $66^{2}/_{3}$% of the outstanding notes.

These covenants are subject to a number of important qualifications. See Description of the Notes Certain Covenants .

Events of Default The indenture contains certain limited events of default, consisting of the following:

- failure to pay principal on the due date thereof, unless the maturity date is extended as described in Maturity Date or the principal payment is deferred as described in Deferral of Interest and Principal . See Description of the Notes Extension of Maturity Date and Description of the Notes Deferral of Interest and Principal ;
- failure to pay interest or any additional amounts due on any note within 15 days of the due date thereof unless (i) the trustee has received that amount from Sovereign under the insurance policy, the reserve account or otherwise, or (ii) the interest payment is deferred as described in Description of the Notes Deferral of Interest and Principal ;
- certain events involving bankruptcy, liquidation, reorganization or insolvency proceedings, whether voluntary or involuntary; and
- Sovereign has paid a claim under the insurance policy in circumstances where we were not entitled to submit a proof of loss (as defined under The Insurers and the Insurance Policy The Insurance Policy).

Payment of principal of the notes may be accelerated only in the case of certain events involving our bankruptcy, liquidation or dissolution or similar events, and we will be required to make payment after acceleration only after we have been declared bankrupt, put into liquidation or otherwise dissolved for purposes of Brazilian law. See Risk Factors Risks Relating to the Notes If we do not satisfy our obligations under the notes, your remedies will be limited .

Clearance and Settlement The notes issued in the exchange offer will be represented by a single, permanent global note in book-entry form which will be registered in the name of a nominee of The Depositary Trust Company, or DTC, for the accounts of its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear , and Clearstream Banking, société anonyme, or Clearstream, Luxembourg . Beneficial interests in notes held in book-entry form will be entitled to receive physical delivery of certificated notes only under certain circumstances.

For a description of certain factors relating to clearance and settlement, see "Form, Denomination and Transfer".

Withholding Taxes; Additional Amounts

All payments of principal and interest in respect of the notes will be made without withholding or deduction for any taxes or other governmental charges imposed by Brazil or the Cayman Islands, or, in the event that we appoint additional paying agents, in the jurisdictions of those paying agents, or any political subdivision or any taxing authority thereof, unless such withholding or deduction is required by law. In the event we are required to withhold or deduct amounts for any taxes or other governmental charges, we will pay such additional amounts necessary to ensure that the noteholders receive the same amount as the noteholders would have received without such withholding or deduction, subject to certain exceptions. See "Description of the Notes Additional Amounts".

Tax Redemption

The notes will be redeemable in whole but not in part at 100% of their principal amount, plus accrued and unpaid interest, if any, to the date of redemption and any additional amounts then due and payable, at our option in the event of certain changes affecting taxation of the notes, subject to the prior approval of the Central Bank. The notes will not otherwise be redeemable prior to maturity. See "Description of the Notes Redemption".

U.S. ERISA and Certain Other Considerations

Sales of the notes to specified types of employee benefit plans and affiliates are subject to certain conditions. See "United States ERISA and Certain Other Considerations".

Listing

We have applied to list the notes on the Luxembourg Stock Exchange.

Governing Law

The indenture, the notes, the insurance policy and related documents and the registration rights agreement are governed by the laws of the State of New York. The insurance policy and the issuer consent agreement will be governed by the laws of the State of New York, except for certain limited circumstances, including arbitration procedures, in which case the laws of England and Wales shall apply.

Form and Denomination

The notes will be in fully registered form without interest coupons attached. Definitive notes representing the notes will only be available under certain circumstances. The notes will be issued in denominations of U.S.$10,000 and integral multiples thereof. See "Form, Denomination and Transfer".

Additional Notes and Exchange Notes

Subject to the prior written consent of the Central Bank and upon satisfaction of the conditions set forth in the indenture, we may issue additional tranches of notes. Exchange notes will be issued in exchange for original notes or additional notes, as the case may be, pursuant to the terms of the registration rights agreement. The original notes, exchange notes and any additional tranches or notes will be treated as a single class for all purposes under the indenture. See "Description of the Notes Additional Notes".

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RISK FACTORS

The following section describes some but not all of the risks associated with an investment in the notes. You should consider, among other things, the risk factors with respect to our bank, Brazil and to the notes not normally associated with investing in securities issued by companies in the United States or in countries with similarly developed capital markets, including those set forth below.

Risks Relating to Brazil

The Brazilian government exercises influence over the Brazilian economy, and Brazilian political and economic conditions have a direct impact on our business

Substantially all of our operations and customers are located in Brazil. Accordingly, our financial condition and results of operations are substantially dependent on Brazil s economy, which in the past has been characterized by frequent and occasionally drastic intervention by the Brazilian government and volatile economic cycles.

In the past, the Brazilian government has often changed monetary, fiscal, taxation and other policies to influence the course of Brazil s economy. We have no control over, and cannot predict, what measures or policies the Brazilian government may take in response to the current Brazilian economic situation or how Brazilian government intervention and government policies will affect the Brazilian economy and, both directly and indirectly, our operations and revenues.

Our operations, financial condition and the market price of our securities may be adversely affected by changes in policy involving exchange controls, tax and other matters, as well as factors such as:

- fluctuations in exchange rates;
- base interest rate fluctuations;
- inflation; and
- other political, diplomatic, social and economic developments within and outside of Brazil that affect the country.

During 2001 and 2002, the growth of the Brazilian economy slowed as a result of the impact of the ongoing economic crisis in Argentina, an important trading partner of Brazil, and lower levels of growth of the U.S. economy, among other factors. In response to such factors, the Central Bank, which determines the Brazilian base interest rate, increased such rate in an attempt to control inflation. The base interest rate is the benchmark interest rate payable to holders of securities issued by the federal government and traded at the *Sistema Especial de Liquidação e Custódia* (Special Settlement and Custody System), or SELIC . During 2001, the Central Bank raised Brazil s base interest rate by a total of 3.25 percentage points to 19.0%. This increase in interest rates led to declines in investment and consumption in Brazil, which contributed to the reduction of GDP growth for 2001 to 1.5%. During a period of relative economic stability in the first half of 2002, the Central Bank decreased the base interest rate to a level of 18.0% as of July 17, 2002. However, as a result of the declining economic scenario and the internal political instability caused by the Brazilian presidential elections in the second half of 2002, the Central Bank made subsequent increases in the interest rate during the second half of 2002, which reached 25.0% on December 18, 2002. During 2002, GDP increased by 1.5%. Although the interest rate was increased to 25.5% on January 22, 2003 and to 26.5% on February 19, 2003, it was then lowered to 26.0% on June 18, 2003 and, after subsequent adjustments in the following months, was reduced to 16.5% on December 17, 2003. During the first six months of 2004, the Central Bank reduced the rate further to 16.0%

Notwithstanding the measures described above, inflation rates for the years ended December 31, 2001, 2002 and 2003, as measured by the *Índice Geral de Preços - Disponibilidade Interna* (General Price Index -

Domestic Availability), or IGP-DI , published by Fundação Getúlio Vargas, or FGV , were 10.4%, 26.4% and 7.7% respectively.

These and other future developments in the Brazilian economy and government policies may reduce Brazilian demand for our services or products, adversely affect our financial condition and results of operations, and impact our ability to satisfy our payment obligations under the notes.

Devaluation of the real may lead to substantial losses on our liabilities denominated in or indexed to foreign currencies and a reduction in our revenues

The Central Bank has periodically devalued the Brazilian currency during the last four decades. The exchange rate between the *real* and the U.S. dollar has varied significantly in recent years. For example, the *real*/U.S. dollar exchange rate fell from R$1.9554 per U.S. dollar at December 31, 2000 to R$3.5333 at December 31, 2002. The value of the *real* depreciated to 3.1075 *reais* per U.S. dollar at June 30, 2004, compared with 2.8892 *reais* at December 31, 2003. The exchange rate reached a low of 2.8022 *reais* per U.S. dollar and a high of 3.2051 *reais* per U.S. dollar during the period. On July 27, 2004, the exchange rate was 3.067 *reais* per U.S. dollar.

A significant amount of our financial assets and liabilities are denominated in or indexed to foreign currencies, primarily U.S. dollars. When the Brazilian currency is devalued, we incur losses on our liabilities denominated in or indexed to foreign currencies, such as our U.S. dollar-denominated long-term debt and foreign currency loans, and experience gains on our monetary assets denominated in or indexed to foreign currencies, as the liabilities and assets are translated into *reais*. If a devaluation occurs when the value of such liabilities significantly exceeds the value of such assets, including any financial instruments entered into for hedging purposes, we could incur significant losses, even if their value has not changed in their original currency. This could adversely affect our ability to meet our payment obligations under the notes.

Conversely, when the value of the *real* appreciates against the U.S. dollar, we incur losses on our monetary assets denominated in or indexed to foreign currencies and experience gains on our liabilities denominated in or indexed to foreign currencies. If the *real* appreciates when the value of such assets significantly exceeds the value of such liabilities, we could incur significant losses, even if their value has not changed in their original currency.

In addition, our lending and leasing operations depend significantly on our capacity to match the cost of funds indexed to the U.S. dollar with the rates charged to our customers. A significant devaluation may affect our ability to attract customers on such terms or to charge rates indexed to the U.S. dollar.

If Brazil experiences substantial inflation in the future, our revenues and our ability to access foreign financial markets may be reduced

Brazil has in the past experienced extremely high rates of inflation, with annual rates of inflation during the last ten years reaching as high as 1,093% in 1994. More recently, Brazil s rates of inflation, as measured by the IGP-DI, were 9.8% in 2000, 10.4% in 2001 and 26.4% in 2002. The accumulated IGP-DI registered 7.7% as of December 31, 2003 and 6.9% for the six months ended June 30, 2004. Inflation itself and governmental measures to combat inflation have in the past had significant negative effects on the Brazilian economy. Inflation, actions taken to combat inflation and public speculation about possible future actions have also contributed to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets. If Brazil experiences substantial inflation in the future, our costs (if not accompanied by an increase in interest rates) may increase, our operating and net margins may decrease, and this decrease may adversely affect our ability to satisfy our payment obligations under the notes. Inflationary pressures may also curtail our ability to access foreign financial markets and may lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Brazilian economy.

Adverse changes in Brazilian economic conditions could cause an increase in customer defaults on their outstanding obligations to us, which could materially reduce our earnings

Our banking, leasing, and other businesses are significantly dependent on our customers ability to make payments on their loans and meet other of their obligations to us. If the Brazilian economy declines because of, among other factors:

- the level of economic activity;
- devaluation of the *real*;
- inflation; or
- an increase in domestic interest rates,

a greater portion of our customers may not be able to repay loans when due or to meet their debt service requirements, which would increase our past due loan portfolio and could materially reduce our net earnings.

Access to international capital markets for Brazilian companies is influenced by the perception of risk in emerging economies, which may hurt our ability to finance our operations

Since the end of 1997, and in particular during 2001 and 2002, as a result of economic problems in various emerging market countries, including the economic crisis in Argentina, investors have had a heightened risk perception for investments in emerging markets. As a result, in some periods Brazil has experienced a significant outflow of U.S. dollars and Brazilian companies have faced higher costs for raising funds, both domestically and abroad and have been impeded from accessing international capital markets. We cannot assure investors that international capital markets will remain open to Brazilian companies, including Banco Bradesco, or that prevailing interest rates in these markets will be advantageous to us, which may limit our ability to refinance indebtedness as it matures.

Risks Relating to Bradesco and the Brazilian Banking Industry

The Brazilian government regulates the operations of Brazilian banks and insurance companies, and changes in existing laws and regulations or the imposition of new ones may negatively affect our operations and revenues

Brazilian banks and insurance companies, including our banking and insurance operations, are subject to extensive and continuous regulatory review by the Brazilian government. We have no control over government regulations, which govern all facets of our operations, including the imposition of:

- minimum capital requirements;
- compulsory reserve requirements;
- lending limits and other credit restrictions; and
- accounting and statistical requirements.

The regulatory structure governing Brazilian banks and insurance companies is continuously evolving. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change, and new laws or regulations could be adopted. Such changes could materially adversely affect our operations and our revenues.

Regulatory changes affecting other businesses in which we are engaged, including our broker-dealer and leasing operations, could also have an adverse effect on our operations and our revenues and impact our ability to satisfy our payment obligations under the notes.

Changes in base interest rates by the Central Bank may materially adversely affect our results of operations and profit

The Central Bank establishes the base interest rates for the Brazilian banking system. In recent years, the base interest rate has fluctuated, with a high of approximately 45% in March 1999 and a low of 15.25% at January 17, 2001. The base interest rate was 26.5% on February 19, 2003, and it remained the same until June 18, 2003. From June 2003 to December 2003, the Central Bank reduced the base interest rate by 9.5 percentage points, to 16.5%. In March 2004 the Central Bank reduced the rate to 16.25%, followed by a further reduction in April to 16.0%. Changes in the base interest rate may materially adversely affect our results of operations because:

- high base interest rates increase our domestic debt expense and may increase the likelihood of customer defaults; and
- low base interest rates may diminish our interest income.

The Central Bank uses changes in the base interest rate as an instrument for its management of the Brazilian economy, including the protection of reserves and capital flows. We have no control over the base interest rates set by the Central Bank or how often they adjust them.

The increasingly competitive environment in the Brazilian bank and insurance industries may negatively affect our business prospects

We face significant competition in all of our principal areas of operation from other large Brazilian and international banks and insurance companies, public and private. Brazilian regulations raise limited barriers to market entry and do not differentiate between local or foreign commercial and investment banks and insurance companies. As a result, the presence of foreign banks and insurance companies in Brazil, some of which have greater resources than we have, has grown and competition both in the banking and insurance sectors generally and in markets for specific products has increased. The privatization of government-owned banks has also made the Brazilian markets for banking and other financial services more competitive.

The increased competition may negatively affect our business results and prospects by, among other things:

- limiting our ability to increase our client base and expand our operations;
- reducing our profit margins on the banking, insurance, leasing and other services and products offered by us; and
- increasing competition for foreign investment opportunities.

Furthermore, additional government-owned banks and insurance companies may be privatized in the future. The acquisition of a bank or insurance company in a privatization process or otherwise by one of our competitors would generally add to the acquirors market share, and as a result we may face increased competition from the acquiror.

Integration of acquired businesses

In 2002, we acquired Banco Mercantil de São Paulo S.A, or Mercantil , Banco do Estado do Amazonas S.A., or BEA , Banco Cidade S.A., or Banco Cidade , Banque Banespa International S.A. (Luxembourg), Ford Leasing S.A., or Ford Leasing , Banco Ford S.A. s consumer loan portfolio and Deutsche Bank Investimentos DTVM S.A., or Deutsche Bank Investimentos . In 2003, we acquired Banco Zogbi S.A., or Banco Zogbi , Banco Bilbao Vizcaya Argentaria Brasil, S.A., or Banco BBV (the name of which was changed to Banco Alvorada S.A., or Banco Alvorada in October 2003) and the activities of administration and management of security portfolios and investment funds of JPMorgan Fleming Asset Management. On February 10, 2004, we acquired 89.96% of Banco do Estado do Maranhão, or BEM . For more information on our recent acquisitions, see Business Recent Important Acquisitions and Joint Ventures . We may engage in further acquisitions as we seek to continue our

growth in the consolidating Brazilian financial services industry. The integration of the institutions and assets we acquire or intend to acquire and the integration process during the post-acquisition period may involve certain risks, including the risks that:

- integrating new networks, information systems, personnel, products and customer bases into our existing business may place additional demands on our senior management, information systems, back office operations and marketing resources;
- we may incur unexpected liabilities or contingencies relating to the acquired businesses; and
- delays in the integration process may cause us to incur greater operating expenses than expected with respect to our acquired businesses.

A majority of our common shares are held by two stockholders, whose interests may conflict with our other investors interests

At December 31, 2003, Cidade de Deus Companhia Comercial de Participações, which we call Cidade de Deus Participações, directly held 47.72% of our common shares and Fundação Bradesco directly held 16.15% and indirectly held 46.85% of our common shares. As a result, these shareholders have the power to prevent a change in control of our company, even if a transaction of that nature would be beneficial to our other shareholders, as well as to approve related-party transactions or corporate reorganizations. Under the terms of Fundação Bradesco s bylaws, all of our directors, members of the *Diretoria Executiva* and departmental directors, as well as all directors and officers of Cidade de Deus Participações, serve as members of the board of trustees of Fundação Bradesco. The board of trustees has no other members. For more information on our shareholders, see Principal Shareholders .

Changes in reserve and compulsory deposit requirements and taxes may hurt our ability to be profitable

In mid-2002, the Central Bank reimposed reserve requirements that had previously been reduced. The Central Bank could in the future increase reserve requirements or impose new reserve or compulsory deposit requirements. The reserve requirements require us, as of December 31, 2003, to hold a total of R$3.1 billion of Brazilian government securities that we previously had not been required to hold. As a result, liquidity, available to us to make loans and other investments, was reduced by that amount. In addition, we could be materially adversely affected by such changes because the monies held as compulsory deposits generally do not yield the same return as our other investments and deposits because:

- a portion of our compulsory deposits do not bear interest;
- we are obligated to hold some of our compulsory deposits in Brazilian government securities; and
- we must use a portion of the deposits to finance both a federal housing program and the rural sector.

Reserve requirements have been used by the Central Bank to control liquidity as part of monetary policy in the past, and we have no control over their imposition. See Regulation and Supervision Bank Regulations Reserve Requirements .

Changes in taxes and other fiscal assessments

To support our fiscal policies, the Brazilian government regularly enacts reforms to the tax and other assessment regimes to which we and our customers are subject. Such reforms include changes in the rate of assessments and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. The effects of these changes and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified and there can be no assurance that these reforms will not, once implemented, have an adverse effect upon our business. Furthermore, such changes have produced uncertainty in

the financial system, increased the cost of borrowing and contributed to the increase in our non-performing loan portfolio. For further information on tax reform in Brazil, see Regulation and Supervision Taxation .

The changes in the Brazilian tax and social security systems may negatively affect our operations and revenue

The Brazilian Congress, through Law No. 10,684 of May 30, 2003, has approved the increase in the rate of the *Contribuição para Financiamento de Seguridade Social*, or COFINS , payable by entities in the financial services sector, including us. The *Programa de Integração Social*, or PIS , and COFINS were previously imposed on the gross revenues of financial companies at a combined rate of 3.65%. As of September 2003, the rate of COFINS increased from 3% to 4%. Therefore the two taxes are currently imposed on our combined revenues at a combined rate of 4.65%. On December 30, 2002, the Brazilian Government enacted Law No. 10,637, which raised the rate of PIS from 0.65% to 1.65% and made PIS a value-added tax. The new rate of 1.65% has been in force since December 1, 2003. Financial institutions are not subject to this new PIS regime. On December 29, 2003, the Brazilian Government enacted Law No. 10,833, which raised the rate of COFINS from 3% to 7.6% and made COFINS a value-added tax. The new rate of 7.6% has been in force since February 1, 2004. Financial institutions are not subject to this new COFINS regime. See Regulation and Supervision Taxation PIS and COFINS .

We may experience increases in our level of past due loans as our loan portfolio becomes seasoned

Our loan portfolio has grown substantially since 1996. Any corresponding rise in our level of past due loans may lag behind the rate of loan growth, however, because loans typically do not become past due within a short period of time after their origination. Rapid loan growth may also reduce our ratio of past due loans to total loans until growth slows or the portfolio becomes more seasoned. This may result in increases in our loan loss provisions, charge-offs and the ratio of past due loans to total loans.

In addition, as a result of the increase in our loan portfolio and the described lag in any corresponding rise in our level of past due loans, our historic loan loss experience may not be indicative of our future loan loss experience.

Losses on our investments in marketable securities may have a significant impact on our results of operations and are not predictable

Marketable securities represent a material portion of our assets, and realized investment gains and losses have had and will continue to have a significant impact on our results of operations. The amounts of these gains and losses, which we record when investments in securities are sold, or in certain limited circumstances when the securities we hold are marked to market, may fluctuate considerably from period to period. The level of fluctuation depends, in part, upon the market value of the securities, which in turn may vary considerably, and our investment policies. We cannot predict the amount of realized gain or loss for any future period, and variations from period to period have no practical analytical value. Gains on our investment portfolio may not continue to contribute to net income at levels consistent with recent periods or at all, and we may not successfully realize the appreciation now existing in our consolidated investment portfolio or any portion thereof.

Our strategy of marketing and expanding Internet banking in Brazil could be badly received or more expensive than lucrative

We have aggressively pursued the use of the Internet for banking and other services to our clients and expect to continue to do so. However, the market for our Internet products is rapidly evolving and is becoming increasingly competitive. We cannot predict whether, or how fast, this market will grow. Moreover, if we fail to adapt effectively to growth and change in the Internet market and technology, our business, competitiveness, or results of operations could be materially affected.

The Internet may prove not to be a viable Brazilian commercial marketplace for a number of reasons, including a lack of acceptable security technologies, potentially inadequate development of the necessary infrastructure, or the lack of necessary development and commercialization of performance improvements.

To the extent that higher bandwidth Internet access becomes more widely available, we may be required to make significant changes to the design and content of our online network in order to compete effectively. Failure to effectively adapt to these or any other technological developments could adversely affect our business.

Our trading activities and derivatives transactions may produce material losses

We engage in the trading of securities, buying debt and equity securities principally to sell them in the near term with the objective of generating profits on short-term differences in price. These investments could expose us to the possibility of material financial losses in the future, as securities are subject to fluctuations in value which may generate losses. In addition, we enter into derivatives transactions to manage our exposure to interest rate and exchange rate risk. Each such derivatives transaction protects against increases in exchange rates or interest rates or against decreases in such rates, but not both. If we have entered into derivatives transactions to protect against, for example, decreases in the value of the *real* or in interest rates and the *real* instead increases in value or interest rates increase, we may incur financial losses. Such losses could adversely materially affect our future net income. For further discussion of our market risk, see Quantitative and Qualitative Disclosures about Market Risk . In the past four years the ratio of our trading securities to our total assets, as measured at December 31 of each year, has been as high as 22.5%, and could be greater in the future.

Risks Relating to the Notes

Our obligation under the notes will be subordinated to all our current and future secured and unsecured obligations, other than other subordinated indebtedness, and to some Brazilian statutory obligations

The notes will by their terms be subordinated in right of payment to all our current and future secured and unsecured indebtedness, other than other subordinated indebtedness, all our obligations to our depositors and all our obligations under financial instruments and derivatives. By reason of the subordination of the notes, in the event of our winding up or dissolution, or similar events, although the notes and any accrued interest thereon will become immediately due and payable, our assets will be available to pay such amounts only after all of our senior obligations have been paid in full.

Under Brazilian law, our obligations under the notes will also be subordinated to certain statutory preferences. In the event of our liquidation, certain claims, such as claims for salaries, wages, social security, taxes and court fees and expenses, will have preference over any other claim, including the notes. See Regulation and Supervision Intervention in and Administrative Liquidation of Financial Institutions Repayment of Creditors in a Liquidation for a discussion of measures affecting the priority of repayment of creditors.

If we do not satisfy our obligations under the notes, your remedies will be limited

Payment of principal of the notes may be accelerated only in the event of certain events involving our bankruptcy, winding up or dissolution or similar events. There is no right of acceleration in the case of a default in the performance of any of our covenants, including the payment of principal or interest.

Even if the payment of principal of the notes is accelerated, our assets will be available to pay those amounts only after:

- all of our senior obligations have been paid in full, as described above in Our obligation under the notes will be subordinated to all our current and future secured and unsecured obligations, other than other subordinated indebtedness, and to some Brazilian statutory obligations ; and

- we are actually declared bankrupt, are wound up or are otherwise dissolved for purposes of Brazilian law.

If, after these conditions are met, we make any payment from Brazil, we will be required to obtain the approval of the Central Bank for the remittance of funds outside Brazil. See If we are unable to make payments on the notes from the Cayman Islands and must make payments from Brazil, we may experience delays in obtaining or be unable to obtain the necessary Central Bank approvals .

Payments to be made by us under the notes may be suspended if we are not in compliance with Central Bank capitalization requirements

Pursuant to Central Bank Resolution No. 2837, dated as of May 30, 2001, as a condition for the subordinated debt represented by the notes to qualify as part of the second tier of our reference net worth (as defined below) which is taken into account for purposes of assessment of risk-weighted capital adequacy (referred to herein as Tier 2 Capital), the indenture provides that principal and interest payments to be made by us under the notes on the corresponding payment dates and maturity date (including as a result of early redemption) shall be deferred if we are not in compliance with Central Bank risk-based capital requirements (which as currently imposed relate to required net worth, leverage, risk diversification and investment of funds in permanent assets), or if such payments would cause us to no longer be in compliance with such risk-based capital requirements as in effect from time to time. In such a case, all payments falling due under the notes would be deferred until we are, and after making such payment would continue to be, in compliance with the risk-based capital requirements. See Regulation and Supervision Bank Regulations Principal Limitations and Restrictions on Activities of Financial Institutions Capital Adequacy and Leverage . See Description of the Notes Deferral of Interest and Principal for more information on the deferral of payments under the notes. Any suspension of payments due to our failure to satisfy the risk-based capital requirements would have a material adverse effect on our ability to make scheduled payments under the notes and, in addition, would prevent the use of the money in the reserve account and the receipt of money under the insurance policy if there was a currency inconvertibility/non-transfer event at the same time.

The funds on deposit in the reserve account may not be available to the trustee for payments to the noteholders in all circumstances

In certain circumstances, the trustee will be required to apply funds on deposit in the reserve account for payments to holders of our other obligations (as defined below) before such funds are applied to payments to noteholders under the notes. In the event that, at any time prior to or on the maturity date, any event occurs that would (i) postpone payment of any part of any of our debt which the Central Bank has authorized to be classified as Tier II of our *patrimônio de referência* (or reference net worth , being the stockholders equity plus revenue accounts (positive result), less expense accounts (negative result)) under CMN Resolution No. 2,837, or (ii) subordinate any payments of any such debt to our other obligations (which we refer to as a subordination event), the trustee will be required to cease to make any payments of interest owing on, or with respect to, the notes from funds on deposit in the reserve account. Further, if at any time prior to or on the maturity date, a subordination event has occurred and is continuing, and (i) we do not have sufficient funds to make all payments due in respect of any of our other obligations or (ii) the payment of any of our other obligations has been accelerated, the trustee will be required to withdraw and pay to us such funds on deposit on the reserve account as we may request to cover such insufficiency. Also, in the event that we are the subject of liquidation, dissolution or other winding up prior to or on the maturity date, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, before noteholders are entitled to receive any payment under the notes, the holders of our other obligations shall be entitled to receive, for application to the payment thereof, any payment or distribution that is payable or deliverable in

respect of the notes, including payments from funds on deposit in the reserve account. See Description of the Notes Ranking and Description of the Notes Credit Support Reserve Account .

If we are unable to make payments on the notes from the Cayman Islands and must make payments from Brazil, we may experience delays in obtaining or be unable to obtain the necessary Central Bank approvals

We are under no legal obligation to maintain liquidity at our Grand Cayman branch at levels sufficient to make payments on the notes. In case payment under notes issued by our Grand Cayman branch is requested directly from us in Brazil (whether by reason of a lack of liquidity of our Grand Cayman branch, acceleration, enforcement of a judgment or imposition of any restriction under the laws of the Cayman Islands), and payment thereunder is to be made from Brazil in a currency other than the lawful currency of Brazil through a foreign exchange transaction, a specific Central Bank approval may be required for the remittance of funds outside Brazil. Currently such an approval is required except as described below. Requests for remittances of foreign currency are granted by the Central Bank on a case-by-case basis and only immediately prior to the date on which the payment is to be remitted abroad. There could be significant delays in obtaining Central Bank approval. In addition, we might not be able to obtain approval at all because Brazilian law provides that in the event there is a serious imbalance in Brazil s balance of payments or there is a foreseeable likelihood of such an imbalance, the Brazilian government may, for a limited period of time, impose restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and on the conversion of Brazilian currency into foreign currencies.

The likelihood of the imposition of restrictions on the remittance of foreign currency by the Brazilian government at any time may be affected by, among other factors, the extent of Brazil s foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the size of Brazil s debt service burden relative to the economy as a whole, Brazil s policy towards the IMF and political constraints to which Brazil may be subject, all of which are factors that are beyond our control. Although payments by Brazilian issuers in respect of securities obligations issued in the international capital markets, such as the notes, have not been subject to restrictions imposed by the Central Bank to date, the Brazilian government could impose these restrictions in the future.

In the event that no approvals are obtained or obtainable for the payment by us of amounts owed and payable by our Grand Cayman Branch through remittances from Brazil, we may have to seek other mechanisms permitted by applicable law to effect payment of amounts due under the notes. However, we cannot assure you that other remittance mechanics permitted by applicable law will be available in the future, and even if they are available in the future, we cannot assure you that the payments due under the notes would be possible through such mechanisms.

The absence of a public market for these notes may affect the ability of the noteholders to sell these notes in the future and may affect the price they would receive if such sale were to occur

The notes are new securities for which there is currently no established market, and although application has been made to list the Notes on the Luxembourg stock exchange, there is no assurance that a market for the notes will develop. Although the initial purchaser of the old notes has informed us that it currently intends to make a market in the notes, it is not obligated to do so and any such market-making activities may be discontinued at any time without notice. Accordingly, we cannot give any assurance as to the development or liquidity of any market for the notes.

The liquidity of and trading market for the notes may be adversely affected by a general decline in the market for similar securities. Such a decline may adversely affect our liquidity and trading markets independent of our prospects of financial performance. You may not be able to sell your notes at a particular time, and the prices that you receive when you sell may not be favorable. Additionally, we cannot assure you that if you do not exchange your old notes in the exchange offer, there will be any trading market for the old notes following completion of the exchange offer.

The book-entry registration system of the notes may reduce the liquidity of any secondary market for the notes and may limit the receipt of payments by the beneficial owners of the notes

Because transfers of interests in the global note to be issued can be effected only through book entries at DTC, Clearstream, Luxembourg and Euroclear, for the accounts of their respective participants, the liquidity of any secondary market for global notes may be reduced to the extent that some investors are unwilling to hold notes in book entry form in the name of a DTC, Clearstream, Luxembourg, or Euroclear participant, as applicable. The ability to pledge interests in the global notes may be limited due to the lack of a physical certificate. Beneficial owners of global notes may, in certain cases, experience delay in the receipt of payments of principal and interest since such payments will be forwarded by the paying agent to DTC, Clearstream, Luxembourg, or Euroclear, as applicable, who will then forward payment to their respective participants, who (if not themselves the beneficial owners) will thereafter forward payments to the beneficial owners of the global notes. In the event of the insolvency of DTC, Clearstream, Luxembourg, Euroclear or any of their respective participants in whose name interests in the global notes are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on global notes may be impaired.

The rating of the notes may be lowered or withdrawn depending on some factors, including the rating agency s assessment of our financial strength, the insurers financial strength and Brazilian sovereign risk

It was a condition to the issuance of the old notes that they be rated as least Baa1 by Moody s Investors Service, Inc. The rating addresses the likelihood of payment of principal on October 24, 2013, unless the maturity of the notes is extended as a result of certain currency exchange or transfer control events being in effect on that date, in which case the maturity of the notes will be no later than April 24, 2015, provided that we are in compliance with the risk-based capital requirements. The rating also addresses the timely payment of interest on each payment date. The rating of the notes is not a recommendation to purchase, hold or sell the notes, and the rating does not comment on market price or suitability for a particular investor. We cannot assure you that the rating of the notes will remain for any given period of time or that the rating will not be lowered or withdrawn. A downgrade in the rating of the notes will not be an event of default under the indenture. The assigned rating may be raised or lowered depending, among other factors, on the rating agency s assessment of our financial strength and the insurers financial strength, as well as its assessment of Brazilian sovereign risk generally, including the suitability of the length of coverage afforded by the insurers.

Risks Relating to the Insurance Policy

Limited financial information concerning the insurers

The rating of the notes is in part based on the availability of the insurance policy to cover certain risks related to the inconvertibility or non-transferability of amounts due under the notes in the event that the government of Brazil imposes limitations on the conversion of *reais* to U.S. dollars and/or transfer of U.S. dollars outside Brazil. Limited financial information concerning the insurers has been provided by Sovereign and is included in this prospectus. Any decline in the financial condition of the insurers (including as a result of any insolvency or similar proceedings) may impair the ability of Sovereign to pay claims under the insurance policy and could result in a downgrade of the rating of the notes. See The Insurers and the Insurance Policy--The Insurers . Accordingly, you should take into account the limited financial information on the insurers in making your decision to invest in the notes.

Limitation on amount of coverage under the insurance policy

The insurance policy has a policy payment limit in U.S. dollars which corresponds to the amount of scheduled interest due on the notes for eighteen months interest on the notes (including the amounts on deposit in the reserve account) and certain premium payments due under the insurance policy. The amounts available to the trustee from the insurance policy and the reserve account should be sufficient to cover the payment of interest due on the notes for up to three semi-annual interest payment periods (and certain premium payments due under the insurance policy). If for any reason any currency inconvertibility/non-transfer event were to continue for a period

longer than eighteen months, during which time we would otherwise be required to make payments under the notes, we might default on our obligation to pay interest and/or principal on the notes.

We will not be discharged from our obligations under the notes upon payment of interest on the notes with funds provided by Sovereign under the insurance policy (other than with funds constituting the initial refundable premium made to the trustee on the closing date for deposit in the reserve account). Upon the occurrence of such event, (i) Sovereign shall be subrogated to the rights of the noteholders with respect to such payment, and (ii) the notes shall be deemed to remain outstanding at any time that amounts remain due and owing to Sovereign under the insurance policy.

The insurance policy is issued to the trustee for the benefit of the noteholders. Nothing in the insurance policy, express or implied, shall give to any noteholder any legal or equitable right, remedy or claim thereunder.

Delays in receipt of payments under the insurance policy for discontinuous periods of payment restrictions

Under the insurance policy, Sovereign has up to 180 days to make a payment to the trustee from the date a claim is filed. In order to facilitate timely payments to noteholders as a result of this waiting period, six months of scheduled interest on the notes was paid by Sovereign to the trustee and the trustee deposited such amount in the reserve account on the issue date. As long as the insurance policy is in place, we will replenish the reserve account following the withdrawal of funds from such account to an amount equal to U.S.$21,875,000 and the interest that would accrue on such amount at the note rate plus 1.0% during a 30-day period. Sovereign has no obligation to replenish amounts in the reserve account. Upon a subordination event, however, we may instruct the trustee to withdraw funds in the reserve account and pay to us such funds as we may request. In the event that a currency inconvertibility/non-transfer event occurs with respect to discontinuous payment dates, the liquidity function provided by the deposit in the reserve account to make the first such payment promptly may not be available with respect to subsequent periods if we fail to replenish the reserve account, and receipt of payments under the insurance policy by the trustee will be subject to the waiting period described above for Sovereign to pay such claims to the trustee.

Conditional nature of Sovereign s obligation to pay under the insurance policy

Sovereign s obligation to make payments under the insurance policy is subject to certain conditions, limitations and exclusions, including, but not limited to:

- the requirement that we generally either attempt and fail to convert *reais* to U.S. dollars or attempt and fail to transfer U.S. dollars outside Brazil to the trustee in New York;
- the filing by the trustee, as the insured party under the insurance policy, of a claim with Sovereign; and
- the provision of certain information by the trustee and us to Sovereign within the time periods proscribed by the insurance policy in connection with the filing of the claim with Sovereign.

The failure to file a claim, if not waived by Sovereign, may free Sovereign from any obligation to make any payment under the insurance policy.

In addition, Sovereign may in certain circumstances cancel the insurance policy and exclude the payment of a claim thereunder. For further information on these circumstances, see The Insurers and the Insurance Policy .

Sovereign s right of subrogation and reimbursement

In the event that Sovereign pays a claim under the insurance policy (other than the amount initially paid to fund the initial deposit in the reserve account on the issue date) to the trustee and is not otherwise reimbursed by us, Sovereign shall receive an assignment from the trustee, and be subrogated to the noteholders receipt of the scheduled interest payments due on the notes in accordance with the indenture and/or any premium payments, as applicable, which were the subject of the claim under the insurance policy. If at any time the trustee or Sovereign

shall obtain recoveries in respect of a loss paid under the insurance policy or the trustee receives any payment from us under the indenture after the payment of a claim under the policy by Sovereign, the amounts of any such recoveries or payments will be applied, prior to any payment on the notes, but with respect to any payments received by the trustee, after any required payments to the trustee under the indenture in respect of fees, expenses or indemnification, first, to the full repayment of compensation paid by Sovereign to the trustee; second, to the full payment of any loss adjustment expenses incurred by Sovereign and associated with the loss; third, to the payment of interest on the foregoing amounts equal to the interest rate on the notes; fourth, to the payment of all unpaid premiums due under the insurance policy; and fifth, to payment to the trustee of uninsured loss suffered by the trustee. Sovereign shall be entitled to be so reimbursed in respect of such claim until such time as Sovereign has received payment in full of all such amounts due to it. Accordingly, Sovereign will receive such amounts prior to the noteholders receiving payments due under the notes. See The Insurers and the Insurance Policy .

Limitation on timing of payments under the insurance policy

The insurance policy requires that Sovereign make payments in respect of a claim thereunder in accordance with the original payment schedule for interest on the notes. Accordingly, in the event of an acceleration of the notes prior to the maturity thereof during certain events, Sovereign will not be obligated to make such payments immediately upon acceleration.

The notes will initially be represented by a global note, as described in Form, Denomination and Transfer . Payments of principal and interest on the global note will be made to the registered holders thereof in each case by wire transfer of immediately available funds. It is expected that the registered holders of global notes will receive the funds for distribution to the holders of beneficial interests in the global notes. Neither we nor the trustee will have any responsibility or liability for any of the records of, or payments made by, DTC or its nominees or Euroclear or Clearstream, Luxembourg. See Form, Denomination and Transfer .

If any date for a payment of principal or interest or redemption is not a business day in a city where payment is made or in the city of any paying agent, payment will be made on the next business day in that city unless such day falls in the next calendar month, in which case payment will be made on the preceding business day. No interest on the notes will accrue as a result of this delay in payment.

We have appointed the trustee as a paying agent to receive payment of the principal amount of and interest on the notes. We will be required to make all payments of principal of and interest and other amounts on the notes into a payment account maintained by the trustee by 11:00 a.m. (New York time) on the payment date therefor and otherwise in accordance with the terms of the Indenture.

All payments made by Sovereign under the insurance policy will be paid directly into the payment account.

Subject to applicable law, the trustee and the paying agents will pay to us upon request any monies held by them for the payment of principal or interest that remain unclaimed for two years after becoming due and payable. Thereafter, noteholders entitled to these monies must seek payment from us as unsecured general creditors and not from the trustee or the paying agents. Before any such funds are returned to us, the trustee or the paying agents will publish a notice that these monies remain unclaimed.

THIS EXCHANGE OFFER

Purpose and Terms of this Exchange Offer

The existing notes were originally sold in October 2003 in an offering that was exempt from the registration requirements of the Securities Act. As of the date of this prospectus, U.S.$500 million aggregate principal amount of existing notes is outstanding. In connection with the sale of the existing notes, we entered into a registration rights agreement in which we agreed to file with the SEC a registration statement with respect to the exchange of existing notes for exchange notes and to use our best efforts to cause the registration statement to remain effective until the closing of the exchange offer. We have filed a copy of the registration rights agreement as an exhibit to the registration statement of which this prospectus is a part. This exchange offer satisfies our contractual obligations under the registration rights agreement.

We are offering, upon the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal, to exchange up to U.S.$500 million aggregate principal amount of existing notes for U.S.$500 million aggregate principal amount of notes which have been registered under the Securities Act. We will accept for exchange existing notes that you properly tender prior to the expiration date and do not withdraw in accordance with the procedures described below. You may tender your existing notes in whole or in part in integral multiples of U.S.$10,000 principal amount.

This exchange offer is not conditioned upon the tender for exchange of any minimum aggregate principal amount of existing notes. We reserve the right in our sole discretion to purchase or make offers for any existing notes that remain outstanding after the expiration date or, as detailed under the caption "   Conditions to this Exchange Offer", to terminate this exchange offer and, to the extent permitted by applicable law, purchase existing notes in the open market, in privately negotiated transactions or otherwise. The terms of any of these purchases or offers could differ from the terms of this exchange offer. There will be no fixed record date for determining the registered holders of the existing notes entitled to participate in the exchange offer.

Only a registered holder of the existing notes (or the holder's legal representative or attorney-in-fact) may participate in the exchange offer. Holders of existing notes do not have any appraisal or dissenters' rights in connection with this exchange offer. Existing notes which are not tendered in, or are tendered but not accepted in connection with, this exchange offer will remain outstanding. We intend to conduct this exchange offer in accordance with the provisions of the registration rights agreement and the applicable requirements of the Securities Act and SEC rules and regulations.

If we do not accept any tendered existing notes for exchange because of an invalid tender, the occurrence of other events set forth in this prospectus or otherwise, we will return certificates for any unaccepted existing notes, without expense, to the tendering holder promptly after the expiration date.

If you tender existing notes in connection with this exchange offer, you will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of existing notes in connection with this exchange offer. We will pay all charges and expenses, other than certain applicable taxes described below, in connection with this exchange offer. See "   Fees and Expenses".

Unless the context requires otherwise, the term   holder   with respect to this exchange offer means any person in whose name the existing notes are registered on our books or any other person who has obtained a properly completed bond power from the registered holder, or any participant in DTC or Euroclear/Clearstream, as applicable, whose name appears on a security position listing as a holder of existing notes (including, for purposes of this exchange offer, beneficial interests in the existing notes held by direct or indirect participants and existing notes held in definitive form).

WE MAKE NO RECOMMENDATION TO YOU AS TO WHETHER YOU SHOULD TENDER OR REFRAIN FROM TENDERING ALL OR ANY PORTION OF YOUR EXISTING NOTES INTO THIS EXCHANGE OFFER. IN ADDITION, NO ONE HAS BEEN AUTHORIZED TO MAKE THIS RECOMMENDATION. YOU MUST MAKE YOUR OWN DECISION WHETHER TO TENDER INTO THIS

EXCHANGE OFFER AND, IF SO, THE AGGREGATE AMOUNT OF EXISTING NOTES TO TENDER AFTER READING THIS PROSPECTUS AND THE LETTER OF TRANSMITTAL AND CONSULTING WITH YOUR ADVISORS, IF ANY, BASED ON YOUR FINANCIAL POSITION AND REQUIREMENTS.

Expiration Date; Extensions; Amendments

The term "expiration date" means 5:00 p.m., New York City time, for the DTC portion, and 5:00 p.m., London time, for the Euroclear/Clearstream portion on October 11, 2004; unless we extend this exchange offer, in which case the term "expiration date" shall mean the latest date and time to which we extend this exchange offer.

We expressly reserve the right, at any time or from time to time, so long as applicable law allows:

- to delay our acceptance of existing notes for exchange;
- to terminate or amend this exchange offer if, in the opinion of our counsel, completing the exchange offer would violate any applicable law, rule or regulation or any SEC staff interpretation; and
- to extend the expiration date and retain all existing notes tendered into this exchange offer, subject, however, to your right to withdraw your tendered existing notes as described under " Withdrawal Rights".

If this exchange offer is amended in a manner that we think constitutes a material change, or if we waive a material condition of this exchange offer, we will promptly disclose the amendment by means of a prospectus supplement that will be distributed to the registered holders of the existing notes, and we will extend this exchange offer to the extent required by Rule 14e-1 under the Exchange Act.

We will promptly follow any delay in acceptance, termination, extension or amendment by oral or written notice of the event to the exchange agent followed promptly by oral or written notice to the registered holders. Should we choose to delay, extend, amend or terminate the exchange offer, we will have no obligation to publish, advertise or otherwise communicate this announcement, other than by making a timely release to an appropriate news agency.

Procedures For Tendering The Existing Notes

Upon the terms and the conditions of this exchange offer, we will exchange, and we will issue to the exchange agent, exchange notes for existing notes that have been validly tendered and not validly withdrawn promptly after the expiration date. The tender by a holder of any existing notes and our acceptance of that holder s notes will constitute a binding agreement between us and that holder subject to the terms and conditions set forth in this prospectus and the accompanying letter of transmittal.

Valid Tender

We will deliver exchange notes in exchange for existing notes that have been validly tendered and accepted for exchange pursuant to this exchange offer. Except as set forth below, you will have validly tendered your existing notes pursuant to this exchange offer if the exchange agent receives prior to the expiration date at the address listed under the caption " Exchange Agent:"

- a properly completed and duly executed letter of transmittal, with any required signature guarantees, including all documents required by the letter of transmittal; or
- if the notes are tendered in accordance with the book-entry procedures set forth below, the tendering note holder may transmit an agent s message (described below) instead of a letter of transmittal.

In addition, on or prior to the expiration date:

- the exchange agent must receive the certificates for the notes along with the letter of transmittal; or

- the exchange agent must receive a timely book-entry confirmation of a book-entry transfer of the tendered notes into the exchange agent s account at DTC or Euroclear/Clearstream, as applicable, according to the procedure for book-entry transfer described below, along with a letter of transmittal or an agent s message in lieu of the letter of transmittal; or

- the holder must comply with the guaranteed delivery procedures described below.

Accordingly, we may not make delivery of exchange notes to all tendering holders at the same time since the time of delivery will depend upon when the exchange agent receives the existing notes, book-entry confirmations with respect to existing notes and the other required documents.

The term "book-entry confirmation" means a timely confirmation of a book-entry transfer of existing notes into the exchange agent s account at DTC or Euroclear/Clearstream, as applicable. The term "agent's message" means a message, transmitted by DTC or Euroclear/Clearstream, as applicable, to and received by the exchange agent and forming a part of a book-entry confirmation, which states that DTC or Euroclear/Clearstream, as applicable, has received an express acknowledgment from the tendering participant stating that the participant has received and agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against the participant.

If you tender less than all of your existing notes, you should fill in the amount of existing notes you are tendering in the appropriate box on the letter of transmittal or, in the case of a book-entry transfer, so indicate in an agent s message if you have not delivered a letter of transmittal. The entire amount of existing notes delivered to the exchange agent will be deemed to have been tendered unless otherwise indicated.

If any letter of transmittal, endorsement, bond power, power of attorney, or any other document required by the letter of transmittal is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, that person should so indicate when signing, and, unless waived by us, you must submit evidence satisfactory to us, in our sole discretion, of that person s authority to act. For existing notes registered in two or more names, all named holders must sign the letter of transmittal and related tender documents. Tenders from persons other than the registered holder of existing notes will only be accepted if the customary transfer requirements, including any applicable transfer taxes, are fulfilled.

If you are a beneficial owner of existing notes that are held by or registered in the name of a broker, dealer, commercial bank, trust company or other nominee or custodian, we urge you to contact this entity promptly if you wish to participate in this exchange offer.

THE METHOD OF DELIVERY OF EXISTING NOTES, THE LETTER OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS IS AT YOUR OPTION AND AT YOUR SOLE RISK, AND DELIVERY WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY THE EXCHANGE AGENT. INSTEAD OF DELIVERY BY MAIL, WE RECOMMEND THAT YOU USE AN OVERNIGHT OR HAND DELIVERY SERVICE. IN ALL CASES, YOU SHOULD ALLOW SUFFICIENT TIME TO ASSURE TIMELY DELIVERY AND YOU SHOULD OBTAIN PROPER INSURANCE. DO NOT SEND ANY LETTER OF TRANSMITTAL OR EXISTING NOTES TO BRADESCO. YOU MAY REQUEST YOUR BROKER, DEALER, COMMERCIAL BANK, TRUST COMPANY OR NOMINEE TO EFFECT THESE TRANSACTIONS FOR YOU.

Book-Entry Transfer

Holders who are participants in DTC tendering by book-entry transfer must execute the exchange through the Automated Tender Offer Program or ATOP at DTC, and holders who are participants in the Euroclear/Clearstream, tendering by book-entry transfer must follow the standard operating procedures of Euroclear/Clearstream on or prior to the expiration date. DTC or Euroclear/Clearstream, as the case may be, will verify this acceptance and execute a book-entry transfer of the tendered Certificates into the exchange agent s account at DTC or Euroclear/Clearstream, as applicable. DTC or Euroclear/Clearstream, as applicable, will then send to the exchange agent a book-entry confirmation including an agent s message confirming that DTC or Euroclear/Clearstream, as applicable, has received an express acknowledgment from the holder

that the holder has received and agrees to be bound by the letter of transmittal and that the exchange agent and we may enforce the letter of transmittal against such holder. The book-entry confirmation must be received by the exchange agent in order for the exchange to be effective.

The exchange agent will make a request to establish an account with respect to the existing notes at DTC or Euroclear/Clearstream, as applicable, for purposes of this exchange offer within two business days after the date of this prospectus unless the exchange agent already has established an account with DTC or Euroclear/Clearstream, as applicable, suitable for this exchange offer.

Any financial institution that is a participant in DTC's or Euroclear's/Clearstream s book-entry transfer facility system, as applicable, may make a book-entry delivery of the existing notes by causing DTC or Euroclear/Clearstream, to transfer these existing notes into the exchange agent s account at DTC or Euroclear/Clearstream, in accordance with DTC's or Euroclear's/Clearstream's procedures for transfers, as applicable.

If the tender is not made through ATOP or in accordance with the standard operating procedures of Euroclear or Clearstream, as applicable, you must deliver the existing notes and the applicable letter of transmittal, or a facsimile of the letter of transmittal, properly completed and duly executed, with any required signature guarantees, or an agent s message in lieu of a letter of transmittal, and any other required documents to the exchange agent at its address listed under the caption " Exchange Agent" prior to the expiration date, or you must comply with the guaranteed delivery procedures set forth below in order for the tender to be effective.

Delivery of documents to DTC or to Euroclear/Clearstream, as applicable, does not constitute delivery to the exchange agent and book-entry transfer to DTC or to Euroclear/Clearstream, in accordance with its respective procedures does not constitute delivery of the book-entry confirmation to the exchange agent.

Signature Guarantees

Signature guarantees on a letter of transmittal or a notice of withdrawal, as the case may be, are only required if:

- a certificate for existing notes is registered in a name other than that of the person surrendering the certificate; or
- a registered holder completes the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" in the letter of transmittal. See "Instructions" in the letter of transmittal.

In the case of either of the cases outlined above, you must duly endorse these certificates for existing notes or they must be accompanied by a properly executed bond power, with the endorsement or signature on the bond power and on the letter of transmittal or the notice of withdrawal, as the case may be, guaranteed by a firm or other entity identified in Rule 17Ad-15 under the Exchange Act as an "eligible guarantor institution" that is a member of a medallion guarantee program, unless these notes are surrendered on behalf of that eligible guarantor institution. An "eligible guarantor institution" includes the following:

- a bank;
- a broker, dealer, municipal securities broker or dealer or government securities broker or dealer;
- a credit union;
- a national securities exchange, registered securities association or clearing agency; or
- a savings association.

Guaranteed Delivery

If you desire to tender existing notes into this exchange offer and:

- the certificates for the existing notes are not immediately available;
- time will not permit delivery of the existing notes and all required documents to the exchange agent on or prior to the expiration date; or
- the procedures for book-entry transfer cannot be completed on a timely basis,

you may nevertheless tender the existing notes, provided that you comply with all of the following guaranteed delivery procedures:

- tender is made by or through an eligible guarantor institution;
- prior to the expiration date, the exchange agent receives from the eligible guarantor institution a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form accompanying the letter of transmittal. This eligible guarantor institution may deliver the Notice of Guaranteed Delivery by hand or by facsimile or deliver it by mail to the exchange and must include a guarantee by this eligible guarantor institution in the form in the Notice of Guaranteed Delivery; and
- within three New York Exchange trading days after the date of execution of the Notice of Guaranteed Delivery, the exchange agent must receive:
  - the certificates, or book-entry confirmation, representing all tendered existing notes, in proper form for transfer;
  - a properly completed and duly executed letter of transmittal or facsimile of the letter of transmittal or, in the case of a book-entry transfer, an agent s message in lieu of the letter of transmittal, with any required signature guarantees; and
  - any other documents required by the letter of transmittal.

Determination of Validity

- We have the right, in our sole discretion, to determine all questions as to the form of documents, validity, eligibility, including time of receipt, and acceptance for exchange of any tendered existing notes. Our determination will be final and binding on all parties.
- We reserve the absolute right, in our sole and absolute discretion, to reject any and all tenders of existing notes that we determine are not in proper form.
- We reserve the absolute right, in our sole and absolute discretion, to refuse to accept for exchange a tender of existing notes if our counsel advises us that the tender is unlawful.
- We also reserve the absolute right, so long as applicable law allows, to waive any of the conditions of this exchange offer or any defect or irregularity in any tender of existing notes of any particular holder whether or not similar defects or irregularities are waived in the case of other holders.
- Our interpretation of the terms and conditions of this exchange offer, including the letter of transmittal and the instructions relating to us, will be final and binding on all parties.

- We will not consider the tender of existing notes to have been validly made until all defects or irregularities with respect to the tender have been cured or waived.

- Neither we, our affiliates, the exchange agent, and any other person will be under any duty to give any notification of any defects or irregularities in tenders and will not incur any liability for failure to give this notification.

Acceptance for Exchange for the Exchange Notes

Upon satisfaction or waiver of all of the conditions of the exchange offer, we will accept, promptly after the expiration date, all existing notes properly tendered and will issue the exchange notes promptly after acceptance of the existing notes. See Conditions to this Exchange Offer . Subject to the terms and conditions of this exchange offer, we will be deemed to have accepted for exchange, and exchanged, existing notes validly tendered and not withdrawn as, if and when we give oral or written notice to the exchange agent, with any oral notice promptly confirmed in writing by us, of our acceptance of these existing notes for exchange in this exchange offer. The exchange agent will act as our agent for the purpose of receiving tenders of existing notes, letters of transmittal and related documents, and as agent for tendering holders for the purpose of receiving existing notes, letters of transmittal and related documents and transmitting exchange notes to holders who validly tendered existing notes. The exchange agent will make the exchange promptly after the expiration date. If for any reason whatsoever:

- the acceptance for exchange or the exchange of any existing notes tendered in this exchange offer is delayed, whether before or after our acceptance for exchange of existing notes;

- we extend this exchange offer; or

- we are unable to accept for exchange or exchange existing notes tendered in this exchange offer;

then, without prejudice to our rights set forth in this prospectus, the exchange agent may, nevertheless, on our behalf and subject to Rule 14e-1(c) under the Exchange Act, retain tendered existing notes and these existing notes may not be withdrawn unless tendering holders are entitled to withdrawal rights as described under Withdrawal Rights .

Interest

For each existing note that we accept for exchange, the existing note holder will receive a new note having a principal amount and final distribution date equal to that of the surrendered existing note. If we complete this exchange offer before October 24, 2004, interest on the new notes will accrue from April 24, 2004. If we complete this exchange offer on or after October 24, 2004, interest on the new notes will accrue from October 24, 2004.

Resales of the Exchange Notes

Based on interpretations by the staff of the SEC set forth in no-action letters issued to third parties, we believe that the exchange notes may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act provided that:

- you acquire any new note in the ordinary course of your business;

- you are not participating, do not intend to participate, and have no arrangement or understanding with any person to participate, in the distribution of the exchange notes;

- you are not a broker-dealer who purchased outstanding notes directly from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act; and

- you are not an "affiliate" (as defined in Rule 405 under the Securities Act) of Bradesco.

If our belief is inaccurate and you transfer any new note without delivering a prospectus meeting the requirements of the Securities Act or without an exemption from registration of your notes from these requirements, you may incur liability under the Securities Act. We do not assume any liability or indemnify you against any liability under the Securities Act.

Each broker-dealer that is issued exchange notes for its own account in exchange for notes that it acquired as a result of market-making or other trading activities must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the exchange notes. A broker-dealer who acquired existing notes under these circumstances may use this prospectus for an offer to resell, resale or other retransfer of the exchange notes.

Withdrawal Rights

Except as otherwise provided in this prospectus, you may withdraw your tender of existing notes at any time prior to the expiration date.

- In order for a withdrawal to be effective, you must deliver a written, telegraphic or facsimile transmission of a notice of withdrawal to the exchange agent at any of its addresses listed under the caption " Exchange Agent" prior to the expiration date.
- Each notice of withdrawal must specify:
  - the name of the person who tendered the existing notes to be withdrawn;
  - the aggregate principal amount of existing notes to be withdrawn; and
  - if certificates for these existing notes have been tendered, the name of the registered holder of the notes as set forth on the existing notes, if different from that of the person who tendered these existing notes.

- If you have delivered or otherwise identified to the exchange agent certificates for existing notes, the notice of withdrawal must specify the serial numbers on the particular certificates for the existing notes to be withdrawn and the signature on the notice of withdrawal must be guaranteed by an eligible guarantor institution, except in the case of existing notes tendered for the account of an eligible guarantor institution.

- If you have tendered existing notes in accordance with the procedures for book-entry transfer listed in " Procedures for Tendering the Existing Notes   Book-Entry Transfer ", the notice of withdrawal must specify the name and number of the account at DTC or at Euroclear/Clearstream, as applicable, to be credited with the withdrawal of existing notes and must otherwise comply with the procedures of DTC or at Euroclear/Clearstream, as applicable.

- You may not rescind a withdrawal of your tender of existing notes.

- We will not consider existing notes properly withdrawn to be validly tendered for purposes of this exchange offer. However, you may retender existing notes at any subsequent time prior to the expiration date by following any of the procedures described above in " Procedures for Tendering the Existing Notes".

- We, in our sole discretion, will determine all questions as to the validity, form and eligibility, including time of receipt, of any withdrawal notices. Our determination will be final and binding on all parties. We, our affiliates, the exchange agent and any other person have no duty to give any notification of any defects or irregularities in any notice of withdrawal and will not incur any liability for failure to give any such notification.

- We will return to the holder any existing notes which have been tendered but which are withdrawn promptly after the withdrawal.

Conditions to this Exchange Offer

Notwithstanding any other provisions of this exchange offer or any extension of this exchange offer, we will not be required to accept for exchange, or to exchange, any existing notes. We may terminate this exchange offer, whether or not we have previously accepted any existing notes for exchange, or we may waive any conditions to or amend this exchange offer, if we determine in our sole and absolute discretion that the exchange offer would violate applicable law or any applicable interpretation of the staff of the SEC.

Exchange Agent

We have appointed The Bank of New York as exchange agent for this exchange offer. You should direct all deliveries of the letters of transmittal and any other required documents, questions, requests for assistance and requests for additional copies of this prospectus or of the letters of transmittal to the exchange agent as follows:

For the DTC portion of the Exchange Offer

By Mail, Hand and Courier:

The Bank of New York
Corporate Trust Operations, Reorganization Unit
101 Barclay Street   7 East
New York, New York 10286
Attention: Mr. Kin Lau

By Facsimile: (212) 815 3750
Confirm by telephone: (212) 298 1915

For the Euroclear/Clearstream portion of the Exchange Offer

By Mail, Hand and Courier:

The Bank of New York
Lower Ground Floor
30 Cannon Street
London EC4M 6XH
Attention: Ms. Julie McCarthy / Ms. Amanda Smith

By Facsimile: 44 207 964 6369/7294
Confirm by telephone: 44 207 964 6513/7235

Delivery to other than the above address or facsimile number will not constitute a valid delivery.

Fees and Expenses

We will bear the expenses of soliciting tenders of the existing notes. We will make the initial solicitation by mail; however, we may decide to make additional solicitations personally or by telephone or other means through our officers, agents, directors or employees.

We have not retained any dealer-manager or similar agent in connection with this exchange offer and we will not make any payments to brokers, dealers or others soliciting acceptances of this exchange offer. We have agreed to pay the exchange agent and note trustee reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses in connection with this exchange offer. We will also pay brokerage houses and other custodians, nominees and fiduciaries the reasonable out-of-pocket expenses they incur in forwarding copies of this prospectus and related documents to the beneficial owners of existing notes, and in handling or tendering for their customers.

Transfer Taxes

Holders who tender their existing notes will not be obligated to pay any transfer taxes in connection with the exchange, except that if:

- you want us to deliver exchange notes to any person other than the registered holder of the existing notes tendered;
- you want us to issue the exchange notes in the name of any person other than the registered holder of the existing notes tendered; or

- a transfer tax is imposed for any reason other than the exchange of existing notes in connection with this exchange offer;

then you will be liable for the amount of any transfer tax, whether imposed on the registered holder or any other person. If you do not submit satisfactory evidence of payment of such transfer tax or exemption from such transfer tax with the letter of transmittal, the amount of this transfer tax will be billed directly to the tendering holder.

Consequences of Exchanging or Failing to Exchange Existing Notes

Holders of existing notes who do not exchange their existing notes for exchange notes in this exchange offer will continue to be subject to the provisions of the agreements regarding transfer and exchange of the existing notes and the restrictions on transfer of the existing notes set forth on the legend on the existing notes. In general, the existing notes may not be offered or sold, unless registered under the Securities Act, except under an exemption from, or in a transaction not subject to the registration requirements of the Securities Act and applicable state securities laws. We do not currently anticipate that we will register the existing notes under the Securities Act except with respect to this exchange offer.

Based on interpretations by the staff of the SEC, as detailed in no-action letters issued to third parties, we believe that exchange notes issued in this exchange offer in exchange for existing notes may be offered for resale, resold or otherwise transferred by the holders (other than any holder that is an affiliate of our company within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that the exchange notes are acquired in the ordinary course of the holders business and the holders have no arrangement or understanding with any person to participate in the distribution of these exchange notes. However, we do not intend to request the SEC to consider, and the SEC has not considered, the exchange offer in the context of a no-action letter and we cannot guarantee that the staff of the SEC would make a similar determination with respect to the exchange offer.

Each holder must acknowledge that it is not engaged in, and does not intend to engage in, a distribution of exchange notes and has no arrangement or understanding to participate in a distribution of exchange notes. If any holder is an affiliate of our company, is engaged in or intends to engage in or has any arrangement or understanding with respect to the distribution of the exchange notes to be acquired pursuant to the exchange offer, the holder:

- could not rely on the applicable interpretations of the staff of the SEC, and

- must comply with the registration and prospectus delivery requirements of the Securities Act.

Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where the outstanding notes were acquired by the broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. See Plan of Distribution .

In addition, to comply with state securities laws, the exchange notes may not be offered or sold in any state unless they have been registered or qualified for sale in the state or an exemption from registration or qualification is available and is complied with. The offer and sale of the exchange notes to qualified institutional buyers (as defined under Rule 144A of the Securities Act) is generally exempt from registration or qualification under state securities laws. We currently do not intend to register or qualify the sale of the exchange notes in any state where an exemption from registration or qualification is required and not available.

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USE OF PROCEEDS

We will receive no proceeds from the exchange of existing notes for exchange notes. The issuance of the exchange notes will not result in any change in our aggregate indebtedness. The net proceeds from the existing notes was approximately U.S.$490,340,000 (after deducting fees, commissions and other expenses). Those proceeds were used for general corporate purposes.

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EXCHANGE CONTROLS AND FOREIGN EXCHANGE RATES

The *real* was introduced in July 1994, and from that time through March 1995 the *real* appreciated against the U.S. dollar. In March 1995 the Central Bank introduced exchange rate policies that established a trading band within which the *real*-U.S. dollar exchange rate could fluctuate, allowing the gradual devaluation of the *real* against the U.S. dollar. In January 1999, in response to increased pressure on Brazil s foreign currency reserves, the Central Bank allowed the *real* to float freely.

During 1999 the *real* experienced high volatility and suffered a sharp decline against the U.S. dollar. During 2000, 2001 and 2002 the *real* continued to decline against the U.S. dollar, but during 2003 it appreciated against the U.S. dollar. Under the current free convertibility exchange system, the *real* may undergo further devaluation or may appreciate against the U.S. dollar and other currencies.

The following table sets forth the period-end, average, high and low noon buying rate reported by the Federal Reserve Bank, expressed in *reais* per U.S. dollars for the periods and dates indicated.

Noon Buying Rate for U.S. dollars
R$ per U.S.$1.00

Period	Period-End	Average(1)	High	Low
1999	R$1.8090	R$1.8135	R$2.2000	R$1.2074
2000	1.9510	1.8330	1.9840	1.7230
2001	2.3120	2.3220	2.7850	1.9720
2002	3.5400	2.9420	3.8030	2.3260
2003	2.8950	3.0954	3.6590	2.8230
December	2.8950		2.9450	2.8700
2004				
January	2.9240		2.9450	2.8070
February	2.9150		2.9720	2.9040
March	2.9070		2.9400	2.8680
April	2.9440		2.9590	2.8740
May	3.1110		3.2085	2.9620
June	3.1050		3.1620	3.1030

(1) Average of the month-end rates beginning with December of previous period through last month of period indicated.
Source: Federal Reserve Bank of New York.

On July 27, 2004, the noon buying rate reported by the Federal Reserve Bank of New York was R$3.063 to U.S.$1.00.

The following table sets forth the period-end, average, high and low selling rate reported by the Central Bank at closing, expressed in *reais* per U.S. dollars for the periods and dates indicated.

Closing Rate Selling Rate for U.S. dollars
R$ per U.S.$1.00

Period	Period-End	Average[(1)]	High	Low
1999	R$1.7890	R$ 1.8019	R$ 2.1647	R$ 1.2078
2000	1.9554	1.8313	1.9847	1.7234
2001	2.3204	2.3226	2.8007	1.9357
2002	3.5333	2.9461	3.9552	2.2709
2003	2.8892	3.0964	3.6623	2.8219
December	2.8892		2.9434	2.8883
2004				
January	2.9409		2.9409	2.8022
February	2.9138		2.9878	2.9042
March	2.9086		2.9410	2.8752
April	2.9447		2.9522	2.8743
May	3.1291		3.2051	2.9569
June	3.1075		3.1651	3.1030

(1) Average of the month-end rates beginning with December of previous period through last month of period indicated.

Source: Central Bank.

On July 27, 2004, the U.S. dollar selling rate reported by the Central Bank at the close of the day was R$3.067 to U.S.$1.00.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the computation of and our ratio of earnings to fixed charges for each year in the four-year period ended December 31, 2003. The ratio of earnings to fixed charges covers continuing operations, and for this purpose (a) earnings consist of income (loss) before income taxes plus fixed charges and (b) fixed charges consist of interest expense on all debt (including capitalized interest), amortization of defined financing costs and a percentage of rental expense deemed to be interest.

	For the Year Ended December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
	(R$ in millions, except ratios)				
Earnings:					
Income from continuing operations before income taxes and minority interest	R$2,656	R$2,288	R$2,838	R$2,234	R$722
Equity in earnings (losses) of unconsolidated companies	(60)	(150)	(109)	(145)	173
Distributed income of equity investees	85	81	17	74	18
Interest expense	9,717	14,927	9,159	6,512	9,216
Appropriated portion (1/3) of rent expense	91	65	53	42	47
Earnings available for fixed charges	**12,489**	**17,211**	**11,958**	**8,717**	**10,176**
Fixed charges					
Interest expense	9,717	14,927	9,159	6,512	9,216
Appropriated portion (1/3) of rent expense	91	65	53	42	47
Total fixed charges	**R$9,808**	**R$14,992**	**R$9,212**	**R$6,554**	**R$9,263**
Ratio of earnings to fixed charges	**1.27x**	**1.15x**	**1.30x**	**1.33x**	**1.10x**

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CAPITALIZATION

The following table sets forth our capitalization at May 31, 2004, as derived from our unaudited consolidated financial statements prepared in accordance with accounting practices adopted in Brazil. This table should be read in conjunction with Selected Financial Information and Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements as at and for the year ended December 31, 2003, prepared in accordance with U.S. GAAP and included elsewhere in this prospectus.

On December 17, 2003, a special stockholders meeting approved a proposal submitted by our Board of Directors to undertake a reverse stock split of each of our common shares and our preferred shares. In both cases, the reverse stock split involves the issue of one new share for every 10,000 existing shares per one new share. The reverse stock split was approved by the Central Bank on January 6, 2004. As of March 19, 2004, when the period for our stockholders to group their holdings (by type) in multiple lots of 10,000 ended, the remaining fractional shares were separated, grouped in whole numbers and sold in an auction held at the São Paulo Stock Exchange on March 31, 2004. The proceeds of the sale were remitted to the former shareholders. As a result, as of March 19, 2004, our corporate capital of R$7,000,000,000 is represented by 158,587,941 shares, with no par value, of which 79,894,005 will be common shares and 78,693,936 will be preferred shares.

There has been no material change to our capitalization since May 31, 2004.

	At May 31, 2004	
	(U.S.$ in millions) [1]	*(R$ in millions, except %)*
Long-term debt [2]		
Deposits	4,660	14,583
Funds from acceptance and issuance of securities	890	2,785
Borrowings and onlendings	1,754	5,488
Other liabilities	3,243	10,147
Total	**10,547**	**33,003**
Secured and guaranteed long-term debt [3]		
Federal funds purchased and securities sold under agreements to repurchase [3]	422	1,321
Total long-term debt	**10,969**	**34,324**
Provision related to insurance, private pension plans and special savings	8,109	25,373
Deferred income	10	31
Minority interest	21	65
Stockholders' equity [4]	4,255	13,313
Total capitalization [5]	**23,364**	**73,106**
Risk-based capital ratios		
Risk-based capital ratio [6]		18.0%
Risk-based capital ratio (consolidated total basis) [7]		15.7%

(1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R$3.1291 per U.S.$1.00, the Central Bank closing commercial selling exchange rate on May 31, 2004. The translation of Brazilian currency amounts into U.S. dollars is for indicative purposes only; it should not be construed as a representation that amounts of *reais* could be converted into or settled in U.S. dollars at such rate or any other.

(2) Unsecured and not guaranteed long-term debt.

(3) Secured by federal funds sold and securities purchased under agreements to resell.

(4) Retained earnings available for distribution are restricted to earnings recorded in our consolidated financial statements prepared in accordance with accounting practices adopted in Brazil. At May 31, 2004, retained earnings available for distribution, net of treasury shares, were R$4,946 million.

(5) Total capitalization is equal to the sum of long-term debt, provision related to insurance, private pension plans and special savings, deferred income, minority interest and stockholders equity.

(6) Calculated based on CMN Resolution 2,099 and other applicable regulations and presented on a consolidated basis excluding our non-financial subsidiaries. See Regulation and Supervision Bank Regulations .

(7) Calculated based on CMN Resolution 2,723 and other applicable regulations and presented on a consolidated total basis including our non-financial subsidiaries. Since July 31, 2000, as required by CMN Resolution 2,723, we have also been required to measure our capital compliance on a consolidated total basis (which includes both our financial and non-financial subsidiaries). See Regulation and Supervision Bank Regulations .

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SELECTED FINANCIAL INFORMATION

You should read the following selected financial data in conjunction with Presentation of Financial Information and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

We have presented below selected financial information prepared in accordance with U.S. GAAP as of December 31, 2003, 2002, 2001, 2000 and 1999 and for the years ended December 31, 2003, 2002, 2001, 2000 and 1999. The selected U.S. GAAP financial information is derived from and should be read in conjunction with our audited consolidated financial statements prepared in accordance with U.S. GAAP. The report of our independent registered public accounting firm for the years ended December 31, 2003 and December 31, 2002 is included in this prospectus.

U.S. GAAP Presentation

The selected financial information set forth below has been derived from our consolidated financial statements, which have been prepared in accordance with U.S. GAAP.

This information is qualified in its entirety by reference to the U.S. GAAP financial statements and the notes thereto.

	Year ended December 31,					
	1999	2000	2001	2002	2003	2003
			(R$ in millions)			*(US$ in Millions)* [1]
Income Statement Data						
Net interest income	R$ 7,021	R$ 6,846	R$ 9,493	R$ 13,467	R$ 14,999	US$ 4,793
Provision for loan losses	(1,845)	(1,244)	(1,763)	(2,543)	(2,034)	(650)
Net interest income after provision for loan losses	5,176	5,602	7,730	10,924	12,965	4,143
Fee and commission income	2,100	2,593	2,866	2,894	3,463	1,107
Insurance premiums(2)	3,756	3,954	4,946	5,308	6,149	1,965
Pension plan income(2)	382	339	713	21	64	20
Equity in earnings (losses) of unconsolidated companies(3)	(173)	145	109	150	60	19
Other non-interest income(4)	479	2,103	972	(410)	1,373	439
Operating expenses(5)	(4,767)	(5,816)	(6,197)	(7,413)	(8,586)	(2,744)
Insurance claims	(2,388)	(2,511)	(3,251)	(3,614)	(4,333)	(1,385)
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(1,270)	(1,265)	(1,847)	(2,261)	(3,777)	(1,207)
Pension plan operating expenses	(249)	(378)	(459)	(370)	(637)	(203)
Insurance and pension plan selling expenses	(635)	(645)	(690)	(669)	(762)	(243)
Other non-interest expense(6)	(1,689)	(1,887)	(2,054)	(2,272)	(3,323)	(1,062)
Income before income taxes and minority interest	722	2,234	2,838	2,288	2,656	849
Income taxes	61	(417)	(550)	(161)	(346)	(111)
Change in accounting principle(7)				27		
Minority interest	(39)	(18)	(18)	(12)	(8)	(2)
Net income	744	1,799	2,270	2,142	2,302	736

	Year ended December 31,									
	1999		2000		2001		2002		2003	
Per Share Data(8)	**(R$, except numbers of shares)**	**(US$)**	**(R$, except numbers of shares)**	**(US$)**	**(R$, except numbers of shares)**	**(US$)**	**(R$, except numbers of shares)**	**(US$)**	**(R$, except numbers of shares)**	**(US$)** [1]
Net income per share(9)										
Common	R$ 5.80		R$ 13.09		R$ 15.11		R$ 14.23		R$ 14.35	US$ 4.59
Preferred	6.38		14.40		16.62		15.65		15.79	5.05
Dividends/interest on capital per share (10)										
Common	6.77	US$ 3.72	5.60	US$ 2.98	5.65	US$ 2.43	6.28	US$ 1.92	8.39	2.88
Preferred	7.35	4.09	6.23	3.28	6.21	2.68	6.93	2.11	9.24	3.17
Weighted average number of outstanding share										

Common	62,337,807	66,614,301	72,667,793	72,446,557	76,960,037
Preferred	59,997,794	64,382,670	70,580,416	70,982,956	75,860,162

	December 31,					
	1999	2000	2001	2002	2003	2003
	(R$ in millions)					*(US$ in millions)* [(1)]
Consolidated Balance Sheet Data						
Assets						
Cash and due from banks	R$ 717	R$ 1,155	R$ 1,715	R$ 2,725	R$ 2,473	US$ 790
Interest-earning deposits in other banks	1,136	1,299	2,051	2,379	5,170	1,652
Federal funds sold and securities purchased under agreements to resell	7,847	12,328	11,896	12,674	26,175	8,365
Brazilian Central Bank compulsory deposits	8,540	5,271	8,232	16,057	16,690	5,334
Trading and available for sale securities, at fair value	24,331	22,814	29,872	27,549	43,267	13,827
Securities held to maturity				4,001	3,265	1,044
Loans	28,019	39,439	44,994	52,324	54,795	17,511
Allowance for loan losses	(1,783)	(2,345)	(2,941)	(3,455)	(3,846)	(1,229)
Equity investees and other investments	428	447	521	550	295	94
Premises and equipment, net	2,630	2,680	2,727	2,993	3,106	993
Intangible assets, net	400	875	783	1,778	1,740	556
Other assets	7,771	7,889	8,445	10,300	13,200	4,219
Total assets	R$ 80,036	R$ 91,852	R$ 108,295	R$ 129,875	R$ 166,330	US$ 53,156
Liabilities						
Deposits	34,595	36,506	41,092	56,333	58,027	18,545
Federal funds purchased and securities sold under agreements to repurchase	7,814	12,114	14,037	7,633	27,490	8,785
Short-term borrowings	6,013	7,018	8,320	9,639	7,795	2,491
Long-term debt	8,336	9,060	11,499	13,389	20,093	6,421
Other liabilities	15,647	19,175	23,471	31,826	39,260	12,547
Total liabilities	72,405	83,873	98,419	118,820	152,665	48,789
Minority interest in consolidated subsidiaries	288	98	87	203	73	23
Shareholders' Equity						
Common shares(11)	1,933	2,408	2,638	2,638	3,525	1,127
Preferred shares(12)	1,867	2,338	2,562	2,562	3,475	1,110
Capital stock	3,800	4,746	5,200	5,200	7,000	2,237
Total shareholders' equity	7,343	7,881	9,789	10,852	13,592	4,344
Total liabilities and shareholders' equity	R$ 80,036	R$ 91,852	R$ 108,295	R$ 129,875	R$ 166,330	US$ 53,156
Average assets(13)	69,604	91,275	101,298	123,447	146,872	46,937
Average liabilities(13)	62,733	84,540	92,293	113,216	134,625	43,024
Average shareholders' equity(13)	6,574	6,596	8,861	10,015	12,138	3,879

(1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R$3.1291 = US$1.00, the Central Bank exchange rate of May 31, 2004. We used the exchange rate of May 31, 2004, instead of December 31, 2003, because there has been a material devaluation in the real U.S. dollar exchange rate since December 31, 2003. For more information, see Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Brazilian Economic Conditions . Such translations should not be construed as representation that the Brazilian *real* amounts presented have been or could be converted into U.S. dollars at that rate.

(2) Beginning January 1, 2003, we classify amounts received in relation to certain private retirement plans as income from insurance premiums. Amounts related to such private retirement plans from periods previous to 2003 have been reclassified to facilitate comparison. As a result, income from pension premiums decreased and income from insurance premiums increased by R$175 million for the period ending December 31, 1999, by R$253 million for the period ending December 31, 2000, by R$330 million for the period ending December 31, 2001 and by R$327 million for the period ending December 31, 2002. These reclassifications do not affect non-interest income, net income, or shareholders equity. The private retirement plans offer holders a guaranteed payment of benefits upon death.

(3) For more information on the results of equity investees, see Management s Discussion and Analysis of Financial Condition and Results of Operations and note 9 to our consolidated financial statements.

(4) Other non-interest income consists of trading income (losses), net realized gains on available for sale securities, net gain on foreign currency transactions and other non-interest income.

(5) Operating expenses consists of salaries and benefits and administrative expenses.

(6) Other non-interest expense consists of amortization of intangible assets, depreciation and amortization and other non-interest expense.

(7) For more information, see note 11 to our consolidated financial statements.

(8) Per share data reflects, on a retroactive basis, a split of our capital stock on December 22, 2000, in which we issued one new share for each five existing shares. On December 17, 2003, our Board of Directors approved a reverse split of our shares at a 10,000:1 share ratio, which was approved by our shareholders on March 10, 2004. As a result, we had 158,587,942 authorized and issued shares outstanding, no par value, as of December 31, 2003. The shares began trading in this form on the São Paulo Stock Exchange on March 22, 2004.

(9) For the purposes of calculating earnings per share in accordance with U.S. GAAP, preferred shares are treated in the same manner as common shares. Preferred shareholders are entitled to receive dividends per share in an amount 10% greater than the dividends per share paid to the common shareholders. None of our outstanding obligations are exchangeable for or convertible into equity securities. Our

diluted net income per share therefore does not differ from our net income per share. Accordingly, our basic and diluted earnings per share are equal in all periods presented. See note 2(u) to our consolidated financial statements.

(10) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at the exchange rate in effect on the date of payment of such dividend.

(11) Common shares outstanding, no par value: 79,836,526 authorized and issued at December 31, 2003; 719,342,690,385 authorized and issued at December 31, 2002 (or 71,934,269, applying the reverse split retroactively); and 730,598,990,385 authorized and issued at December 31, 2001 (or 73,059,899, applying the reverse split retroactively). Data for 2003 reflects the reverse split of our shares at a 10,000:1 share ratio, approved by our Board of Directors in December 2003 and approved by our shareholders in March 2004.

(12) Preferred shares outstanding, no par value: 78,693,936 authorized and issued at December 31, 2003; 708,537,611,452 authorized and issued at December 31, 2002 (or 70,853,761, applying the reverse split retroactively); and 709,947,011,452 authorized and issued at December 31, 2001 (or 70,994,701, applying the reverse split retroactively). Data for 2003 reflects the reverse split of our shares at a 10,000:1 share ratio, approved by our Board of Directors in December 2003 and approved by our shareholders in March 2004.

(13) See Selected Statistical Information .

Preferred shareholders are entitled to receive dividends per share in an amount 10% greater than the dividends per share paid to our common shareholders.

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SELECTED STATISTICAL INFORMATION

We have included the following information for analytical purposes. You should read this information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements included in this prospectus.

Average Balance Sheet and Interest Rate Data

The following table presents the average balances of our interest-earning assets and interest-bearing liabilities, other assets and liabilities accounts, the related interest income and expense amounts and the average real yield/rate for each period. We calculated the average balances using the daily book balances, which include the related allocated interest.

We show liabilities in two categories: local and foreign currencies. Local currency balances represent liabilities expressed in *reais,* while foreign currency balances represent liabilities denominated in or indexed to foreign currencies, primarily the U.S. dollar. We did not break out asset balances into domestic and international currencies as substantially all of our assets are denominated in *reais*.

We excluded non-performing loans from loans in determining average assets and liabilities, and classified them as non-interest-earning assets. Cash received on non-performing loans during the period are included in interest income on loans. We do not consider these amounts significant.

We do not present interest income on a tax-equivalent basis as Brazilian tax law does not currently provide for tax exemptions for interest earned on investment securities.

Additionally, fees received from various loan commitments are included in interest income on loans. We do not consider these amounts significant.

	December 31, 2001			December 31, 2002			December 31, 2003		
	Average balance	Interest	Average yield/rate (%)	Average balance	Interest	Average yield/rate (%)	Average balance	Interest	Average yield/rate (%)
				(R$ in millions, except percentages)					
Interest-earning assets [1]									
Loans	R$40,928	R$11,672	28.5%	R$49,590	R$17,025	34.3%	R$51,039	R$12,176	23.9%
Federal funds sold and securities purchased under agreements to resell	10,569	2,263	21.4	10,322	2,947	28.6	19,487	3,861	19.8
Trading assets	19,785	3,833	19.4	19,537	3,595	18.4	27,077	5,932	21.9
Available for sale securities [2]	3,793	352	9.3	3,045	487	16.0	3,147	397	12.6
Securities held to maturity				5,295	1,954	36.9	3,088	482	15.6
Interest-earning deposits in other banks	1,996	219	11.0	2,154	296	13.7	4,651	347	7.5
Other interest-earning assets									
Central Bank compulsory deposits	3,580	299	8.4	8,149	2,058	25.3	11,988	1,459	12.2
Other assets	167	14	8.4	340	32	9.4	985	62	6.3
Total interest-earning assets	80,818	18,652	23.1	98,432	28,394	28.8	121,462	24,716	20.3
Non-interest-earning assets [3]									
Cash and due from banks	1,630			2,746			2,895		
Central Bank compulsory deposits	2,756			3,371			4,499		
Available for sale securities	2,735			1,772			1,625		
Non-performing loans	2,193			2,282			2,172		
Allowance for loan losses	(2,599)			(3,360)			(3,919)		
Investment in unconsolidated companies and other investments	841			552			177		
Premises and equipment	2,473			3,176			2,795		
Intangibles assets	834			2,340			1,064		
Other assets	9,617			12,136			14,102		
Total non-interest-earning assets	20,480			25,015			25,410		
Total assets	**R$101,298**	**R$18,652**	**18.4**	**R$123,447**	**R$28,394**	**23.0**	**R$146,872**	**R$24,716**	**16.8**
Interest-bearing liabilities									
Deposits from banks									
Domestic [3]	176	24	13.6	223	36	16.1	657	111	16.9
Total	176	24	13.6	223	36	16.1	657	111	16.9
Savings deposits									
Domestic [3]	17,386	1,374	7.9	19,033	1,585	8.3	20,680	2,038	9.9
International [4]	100	7	7.0						
Total	17,486	1,381	7.9	19,033	1,585	8.3	20,680	2,038	9.9
Time deposits									
Domestic [3]	11,223	1,776	15.8	18,392	2,936	16.0	20,629	4,123	20.0
International [4]	1,374	100	7.3	2,955	252	8.5	3,601	112	3.1
Total	12,597	1,876	14.9	21,347	3,188	14.9	24,230	4,235	17.5
Federal funds purchased and securities sold under agreements to repurchase	12,278	1,921	15.6	9,670	2,051	21.2	15,486	2,855	18.4
Borrowings									
Short-term									
International [4]	8,751	1,928	22.0	10,137	3,975	39.2	9,219	(387)	(4.2)

Total	8,751	1,928	22.0	10,137	3,975	39.2	9,219	(387)	(4.2)
Long-term									
Domestic [3]	5,489	946	17.2	7,324	1,716	23.4	7,811	1,275	16.3
International [4]	4,300	1,083	25.2	5,093	2,376	46.7	8,606	(410)	(4.8)
Total	9,789	2,029	20.7	12,417	4,092	33.0	16,417	865	5.3
Total interest-bearing liabilities	61,077	9,159	15.0	72,827	14,927	20.5	86,689	9,717	11.2
Non-interest-bearing liabilities									
Demand deposits									
Domestic [3]	7,417			9,678			10,876		
International [4]	47			182			270		
Total	7,464			9,860			11,146		
Other non-interest-bearing liabilities	23,752			30,529			36,790		
Total non-interest-bearing liabilities	31,216			40,389			47,936		
Total liabilities	92,293	9,159	9.9	113,216	14,927	13.2	134,625	9,717	7.2
Shareholders' equity	8,861			10,015			12,138		
Minority interests in consolidated subsidiaries	144			216			109		
Total liabilities and shareholders' equity	**R$101,298**	**R$9,159**	**9.0**	**R$123,447**	**R$14,927**	**12.1**	**R$146,872**	**R$9,717**	**6.6**

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(1) Primarily denominated in *reais*.

(2) Calculated using the historical average amortized cost. If calculated using the carrying value, the average yield/rate amounts would be 12.3% in 2003, 16.9% in 2002 and 11.0% in 2001.

(3) Denominated in *reais*.

(4) Denominated in foreign currency, primarily U.S. dollars.

Changes in Interest Income and Expenses Volume and Rate Analysis

The following table shows the effects of changes in our interest income and expense arising from changes in average volumes and average yield/rates for the periods presented. We calculated the changes in volume and interest rate based on the evaluation of average balances during the period and changes in average interest rates on interest-earning assets and interest-bearing liabilities. We allocated the net change from the combined effects of volume and rate proportionately to the average volume and rate, in absolute terms, without considering positive and negative effects.

	December 31, 2002/2001			December 31, 2003/2002		
	Increase (decrease) due to changes in					
	Average volume	Average yield/rate	Net change	Average volume	Average yield/rate	Net change
	(R$ in millions)					
Interest-earning assets						
Loans	R$2,727	R$2,626	R$5,353	R$484	R$(5,333)	R$(4,849)
Federal funds sold and securities purchased under agreements to resell	(54)	738	684	2,021	(1,107)	914
Trading assets	(48)	(190)	(238)	1,564	773	2,337
Available for sale securities	(80)	215	135	16	(106)	(90)
Securities held to maturity [1]	967	987	1,954	(617)	(855)	(1,472)
Interest-earning deposits in other banks	18	59	77	231	(180)	51
Central Bank compulsory deposits	680	1,079	1,759	730	(1,329)	(599)
Other assets	16	2	18	44	(14)	30
Total interest-earning assets	**R$4,226**	**R$5,516**	**R$9,742**	**R$4,473**	**R$(8,151)**	**R$(3,678)**
Interest-bearing liabilities						
Deposits from banks						
Domestic	7	5	12	73	2	75
Total	**7**	**5**	**12**	**73**	**2**	**75**
Savings deposits						
Domestic	135	76	211	145	308	453
International	(7)		(7)			
Total	**128**	**76**	**204**	**145**	**308**	**453**
Time deposits						
Domestic	1,144	16	1,160	386	801	1,187
International	132	20	152	46	(186)	(140)
Total	**1,276**	**36**	**1,312**	**432**	**615**	**1,047**
Federal funds purchased and securities sold under agreements to repurchase	(462)	592	130	1,101	(297)	804
Borrowings						
Short-term						

International	346	1,701	2,047	(330)	(4,032)	(4,362)
Total	**346**	**1,701**	**2,047**	**(330)**	**(4,032)**	**(4,362)**
Long-term						
Domestic	371	399	770	108	(549)	(441)
International	230	1,063	1,293	944	(3,730)	(2,786)
Total	**601**	**1,462**	**2,063**	**1,052**	**(4,279)**	**(3,227)**
Total interest-bearing liabilities	**R$1,896**	**R$3,872**	**R$5,768**	**R$2,473**	**R$(7,683)**	**R$(5,210)**

(1) We began treating securities as securities held to maturity in 2002.

Net Interest Margin and Spread

The following table shows the average balance of our interest-earning assets, interest-bearing liabilities and net interest income, and compares the net interest margin and net interest spread for the periods indicated.

	2001	2002	2003
	(R$ in millions, except percentages)		
Average balance of interest-earning assets	R$80,818	R$98,432	R$121,462
Average balance of interest-bearing liabilities	61,077	72,827	86,689
Net interest income[1]	9,493	13,467	14,999
Interest rate on the average balance of interest-earning assets	23.1%	28.8%	20.3%
Interest rate on the average balance of interest-bearing liabilities	15.0%	20.5%	11.2%
Net yield on interest earning assets[2]	8.1%	8.3%	9.1%
Net interest margin[3]	11.7%	13.7%	12.3%

(1) Total interest income less total interest expenses.
(2) Difference between the yield on the rates of the average interest-earning assets and the rate of the average interest-bearing liabilities.
(3) Net interest income divided by average interest-earning assets.

Return on Equity and Assets

The following table presents selected financial ratios for the periods indicated.

	2001	2002	2003
	(R$ in millions, except percentages and per share information)		
Net income	R$2,270	R$2,142	R$2,302
Average total assets	101,298	123,447	146,872
Average shareholders equity	8,861	10,015	12,138
Net income as a percentage of average total assets	2.2%	1.7%	1.6%
Net income as a percentage of average shareholders equity	25.6%	21.4%	19.0%
Average shareholders equity as a percentage of average total assets	8.7%	8.1%	8.3%
Dividends payout ratio per class of share [1]			
Preferred	0.37	0.44	0.58
Common	0.37	0.44	0.58

(1) Total declared dividends per share divided by net income.

Securities Portfolio

The table below shows our portfolio of trading assets, available for sale securities and securities held to maturity as of the dates indicated. The amounts below exclude our investments in unconsolidated companies. For additional information on our equity investees, see note 9 to our consolidated financial statements. The amounts also exclude our compulsory holdings of Brazilian government securities, as required by the Central Bank. For more information on our compulsory holdings, see note 3 to our consolidated financial statements. We state trading assets and available for sale securities at market value. See Notes 2(e), 2(f), 2(g), 2(h), 4, 5 and 6 to our consolidated financial statements for a further description of our treatment of trading assets and available for sale securities and securities held to maturity.

	December 31,		
	2001	**2002**	**2003**
	(R$ in millions, except percentages)		
Trading securities			
Brazilian government securities	R$6,284	R$6,920	R$11,389
Mutual funds	16,542	15,415	22,929
Derivative financial instruments	1,508	282	283
Foreign government securities		71	212
Brazilian securities issued abroad		13	220
Corporate debt securities		67	985
Bank debt securities		15	1,055
Total	**24,334**	**22,783**	**37,073**
Trading securities as a percentage of total assets	22.5%	17.5%	22.3%
Available for sale securities			
Brazilian government securities	212	1,222	1,694
Brazilian securities issued abroad	633	143	1,264
State and municipal securities	46		
Corporate debt securities	408	849	1,086
Bank debt securities	2,121	125	52
Equity securities in public companies	2,118	2,427	2,098
Total	**5,538**	**4,766**	**6,194**
Available for sale securities as a percentage of total assets	5.1%	3.7%	3.7%
Held to maturity securities			
Brazilian government securities		2,929	3,085
Brazilian securities issued abroad[(1)]		1,072	180
Total		**4,001**	**3,265**
Held to maturity securities as a percentage of total assets		**3.1%**	**2.0%**

(1) See note 6 to our consolidated financial statements.

Maturity Distribution

The following table sets forth the maturity dates and weighted average yield, as of December 31, 2003, of our trading securities, available for sale securities and securities held to maturity. As of December 31, 2003, we held no tax-exempt securities in our portfolio.

	December 31, 2003											
	Due in 1 year or less		Due after 1 year to 5 years		Due after 5 years to 10 years		Due after 10 years		Unspecified Maturity		Total	
	Average yield		Average yield		Average yield		Average yield		Average yield		Average yield	
	R$	%	R$	%	R$	%	R$	%	R$	%	R$	%
	(R$ in millions, except percentages)											
Trading bonds and securities:												
Brazilian government securities [1]	R$9,569		R$1,734		R$22		R$64				R$11,389	
Fixed rate	7,544	19.8%	449	17.2%							7,993	19.7%
Floating rate	1,151	21.2	1,235	15.5	17	8.1%	64	20.7%			2,467	19.6
Floating rate foreign currency indexed	874	9.6	50	8.7	5	8.7					929	9.6
Brazilian sovereign bonds issued abroad	19		186		15						220	
Floating rate foreign currency indexed	19	11.6	186	8.8	15	8.0					220	8.8
Foreign government securities	159		53								212	
Floating rate foreign currency indexed	159	14.4	53	14.4							212	14.4
Bonds issued by non-financial institutions	116		725		144						985	
Floating rate	84	12.0	704	12.0	128	12.1					916	12.0
Floating rate foreign currency indexed	32	12.8	21	12.6	16	12.8					69	12.7
Bonds issued by financial institutions	11		288		756						1,055	
Floating rate					756	16.0					756	16.0
Floating rate foreign currency indexed	11	5.0	288	5.9							299	5.9
Mutual Funds [2]									R$22,929		22,929	
Floating rate									22,929		22,929	
Derivative financial instruments									283		283	
Floating rate									283		283	
Total trading bonds and securities	**9,874**		**2,986**		**937**		**64**		**23,212**		**37,073**	
Available for sale securities at market value:												
Brazilian government securities	601		553		507		33				1,694	
Floating rate	601	20.2	451	21.2			33	20.2			1,085	15.6
Floating rate foreign currency indexed			102	12.7	507	8.7					609	10.7
Brazilian sovereign bonds issued abroad			35		1,049		180				1,264	
Floating rate foreign currency indexed			35	11.3	1,049	10.8	180	12.4			1,264	9.7
Bonds issued by non-financial institutions	23		133		772		158				1,086	
Floating rate	23	14.0	133	16.0	316	22.9	9	8.7			481	11.0
Floating rate foreign currency indexed					456	9.1	149	8.4			605	8.9
Bonds issued by financial institutions	11						41				52	
Floating rate	11	11.8					41	10.9			52	11.8

Securities portfolio (open companies)									2,098		2,098	
Total available for sale securities	**635**		**721**		**2,328**		**412**		**2,098**		**6,194**	
Total securities held to maturity, at amortized cost:												
Brazilian government securities	284		958				1,843				3,085	
Floating rate			875	6.0			1,843	9.3			2,718	8.2
Floating rate foreign currency indexed	284	16.0	83	5.0							367	7.4
Brazilian sovereign bonds issued abroad	15				165						180	
Floating rate bills of exchange	15	0.3			165	10.7					180	10.6
Total securities held to maturity	**299**		**958**		**165**		**1,843**				**3,265**	
Total	**R$10,808**		**R$4,665**		**R$3,430**		**R$2,319**		**R$25,310**		**R$46,532**	

(1) At market value.

(2) Investments in mutual funds are redeemable at any time in accordance with our liquidity needs. Average yield is not stated, as future yields are not quantifiable. These trading securities were excluded from the total yield computation.

The following table shows our securities portfolio by currency as of the dates indicated.

	At fair value			
	Trading	Available for sale	Amortized Cost Securities held to maturity	Total
	(R$ in millions)			
December 31, 2003				
Brazilian currency (*reais*)	R$35,344	R$3,716	R$2,718	R$41,778
Indexed to foreign currency[1]	929	609	367	1,905
Denominated in foreign currency[1]	800	1,869	180	2,849
December 31, 2002				
Brazilian currency (*reais*)	22,352	4,051	2,458	28,861
Indexed to foreign currency[1]			471	471
Denominated in foreign currency[1]	431	715	1,072	2,218
December 31, 2001				
Brazilian currency (*reais*)	21,976	4,332		26,308
Indexed to foreign currency[1]	2,358			2,358
Denominated in foreign currency[1]		1,206		1,206

(1) Predominantly U.S. dollars.

Central Bank Compulsory Deposits

We are required to either maintain deposits with the Central Bank or purchase and keep Brazilian government securities as compulsory deposits. The following sets forth the amounts of these deposits as of the dates indicated.

	December 31,					
	2001		2002		2003	
	R$	% of total compulsory deposits	R$	% of total compulsory deposits	R$	% of total compulsory deposits
Total deposits						
Non-interest-earning[1]	R$3,503	42.6%	R$3,956	24.6%	R$4,577	27.4%
Interest-earning[2]	4,729	57.4	12,101	75.4	12,113	72.6
Total	**R$8,232**	**100.0%**	**R$16,057**	**100.0%**	**R$16,690**	**100.0%**

(1) Primarily related to demand deposits.
(2) Primarily related to time and savings deposits.

Credit Operations

The following table summarizes our outstanding loans by category of transaction. Substantially all of our loans are with borrowers domiciled in Brazil and are denominated in *reais*. The majority of our loans are denominated in *reais* and indexed to fixed or variable interest rates. A smaller portion of them are denominated in or indexed to the U.S. dollar and subject to fixed interest rates.

	December 31,				
	1999	**2000**	**2001**	**2002**	**2003**
	(R$ in millions)				
Type of credit operations					
Commercial					
Industrial and others	R$11,336	R$16,275	R$18,142	R$20,157	R$21,156
Import financing	1,443	1,504	1,475	1,291	673
Export financing	2,814	4,566	5,160	7,863	8,375

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Equity securities recognized in earnings	$ 3,021	$ 84	$ 19,977	$ 1,276
Fixed-maturity securities recognized in earnings	—	7,552	—	8,842
Other investments	6,440	—	6,440	—
	$ 9,461	$ 7,636	$ 26,417	$ 10,118

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The tables below summarize the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized loss position as of September 30, 2016 and December 31, 2015:

(Amounts in Thousands) As of September 30, 2016	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$49,144	$(6,039)	100	$1,279	$(297)	24	$50,423	$(6,336)
U.S. treasury securities	26,829	(15)	19	649	(1)	1	27,478	(16)
U.S. government agencies	178	—	2	—	—	—	178	—
Municipal bonds	103,790	(895)	98	12,175	(565)	24	115,965	(1,460)
Foreign government	10,311	(528)	12	—	—	—	10,311	(528)
Corporate bonds:								
Finance	203,687	(11,638)	121	50,990	(1,113)	27	254,677	(12,751)
Industrial	237,197	(14,607)	126	87,030	(3,647)	54	324,227	(18,254)
Utilities	22,028	(1,116)	21	8,922	(754)	4	30,950	(1,870)
Commercial mortgage backed securities	13,077	(216)	12	12,202	(435)	38	25,279	(651)
Residential mortgage backed securities:								
Agency backed	9,265	(59)	27	2,414	(22)	22	11,679	(81)
Non-agency backed	17,544	(376)	18	63	(2)	2	17,607	(378)
Collateralized loan / debt obligations	47,636	(273)	19	60,349	(1,349)	23	107,985	(1,622)
Asset-backed securities	9,462	(116)	19	510	(3)	6	9,972	(119)
Total temporarily impaired securities	$750,148	$(35,878)	594	$236,583	$(8,188)	225	$986,731	$(44,066)

(Amounts in Thousands) As of December 31, 2015	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$59,302	$(8,711)	67	$402	$(104)	2	$59,704	$(8,815)
U.S. treasury securities	31,658	(232)	77	2,586	(26)	8	34,244	(258)
U.S. government agencies	22,412	(262)	20	182	(1)	2	22,594	(263)
Municipal bonds	121,550	(867)	111	17,163	(663)	30	138,713	(1,530)
Foreign government	18,598	(688)	27	5,977	(124)	1	24,575	(812)
Corporate bonds:								
Finance	604,898	(33,068)	349	59,020	(1,325)	22	663,918	(34,393)
Industrial	858,632	(65,887)	633	82,495	(14,364)	55	941,127	(80,251)
Utilities	79,358	(5,305)	113	7,712	(3,810)	5	87,070	(9,115)
Commercial mortgage backed securities	35,405	(1,079)	100	2,870	(101)	6	38,275	(1,180)
Residential mortgage backed securities:								
Agency backed	334,224	(2,788)	163	35,446	(1,345)	29	369,670	(4,133)
Non-agency backed	95,001	(4,077)	39	4,023	(62)	4	99,024	(4,139)
Collateralized loan / debt obligations	201,086	(6,161)	78	—	—	—	201,086	(6,161)

Asset-backed securities	30,302	(1,309)	70	—	—	—	30,302	(1,309)
Total temporarily impaired securities	$2,492,426	$(130,434)	1,847	$217,876	$(21,925)	164	$2,710,302	$(152,359)

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There are 819 and 2,011 securities at September 30, 2016 and December 31, 2015, respectively, that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. At September 30, 2016, the Company determined that the unrealized losses on fixed maturities were primarily due to market interest rate movements since their date of purchase. The Company considers an investment, primarily equity securities, to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1,000,000 and in excess of 25% of cost if the issuer has a market capitalization of $1,000,000 or more) for over 24 months. Additionally, other factors influencing the Company's determination that unrealized losses were temporary included an evaluation of the investment's discounted cash flows, the magnitude of the unrealized losses in relation to each security's cost, near-term and long-term prospects of the issuer or the issuer's ability to have adequate resources to fulfill contractual obligations, the nature of the investment and management's intent not to sell these securities, and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company's cost basis. As of September 30, 2016, for the $8,188 of unrealized losses related to securities in unrealized loss positions for a period of twelve or more consecutive months, $800 of those unrealized losses were related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost.

(b) Trading Securities

The original or amortized cost, estimated market value and gross unrealized appreciation and depreciation of trading securities as of September 30, 2016 and December 31, 2015 are presented in the tables below:

(Amounts in Thousands) As of September 30, 2016	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Common stock	$ 34,091	$ 788	$ (440)	$34,439

(Amounts in Thousands) As of December 31, 2015	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Common stock	$ 26,937	$ 739	$ (405)	$27,271

Proceeds from the sale of investments in trading securities during the three months ended September 30, 2016 and 2015 were approximately $47,177 and $53,398, respectively. Proceeds from the sale of investments in trading securities during the nine months ended September 30, 2016 and 2015 were approximately $155,502 and $161,723, respectively.

(c) Investment Income

Net investment income for the three and nine months ended September 30, 2016 and 2015 was derived from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Fixed maturities, available-for-sale	$59,712	$39,452	$152,140	$107,404
Equity securities, available-for-sale	465	1,183	6,927	2,253
Equity securities, trading	(40)	(640)	(318)	(600)
Cash and short term investments	410	844	2,182	3,432
	60,547	40,839	160,931	112,489
Investment expenses	(628)	(414)	(852)	(1,208)

$59,919	$40,425	$160,079	$111,281

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(d) Realized Gains and Losses

The tables below summarize the gross realized gains and (losses) for the three and nine months ended September 30, 2016 and 2015:

(Amounts in Thousands) Three Months Ended September 30, 2016	Gross Gains	Gross Losses	Net Gains (Losses)
Fixed maturities, available-for-sale	$17,535	$(2,582)	$14,953
Equity securities, available-for-sale	553	(1,126)	(573)
Equity securities, trading	2,897	(1,902)	995
Other investments	3,449	(1,133)	2,316
Write-down of other invested assets	—	(6,440)	(6,440)
Write-down of equity securities, available-for-sale	—	(3,021)	(3,021)
	$24,434	$(16,204)	$8,230

(Amounts in Thousands) Three Months Ended September 30, 2015	Gross Gains	Gross Losses	Net Gains (Losses)
Fixed maturities, available-for-sale	$21,435	$(5,060)	$16,375
Equity securities, available-for-sale	—	(326)	(326)
Equity securities, trading	12,310	(3,041)	9,269
Write-down of fixed maturities, available-for-sale	—	(7,552)	(7,552)
Write-down of equity securities, available-for-sale	—	(84)	(84)
	$33,745	$(16,063)	$17,682

(Amounts in Thousands) Nine Months Ended September 30, 2016	Gross Gains	Gross Losses	Net Gains (Losses)
Fixed maturities, available-for-sale	$57,346	$(4,199)	$53,147
Equity securities, available-for-sale	1,821	(1,862)	(41)
Equity securities, trading	17,824	(14,396)	3,428
Other investments	1,189	(2)	1,187
Write-down of equity securities, available-for-sale	—	(19,977)	(19,977)
Write-down of other investments	—	(6,440)	(6,440)
	$78,180	$(46,876)	$31,304

(Amounts in Thousands) Nine Months Ended September 30, 2015	Gross Gains	Gross Losses	Net Gains (Losses)
Fixed maturities, available-for-sale	$41,979	$(12,902)	$29,077
Equity securities, available-for-sale	2,184	(1,955)	229
Equity securities, trading	19,047	(7,542)	11,505
Write-down of fixed maturities, available-for-sale	—	(8,842)	(8,842)
Write-down of equity securities, available-for-sale	—	(1,276)	(1,276)
	$63,210	$(32,517)	$30,693

(e) Derivatives

The Company from time to time invests in a limited number of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. The Company records changes in valuation on its derivative positions not designated as a hedge, if any, as a component of net realized gains and losses. The Company records changes in valuation on its hedge positions as a component of other comprehensive income.

The Company had two interest rate swaps designated as a hedge in the total amount of $460 and $1,077 as of September 30, 2016 and December 31, 2015, respectively, that were included as a component of accrued expenses and other liabilities. The two interest rate swaps at December 31, 2015, one of which matured during the three months ended September 30, 2016, related to the Company's junior subordinated debentures.

During the nine months ended September 30, 2016, the Company entered into an interest rate swap agreement related to a five-year secured term loan agreement with Lloyd's Bank PLC to finance the purchase of a commercial office building in Nottingham, U.K. The interest rate swap covers a notional amount equal to 70% of the original outstanding balance and converts the LIBOR variable component of the Company’s interest rate to a fixed rate.

The following table presents the notional amounts by remaining maturity of the Company’s interest rate swaps as of September 30, 2016:

	Remaining Life of Notional Amount [1]				
(Amounts in Thousands)	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years	Total
Interest rate swaps	$40,000	$ 7,591	$ —	$ —	$47,591

(1) Notional amount is not representative of either market risk or credit risk and is not recorded in the consolidated balance sheet.

(f) Restricted Cash and Investments

The Company, in order to conduct business in certain states, is required to maintain letters of credit or assets on deposit to support state mandated regulatory requirements and certain third party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets are primarily in the form of cash and certain high grade securities. The fair values of the Company's restricted assets as of September 30, 2016 and December 31, 2015 are as follows:

(Amounts in Thousands)	September 30, 2016	December 31, 2015
Restricted cash and cash equivalents	$ 557,159	$ 380,699
Restricted investments - fixed maturities at fair value	1,880,536	1,490,547
Total restricted cash, cash equivalents, and investments	$ 2,437,695	$ 1,871,246

(g) Other

Securities sold but not yet purchased are securities that the Company has sold, but does not own, in anticipation of a decline in the market value of the security. The Company's risk is that the value of the security will increase rather than decline. Consequently, the settlement amount of the liability for securities sold, not yet purchased may exceed the amount recorded in the consolidated balance sheet as the Company is obligated to purchase the securities sold, not yet purchased in the market at prevailing prices to settle the obligations. To establish a position in security sold, not yet purchased, the Company needs to borrow the security for delivery to the buyer. When the transaction is open, the liability for the obligation to replace the borrowed security is marked to market and an unrealized gain or loss is recorded. At the time the transaction is closed, the Company realizes a gain or loss equal to the differences between the price at which the security was sold and the cost of replacing the borrowed security. While the transaction is open, the Company will also incur an expense for any dividends or interest which will be paid to the lender of the securities.

The Company's liability for securities to be delivered is measured at their fair value and was $23,770 and $38,618 as of September 30, 2016 and December 31, 2015, respectively. The securities sold but not yet purchased consisted primarily of equity and fixed maturity securities, and the liability for securities sold but not yet purchased is included in accrued expenses and other liabilities in the consolidated balance sheet.

As of September 30, 2016 and December 31, 2015, the Company had no repurchase agreements.

4. Fair Value of Financial Instruments

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of September 30, 2016 and December 31, 2015:

(Amounts in Thousands) As of September 30, 2016	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$295,721	$295,721	$—	$—
U.S. government agencies	7,679	—	7,679	—
Municipal bonds	875,989	—	875,989	—
Foreign government	142,262	—	142,262	—
Corporate bonds and other bonds:				
Finance	1,569,606	—	1,569,606	—
Industrial	2,183,448	—	2,183,448	—
Utilities	213,703	—	213,703	—
Commercial mortgage backed securities	179,717	—	171,846	7,871
Residential mortgage backed securities:				
Agency backed	1,061,245	—	1,061,245	—
Non-agency backed	63,195	—	63,195	—
Collateralized loan / debt obligations	425,669	—	403,936	21,733
Asset-backed securities	25,581	—	25,581	—
Equity securities, available-for-sale	165,743	111,489	21,075	33,179
Equity securities, trading	34,439	34,439	—	—
Short term investments	49,008	49,008	—	—
Other investments	40,267	—	—	40,267
Life settlement contracts	332,085	—	—	332,085
	$7,665,357	$490,657	$6,739,565	$435,135
Liabilities:				
Equity securities sold but not yet purchased	$23,770	$23,770	$—	$—
Life settlement contract profit commission	4,817	—	—	4,817
Contingent consideration	59,267	—	—	59,267
Derivatives	460	—	460	—
	$88,314	$23,770	$460	$64,084

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(Amounts in Thousands) As of December 31, 2015	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$70,759	$70,759	$—	$—
U.S. government agencies	45,558	—	45,558	—
Municipal bonds	540,426	—	540,426	—
Foreign government	113,745	—	113,745	—
Corporate bonds and other bonds:				
Finance	1,362,430	—	1,362,430	—
Industrial	1,647,063	—	1,647,063	—
Utilities	149,500	—	149,500	—
Commercial mortgage backed securities	151,318	—	151,318	—
Residential mortgage backed securities:				
Agency backed	974,838	—	974,838	—
Non-agency backed	120,229	—	120,229	—
Collateralized loan / debt obligations	226,094	—	226,094	—
Asset-backed securities	31,837	—	31,837	—
Equity securities, available-for-sale	104,497	38,563	28,723	37,211
Equity securities, trading	27,271	27,271	—	—
Short term investments	84,266	84,266	—	—
Other investments	30,309	—	—	30,309
Life settlement contracts	264,001	—	—	264,001
	$5,944,141	$220,859	$5,391,761	$331,521
Liabilities:				
Equity securities sold but not yet purchased	$18,163	$18,163	$—	$—
Fixed maturity securities sold but not yet purchased	20,455	—	20,455	—
Life settlement contract profit commission	15,406	—	—	15,406
Contingent consideration	77,457	—	—	77,457
Derivatives	1,077	—	1,077	—
	$132,558	$18,163	$21,532	$92,863

There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2016 and 2015, respectively.

The Company classifies its financial assets and liabilities in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. This classification requires judgment in assessing the market and pricing methodologies for a particular security. The fair value hierarchy includes the following three levels:

- Level 1 – Valuations are based on unadjusted quoted market prices in active markets for identical financial assets or liabilities.

Examples of instruments utilizing Level 1 inputs include: exchange-traded securities and U.S. Treasury bonds.

- Level 2 – Valuations of financial assets and liabilities are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets obtained from third party pricing services or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data. The fair value of securities in this category are determined by management after reviewing market prices obtained from independent pricing services and brokers.

Examples of instruments utilizing Level 2 inputs include: U.S. government-sponsored agency securities; non-U.S. government obligations; corporate and municipal bonds; mortgage-backed bonds; asset-backed securities; listed derivatives that are not actively traded; and equity securities that are not publicly traded.

• Level 3 – While the vast majority of the Company's investments are included in Level 2, the Company holds a number of investments that are not valued by a pricing service and estimates the fair value of these investments using various broker/dealers that use bid or ask prices. Due to the limited amount of observable market information, the Company includes the fair value estimates for these particular investments in Level 3. In conjunction with our investment portfolio managers, these fair value measurements are reviewed for reasonableness. Other investment valuations are based on unobservable inputs for assets and liabilities where there is little or no market activity. Management's assumptions are used in internal valuation pricing models to determine the fair value of financial assets or liabilities, which may include projected cash flows, collateral performance or liquidity circumstances in the security or similar securities that may have occurred since the prior pricing period.

Examples of instruments utilizing Level 3 inputs include: hedge and credit funds with partial transparency.

The following tables provides a summary of changes in fair value of the Company's Level 3 financial assets and liabilities for the three and nine months ended September 30, 2016 and 2015:

(Amounts in Thousands)	Balance as of June 30, 2016	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of September 30, 2016
Other investments	$38,039	$(6,403)	$ 6,124	$249	$(79)	$2,337	$ 40,267
Equity securities, available-for-sale	24,764	(16,983)	17,168	(2)	(7,753)	15,985	33,179
Commercial mortgage backed securities	—	—	(194)	—	—	8,065	7,871
Collateralized loan / debt obligations	—	—	(15)	—	—	21,748	21,733
Life settlement contracts	304,434	23,290	—	4,550	(189)	—	332,085
Life settlement contract profit commission	(9,054)	(763)	—	—	5,000	—	(4,817)
Contingent consideration	(64,817)	(400)	—	(5,443)	11,393	—	(59,267)
Total	$293,366	$(1,259)	$ 23,083	$(646)	$8,372	$48,135	$ 371,051

(Amounts in Thousands)	Balance as of December 31, 2015	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of September 30, 2016
Other investments	$30,309	$(7,889)	$ 6,124	$944	$(365)	$11,144	$ 40,267
Equity securities, available-for-sale	37,211	(16,983)	4,719	—	(7,753)	15,985	33,179
Commercial mortgage backed securities	—	—	(194)	—	—	8,065	7,871
Collateralized loan / debt obligations	—	—	(15)	—	—	21,748	21,733
Life settlement contracts	264,001	82,451	—	15,880	(30,247)	—	332,085
	(15,406)	(9,817)	—	—	20,406	—	(4,817)

Life settlement contract profit commission							
Contingent consideration	(77,457)	(2,746)	—	(13,903)	34,839	—	(59,267)
Total	$238,658	$45,016	$ 10,634	$ 2,921	$ 16,880	$56,942	$ 371,051

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(Amounts in Thousands)	Balance as of June 30, 2015	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of September 30, 2015
Other investments	$14,759	$(793)	$ (5,300)	$160	$—	$13,000	$ 21,826
Equity securities, available-for-sale	40,232	—	3	—	(46)	—	40,189
Life settlement contracts	267,393	13,875	—	—	(10,019)	—	271,249
Life settlement contract profit commission	(16,994)	1,175	—	—	—	—	(15,819)
Contingent consideration	(76,790)	68	—	403	11,261	—	(65,058)
Total	$228,600	$14,325	$ (5,297)	$563	$1,196	$13,000	$ 252,387

(Amounts in Thousands)	Balance as of December 31, 2014	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of September 30, 2015
Other investments	$13,315	$(379)	$ (5,300)	$1,527	$(337)	$13,000	$ 21,826
Equity securities, available-for-sale	34,886	—	5,395	—	(92)		40,189
Life settlement contracts	264,517	52,765	—	—	(46,033)	—	271,249
Life settlement contract profit commission	(16,534)	715	—	—	—	—	(15,819)
Contingent consideration	(41,704)	68	—	(44,557)	21,135	—	(65,058)
Total	$254,480	$53,169	$ 95	$(43,030)	$(25,327)	$13,000	$ 252,387

The Company's policy for transferring investments between the fair value hierarchy levels is to recognize such transfers in the period that the event or change in circumstances occurred. During the three and nine months ended September 30, 2016, the Company transferred $48,135 and $56,942, respectively, from Level 2 to Level 3 because of unobservable inputs or lack of market activity existed for these specific securities that were transferred.

A reconciliation of net income for life settlement contracts in the above table to gain on investment in life settlement contracts net of profit commission included in the Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Net income	$23,290	$13,875	$82,451	$52,765
Premiums paid	(16,434)	(11,326)	(41,890)	(33,614)
Profit commission	(763)	1,175	(9,817)	715
Other expenses	(608)	892	(1,853)	(781)
Gain on investment in life settlement contracts	$5,485	$4,616	$28,891	$19,085

The Company uses the following methods and assumptions in estimating its fair value disclosures for financial instruments:

- Equity and Fixed Income Investments: Fair value disclosures for these investments are disclosed above in this note. As of September 30, 2016, the Company's Level 3 equity securities consisted primarily of privately placed warrants of companies that have publicly traded common stock. The fair value of these equity securities as of September 30, 2016 was derived from the quoted price of the underlying common stock adjusted for other inputs that are not market observable.

- Cash and cash equivalents, restricted cash and cash equivalents, and short term investments: The carrying value of cash and cash equivalents, restricted cash and cash equivalents, and short term investments approximate their respective fair value and are classified as Level 1 in the fair value hierarchy.

- Premiums Receivable: The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values due to the short term nature of the asset and are classified as Level 1 in the fair value hierarchy.

- Other Investments: Other investments that are reported at fair value consisted primarily of investments in private limited partnerships, certain foreign investments, and other. Other investments reported at fair value accounted for approximately 0.4% of the Company's investment portfolio as of September 30, 2016, which the Company believes is immaterial to its overall financial position or its results of operations. The Company

estimates the fair value based on significant unobservable inputs in the valuation process. As a result, the Company classified the fair value estimates as Level 3 in the fair value hierarchy.

- Equity Investment in Unconsolidated Subsidiaries - Related Party: The Company has an ownership percentage of approximately 12% in National General Holdings Corp. ("NGHC"), a publicly held insurance holding company (Nasdaq: NGHC). The Company accounts for this investment under the equity method of accounting as it has the ability to exert significant influence on NGHC. The fair value and carrying value of the investment was approximately $273,450 and $153,040, respectively, as of September 30, 2016.

- Subordinated Debentures and Debt: The fair value of the Company's material debt arrangements as of September 30, 2016 was as follows:

	Carrying Value	Fair Value
7.25% Subordinated Notes due 2055	$145,171	$156,180
7.50% Subordinated Notes due 2055	130,656	146,826
2.75% Convertible senior notes due 2044	164,828	202,984
6.125% Notes due 2023	248,116	268,125
Junior subordinated debentures due 2035-2037	122,006	90,310
Trust preferred securities due 2033-2037	92,786	92,739
Republic promissory note	104,685	106,562
Revolving credit facility	130,000	130,000
Other	97,068	97,068

The 7.25% subordinated notes due 2055, the 7.50% subordinated notes due 2055, the 2.75% convertible senior notes due 2044, and the 6.125% notes due 2023 are publicly traded instruments and are classified as Level 1 in the fair value hierarchy. The fair value of the junior subordinated debentures due 2035-2037 and Republic's trust preferred securities due 2033-2037 were determined using the Black-Derman-Toy interest rate lattice model and are classified as Level 3 in the fair value hierarchy. In determining the fair value of its remaining debt, the Company uses estimates based on rates currently available to the Company for debt with similar terms and remaining maturities. Accordingly, the fair value of the Republic promissory note and other debt is classified as Level 2 within the valuation hierarchy. The Company considers its other debt's carrying value to approximate fair value as their interest rates approximate current borrowing rates.

- Derivatives: The Company classifies interest rate swaps as Level 2 in the fair value hierarchy. The Company uses these interest rate swaps to hedge floating interest rates on its debt, thereby changing the variable rate exposure to a fixed rate exposure for interest on these obligations. The estimated fair value of the interest rate swaps, which is obtained from a third party pricing service, is measured using discounted cash flow analysis that incorporates significant observable inputs, including the LIBOR forward curve and a measurement of volatility.

- Contingent consideration: The fair value of contingent consideration is based on a discounted cash flow methodology and is classified as Level 3 in the fair value hierarchy. The range of discount rates used for contingent consideration was primarily between 8% and 14%.

- Life settlement contracts and life settlement contract profit commission: Life settlement contracts are described in Note 5. "Investments in Life Settlements" elsewhere in this report. The fair value of life settlement contracts as well as life settlement profit commission liability is based on information available to the Company at the end of the reporting period. These financial instruments are classified as Level 3 in the fair value hierarchy. The Company considers the following factors in its fair value estimates: cost at date of purchase, recent purchases and sales of similar investments

(if available and applicable), financial standing of the issuer, changes in economic conditions affecting the issuer, maintenance cost, premiums, benefits, standard actuarially developed mortality tables and life expectancy reports prepared by nationally recognized and independent third party medical underwriters. The Company estimates the fair value of a life insurance policy by applying an investment discount rate based on the cost of funding the Company's life settlement contracts as compared to returns on investments in asset classes with comparable credit quality, which the Company has determined to be 7.5%, to the expected cash flow generated by the policies

in the Company's life settlement portfolio (death benefits less premium payments), net of policy specific adjustments and reserves. In order to confirm the integrity of their calculation of fair value, the Company, quarterly, retains an independent third-party actuary to verify that the actuarial modeling used by the Company to determine fair value was performed correctly and that the valuation, as determined through the Company's actuarial modeling, is consistent with other methodologies. The Company considers this information in its assessment of the reasonableness of the life expectancy and discount rate inputs used in the valuation of these investments.

The Company adjusts the standard mortality for each insured for the insured's life expectancy based on reviews of the insured's medical records and the independent life expectancy reports based thereon. The Company establishes policy specific reserves for the following uncertainties: improvements in mortality, the possibility that the high net worth individuals represented in its portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, and the future expenses related to the administration of the portfolio, which incorporates current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available. Prior to 2015, the Company established policy specific reserves for the possibility that the issuer of the policy or a third party would contest the payment of the death benefit payable to the Company. The Company determined that the contestability reserve was no longer necessary in 2015 due to historical experience. The application of the investment discount rate to the expected cash flow generated by the portfolio, net of the policy specific reserves, yields the fair value of the portfolio. The effective discount rate reflects the relationship between the fair value and the expected cash flow gross of these reserves.

The following summarizes data utilized in estimating the fair value of the portfolio of life insurance policies as of September 30, 2016 and December 31, 2015, and only includes data for policies to which the Company assigned value at those dates:

	September 30, 2016	December 31, 2015
Average age of insured	82.7 years	82.0 years
Average life expectancy, months [(1)]	107	114
Average face amount per policy (Amounts in thousands)	$ 6,569	$ 6,564
Effective discount rate [(2)]	12.7 %	13.7 %

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

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

The Company's assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The fair value measurements used in estimating the present value calculation are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonably vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value amount. If the life expectancies were increased or decreased by 4 months and the discount factors were increased or decreased by 1% while all other variables were held constant, the carrying value of the investment in life insurance policies would increase or (decrease) by the unaudited amounts summarized below as of September 30, 2016 and December 31, 2015:

	Change in life expectancy	
(Amounts in Thousands)	Plus 4 Months	Minus 4 Months
Investment in life policies:		

September 30, 2016	$(42,844)	$46,044
December 31, 2015	$(37,697)	$40,997

	Change in discount rate [1]	
(Amounts in Thousands)	Plus 1%	Minus 1%
Investment in life policies:		
September 30, 2016	$(28,584)	$31,712
December 31, 2015	$(26,558)	$29,644

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

5. Investment in Life Settlements

The Company has a 50% ownership interest in each of three entities (collectively, the "LSC Entities") formed for the purpose of acquiring life settlement contracts, with a subsidiary of NGHC owning the remaining 50%. The LSC Entities are: Tiger Capital LLC ("Tiger"); AMT Capital Alpha, LLC ("AMT Alpha"); and AMT Capital Holdings, S.A. ("AMTCH").

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. During the three months ended March 31, 2016, the Company terminated an agreement with a third party administrator of the Tiger and AMTCH life settlement contract portfolios, under which the third party received an administrative fee. The third party administrator was also eligible to receive a percentage of profits after certain time and performance thresholds had been met. The Company provides certain actuarial and finance functions related to the LSC Entities. In conjunction with the Company's approximate 12% ownership percentage of NGHC, the Company ultimately receives 56% of the profits and losses of the LSC Entities. As such, in accordance with ASC 810-10, Consolidation, the Company has been deemed the primary beneficiary and, therefore, consolidate the LSC Entities.

The Company accounts for investments in life settlements in accordance with ASC 325-30, Investments in Insurance Contracts, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these policies using the fair value method. The Company determines fair value based upon its estimate of the discounted cash flow related to policies (net of the reserves for improvements in mortality, the possibility that the high net worth individuals represented in its portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, and the future expenses related to the administration of the portfolio), which incorporates current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available. Prior to 2015, the Company established policy specific reserves for the possibility that the issuer of the policy or a third party would contest the payment of the death benefit payable to the Company. The Company determined that the contestability reserve was no longer necessary in 2015 due to historical experience. The application of the investment discount rate to the expected cash flow generated by the portfolio, net of the policy specific reserves, yields the fair value of the portfolio. The effective discount rate reflects the relationship between the fair value and the expected cash flow gross of these reserves.

Capital contributions were made to the LSC Entities during the three and nine months ended September 30, 2016 totaling $11,000. The Company recorded a gain of $5,485 and $4,616 on investment in life settlement contracts, net of profit commission, for the three months ended September 30, 2016 and 2015, respectively, and $28,891 and $19,085 for the nine months ended September 30, 2016 and 2015.

The following tables describe the Company's investment in life settlements as of September 30, 2016 and December 31, 2015:

(Amounts in Thousands, except number of Life Settlement Contracts) Expected Maturity Term in Years	Number of Life Settlement Contracts	Fair Value (1)	Face Value
As of September 30, 2016			
0-1	—	$—	$—
1-2	2	8,776	12,500

2-3	7	37,572	61,000
3-4	9	35,839	64,422
4-5	12	36,209	99,000
Thereafter	226	213,689	1,405,313
Total	256	$ 332,085	$ 1,642,235

(Amounts in Thousands, except number of Life Settlement Contracts) Expected Maturity Term in Years As of December 31, 2015	Number of Life Settlement Contracts	Fair Value [1]	Face Value
0-1	—	$—	$—
1-2	—	—	—
2-3	8	31,261	70,500
3-4	8	20,117	46,500
4-5	4	6,760	20,000
Thereafter	235	205,863	1,481,313
Total	255	$264,001	$1,618,313

(1) The Company determined the fair value as of September 30, 2016 based on 224 policies out of 256 policies, as the Company assigned no value to 32 of the policies as of September 30, 2016. The Company determined the fair value as of December 31, 2015 based on 213 policies out of 255 policies, as the Company assigned no value to 42 of the policies as of December 31, 2015. The Company estimated the fair value of a life insurance policy using a cash flow model with an appropriate discount rate. In some cases, the cash flow model calculates the value of an individual policy to be negative, and therefore the fair value of the policy is zero as no liability exists when a negative value is calculated. The Company is not contractually bound to pay the premium on its life settlement contracts and, therefore, would not pay a willing buyer to assume title of these contracts. Additionally, certain of the Company's acquired policies were structured to have low premium payments at inception of the policy term, which later escalate greatly towards the tail end of the policy term. At the current time, the Company expenses all premium paid, even on policies with zero fair value. Once the premium payments escalate, the Company may allow the policies to lapse. In the event that death benefits are realized in the time frame between initial acquisition and premium escalation, it is a benefit to cash flow.

For these contracts where the Company determined the fair value to be negative and therefore assigned a fair value of zero, the table below details the amount of premiums paid and the death benefits received during the twelve months preceding September 30, 2016 and December 31, 2015:

(Amounts in Thousands, except number of Life Settlement Contracts)	September 30, 2016	December 31, 2015
Number of policies with a negative value from discounted cash flow model as of period end	32	42
Premiums paid for the preceding twelve month period for period ended	$ 4,941	$ 4,971
Death benefit received	$ —	$ —

Premiums to be paid by the LSC Entities for each of the five succeeding fiscal years to keep the life insurance policies in force as of September 30, 2016, are as follows:

(Amounts in Thousands)	Premiums Due on Life Settlement Contracts
2016	$ 66,685
2017	46,386
2018	47,392
2019	44,589
2020	40,979
Thereafter	469,780
Total	$ 715,811

6. Deferred Policy Acquisition Costs

The following table reflects the amounts of policy acquisition costs deferred and amortized for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Balance, beginning of period	$873,641	$695,150	$704,243	$628,383
Acquisition costs deferred	289,790	190,632	820,154	582,091
Amortization	(198,789)	(171,556)	(559,755)	(496,248)
Balance, end of period	$964,642	$714,226	$964,642	$714,226

7. Debt

The Company’s outstanding debt consisted of the following at September 30, 2016 and December 31, 2015:

(Amounts in Thousands)	September 30, 2016	December 31, 2015
Revolving credit facility	$ 130,000	$ 130,000
5.5% Convertible senior notes due 2021 (the "2021 Notes")	5,190	5,103
2.75% Convertible senior notes due 2044 (the "2044 Notes")	164,828	160,258
6.125% Senior notes due 2023 (the "2023 Notes")	248,116	247,911
Junior subordinated debentures (the "2035-2037 Notes")	122,006	118,226
Trust preferred securities (the "2033-2037 TPS Notes")	92,786	—
7.25% Subordinated Notes due 2055 (the "7.25% 2055 Notes")	145,171	145,078
7.50% Subordinated Notes due 2055 (the "7.50% 2055 Notes")	130,656	130,572
Secured loan agreements	77,971	38,455
Promissory notes	118,592	13,753
	$ 1,235,316	$ 989,356

Aggregate scheduled maturities of the Company’s outstanding debt, excluding unamortized deferred origination costs, at September 30, 2016 are:

(Amounts in Thousands)	
2016	$ 1,814
2017	33,766
2018	36,056
2019	160,939
2020	26,685
Thereafter	992,308 [(1)]
Total scheduled payments	1,251,568
Unamortized deferred origination costs	(16,252)
	1,235,316

(1) Amount includes debt outstanding under the 2021 Notes and 2044 Notes, which is net of unamortized original issue discount of $764 and $47,440, respectively.

Additionally, the Company utilizes various letters of credit in its operations. The following is a summary of the Company's letters of credit as of September 30, 2016:

(Amounts in Thousands)	Letters of Credit Limit	Letters of Credit Outstanding	Letters of Credit Available
Revolving credit facility	$175,000	$ 114,156	$ 60,844
Funds at Lloyd's facility, in USD equivalent	389,280	380,494	8,786
ING Bank N.V. and Deutsche Bank Netherlands N.V. facilities, in USD equivalent	88,404	63,217	25,187
Comerica bank letters of credit	75,000	48,134	26,866
Other letters of credit, in aggregate	1,550	1,550	—

Interest expense, including amortization of original issue discount and deferred origination costs, as well as applicable bank fees, related to the Company's outstanding debt and letters of credit for the three and nine months ended September 30, 2016 and 2015 was:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Revolving credit facility	$1,134	$1,092	$3,388	$2,636
Funds at Lloyd's facility	1,065	639	3,387	2,320
2021 Notes	116	117	345	711
2023 Notes	3,897	3,897	11,690	11,690
2035-2037 Notes	1,548	1,442	4,609	5,157
2033-2037 TPS Notes	981	—	1,750	—
2044 Notes	3,170	3,065	9,402	9,096
7.25% 2055 Notes	2,750	2,750	8,250	3,118
7.50% 2055 Notes	2,559	408	7,677	408
Secured loan agreements	756	212	1,768	671
Promissory notes	1,698	157	3,253	467
Other, including interest income	4,276	(917)	5,869	(3,511)
	$23,950	$12,862	$61,388	$32,763

Promissory Note

On April 18, 2016, in connection with the acquisition of Republic Companies, Inc. and its affiliates ("Republic"), the Company issued a term promissory note ("TPM") to Delek Finance U.S. Inc. in the amount of $104,685 as part of the consideration. See Note 13. "Acquisitions" for a description of this transaction. The principal will be paid in four equal installments on each of the first four anniversaries of the issuance date. The note bears interest of 5.75% per annum and is payable from time to time based on the outstanding principal balance until the promissory note is fully paid. In the event that indebtedness under the Company's revolving credit facility or the Company's 2023 Notes is required to be paid on an accelerated basis, the holder of the TPM may cause the Company to repay unpaid principal and interest immediately. The Company recorded interest expense, including amortization of the deferred origination costs and fees associated with the loan agreement, of approximately $1,538 and $2,776 for the three and nine months ended September 30, 2016, respectively.

2033-2037 TPS Notes

In connection with the acquisition of Republic, the Company assumed Republic's outstanding trust preferred securities. Republic participated in the private placement of floating rate capital securities through five capital trusts. Each trust was created solely for the purpose of issuing trust preferred securities. Republic has guaranteed the payment by the trusts of distributions and other amounts under the capital securities to the extent that the trusts have funds available for such payments. The trusts invested the proceeds from the private placement in junior subordinated debentures issued by Republic. The trusts must redeem the capital securities when the debentures are paid at maturity or upon any earlier prepayment of the debentures. The debentures may be

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prepaid if certain events occur, including a change in the tax status or regulatory capital treatment of the capital securities or a change in the existing laws that require the trusts to register as an investment company. Under the provisions of the debentures, the Company has the right to defer payment of interest on the debentures at any time, or from time to time, for up to twenty consecutive quarterly periods. If interest payments on the debentures are deferred, the distributions on the capital securities will also be deferred. In accordance with FASB ASC 810-10-25, the Company does not consolidate such special purpose trusts, as the Company is not considered to be the primary beneficiary. The equity investment, totaling $2,786 as of September 30, 2016 on the Company's balance sheet, represents the Company's ownership of common securities issued by the trusts.

The table below summarizes the Company’s trust preferred securities assumed in the Republic acquisition as of September 30, 2016:

(Amounts in Thousands) Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate of Notes
RIG Capital Trust I	$ 10,000	$ 310	$ 10,310	9/30/2033	4.631 (1)
RIG Capital Statutory Trust II	20,000	619	20,619	10/29/2033	4.449 (2)
RIG Capital Trust III	20,000	619	20,619	12/15/2036	3.853 (3)
RIG Capital Trust IV	25,000	774	25,774	6/15/2037	3.853 (3)
RIG Capital Trust V	15,000	464	15,464	9/15/2037	3.950 (4)
Total trust preferred securities	$ 90,000	$ 2,786	$ 92,786		

(1) The interest rate is three-month LIBOR plus 4.00%.
(2) The interest rate is three-month LIBOR plus 3.85%.
(3) The interest rate is three-month LIBOR plus 3.20%.
(4) The interest rate is three-month LIBOR plus 3.30%.

Secured Loan Agreements

On April 7, 2016, the Company entered into a ten-year secured loan agreement with Citigroup Global Markets Realty Corp., in the aggregate amount of $29,000. The loan is secured by a commercial office building the Company owns in Dallas, Texas. The loan bears interest at a fixed rate of 4.96% per annum and requires monthly interest only payments of approximately $169 through May 6, 2026 and payment of principal at maturity. The Company recorded interest expense, including amortization of the deferred origination costs and fees associated with the loan agreement, of approximately $373 and $736 for the three and nine months ended September 30, 2016.

On April 6, 2016, the Company through a wholly-owned subsidiary, entered into a five-year secured term loan agreement with Lloyd's Bank PLC in the aggregate amount of £7,800 (or $11,028) to finance the purchase of a commercial office building in Nottingham, U.K. The loan bears a variable rate of interest based on LIBOR plus a margin and was 2.83% as of September 30, 2016. The Company had deferred financing costs of £78 (or $114) related to the term loan. The mortgage requires quarterly principal payments of £30 and interest for the term of the loan with the remaining principal to be paid at maturity. The Company recorded interest expense, including amortization of the deferred origination costs and fees associated with the loan agreement, of approximately $73 and $159 for the three and nine months ended September 30, 2016, respectively. Pursuant to a covenant in the agreement, if the loan exceeds 70% of the fair value of the property, the Company is required to pay the lender the entire amount necessary to reduce the outstanding principal balance to be equal to or less than 70% of the fair value of the building.

Nationale Borg

Through the Company's acquisition of N.V. Nationale Borg-Maatscappij and its affiliates ("Nationale Borg"), the Company assumed Nationale Borg's existing credit facilities pursuant to which trade related guarantees and comparable standby letters of credit are issued primarily to secure obligations owed by Nationale Borg to third parties in the normal course of business. See Note 13. "Acquisitions" elsewhere in this report for a description of this transaction. The credit facilities are with Deutsche Bank Netherlands N.V. and ING Bank N.V. and are primarily used to obtain guarantees for the benefit of financial institutions. The credit limit under these credit facilities is approximately €76,650 (or $88,404). The credit facilities were utilized for €56,228 (or $63,217) as of September 30, 2016. The Company recorded total interest expense of $257 and $354 for the three and nine months ended September 30, 2016.

8. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Policy acquisition expenses	$116,434	$131,083	$365,804	$336,977
Salaries and benefits	140,300	112,769	424,834	355,927
Other insurance general and administrative expenses	27,224	14,164	56,757	35,498
	$283,958	$258,016	$847,395	$728,402

9. Earnings Per Share

The Company implemented a two-for-one stock split on February 2, 2016. As such, the weighted average number of shares used for the basic and diluted earnings per share have been adjusted retrospectively to reflect the effect of the split.

During the three and nine months ended September 30, 2015, the Company's unvested restricted shares contained rights to receive nonforfeitable dividends and were, therefore, considered participating securities. As a result, the Company computed earnings per share using the two-class method during the three and nine months ended September 30, 2015. There were no outstanding unvested restricted shares as of September 30, 2016.

The following table is a summary of the elements used in calculating basic and diluted earnings per share for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands, except for earnings per share)	2016	2015	2016	2015
Basic earnings per share:				
Net income attributable to AmTrust common shareholders	$103,550	$182,708	$338,598	$408,152
Less: Net income allocated to participating securities and redeemable non-controlling interest	—	469	—	1,072
Net income allocated to AmTrust common shareholders	$103,550	$182,239	$338,598	$407,080
Weighted average common shares outstanding – basic	170,928	165,608	173,173	164,470
Less: Weighted average participating shares outstanding	—	426	—	432
Weighted average common shares outstanding - basic	170,928	165,182	173,173	164,038
Net income per AmTrust common share - basic	$0.61	$1.10	$1.96	$2.48
Diluted earnings per share:				
Net income attributable to AmTrust common shareholders	$103,550	$182,708	$338,598	$408,152
Less: Net income allocated to participating securities and redeemable non-controlling interest	—	469	—	1,072
Net income allocated to AmTrust common shareholders	$103,550	$182,239	$338,598	$407,080
Weighted average common shares outstanding – basic	170,928	165,182	173,173	164,038
Plus: Dilutive effect of stock options, convertible debt, other	2,193	3,090	1,978	3,454
Weighted average common shares outstanding – dilutive	173,121	168,272	175,151	167,492
Net income per AmTrust common shares – diluted	$0.60	$1.09	$1.93	$2.43

The Company's anti-dilutive securities excluded from diluted earnings per share calculation were immaterial for the three and nine months ended September 30, 2016 and 2015, respectively.

10. Share Based Compensation

The Company’s 2010 Omnibus Incentive Plan (the “Plan”), which permits the Company to grant to its officers, employees and non-employee directors incentive compensation directly linked to the price of the Company’s stock, authorizes up to an aggregate of 14,630,136 shares of Company stock for awards of options to purchase shares of the Company’s common stock ("Stock Option"), restricted stock, restricted stock units (“RSU”), performance share units (“PSU”) or appreciation rights. Shares used may be either newly issued shares or treasury shares or both. The aggregate number of shares of common stock for which awards may be issued may not exceed 14,630,136 shares, subject to the authority of the Company’s Board of Directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting the Company’s common stock. As of September 30, 2016, approximately 7,100,000 shares of Company common stock remained available for grants under the Plan.

The Company recognizes compensation expense under FASB ASC 718-10-25 for its share-based payments based on the fair value of the awards. Compensation expense for all share-based payments under ASC 718-10-30 was approximately $5,891 and $6,242 for the three months ended September 30, 2016 and 2015, respectively and $17,433 and $16,678 for the nine months ended September 30, 2016 and 2015, respectively. The Company has unrecognized compensation cost related to unvested stock options, restricted stock and non-vested RSU awards of $47,774 and

$39,111 at September 30, 2016 and December 31, 2015, respectively.

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On December 15, 2015, the Company's Board of Directors declared a two-for-one stock split on the Company's common stock, payable in the form of a 100% stock dividend. On February 2, 2016, the dividend payment date, all options outstanding were adjusted by 100% and their respective exercise prices were reduced by 50%. The Company also adjusted outstanding RSUs, unvested restricted stock and PSUs for the split.

Stock Options

The Company grants stock options at prices equal to the closing stock price of the Company's stock on the dates the options are granted. The options have a term of ten years from the date of grant and vest primarily in equal annual installments over the four-year period following the date of grant for employee options. The Company uses the simplified method in determining the expected life. Employees have three months after the employment relationship ends to exercise all vested options. The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense.

The following schedule shows all options granted, exercised, and expired under the Plan for the nine months ended September 30, 2016 and 2015:

	2016		2015	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	2,783,880	$ 6.99	3,868,740	$ 5.80
Granted	—	—	85,000	27.09
Exercised	(411,913)	3.96	(1,018,950)	4.65
Canceled or terminated	(13,872)	24.69	(75,148)	9.17
Outstanding at end of period	2,358,095	7.41	2,859,642	6.75

The Company did not grant any stock options during the nine months ended September 30, 2016. The weighted average grant date fair value of options granted was $10.93 during the nine months ended September 30, 2015.

The per share fair value of options was estimated at the date of grant based on the following weighted average assumptions for the nine months ended September 30, 2015:

	2015	
Volatility	40.95	%
Risk-free interest rate	1.95	%
Weighted average expected lives in years	6.25	
Dividend rate	1.85	%
Forfeiture rate	0.50	%

The intrinsic value of stock options exercised during the nine months ended September 30, 2016 and 2015 was $8,794 and $24,000, respectively. The intrinsic value of stock options that were outstanding as of September 30, 2016 and December 31, 2015 was $45,889 and $66,300, respectively. The intrinsic value of stock options that were exercisable as of September 30, 2016 and December 31, 2015 was $45,510 and $64,705, respectively.

Cash received from options exercised was $1,558 and $4,582 during the nine months ended September 30, 2016 and 2015, respectively. The excess tax benefit from award exercises was approximately $3,081 and $7,561 for the nine months ended September 30, 2016 and 2015, respectively. Such benefits were recorded as a reduction of income tax payable and an increase in additional paid-in capital.

Restricted stock, RSU and PSU

The Company grants restricted shares, RSUs and PSUs with a grant date fair value equal to the closing stock price of the Company's stock on the dates the shares or units are granted. The restricted shares and RSUs vest over a period of one to four years, while PSUs vest based on the terms of the awards.

A summary of the Company's restricted stock and RSU activity for the nine months ended September 30, 2016 and 2015 is shown below:

	2016		2015	
	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value
Non-vested at beginning of period	1,853,516	$ 20.54	2,611,022	$ 16.70
Granted	873,388	26.03	465,400	29.19
Vested	(816,538)	17.50	(838,918)	14.53
Forfeited	(49,951)	24.17	(33,648)	20.95
Non-vested at end of period	1,860,415	24.35	2,203,856	20.10

A summary of the Company's PSU activity for the nine months ended September 30, 2016 and 2015 is shown below:

	2016		2015	
	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value
Non-vested at beginning of period	752,466	$ 24.58	549,670	$ 19.42
Granted	198,881	26.16	373,628	29.93
Vested	(234,358)	22.89	(155,842)	18.86
Forfeited	(35,766)	25.57	(9,406)	27.07
Non-vested at end of period	681,223	25.57	758,050	24.62

PSUs are conditional grants of a specified maximum number of common shares. In general, grants are earned, subject to the attainment of pre-specified performance goals at the end of the pre-determined period.

11. Income Taxes

The following table is a reconciliation of the Company's statutory income tax expense to its effective tax rate for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Income before equity in earnings of unconsolidated subsidiaries	$151,663	$166,882	$461,978	$453,476
Tax at federal statutory rate of 35%	$53,082	$58,409	$161,692	$158,717
Tax effects resulting from:				
Tax rate differences	7,898	(8,797)	(42,738)	(32,286)
Adjustment to prior year taxes	(402)	(74,385)	(402)	(82,689)
Permanent adjustments	(23,820)	(9,657)	(22,615)	(12,474)

Valuation allowance	(319)	—	(10,255)	—
Other, net	(923)	21,781	5,478	7,367
	$35,516	$(12,649)	$91,160	$38,635
Effective tax rate	23.4 %	(7.6)%	19.7 %	8.5 %

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As of September 30, 2016, the Company has U.S. Net Operating Losses ("NOLs") of $56,468 that expire beginning in 2018 through 2036. These NOLs are limited to $3,152 per year under Section 382 of the Internal Revenue Code. The Company also has foreign NOLs of $661,410 that currently have no expiration. The Company’s management believes that as of September 30, 2016, except for a portion of foreign NOLs, it will realize the benefits of its deferred tax assets, which are included as a component of the other assets on the condensed consolidated balance sheet. As a result, the Company recorded a valuation allowance of $158,670 and $170,043 as of September 30, 2016 and December 31, 2015, respectively, related to the foreign NOLs. The decrease in the valuation allowance from December 31, 2015 to September 30, 2016 was driven primarily by the release of the valuation allowance on NOLs that were in place on the Company’s U.K. operations. The Company determined, based on income projections of the U.K. operations, that sufficient positive evidence exists that it is more likely than not that the NOL deferred tax assets will be realized.

The Company did not utilize any equalization reserves attributed to its Luxembourg reinsurance companies during the three and nine months ended September 30, 2016 and 2015, respectively.

The earnings of certain of the Company’s foreign subsidiaries have been indefinitely reinvested in foreign operations. Therefore, no provision has been made for any U.S. taxes or foreign withholding taxes that may be applicable upon any repatriation or disposition.

The Company’s major taxing jurisdictions include the U.S. (federal and state), the United Kingdom and Ireland. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the Company’s statute of limitation is open for tax years ended December 31, 2011 and forward.

As permitted by FASB ASC 740-10 Income Taxes, the Company recognizes interest and penalties, if any, related to unrecognized tax benefits in its income tax provision. The Company does not have any unrecognized tax benefits and, therefore, has not recorded any unrecognized tax benefits, or any related interest and penalties, as of September 30, 2016 and December 31, 2015. No interest or penalties have been recorded by the Company for the three and nine months ended September 30, 2016 and 2015, respectively. The Company does not anticipate any significant changes to its total unrecognized tax benefits in the next 12 months.

12. Related Party Transactions

Significant Transactions with Maiden Holdings, Ltd.

The Company has various reinsurance and service agreements with Maiden Holdings, Ltd. (“Maiden”). Maiden is a publicly-held Bermuda insurance holding company (Nasdaq: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, principal shareholders, and, respectively, the Company's former chairman of the board of directors, a director, and the current chairman, chief executive officer and president of the Company. As of September 30, 2016, our principal shareholders, Leah Karfunkel (one of the Company's directors and co-trustee of The Michael Karfunkel Family 2005 Trust (the "Trust")), George Karfunkel and Barry Zyskind, own or control approximately 7.9%, 2.0% and 7.5%, respectively, of the issued and outstanding capital stock of Maiden. Mr. Zyskind serves as the non-executive chairman of the board of Maiden’s board of directors. Maiden Reinsurance Ltd. (“Maiden Reinsurance”), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer. The following section describes the agreements in place between the Company and its subsidiaries and Maiden and its subsidiaries.

Reinsurance Agreements with Maiden Holdings, Ltd.

In 2007, the Company and Maiden entered into a master agreement, as amended, by which the parties caused the Company’s Bermuda subsidiary, AmTrust International Insurance, Ltd. (“AII”), and Maiden Reinsurance to enter into a

quota share reinsurance agreement (the “Maiden Quota Share”), as amended, by which AII retrocedes to Maiden Reinsurance an amount equal to 40% of the premium written by the Company’s U.S., Irish and U.K. insurance companies (the “AmTrust Ceding Insurers”), net of the cost of unaffiliated inuring reinsurance (and in the case of the Company’s U.K. insurance subsidiary, AmTrust Europe Ltd. ("AEL"), net of commissions). AII also retrocedes 40% of losses. Certain business that the Company commenced writing after the effective date of the Maiden Quota Share, including the Company’s European medical liability business discussed below, business assumed from Tower Group International, Ltd. ("Tower") pursuant to the cut-through quota share reinsurance agreement, and risks, other than workers’ compensation risks and certain business written by the Company’s Irish subsidiary, AmTrust International Underwriters DAC (“AIU”), for which the AmTrust Ceding Insurers’ net retention exceeds $5,000 is not ceded to Maiden Reinsurance under the Maiden Quota Share (ceded business defined as “Covered Business”).

AII receives a ceding commission of 31% of ceded written premiums with respect to all Covered Business other than retail commercial package business, for which the ceding commission remains 34.375%. With regards to the Specialty Program portion of Covered Business only, the Company will be responsible for ultimate net loss otherwise recoverable from Maiden Reinsurance to the extent that the loss ratio to Maiden Reinsurance, which shall be determined on an inception to date basis from July 1, 2007 through the date of calculation, is between 81.5% and 95% (the "Specialty Program Loss Corridor"). For the purpose of determining whether the loss ratio falls within the Specialty Program Loss Corridor, workers' compensation business written in the Company's Specialty Program segment from July 1, 2007 through December 31, 2012 is excluded from the loss ratio calculation.

The Maiden Quota Share was renewed through June 30, 2019 and will automatically renew for successive three-year terms unless either AII or Maiden Reinsurance notifies the other of its election not to renew no less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on thirty days' notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Reinsurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Reinsurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers.

The Company, through its subsidiaries AEL and AIU, has a reinsurance agreement with Maiden Reinsurance by which the Company cedes to Maiden Reinsurance a percentage of its European medical liability business, including business in force at April 1, 2011. From April 1, 2011 through June 30, 2016, that percentage ceded was 40%. Effective July 1, 2016, the percentage ceded decreased to 32.5%. The quota share had an initial term of one year and has been renewed through March 31, 2017. The agreement can be terminated at any April 1 by either party on four months' prior written notice. Maiden Reinsurance pays the Company a 5% ceding commission, and the Company will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%.

The following is the effect on the Company's results of operations for the three and nine months ended September 30, 2016 and 2015 related to Maiden Reinsurance agreements:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Results of operations:				
Premium written – ceded	$(514,802)	$(453,981)	$(1,587,757)	$(1,504,701)
Change in unearned premium – ceded	(1,023)	(13,522)	126,379	204,170
Earned premium - ceded	$(515,825)	$(467,503)	$(1,461,378)	$(1,300,531)
Ceding commission on premium written	$183,457	$144,625	$512,995	$473,480
Ceding commission – deferred	(25,241)	(6,589)	(72,434)	(87,535)
Ceding commission – earned	$158,216	$138,036	$440,561	$385,945
Incurred loss and loss adjustment expense – ceded	$334,878	$346,123	$994,212	$932,053

Note Payable to Maiden – Collateral for Proportionate Share of Reinsurance Obligations

In conjunction with the Maiden Quota Share, as described above, the Company entered into a loan agreement with Maiden Reinsurance during the fourth quarter of 2007, whereby Maiden Reinsurance loaned to the Company the amount equal to AII's quota share of the obligations of the AmTrust Ceding Insurers that AII was then obligated to secure. The loan agreement provides for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Advances under the loan are secured by a promissory note and totaled $167,975 as of September 30, 2016 and December 31, 2015, respectively. The Company recorded $599 and $471 of interest expense during the three months ended September 30, 2016 and 2015, respectively, and $1,729 and $1,380 during the nine months ended September 30, 2016 and 2015, respectively. Effective December 1, 2008, AII and Maiden Reinsurance entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Reinsurance is required to provide AII the assets

required to secure Maiden's proportional share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral contained in various reinsurance trusts as of September 30, 2016 was approximately $2,966,862. Maiden retains ownership of the collateral in the trust account.

Reinsurance Brokerage Agreement

The Company, through a subsidiary, has a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, the Company provides brokerage services relating to the Maiden Quota Share for a fee equal to 1.25% of reinsured premium. The Company recorded $6,520 and $5,828 of brokerage commission during the three months ended September 30, 2016 and 2015,

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respectively, and $19,744 and $18,688 during the nine months ended September 30, 2016 and 2015, respectively. The brokerage commission was recorded as a component of service and fee income.

Asset Management Agreement

The Company, through a subsidiary, has an asset management agreement with Maiden Reinsurance, pursuant to which the Company provides investment management services to Maiden Reinsurance and certain of its affiliates. As of September 30, 2016, the Company managed approximately $4,750,000 of assets related to this agreement. The asset management services fee is an annual rate of 0.20% for periods in which average invested assets are $1,000,000 or less and an annual rate of 0.15% for periods in which the average invested assets exceeds $1,000,000. As a result of this agreement, the Company recorded $1,780 and $1,518 of asset management fees during the three months ended September 30, 2016 and 2015, respectively, and $5,122 and $4,455 during the nine months ended September 30, 2016 and 2015, respectively. The asset management fees were recorded as a component of service and fee income.

Significant Transactions with National General Holding Corp.

The Company has an ownership interest in NGHC of approximately 12%. NGHC is a publicly-held specialty personal lines insurance holding company (Nasdaq: NGHC) that operates fifteen insurance companies in the United States and provides a variety of insurance products, including personal and commercial automobile, homeowners and umbrella, and supplemental health. As of September 30, 2016, NGHC's two largest shareholders were The Trust and Leah Karfunkel individually. Leah Karfunkel is a member of the Company's Board of Directors, and the mother-in-law of Barry D. Zyskind, the Chairman, President and Chief Executive Officer of the Company. The ultimate beneficiaries of the Trust include Leah Karfunkel’s children, one of whom is married to Mr. Zyskind. In addition, Barry Karfunkel, the son of Leah Karfunkel and brother-in-law of Barry D. Zyskind, is the chief executive officer of NGHC and Barry D. Zyskind is NGHC's non-executive chairman of the board. In accordance with ASC 323-10-15, Investments-Equity Method and Joint Ventures, the Company accounts for its investment in NGHC under the equity method as it has the ability to exert significant influence on NGHC's operations.

During the three months ended September 30, 2016 and 2015, the Company recorded $1,954 and $13,477 of income, respectively, and $12,532 and $23,048 during the nine months ended September 30, 2016 and 2015, respectively, related to its equity investment in NGHC.

Master Services Agreement

The Company provides NGHC and its affiliates information technology services in connection with the development and licensing of a policy management system. The Company provides the license at a cost that is currently 1.25% of gross written premium of NGHC and its affiliates plus the Company’s costs for development and support services. The Company provides development services at a price of cost plus 20%. In addition, the Company provides NGHC and its affiliates printing and mailing services at a per piece cost for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies the Company processes for NGHC and its affiliates on the policy management system. The Company recorded approximately $8,735 and $8,650 of fee income during the three months ended September 30, 2016 and 2015, respectively, and $29,921 and $26,019 during the nine months ended September 30, 2016 and 2015, respectively, related to this agreement. The fees for these services were recorded as a component of service and fee income.

Asset Management Agreement

A subsidiary of the Company manages the assets of certain of NGHC's subsidiaries, including the assets of reciprocal insurers managed by subsidiaries of NGHC, for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1,000,000 or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1,000,000. The Company managed approximately $3,258,000 of assets as of September 30, 2016 related to this agreement. As a result of this agreement, the Company earned approximately $986 and $720 of asset management fees during the three months ended September 30, 2016 and 2015, respectively, and $2,586 and $1,859 during the nine months ended September 30, 2016 and 2015, respectively. The asset management fees were recorded as a component of service and fee income.

800 Superior, LLC

The Company and NGHC each have a fifty percent ownership interest in 800 Superior, LLC ("800 Superior"), which owns an office building in Cleveland, Ohio. The cost of the building was approximately $7,500. The Company has been appointed

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managing member of 800 Superior. Additionally, in conjunction with the Company's approximate 12% ownership percentage of NGHC, the Company ultimately receives 56% of the profits and losses of 800 Superior. As such, in accordance with ASC 810-10, Consolidation, the Company consolidates this entity. NGHC's portion of the net assets and earnings are recorded within non-controlling interest in the condensed consolidated financial statements.

NGHC has an office lease agreement with 800 Superior. The lease agreement is through 2027. NGHC paid 800 Superior approximately $696 and $663 of rent during the three months ended September 30, 2016 and 2015, respectively, and $2,063 and $1,929 during the nine months ended September 30, 2016 and 2015, respectively, under the lease agreement. As discussed in Note 14. "New Market Tax Credit," 800 Superior, the Company and NGHC participated in a financing transaction related to capital improvements on the office building. As part of that transaction, NGHC and the Company entered into an agreement related to the payment and performance guaranties provided by the Company to the various parties to the financing transaction whereby NGHC has agreed to contribute 50% toward any payments the Company is required to make pursuant to the guaranties.

4455 LBJ Freeway, LLC

In 2015, the Company and NGHC each acquired a fifty percent ownership interest in 4455 LBJ Freeway, LLC ("4455 LBJ Freeway"), which owns an office building in Dallas, Texas. The cost of the building was approximately $21,050. The Company has been appointed managing member of 4455 LBJ Freeway. Additionally, in conjunction with the Company's approximate 12% ownership percentage of NGHC, the Company ultimately receives 56% of the profits and losses of 4455 LBJ Freeway. As such, in accordance with ASC 810-10, Consolidation, the Company consolidates this entity. NGHC's portion of the net assets and earnings are recorded within non-controlling interest in the condensed consolidated financial statements.

In addition, NGHC has an office lease agreement with 4455 LBJ Freeway. The lease agreement is through February 2028. The Company recorded approximately $389 and $907 of service and fee income related to rent for the three and nine months ended September 30, 2016. Lastly, as discussed in Note 7. "Debt," 4455 LBJ Freeway entered into a ten-year loan agreement with Citigroup Global Markets Realty Corp. secured by the Dallas office building owned by 4455 LBJ Freeway. As part of that transaction, the Company and NGHC provided a joint and several guaranty to Citigroup. As a result, the Company and NGHC entered into an agreement to contribute 50% toward any payments the other party would be required to make pursuant to this guaranty.

Significant Transactions with ACP Re, Ltd.

ACP Re, Ltd. ("ACP Re") is a privately-held Bermuda reinsurance holding company owned by the Trust. In 2014, a subsidiary of ACP Re merged with Tower. The following section describes the significant agreements in place between the Company and its subsidiaries and ACP Re and its subsidiaries.

Asset Management Agreement

A subsidiary of the Company provides asset management services to ACP Re and certain of its subsidiaries at (i) an annual rate of 0.20% of the average value of the invested assets under management, excluding investment in the Company's stock, for the preceding calendar quarter if the average value of such assets for the quarter was $1,000,000 or less, or (ii) an annual rate of 0.15% of the average value of the invested assets under management, excluding investment in the Company's stock, for the preceding calendar quarter if the average value of such assets for the quarter was greater than $1,000,000. The Company managed approximately $540,573 of assets as of September 30, 2016. The Company recorded approximately $230 and $457 of asset management fees during the three months ended September 30, 2016 and 2015, respectively, and $687 and $1,281 during the nine months ended September 30, 2016 and 2015, respectively. The asset management fees were recorded as a component of service and fee income.

Agreements as a result of the ACP Re / Tower Merger

The Company and ACP Re entered into the agreements and transactions described below, as well as the asset management agreement described above, as a result of ACP Re's acquisition of 100% of the outstanding stock of Tower on September 15, 2014. As described in the Company's Current Report on Form 8-K filed on July 29, 2016, in July 2016, Tower's statutory insurance companies (the "Tower Companies") merged into CastlePoint National Insurance Company ("CNIC"), with CNIC as the surviving entity. By order of the Supreme Court of the State of California, on July 28, 2016, CNIC was placed into receivership. On September 13, 2016, when the Conservation Plan developed by the Commissioner of Insurance of the State of California for CNIC (the "Conservation Plan") was approved by the Superior Court of the State of California, and members of the Michael Karfunkel family made a $200,000 contribution to CNIC on September 20, 2016 (the "Contribution"), several of the agreements described below were either amended or terminated.

Commercial Lines Reinsurance Agreements

Technology Insurance Company, Inc. ("TIC") entered into the Commercial Lines Quota Share Reinsurance Agreement (the "CL Reinsurance Agreement") with Tower's ten statutory insurance companies (the "Tower Companies") pursuant to which TIC reinsures 100% of all losses under the Tower Companies' new and renewal commercial lines business written after September 15, 2014. The ceding commission payable by TIC under the CL Reinsurance Agreement is equal to the sum of (i) reimbursement of the Tower Companies' acquisition costs in respect of the business covered, including commission payable to AmTrust North America, Inc., a subsidiary of the Company ("ANA"), pursuant to the CL MGA Agreement described below, and premium taxes and (ii) 2% of gross written premium (net of cancellations and return premiums) collected pursuant to the CL MGA Agreement described below. The CL Reinsurance Agreement will remain in effect until termination of the CL MGA Agreement. The Company no longer assumes premium under the CL Reinsurance Agreement and policies previously assumed are in run off.

Commercial Lines MGA Agreement

Until CNIC's placement into receivership, ANA produced and managed all new and renewal commercial lines business written by the Tower Companies pursuant to the Commercial Lines Managing General Agency Agreement (the "CL MGA Agreement"). As described above, all post-September 15, 2014 commercial lines business written by the Tower Companies was reinsured by TIC pursuant to the CL Reinsurance Agreement. The Tower Companies paid ANA a 10% commission on all business written pursuant to the CL MGA Agreement and reimbursed ANA for commissions payable to agents producing such business. All payments by the Tower Companies to ANA pursuant to the CL MGA Agreement were netted out of the ceding commission payable by TIC to the Tower Companies pursuant to the CL Reinsurance Agreement. The Company did not record any commission during the three and nine months ended September 30, 2016, and recorded $1,386 and $3,444 of commission under the CL MGA Agreement during the three and nine months ended September 30, 2015. The commission income was recorded as a component of service and fee income. There is no longer any commercial lines business managed under this agreement.

Commercial Lines Administrative Services Agreement

ANA, the Tower Companies and CastlePoint Reinsurance Company, Ltd. ("CP Re," a subsidiary of ACP Re) entered into the Commercial Lines LPTA Administrative Services Agreement (the "CL Administrative Agreement") pursuant to which ANA administered the runoff of CP Re's and the Tower Companies' commercial lines business written prior to September 15, 2014 at cost. CP Re and the Tower Companies reimbursed ANA for its actual costs, including costs incurred in connection with claims operations, out-of-pocket expenses, costs incurred in connection with any required modifications to ANA's claims systems and an allocated portion of the claims service expenses paid by TIC to the Tower Companies pursuant to the CL Reinsurance Agreement. The Company charged ACP Re $3,315 and $6,033 for these services during the three months ended September 30, 2016 and 2015, respectively, and $9,298 and $29,589 for the nine months ended September 30, 2016 and 2015, respectively, which were recorded as a reduction of salary and other expense. The CL Administrative Agreement terminated upon the approval of the Conservation Plan and the making of the Contribution discussed above.

Stop-Loss and Retrocession Agreements

AII and National General Re, Ltd., a subsidiary of NGHC ("NG Re Ltd."), as reinsurers, entered into a $250,000 Aggregate Stop Loss Reinsurance Agreement (the "Stop-Loss Agreement") with CP Re. AII and NG Re Ltd. also entered into an Aggregate Stop Loss Retrocession Contract (the "Retrocession Agreement") with ACP Re pursuant to which ACP Re would reinsure the full amount of any payments that AII and NG Re Ltd. were obligated to make to CP Re under the Stop-Loss Agreement. Pursuant to the Stop-Loss Agreement, each of the Company and NGHC had agreed to provide, severally, $125,000 of stop loss coverage with respect to the run-off of the Tower business written on or before September 15, 2014. The reinsurers' obligation to indemnify CP Re under the Stop-Loss Agreement would have been triggered only at such time as CP Re's ultimate net loss related to the run-off of the pre-September 15, 2014 Tower business exceeded a retention equal to the Tower Companies' loss and loss adjustment reserves and unearned premium reserves as of September 15, 2014. Upon the approval of the Conservation Plan and the making of the Contribution discussed above, the Stop-Loss Agreement and the Retrocession Agreement terminated.

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ACP Re Credit Agreement

The Company, AII, and NG Re Ltd. entered into a credit agreement (the "ACP Re Credit Agreement") among the Company, as Administrative Agent, ACP Re and Tower, now a wholly-owned subsidiary of ACP Re, as the borrowers (collectively, the "Borrowers"), ACP Re Holdings, LLC, as Guarantor, and AII and NG Re Ltd., as Lenders pursuant to which the Lenders made a $250,000 loan ($125,000 made by each Lender) to the Borrowers. As discussed below under "Restructuring of ACP Re Credit Agreement," certain terms of the ACP Re Credit Agreement were amended and restated following the approval of the Conservation Plan and the making of the Contribution.

Until the restructuring of the ACP Re Credit Agreement, it had a maturity date of September 15, 2021. Outstanding borrowings under the original ACP Re Credit Agreement bore interest at a fixed annual rate of 7%, payable semi-annually on the last day of January and July. Fees payable to the Company for its service as Administrative Agent continue to include an annual fee equal to $30, plus reimbursement of costs, expenses and certain other charges. Prior to the restructuring, the obligations of the Borrowers were secured by (i) a first-priority pledge of 100% of the stock of ACP Re and ACP Re's U.S. subsidiaries and 65% of the stock of certain of ACP Re's foreign subsidiaries, and (ii) a first-priority lien on all of the assets of the Borrowers and Guarantor and certain of the assets of ACP Re's subsidiaries (other than the Tower Companies).

The Borrowers continue to have the right to prepay the amounts borrowed, in whole or in part. Until the restructuring, the Borrowers were required to prepay the amounts borrowed within thirty (30) days from the receipt of net cash proceeds received by ACP Re from (i) certain asset sales, (ii) the disposition of certain equity interests, (iii) the issuance or incurrence of certain debt, (iv) any dividend or distribution from Tower subsidiaries to ACP Re, (v) premiums and other payments received pursuant to the Retrocession Agreement, and (vi) any tax refunds, pension plan reversions, insurance proceeds, indemnity payments, purchase price adjustments (excluding working capital adjustments) under acquisition agreements, litigation proceeds and other similar receipts received by the Borrowers after the effective date of the ACP Re Credit Agreement, unless any of the foregoing proceeds (other than payments received pursuant to the Retrocession Agreement) are required for the ordinary course business operations of the Borrowers. The Borrowers were also required to deposit any excess cash flow (including payments under the Master Agreement) into a reserve account that also secures Borrowers' obligations under the ACP Re Credit Agreement. Any funds in the reserve account after January 1, 2018 that exceed the amount of interest payable by the Borrowers for the remainder of the term of the ACP Re Credit Agreement would be applied by the Borrowers as a prepayment of principal under the ACP Re Credit Agreement.

Prior to the restructuring, the ACP Re Credit Agreement contained certain customary restrictive covenants (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, dispositions, creation of subsidiaries and restricted payments. There were also financial covenants that required ACP Re to maintain minimum current assets, a maximum leverage ratio, and a minimum fixed charge coverage ratio. If ACP Re failed to comply with the leverage ratio or fixed charge coverage ratio covenants as of any measurement date, the Borrowers could cure such breach by making a capital contribution to ACP Re sufficient to bring the Borrowers into compliance.

The ACP Re Credit Agreement also provided for customary events of default, with grace periods where appropriate, 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, receivership or insurance regulatory events affecting the Borrowers, the occurrence of certain material judgments, certain amounts of reportable ERISA or foreign pension plan noncompliance events, a change in control of the Guarantor, any security interest created under the ACP Re Credit Agreement ceases to be in full force and effect, or if ACP Re defaults on its obligations under the Retrocession Agreement. Upon the occurrence and during the continuation of an event of default, the Company, as Administrative Agent, upon the request of any Lender, would declare the Borrowers' obligations under the ACP Re Credit Agreement immediately due and payable and/or exercise any and all remedies and other rights under the ACP Re Credit Agreement.

As of September 30, 2016 and December 31, 2015, the Company recorded $127,061 and $129,375, respectively, of loan and related interest receivable as a component of other assets on the condensed consolidated balance sheet. The Company recorded total interest income of approximately $2,061 and $2,115 for the three months ended

September 30, 2016 and 2015, respectively, and $6,436 and $6,514 during the nine months ended September 30, 2016 and 2015, respectively, under the ACP Re Credit Agreement.

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Restructuring of ACP Re Credit Agreement

As disclosed in the Company's Current Report on Form 8-K filed on September 21, 2016, the Company, AII, NG Re Ltd., ACP Re Holdings, LLC and the Trust entered into an Amended and Restated Credit Agreement on September 20, 2016, following approval by the Superior Court of the State of California of the Conservation Plan, and the Contribution by members of the Michael Karfunkel family to CNIC. The Amended and Restated Credit Agreement incorporates the following restated terms:

- The borrower became ACP Re Holdings, LLC, a Delaware limited liability company owned by the Trust;
- The Trust will cause ACP Re Holdings, LLC to maintain assets having a value greater than 115% of the value of the then 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");
- The amounts borrowed are secured by equity interests, cash and cash equivalents, other investments held by ACP Re Holdings, LLC and proceeds of the foregoing in an amount equal to the requirements of the Maintenance Covenant;
- The maturity date changed from September 15, 2021 to September 20, 2036;
- Interest on the outstanding principal balance of $250,000 is a fixed annual rate of 3.70% (payable in cash, semi-annually in arrears), provided that up to 1.20% thereof may be paid in kind;
- Commencing on September 20, 2026, and for each year thereafter, 2% of the then outstanding principal balance of the loan (inclusive of any amounts previously paid in kind) is due and payable;
- At the Lenders' discretion, ACP Re Holdings, LLC may repay the loan using cash or tradeable stock of an equivalent market value of any publicly traded company on the NYSE, NASDAQ or London stock exchange; and
- A change of control of greater than 50% and an uncured breach of the Maintenance Covenant are included as events of default.

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 Leah Karfunkel and George Karfunkel. The lease term is through May 2023. The Company paid approximately $687 and $527 of rent during the three months ended September 30, 2016 and 2015, respectively, and $1,425 and $1,475 during the nine months ended September 30, 2016 and 2015, respectively, for the leased office space.

The Company leased office space in Chicago, Illinois from 135 LaSalle Property, LLC, an entity that is wholly-owned by entities controlled by Leah Karfunkel and George Karfunkel. The lease terminated on May 31, 2016. The Company paid rent of approximately $197 and $466 during the nine months ended September 30, 2016 and 2015, respectively, for the leased office space. The Company now leases office space in Chicago, Illinois from IC 233 Building Company LLC, a wholly-owned subsidiary of Illinois Center Building Company, discussed below. The lease term is ten years through the end of May 2026. The Company's rent expense was $340 during the nine months ended September 30, 2016 for the leased office space.

Equity Investments in Limited Partnerships

In February 2015, the Company invested approximately $9,700 in North Dearborn Building Company, L.P. ("North Dearborn"), a limited partnership that owns an office building in Chicago, Illinois. NGHC is also a limited partner in North Dearborn, and the general partner is NA Advisors GP LLC ("NA Advisors"), an entity controlled by Leah Karfunkel and managed by an unrelated third party. The Company and NGHC each received a 45% limited partnership interest in North Dearborn for their respective $9,700 investments, while NA Advisors invested

approximately $2,200 and holds a 10% general partnership interest and a 10% profit interest, which NA Advisors pays to the unrelated third party manager. North Dearborn appointed NA Advisors as the general manager to oversee the day-to-day operations of the office building and pays NA Advisors an annual fee for these services. This investment is included within other investments and is accounted for using the equity method of accounting on a three-month lag basis. The Company recorded approximately $207 and $652 of income from this investment during the three and nine months ended September 30, 2016 and $542 during the three and nine months ended September 30, 2015.

In August 2015, certain of the Company's subsidiaries invested approximately $53,715 in Illinois Center Building Company, L.P. ("Illinois Center"), a limited partnership that owns an office building complex in Chicago, Illinois. NGHC and ACP Re are also limited partners in Illinois Center, and the general partner is NA Advisors. The Company and NGHC each have a 37.5% limited partnership interest in Illinois Center, while ACP Re has a 15.0% limited partnership interest. NA Advisors holds a 10% general partnership interest and a 10% 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 and pays NA Advisors an annual fee for these services. This investment is included within other investments and is accounted for using the equity method

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of accounting on a three-month lag basis. The Company recorded approximately $560 and $1,714 of income from this investment during the three and nine months ended September 30, 2016.

These limited partnerships are considered variable interest entities ("VIEs"). Based on current accounting guidance, the Company is required to consolidate any VIEs in which it is deemed to be the primary beneficiary through having: (i) power over the significant activities of the entity, and (ii) having an obligation to absorb losses or the right to receive benefits from the VIE that are potentially significant to the VIE. The Company performed a primary beneficiary analysis on the aforementioned limited partnerships and determined the Company was not the primary beneficiary since it does not have power over the significant activities of the entity. These limited partnerships are recorded as a component of other investments on the condensed consolidated balance sheet. The carrying value of these limited partnerships, in aggregate, was $67,077 and $64,869 as of September 30, 2016 and December 31, 2015, respectively. The maximum exposure to loss, which is the estimated loss that would be incurred under severe, hypothetical circumstances, for which the possibility of occurrence is remote, such as where the value of the Company's interests declines to zero, without any consideration of recovery or offset from any economic hedges, was $67,077 and $64,869 as of September 30, 2016 and December 31, 2015, respectively. The maximum exposure to loss is a required disclosure under US GAAP and is not an indication of expected loss.

Use of the Company Aircraft

The Company and its wholly-owned subsidiary, AmTrust Underwriters, Inc. (“AUI”), are each a party to aircraft time share agreements with each of Maiden and NGHC. The agreements provide for payment to the Company or AUI for the usage of their respective company-owned aircraft and cover actual expenses incurred and permissible under federal aviation regulations. Such expenses include, among others, travel and lodging expenses of the crew, in-flight catering, flight planning and weather contract services, ground transportation, fuel, landing and hanger fees, and airport taxes. Neither the Company nor AUI charge Maiden or NGHC for the fixed costs that would be incurred in any event to operate the aircraft (for example, aircraft purchase costs, insurance and flight crew salaries). During the three months ended September 30, 2016, Maiden paid $22 and NGHC paid $85, respectively, for their use of the company-owned aircraft under these agreements. During the nine months ended September 30, 2016, Maiden paid $61 and NGHC paid $125, respectively, for their use of the Company-owned aircraft under these agreements. The amount that each of Maiden and NGHC paid for the use of the Company-owned aircraft under these agreements was not material, either individually or in the aggregate, during the three and nine months ended September 30, 2015.

In addition, for personal travel, Mr. Barry Zyskind, the Company’s Chairman, President and Chief Executive Officer, entered into aircraft reimbursement agreements with the Company and AUI. Since entering into such agreements, Mr. Zyskind has fully reimbursed the Company and AUI for the incremental cost billed by the Company and AUI for his personal use of the respective company-owned aircraft. During the three months ended September 30, 2016 and 2015, Mr. Zyskind reimbursed the Company and AUI, in aggregate, $283 and $70, respectively, for his personal use of the company-owned aircraft. During the nine months ended September 30, 2016 and 2015, Mr. Zyskind reimbursed the Company and AUI, in aggregate, $767 and $404, respectively, for his personal use of the company-owned aircraft.

13. Acquisitions

Trust Risk Group

In October 2014, a dispute arose between the Company's subsidiary, AmTrust Europe Ltd., and its Italian medical liability broker, Trust Risk Group SpA ("TRG"), and agent, Trust Risk Italia SRL ("TRI," a subsidiary of TRG, collectively, “TRG”). TRG asserted that it was entitled to advanced commissions of approximately €95,800 (or $106,300) related to the Company's Italian medical liability business produced by TRG. TRG deducted approximately €42,200 (or $46,800) from premium payable to the Company with the intention of deducting approximately €48,700 (or $54,100)

from future premium payable to the Company. The Company disputed that TRG was entitled to advanced commission. The Company terminated its brokerage and agency relationship with TRG and TRI, respectively, and notified its insureds and retail brokers to pay premiums directly to the Company.

TRG initiated two arbitration proceedings against the Company in Milan, Italy seeking monetary damages based upon its allegations that the Company improperly terminated the producer agreements and an entitlement to advanced commissions on the business produced for the Company. Subsequently, the Company commenced litigation in England and the U.S. against Antonio Somma, the current or former principal of TRG, and Marco Lacchini, the chairman of the two arbitration proceedings pending in Milan, Italy. The Company brought the English and U.S. legal actions based on allegations that the two ongoing Italian arbitrations were not being conducted in accordance with the law, as well as certain other matters. The Company was successful in its application in Italy to remove Mr. Lacchini as chairman of the two arbitral tribunals.

As disclosed in the Company's Current Report on Form 8-K filed on July 20, 2016, the Company, AmTrust Europe, Ltd., and TRG and Mr. Somma reached a settlement agreement on July 15, 2016 that included the dismissal of all actions, claims and counterclaims among the parties, the terms of which all parties agreed to keep confidential. The terms of the settlement did not have a material effect on the Company's results of operations, financial position or liquidity. In conjunction with the settlement agreement, the Company entered into additional agreements, whereby the Company obtained renewal rights associated with all the in-force business produced by TRG prior to the termination of the brokerage and agency relationship and a non-compete agreement from TRG, Mr. Somma and related parties for a period of three years in exchange for €16,000, as well as the release of a receivable balance due from TRG of €14,000. The cash consideration at inception of the non-compete agreement was €13,000, with the remainder of €3,000 to be paid after a period of three years. In accordance with FASB ASC 805-10 Business Combinations, the Company recorded an acquisition price of €29,800 (or $32,956) for these agreements. The Company determined the fair value of the non-compete agreement to be €17,500 (or $19,353) and the life of the asset to be three years. The fair value of the renewal rights agreement was determined to be €12,000 (or $13,271) and have a life of four years. The remaining amount of €300 (or$332) was determined to be goodwill and is not expected to be deductible for income tax purposes. The goodwill and intangible assets, as well as the results of operations from these agreements, are included as a component of the Specialty Risk and Extended Warranty segment.

Nationale Borg

On May 31, 2016, the Company completed the acquisition of N.V. Nationale Borg-Maatscappij and its affiliates ("Nationale Borg") for €161,350 (or $179,583). Nationale Borg is an Amsterdam-based international direct writer and reinsurer of surety and trade credit insurance in over 70 countries that has been in existence for approximately 120 years.

A summary of the preliminary assets acquired and liabilities assumed for Nationale Borg are as follows:

(Amounts in Thousands)	
Assets	
Cash and investments	$229,607
Premium receivable	4,301
Accrued interest and dividends	83
Reinsurance recoverable	4,322
Other assets	8,414
Property and equipment	10,319
Goodwill and intangible assets	64,328
Total assets	$321,374
Liabilities	
Loss and loss adjustment expense reserves	$87,813
Unearned premiums	24,782
Accrued expenses and other liabilities	29,196
Total liabilities	$141,791
Acquisition price	$179,583

The goodwill and intangible assets, as well as Nationale Borg's results of operations, are included as a component of the Specialty Risk and Extended Warranty segment. The goodwill is not expected to be deductible for income tax purposes. The intangible assets consist primarily of trade names, licenses and agent relationships. The Company anticipates completing its acquisition accounting by the end of 2016. As a result of this acquisition, the Company recorded approximately $27,539 and $37,034 of gross written premium during the three and nine months ended

September 30, 2016.

First Nationwide Title Agency

On May 20, 2016, the Company completed the acquisition of First Nationwide Title Agency and its subsidiaries ("First Nationwide"). First Nationwide is a title agency providing title insurance products primarily in the State of New York. The consideration for the purchase consisted of approximately $24,200 at closing and contingent consideration based on profitability of the agency over a four-year period.

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The net assets recorded for First Nationwide consisted primarily of goodwill and intangible assets and are included in the Specialty Risk and Extended Warranty segment. The goodwill is not expected to be deductible for income tax purposes. The intangible assets consist primarily of customer relationships and trade names. The Company anticipates completing its acquisition accounting by the end of 2016. As a result of this acquisition, the Company recorded service and fee income of $7,401 for the three and nine month periods ended September 30, 2016.

Genworth

On May 9, 2016, the Company completed the acquisition of Genworth Financial Mortgage Insurance Ltd. ("Genworth"). Genworth provides mortgage insurance in Europe, primarily in the U.K. Finland, Italy and Germany. The consideration given for Genworth consisted of cash of approximately $54,500.

A summary of the preliminary assets acquired and liabilities assumed for Genworth are as follows:

(Amounts in Thousands)	
Assets	
Cash and investments	$239,695
Reinsurance recoverable	27,570
Other assets	8,422
Property and equipment	964
Total assets	$276,651
Liabilities	
Loss and loss adjustment expense reserves	$84,463
Unearned premiums	76,308
Accrued expenses and other liabilities	13,060
Total liabilities	$173,831
Acquisition price	$54,500
Acquisition gain	$48,320

The Company determined that the fair value of any intangible assets associated with the acquisition were immaterial. Genworth's results of operations are included as a component of the Specialty Risk and Extended Warranty segment. The Company anticipates completing its acquisition accounting by the end of 2016. As a result of this acquisition, the Company recorded approximately $6,767 and $11,067 of gross written premium during the three and nine months ended September 30, 2016.

Republic

On April 18, 2016, the Company completed the acquisition of Republic Companies, Inc. and its affiliates ("Republic") from Delek Group Ltd., and Republic Insurance Holdings, LLC. Republic provides commercial and personal lines property and casualty insurance through independent agents and managing general agents. Republic primarily distributes the majority of its business to individuals and small and medium-size businesses through a network of independent agents in the southwestern United States. In addition, Republic generates fee revenue by providing insurance services to third parties.

The consideration given for Republic consisted of approximately $113,456 of cash at closing, a promissory note payable of approximately $104,685 due to Delek Group Ltd. and deferred payments of approximately $15,200 that are owed to the minority owners of Republic. Further information on the promissory note can be found in "Note 7. Debt"

elsewhere in this report. The deferred payments will be made in nineteen quarterly installments of $800 and began three months after the acquisition date. The remaining deferred payment liability as of September 30, 2016 was $14,400.

A summary of the preliminary assets acquired and liabilities assumed for Republic are as follows:

(Amounts in Thousands)	
Assets	
Cash and investments	$621,068
Premium receivable, net	85,455
Accrued interest and dividends	4,779
Reinsurance recoverable	629,488
Deferred tax assets	42,745
Other assets	223,619
Property and equipment	1,511
Goodwill and intangible assets	119,106
Total assets	$1,727,771
Liabilities	
Loss and loss adjustment expense reserves	$885,898
Unearned premiums	301,972
Trust preferred outstanding	92,786
Accrued expenses and other liabilities	131,092
Funds held under reinsurance treaties	83,331
Total liabilities	$1,495,079
Acquisition price	$232,692

The goodwill and intangible assets as well as Republic's results of operations will be included as a component of the Small Commercial Business and Specialty Program segments. The goodwill is not expected to be deductible for income tax purposes. The intangible assets consist primarily of trade names, licenses and agent relationships. The Company anticipates completing its acquisition accounting by the end of 2016. As a result of this acquisition, the Company recorded approximately $181,810 and $334,936 of gross written premium during the three and nine months ended September 30, 2016 and $2,076 and $3,620 of services and fee income during the three and nine months ended September 30, 2016.

ARI Insurance Company

On January 22, 2016, the Company completed the acquisition of ARI Holdco Inc. ("ARIH") and its subsidiaries. ARIH's primary operating subsidiary, ARI Insurance Company ("ARI"), is an underwriter of commercial automobile insurance in New Jersey, Pennsylvania and Maryland. Immediately prior to the acquisition, ARI converted from a mutual form to a stock form of ownership in a transaction "sponsored" by the Company. As required by the plan of conversion and applicable Delaware law, the Company offered shares of its common stock, at a discount to the market price, to the members of ARI who held policies as of December 31, 2014 and the directors, officers and employees of ARI and its subsidiaries. The Company received subscriptions for approximately $276, resulting in the issuance by the Company of 12,347 (on a post-split basis) shares of its common stock at a discounted price of 20% (or approximately $69 in the aggregate) from the Company's market trading price. Pursuant to the stock purchase agreement, after the expiration of the offering, the Company purchased all of the authorized shares of capital stock of ARIH at a purchase price equal to the greater of the gross proceeds received by the Company in the offering, and $3,750. The Company made a payment to ARIH of $23,500, which included the $276 in proceeds the Company received in the offering, for the stock of ARI. Additionally, the Company, as part of the transaction, was required to make a payment to an employee bonus pool of ARI of $3,750, as discussed above. The remaining $23,500 of cash contributed to ARIH was retained by the Company. In accordance with FASB ASC 805-10 Business Combinations, the Company recorded an

initial acquisition price of approximately $3,819.

A summary of the preliminary assets acquired and liabilities assumed for ARI are as follows:

(Amounts in Thousands)	
Assets	
Cash and investments	$53,917
Premium receivable, net	15,577
Accrued interest and dividends	375
Reinsurance recoverable	17,554
Other assets	2,116
Intangible assets	1,097
Total assets	$90,636
Liabilities	
Loss and loss adjustment expense reserves	$59,723
Unearned premiums	18,672
Accrued expenses and other liabilities	7,968
Total liabilities	$86,363
Acquisition price	$3,819
Acquisition gain	$454

The intangible assets associated with the acquisition were initially measured at $1,097 and are not deductible for income tax purposes. The Company is in the process of completing its acquisition accounting and expects to have it completed in 2016. The intangible assets as well as ARI's results of operations are included as a component of the Small Commercial Business segment. As a result of this acquisition, the Company recorded approximately $8,747 and $34,357 of gross written premium during the three and nine months ended September 30, 2016.

Springfield

On October 7, 2015, the Company acquired all of the issued and outstanding stock of Springfield Insurance Company and its affiliates, Springfield Insurance Company Ltd. and Unified Grocers Insurance Services (collectively "Springfield"). Springfield, domiciled in California, is an insurance carrier providing workers' compensation and commercial package insurance to Unified Grocers Inc., an association of independently owned grocery stores, its members and its customers. The purchase agreement required the Company to pay approximately $26,574 in cash on the acquisition date and contained an earn-out provision that is contingent on Springfield meeting certain performance conditions over a five-year period. The contingent consideration associated with the earn-out provision was valued at $5,000 as of the acquisition date.

A summary of the preliminary assets acquired and liabilities assumed for Springfield are as follows:

(Amounts in Thousands)	
Assets	
Cash and investments	$93,837
Premium receivable, net	4,651
Accrued interest and dividends	470
Other assets	2,752
Deferred tax asset	1,905
Property and equipment	1,376
Goodwill	4,253
Total assets	$109,244
Liabilities	
Loss and loss adjustment expense reserves	$65,725
Unearned premiums	7,006
Accrued expenses and other liabilities	4,199
Reinsurance payable on paid losses	740
Total liabilities	$77,670
Acquisition price	$31,574

The goodwill associated with the acquisition was initially measured at $4,253 and is not expected to be deductible for income tax purposes. The goodwill as well as Springfield's results of operations are included as a component of the Small Commercial Business segment. As a result of this acquisition, the Company recorded approximately $2,115 and $6,993 of gross written premium for the three and nine months ended September 30, 2016 and $796 and $1,638 of service and fee income during the three and nine months ended September 30, 2016.

Warranty Solutions

On September 25, 2015, the Company acquired all of the issued and outstanding stock of Warranty Solutions, a Wells Fargo business ("Warranty Solutions"), for $156,247 in cash. Warranty Solutions designs, markets, administers and underwrites vehicle service contracts for new and used automobiles through a national network of more than 70 active agencies and 1,500 franchised and independent dealers.

A summary of the assets acquired and liabilities assumed for Warranty Solutions are as follows:

(Amounts in Thousands)	
Assets	
Cash and investments	$192,015
Prepaid reinsurance premium	77,777
Other assets	16,346
Deferred tax asset	26,481
Goodwill and intangible assets	117,504
Total assets	$430,123
Liabilities	
Loss and loss expense reserves	$3,013
Unearned premiums	182,441
Accrued expenses and other liabilities	88,422
Total liabilities	$273,876
Acquisition price	$156,247

The goodwill and intangible assets associated with the acquisition were measured at $117,504, which included finite lived intangible assets for customer relationships of $48,300, value of business acquired (VOBA) of $19,639 and software of $400, and indefinite lived intangible assets for state licenses of$8,500. The finite lived intangibles lives range from three to fifteen years. The goodwill associated with the acquisition is not deductible for income tax purposes. The goodwill and intangible assets, as well as Warranty Solutions' results of operations, are included as a component of the Specialty Risk and Extended Warranty segment. As a result of this acquisition, the Company recorded approximately $23,440 and $69,448, respectively, of gross written premium and $22,537 and $67,471, respectively, of service and fee income during the three and nine months ended September 30, 2016.

Magna Carta

On March 11, 2016, one of our subsidiary insurance companies entered into a loss portfolio transfer with Public Service Insurance Company, Paramount Insurance Company and Western Select Insurance Company. The Company will reinsure 100% of the existing obligations with respect to their business for accident years 2014 and 2015, including a loss portfolio transfer of 100% of the loss and LAE reserves as of the effective date. The Company received approximately $163,400 of cash and recorded loss reserves of approximately $163,400. The Company followed deposit accounting under the guidelines of ASC 340-30, Other Assets and Deferred Costs. During the three and nine months ended September 30, 2016, the Company paid losses of approximately $11,612 and $20,630, respectively. During the three and nine months ended September 30, 2016, the Company did not record any gains or losses as a result of this transaction. Additionally, one of the Company's subsidiaries entered into a renewal rights transaction with the forenamed parties as well as Creative Intermediaries, Inc., Magna Carta Companies, Inc. and Public Service Mutual Holding Company, whereby the Company may reinsure their existing book of policies for their commercial and property insurance business. The acquisition price paid for the renewal rights transaction was approximately $1,000.

Other

The Company had additional immaterial acquisitions totaling approximately $45,578 and $57,578 during the three and nine months ended September 30, 2016. No individual acquisition or acquisitions in the aggregate were significant and, therefore, the Company was not required to include any pro forma financial information in this report.

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14. New Market Tax Credit

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

In addition to the capital contributions and loans from the Company, NGHC and KCDC, as part of the transaction, the Investment Funds received, directly and indirectly, proceeds of approximately $8,000 from two loans originating from state and local governments of Ohio. These loans are each for a period of 15 years and have a weighted average interest rate approximately of 2.0% per annum.

The Investment Funds then contributed the loan proceeds and capital contributions of $19,400 to two CDEs, which, in turn, loaned the funds on similar terms to 800 Superior, LLC. The proceeds of the loans from the CDEs (including loans representing the capital contribution made by KCDC, net of allocation fees) will be used to fund the capital improvement project. As collateral for these loans, the Company has granted a security interest in the assets acquired with the loan proceeds.

The Company and NGHC are each entitled to receive an equal portion of 49% of the benefits derived from the NMTCs generated by 800 Superior Investment Fund II LLC, while KCDC is entitled to the remaining 51%. The NMTC is subject to 100% recapture for a period of 7 years as provided in the Internal Revenue Code. During this seven-year compliance period, the entities involved are required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in the projected tax benefits not being realized and, therefore, could require the Company to indemnify KCDC for any loss or recapture of NMTCs related to the financing until such time as the obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement. In addition, this transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase KCDC's interest in the Investment Funds in September 2019 at the end of the recapture period. The Company believes that KCDC will exercise its put option and, therefore, attributed an insignificant value to the put/call.

The Company has determined that the Investment Funds are VIEs. The ongoing activities of the Investment Funds - collecting and remitting interest and fees and NMTC compliance - were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the Investment Funds. When determining whether to consolidate the Investment Funds, Company management considered the contractual arrangements that obligate it to deliver tax benefits and provide various other guarantees to the structure, KCDC's lack of a material interest in the underlying economics of the project, and the fact that the Company is obligated to absorb losses of the Investment Funds. Also, the Company has an approximate 12% ownership in NGHC. The Company concluded that it was the primary beneficiary and consolidated the Investment Funds, as VIEs, in accordance with the accounting standard for consolidation. KCDC's contribution, net of syndication fees, is included as accrued liability in the accompanying condensed consolidated balance sheets. Direct costs incurred in structuring the financing arrangement

are deferred and will be recognized as expense over the term of the loans. Incremental costs to maintain the structure during the compliance period are recognized as incurred.

15. Stockholder's Equity and Accumulated Other Comprehensive Income (Loss)

Common Stock

The Company implemented a two-for-one stock split on February 2, 2016.

Issuances of Preferred Stock

In March 2016, the Company completed a public offering of 5,750,000 of its depositary shares, each representing a 1/40th interest in a share of its 7.75% Non-Cumulative Preferred Stock, Series E, $0.01 par value per share (the "Series E 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 E Preferred Stock represented thereby (including any dividend, liquidation, redemption and voting rights). Dividends on the Series E 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 7.75% per annum, quarterly in arrears, on March 15, June 15, September 15, and December 15 of each year, beginning on June 15, 2016, from and including the date of original issuance. The Series E Preferred Stock represented by the depositary shares is not redeemable prior to March 15, 2021. After that date, the Company may redeem at its option, in whole or in part, the Series E 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. Net proceeds from this offering were $139,070. In addition, the Company incurred $4,680 in underwriting discount and commissions and expenses, which were recognized as a reduction to additional paid-in capital.

In September 2016, the Company completed a public offering of 11,500,000 of its depositary shares, each representing a 1/40th interest in a share of its 6.95% Non-Cumulative Preferred Stock, Series F, $0.01 par value per share (the "Series F 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 F Preferred Stock represented thereby (including any dividend, liquidation, redemption and voting rights). Dividends on the Series F 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 6.95% per annum, quarterly in arrears, on March 15, June 15, September 15, and December 15 of each year, beginning on December 15, 2016, from and including the date of original issuance. The Series F Preferred Stock represented by the depositary shares is not redeemable prior to September 27, 2021. After that date, the Company may redeem at its option, in whole or in part, the Series F 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. Net proceeds from this offering were $278,194. In addition, the Company incurred $9,306 in underwriting discount and commissions and expenses, which were recognized as a reduction to additional paid-in capital.

Stockholders' Equity

The following table summarizes the ownership components of total stockholders' equity:

	Nine Months Ended September 30,					
	2016			2015		
(Amounts in Thousands)	AmTrust	Non-Controlling Interest	Total	AmTrust	Non-Controlling Interest	Total
Balance, December 31,	$2,909,060	$ 176,455	$3,085,515	$2,037,020	$ 159,181	$2,196,201
Net income	370,541	12,222	382,763	430,949	5,978	436,927
Unrealized holding gain (loss)	270,574	—	270,574	(68,968)	—	(68,968)
Reclassification adjustment	(17,993)	—	(17,993)	634	—	634
Foreign currency translation	(173,883)	—	(173,883)	(49,204)	6	(49,198)
Unrealized gain on interest rate swap	540	—	540	297	—	297
Extinguishment of 2021 senior notes, equity component	(1)	—	(1)	(3,764)		(3,764)
Share exercises, compensation and other	10,545	—	10,545	16,459	—	16,459
Common share (purchase) issuance, net	(152,047)	—	(152,047)	171,672	—	171,672
Common share dividends	(81,167)	—	(81,167)	(66,121)	—	(66,121)
Preferred stock issuance, net of fees	417,264	—	417,264	176,529	—	176,529
Preferred stock dividends	(31,943)	—	(31,943)	(22,797)	—	(22,797)
Capital contribution (distribution), net	—	(5,413)	(5,413)	—	11,609	11,609
Balance, September 30,	$3,521,490	$ 183,264	$3,704,754	$2,622,706	$ 176,774	$2,799,480

During the nine months ended September 30, 2016, net income attributable to non-controlling interest was $12,222 and net income attributable to redeemable non-controlling interest was $587. Net income attributable to non-controlling interest and redeemable non-controlling interest totaled $12,809 for the nine months ended September 30, 2016. During the nine months ended September 30, 2015, net income attributable to non-controlling interest was $5,978 and net income attributable to redeemable non-controlling interest was $962. Net income for non-controlling interest and redeemable non-controlling interest totaled $6,940 for the nine months ended September 30, 2015.

Accumulated Other Comprehensive Income (Loss)

The following table summarizes the activities and components of accumulated other comprehensive income (loss):

(Amounts in Thousands)	Foreign Currency Items	Unrealized Gains (Losses) on Investments	Interest Rate Swap Hedge	Net Benefit Plan Assets and Obligations Recognized in Stockholders' Equity	Accumulated Other Comprehensive Income (Loss)
Balance, June 30, 2016	$(176,878)	$ 145,607	$(413)	$ (107)	$ (31,791)
Other comprehensive income (loss) before reclassification	(89,218)	31,529	390	—	(57,299)
Amounts reclassed from accumulated other comprehensive income	—	(3,399)	—	—	(3,399)
Income tax benefit (expense)	—	41,602	(137)	—	41,465
Net current-period other comprehensive (loss) income	(89,218)	69,732	253	—	(19,233)
Balance, September 30, 2016	$(266,096)	$ 215,339	$(160)	$ (107)	$ (51,024)
Balance, June 30, 2015	$(66,108)	$ 21,487	$(1,131)	$ (2,793)	$ (48,545)
Other comprehensive income before reclassification	3,274	(25,611)	165	—	(22,172)
Amounts reclassed from accumulated other comprehensive income	—	2,830	—	—	2,830
Income tax benefit (expense)	(1,146)	7,973	(58)	—	6,769
Net current-period other comprehensive income	2,128	(14,808)	107	—	(12,573)
Balance, September 30, 2015	$(63,980)	$ 6,679	$(1,024)	$ (2,793)	$ (61,118)

(Amounts in Thousands)	Foreign Currency Items	Unrealized Gains (Losses) on Investments	Interest Rate Swap Hedge	Net Benefit Plan Assets and Obligations Recognized in Stockholders' Equity	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2015	$(92,213)	$ (37,242)	$(700)	$ (107)	$ (130,262)
Other comprehensive income (loss) before reclassification	(173,883)	331,761	831	—	158,709
Amounts reclassed from accumulated other comprehensive income	—	(17,993)	—	—	(17,993)
Income tax benefit (expense)	—	(61,187)	(291)	—	(61,478)
Net current-period other comprehensive income (loss)	(173,883)	252,581	540	—	79,238
Balance, September 30, 2016	$(266,096)	$ 215,339	$(160)	$ (107)	$ (51,024)
Balance, December 31, 2014	$(14,776)	$ 75,013	$(1,321)	$ (2,793)	$ 56,123
Other comprehensive income before reclassification	(75,698)	(106,105)	457	—	(181,346)

Amounts reclassed from accumulated other comprehensive income	—	976	—	—	976
Income tax benefit (expense)	26,494	36,795	(160)	—	63,129
Net current-period other comprehensive (loss) income	(49,204)	(68,334)	297	—	(117,241)
Balance, September 30, 2015	$(63,980)	$ 6,679	$(1,024)	$ (2,793)	$ (61,118)

16. Commitment and Contingent Liabilities

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.

Pending Acquisition

Acquisition of ANV Holding B.V. and its affiliates ("ANV")

In April 2016, the Company entered into an agreement to acquire ANV from Ontario Teachers’ Pension Plan Board for approximately $203,000 in cash, subject to purchase price adjustments. ANV is a specialty insurance company that underwrites a variety of commercial property and casualty insurance products through its three Lloyd’s syndicates and managing general underwriter. The Company's acquisition of ANV closed on November 7, 2016.

17. Segments

The Company operates three business segments: Small Commercial Business; Specialty Risk and Extended Warranty; and Specialty Program. The Company also has a former segment, Personal Lines Reinsurance, which is in run-off and is now included within its Corporate and Other segment. The Corporate and Other segment also represents the activities of the holding company as well as a portion of service and fee revenue. In determining total assets (excluding cash and invested assets) by segment, the Company identifies those assets that are attributable to a particular segment such as deferred acquisition cost, reinsurance recoverable, goodwill, intangible assets and prepaid reinsurance while the remaining assets are allocated based on gross written premium by segment. In determining cash and invested assets by segment, the Company matches certain identifiable liabilities such as unearned premium and loss and loss adjustment expense reserves by segment. The remaining cash and invested assets are then allocated based on gross written premium by segment. Investment income and realized gains (losses) are determined by calculating an overall annual return on cash and invested assets and applying that overall return to the cash and invested assets by segment. Ceding commission is allocated to each segment based on that segment’s proportionate share of the Company’s overall acquisition costs. Interest expense is allocated based on gross written premium by segment. Income taxes are allocated on a pro-rata basis based on the Company’s effective tax rate. Additionally, management reviews the performance of underwriting income in assessing the performance of and making decisions regarding the allocation of resources to the segments. Underwriting income excludes, primarily, service and fee revenue, investment income and other revenues, other expenses, interest expense and income taxes. Management believes that providing this information in this manner is essential to providing the Company’s stockholders with an understanding of the Company’s business and operating performance.

During three and nine months ended September 30, 2016 and 2015, the Company's Specialty Program segment derived over ten percent of its gross written premium primarily from one agent.

The following tables summarize the results of operations of the business segments for the three and nine months ended September 30, 2016 and 2015:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Corporate and Other	Total
Three Months Ended September 30, 2016:					
Gross written premium	$ 998,071	$ 598,977	$ 437,050	$ —	$ 2,034,098
Net written premium	457,869	448,847	309,334	—	1,216,050
Change in unearned premium	59,127	(21,526)	(57,415)	—	(19,814)
Net earned premium	516,996	427,321	251,919	—	1,196,236
Loss and loss adjustment expense	(344,531)	(293,956)	(172,561)	—	(811,048)
Acquisition costs and other underwriting expenses	(125,412)	(89,784)	(68,762)	—	(283,958)
	(469,943)	(383,740)	(241,323)	—	(1,095,006)
Underwriting income	47,053	43,581	10,596	—	101,230
Service and fee income	26,800	95,228	106	24,477	146,611
Investment income and realized gain	29,249	24,538	14,424	(62)	68,149
Other expenses	(67,621)	(40,503)	(29,418)	—	(137,542)
Interest expense	(11,883)	(7,053)	(5,014)	—	(23,950)
Foreign currency loss	—	(8,320)	—	—	(8,320)
Gain on life settlement contracts	2,521	1,614	1,350	—	5,485
Acquisition gain (reduction) on purchase	—	—	—	—	—
Provision for income taxes	(5,929)	(24,810)	1,418	(6,195)	(35,516)
Equity in earnings of unconsolidated subsidiary – related party	—	—	—	1,954	1,954
Net income	$ 20,190	$ 84,275	$ (6,538)	$ 20,174	$ 118,101

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Corporate and Other	Total
Three Months Ended September 30, 2015:					
Gross written premium	$ 797,654	$ 577,284	$ 405,875	$ —	$ 1,780,813
Net written premium	459,290	380,600	303,093	—	1,142,983
Change in unearned premium	34,364	(30,218)	(101,721)	—	(97,575)
Net earned premium	493,654	350,382	201,372	—	1,045,408
Loss and loss adjustment expense	(320,391)	(253,136)	(136,077)	—	(709,604)
Acquisition costs and other underwriting expenses	(130,792)	(69,876)	(57,348)	—	(258,016)
	(451,183)	(323,012)	(193,425)	—	(967,620)
Underwriting income	42,471	27,370	7,947	—	77,788
Service and fee income	24,793	79,064	482	21,804	126,143
Investment income and realized gain	24,359	21,312	12,423	13	58,107
Other expenses	(53,047)	(37,471)	(26,382)	—	(116,900)

Interest expense and loss on extinguishment of debt	(6,038)	(4,333)	(3,048)	—	(13,419)
Foreign currency loss	—	24,721	—	—	24,721
Gain on life settlement contracts	1,926	1,584	1,106	—	4,616
(Provision) benefit for income taxes	2,880	7,898	245	1,626	12,649
Equity in earnings of unconsolidated subsidiary – related party	—	—	—	13,477	13,477
Net income	$ 43,170	$ 120,145	$ (7,227)	$ 36,920	$ 193,008

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Corporate and Other	Total
Nine Months Ended September 30, 2016:					
Gross written premium	$3,124,761	$1,779,984	$1,135,539	$—	$6,040,284
Net written premium	1,684,035	1,233,741	787,389	—	3,705,165
Change in unearned premium	(89,967)	(126,695)	(36,233)	—	(252,895)
Net earned premium	1,594,068	1,107,046	751,156	—	3,452,270
Loss and loss adjustment expense	(1,060,165)	(736,220)	(514,129)	—	(2,310,514)
Acquisition costs and other underwriting expenses	(405,854)	(237,967)	(203,574)	—	(847,395)
	(1,466,019)	(974,187)	(717,703)	—	(3,157,909)
Underwriting income	128,049	132,859	33,453	—	294,361
Service and fee income	85,082	268,128	1,623	74,249	429,082
Investment income and realized gain	84,296	63,214	43,935	(62)	191,383
Other expenses	(206,256)	(117,491)	(74,951)	—	(398,698)
Interest expense	(31,757)	(18,090)	(11,541)	—	(61,388)
Foreign currency loss	—	(70,428)	—	—	(70,428)
Gain on life settlement contracts	14,946	8,514	5,431	—	28,891
Acquisition gain on purchase	455	48,320	—	—	48,775
(Provision) benefit for income taxes	(14,373)	(60,521)	394	(16,660)	(91,160)
Equity in earnings of unconsolidated subsidiary – related party	—	—	—	12,532	12,532
Net income	$60,442	$254,505	$(1,656)	$70,059	$383,350

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Corporate and Other	Total
Nine Months Ended September 30, 2015:					
Gross written premium	$2,574,602	$1,528,017	$1,087,719	$—	$5,190,338
Net written premium	1,499,922	975,073	719,898	—	3,194,893
Change in unearned premium	(99,218)	(11,592)	(120,328)	—	(231,138)
Net earned premium	1,400,704	963,481	599,570	—	2,963,755
Loss and loss adjustment expense	(909,081)	(647,121)	(405,160)	—	(1,961,362)
Acquisition costs and other underwriting expenses	(365,184)	(197,450)	(165,768)	—	(728,402)
	(1,274,265)	(844,571)	(570,928)	—	(2,689,764)
Underwriting income	126,439	118,910	28,642	—	273,991
Service and fee income	76,468	208,596	846	60,856	346,766
Investment income and realized gain	63,209	49,859	28,789	117	141,974
Other expenses	(155,502)	(92,289)	(65,696)	—	(313,487)
Interest expense and loss on extinguishment of debt	(18,866)	(11,197)	(7,971)	—	(38,034)
Foreign currency loss	—	17,355	—	—	17,355
Loss on life settlement contracts	9,466	5,619	4,000	—	19,085
(Provision) benefit for income taxes	(8,678)	(24,068)	923	(6,812)	(38,635)
	—	—	—	23,048	23,048

Equity in earnings of unconsolidated subsidiary – related party					
Net income	$98,362	$272,785	$(10,467)	$77,209	$437,889

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The following tables summarize net earned premium by major line of business, by segment, for the three and nine months ended September 30, 2016 and 2015:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Total
Three Months Ended September 30, 2016:				
Workers' compensation	$349,030	$—	$149,246	$498,276
Warranty	—	180,333	—	180,333
Other liability	11,292	26,169	47,332	84,793
Commercial auto and liability, physical damage	47,751	9,164	32,118	89,033
Medical malpractice	—	—	—	—
Other	108,923	211,655	23,223	343,801
Total net earned premium	$516,996	$427,321	$251,919	$1,196,236

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Total
Three Months Ended September 30, 2015:				
Workers' compensation	$328,099	$—	$86,454	$414,553
Warranty	—	143,202	—	143,202
Other liability	12,081	36,042	58,072	106,195
Commercial auto and liability, physical damage	89,078	(413)	27,170	115,835
Medical malpractice	—	52,879	—	52,879
Other	64,396	118,672	29,676	212,744
Total net earned premium	$493,654	$350,382	$201,372	$1,045,408

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Total
Nine Months Ended September 30, 2016:				
Workers' compensation	$1,053,967	$—	$456,663	$1,510,630
Warranty	—	527,835	—	527,835
Other liability	16,541	100,187	130,713	247,441
Commercial auto and liability, physical damage	245,647	26,340	97,863	369,850
Medical malpractice	—	106,750	—	106,750
Other	277,913	345,934	65,917	689,764
Total net earned premium	$1,594,068	$1,107,046	$751,156	$3,452,270

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Total
Nine Months Ended September 30, 2015:				
Workers' compensation	$942,867	$—	$250,400	$1,193,267
Warranty	—	439,049	—	439,049

Other liability	37,025	101,338	133,925	272,288
Commercial auto and liability, physical damage	208,489	11,741	96,868	317,098
Medical malpractice	—	129,333	—	129,333
Other	212,323	282,020	118,377	612,720
Total net earned premium	$ 1,400,704	$963,481	$599,570	$2,963,755

The following table summarizes total assets of the business segments as of September 30, 2016 and December 31, 2015:

(Amounts in Thousands)	September 30, 2016	December 31, 2015
Small Commercial Business	$ 9,861,162	$ 7,781,045
Specialty Risk and Extended Warranty	7,448,937	6,370,861
Specialty Program	4,209,439	2,936,710
Corporate and Other	—	2,403
	$ 21,519,538	$ 17,091,019

18. Subsequent Event

On November 7, 2016, the Company completed the acquisition of ANV Holding B.V. and its affiliates ("ANV") from Ontario Teachers’ Pension Plan Board for approximately $203,000 in cash. ANV is a specialty insurance company that underwrites a variety of commercial property and casualty insurance products through its three Lloyd’s syndicates and managing general underwriter.

On October 28, 2016, the Company announced that it had entered into an agreement to acquire AmeriHealth Casualty Insurance Company ("AmeriHealth Casualty"), a provider of fully insured workers' compensation insurance operating primarily in Pennsylvania and New Jersey, from Independence Health Group, Inc. ("IHG") for approximately $90,000 in cash. The transaction is to be funded with existing working capital. Pending regulatory approval, the transaction is expected to close during the first quarter of 2017. IHG will retain CompServices, Inc. (CompServices), its third party administrator for workers' compensation business. CompServices will provide third-party administrator services to its self-insured customers and to the Company, in accordance with the terms of this transaction.

Item 2. 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 condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q. Amounts in the following discussion may not reconcile due to rounding differences.

Note on Forward-Looking Statements

This Form 10-Q 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. Actual results may differ materially from those expressed or implied in these statements as a result of significant risks and uncertainties, including, but not limited to, non-receipt of expected payments from insureds or reinsurers, changes in interest rates, a downgrade in the financial strength ratings of our insurance subsidiaries, the effect of the performance of financial markets on our investment portfolio, the amounts, timing and prices of any share repurchases made by us under our share repurchase program, development of claims and the effect on loss reserves, accuracy in projecting loss reserves, the cost and availability of reinsurance coverage, the effects of emerging claim and coverage issues, changes in the demand for our products, our degree of success in integrating acquired businesses, the effect of general economic conditions, state and federal legislation, regulations and regulatory investigations into industry practices, risks associated with conducting business outside the United States, the impact of Brexit, developments relating to existing agreements, disruptions to our business relationships with Maiden Holdings, Ltd., National General Holdings Corp., or ACP Re, Ltd., 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 our filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2015, and our quarterly reports on Form 10-Q. 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.

Overview

We are a multinational specialty property and casualty insurer focused on generating consistent underwriting profits. We provide insurance coverage for small businesses and products with high volumes of insureds and loss profiles that we believe are predictable. We target lines of insurance that we believe generally are underserved by the market. We have grown by hiring teams of underwriters with expertise in our specialty lines, through acquisitions of companies and assets that, in each case, provide access to distribution networks and renewal rights to established books of specialty insurance business. We have operations in three business segments:

- Small Commercial Business. We provide workers' compensation, commercial package and other commercial insurance lines produced by wholesale agents, retail agents and brokers in the United States.
- Specialty Risk and Extended Warranty. We provide coverage for consumer and commercial goods and custom designed coverages, such as accidental damage plans and payment protection plans offered in connection with the sale of consumer and commercial goods, in the United States and Europe, and certain niche property, casualty and specialty liability risks in the United States and Europe, including general liability, employers' liability and professional and medical liability.
- Specialty Program. We write commercial insurance for narrowly defined classes of insureds, requiring an in-depth knowledge of the insured's industry segment, through general and other wholesale agents.

We transact business primarily through our insurance subsidiaries, the majority of which are domiciled in the United States. We also transact business through insurance subsidiaries domiciled internationally, primarily in Bermuda and Europe. We are authorized to write business in all 50 states in the United States and in the European Union. Through our subsidiary, AmTrust at Lloyd's, we are licensed to underwrite business internationally in locations where Lloyd's is licensed. Our principal operating subsidiaries are rated "A"(Excellent) by A.M. Best Company ("A.M. Best").

For the three and nine months ended September 30, 2016, our results of operations include activity of the entities we acquired subsequent to September 30, 2015, primarily:

- N.V. Nationale Borg-Maatschappij and its affiliates (collectively, "Nationale Borg")
- First Nationwide Title Agency and its subsidiaries (collectively, "First Nationwide")
- Republic Underwriters Insurance Company, Republic-Vanguard Insurance Company, Southern Underwriters Insurance Company, Republic Fire & Casualty Insurance Company, Southern Insurance Company, Republic Diversified Services, Inc., Republic Lloyds, Republic Group No. Two Company, Southern County Mutual Insurance Company, Canyon State Auto Insurance Services, Inc., and Eagle General Agency, Inc. (collectively, "Republic")
- Genworth Financial Mortgage Insurance Limited and Genworth Financial Mortgage Services Limited (collectively, "Genworth")
- ARI Insurance Company and ARI Casualty Company (collectively, "ARI")
- Springfield Insurance Company, Springfield Insurance Company Limited, and Unified Grocers Insurance Services (collectively, "Springfield")

In addition, on March 11, 2016, one of our subsidiary insurance companies entered into a loss portfolio transfer with Public Service Insurance Company, Paramount Insurance Company and Western Select Insurance Company. We will reinsure 100% of the existing obligations with respect to their business for accident years 2014 and 2015, including a loss portfolio transfer of 100% of the loss and LAE reserves as of the effective date. We received approximately $163.4 million of cash and recorded the obligation of approximately $163.4 million of loss reserves. During the three and nine months ended September 30, 2016, we paid losses of approximately $11.6 million and $20.6 million, respectively. During the nine months ended September 30, 2016, we did not record any gains or losses as a result of this transaction. Additionally, one of our subsidiaries entered into a renewal rights transaction, with the forenamed parties as well as Creative Intermediaries, Inc., Magna Carta Companies, Inc. and Public Service Mutual Holding

Company, whereby we may reinsure their existing book of policies for their commercial and property insurance business. The acquisition price paid for the renewal rights transaction was approximately $1 million.

Insurance, particularly workers' compensation, is generally affected by seasonality. The first quarter generally produces greater premiums than subsequent quarters. Nevertheless, the impact of seasonality on our Small Commercial Business and Specialty Program segments has not been significant. We believe that this is because we serve many small businesses in different geographic locations. We believe seasonality may be muted by our acquisition activity. Additionally, our Specialty Risk and Extended Warranty segment may be impacted by the seasonality of the automotive and consumer electronic markets.

We evaluate our operations by monitoring key measures of growth and profitability, including return on equity and net combined ratio. Our return on annualized average equity was 15.9% and 35.4% for the three months ended September 30, 2016 and 2015, respectively, and 17.9% and 28.1% for the nine months ended September 30, 2016 and 2015, respectively. Our overall financial objective is to produce a return on equity of 15.0% or more over the long term. In addition, we target a net combined ratio of 95.0% or lower over the long term, while seeking to maintain optimal operating leverage in our insurance subsidiaries commensurate with our A.M. Best rating objectives. Our net combined ratio was 91.5% and 92.6% for the three months ended September 30, 2016 and 2015, respectively, and 91.5% and 90.8% for the nine months ended September 30, 2016 and 2015, respectively.

The following summary further describes our principal revenue and expense measures and key ratios that we use to evaluate our results of operations:

Gross Written Premium. Gross written premium represents estimated premiums 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. Certain policies that we underwrite are subject to premium audit at that policy's cancellation or expiration. The final actual gross premiums written may vary from the original estimate based on changes to the final rating parameters or classifications of the policy.

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

Net Earned Premium. Net earned premium is the earned portion of our net written premiums. We earn insurance premiums on a pro-rata basis over the term of the policy. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums, which are earned in subsequent periods over the remaining term of the policy. Our workers' compensation insurance and commercial package policies typically have a term of one year. Thus, for a one-year policy written on July 1, 2015 for an employer with a constant payroll during the term of the policy, we would earn half of the premiums in 2015 and the other half in 2016. We earn our specialty risk and extended warranty coverages over the estimated exposure time period. The terms vary depending on the risk. The coverages range in duration from one month to 120 months. Our U.S. warranty business has an average duration of 57 months, while our European warranty business has an average duration of 43 months and our European casualty business has an average duration of 12 months.

Service and Fee Income. We currently generate service and fee income from the following sources:

- Product warranty registration and service — Our Specialty Risk and Extended Warranty business generates fee revenue for product warranty registration and claims handling services provided to unaffiliated third party retailers, manufacturers and dealerships. Additionally, we provide credit monitoring services for a fee.
- Servicing carrier — We act as a servicing carrier for workers' compensation assigned risk plans in multiple states. In addition, we also offer claims adjusting and loss control services for fees to unaffiliated third parties.
- Management services — We provide services to insurance consumers, traditional insurers and insurance producers by offering flexible and cost effective alternatives to traditional insurance tools in the form of various risk retention groups and captive management companies, as well as management of workers' compensation and commercial property programs. We also offer programs and alternative funding options for non-profit and public sector organizations for the management of their state unemployment insurance obligations.
- Insurance fees — We recognize fee income associated with the issuance of workers' compensation policies for installment fees, in jurisdictions where it is permitted and approved, and reinstatement fees, which are fees charged to reinstate a policy after it has been canceled for non-payment, in jurisdictions where it is permitted and approved. Additionally, we recognize broker commissions and policy management fees associated with general liability policies

placed by one of our managing general agencies.

- Broker services — We provide brokerage services to Maiden Holdings Ltd. ("Maiden") in connection with our reinsurance agreement for which we receive a fee.
- Asset management services — We currently manage the investment portfolios of certain subsidiaries of Maiden, National General Holdings Corp. ("NGHC") and ACP Re, Ltd. ("ACP Re") for which we receive a management fee.
- Information technology services — We provide information technology and printing and mailing services to NGHC and its affiliates for a fee.

Net Investment Income and Realized Gains and (Losses). We invest our statutory surplus funds and the funds supporting our insurance liabilities primarily in cash and cash equivalents, fixed maturity and equity securities. Our net investment income includes interest and dividends earned on our invested assets. We report net realized gains and losses on our investments separately from our net investment income. Net realized gains occur when we sell our investment securities for more than their costs or amortized costs, as applicable. Net realized losses occur when we sell our investment securities for less than their costs or amortized costs, as applicable, or we write down the investment securities as a result of other-than-temporary impairment. We classify equity securities and our fixed maturity securities primarily as available-for-sale. We report net unrealized gains (losses) on those securities classified as available-for-sale separately within accumulated other comprehensive income on our balance sheet. Additionally, we have a small portfolio of equity securities classified as trading securities. We report unrealized gains (losses) on those securities classified as trading securities within realized gains (losses).

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses ("LAE") incurred 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 loss adjustment expenses related to estimates of future claim payments based on case-by-case valuations and statistical analysis. 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 injured employees and claimants and the costs of their medical treatment. Our ability to estimate loss and loss adjustment expenses 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 expenses, salaries and benefits and general and administrative expenses, net of ceding commissions. These items are described below:

- Policy acquisition expenses comprise commissions directly attributable to those agents, wholesalers or brokers that produce premiums written on our behalf. In most instances, we pay commissions based on collected premium, which reduces our credit risk exposure associated with producers in case a policyholder does not pay a premium. We pay state and local taxes, licenses and fees, assessments and contributions to various state guaranty funds based on our premiums or losses in each state. Surcharges that we may be required to charge and collect from insureds in certain jurisdictions are recorded as accrued liabilities, rather than expense. These expenses are offset by ceding commissions received.
- Salaries and benefits expenses are those salaries and benefits expenses for employees that are directly involved in the origination, issuance and maintenance of policies, claims adjustment and accounting for insurance transactions that are associated with successful acquisition of insurance contracts. We classify salaries and benefits associated with employees that are involved in fee generating activities as other expenses.
- General and administrative expenses are comprised of other costs associated with our insurance activities, such as federal excise tax, postage, telephones and internet access charges, as well as legal and auditing fees and board and bureau charges.
- Ceding commission on reinsurance transactions is a commission we receive from ceding gross written premium to third party reinsurers, and is netted against acquisition costs and other underwriting expenses. In connection with the Maiden Quota Share, which is our primary source of ceding commissions, the amount we receive is a blended rate based on a contractual formula contained in the individual reinsurance agreements, and the rate may not correlate specifically to the cost structure of the individual segments. The ceding commissions we receive cover a portion of our capitalized direct acquisition costs and a portion of other underwriting expenses. Ceding commissions received from reinsurance transactions that represent recovery of capitalized direct acquisition costs are recorded as a reduction

of capitalized unamortized deferred acquisition costs and the net amount is charged to expense in proportion to net premium revenue recognized. Ceding commissions received from reinsurance transactions that represent the recovery of other underwriting expenses are recognized in the income statement over the insurance contract period in proportion to the insurance protection provided and classified as a reduction of acquisition costs and other underwriting expenses. Ceding commissions received, but not yet earned, that represent the recovery of other underwriting expenses are classified as a component of accrued expenses and other current liabilities. We allocate earned ceding commissions to our segments based on each segment's proportionate share of total acquisition costs and other underwriting expenses recognized during the period.

Gain (loss) on Investment in Life Settlement Contracts. The gain (loss) on investment in life settlement contracts includes the gain (loss) on acquisition of life settlement contracts, the gain (loss) realized upon a mortality event and the change in fair value of the investments in life settlements as evaluated at the end of each reporting period. We determine fair value based upon our estimate of the discounted cash flow related to policies (net of reserves for improvements in mortality, the possibility that the high net worth individuals represented in our portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to us and the future expenses related to the administration of the portfolio), which incorporates current life expectancy assumptions, premium payments, credit exposure to the insurance companies that issued the life insurance policies and the rate of return that a buyer would require on the policies as no comparable market pricing is available. The gain (loss) realized upon a mortality event is the difference between the death benefit received and the recorded fair value of that particular policy. We allocate gain (loss) on investment in life settlement contracts to our segments based on gross written premium by segment.

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 net losses and LAE incurred to net premiums earned.

Net Expense Ratio. The net expense ratio is a measure of an insurance company’s operational efficiency in administering its business. Expressed as a percentage, this is the ratio of the sum of acquisition costs and other underwriting expenses to net premiums earned. As we allocate certain acquisition costs and other underwriting expenses based on premium volume to our segments, the net expense ratio on a segment basis may be impacted period over period by a shift in the mix of net written premium.

Net Combined Ratio. The net combined ratio is a measure of an insurance company's overall underwriting profit. This is the sum of the net loss and net expense ratios. If the net combined ratio 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.

Net Premiums Earned less Expenses Included in Combined Ratio (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.

Return on Equity. We calculate return on equity by dividing net income by the average of shareholders’ equity.

Critical Accounting Policies

Our discussion and analysis of our results of operations, financial condition and liquidity are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the amounts of assets and liabilities, revenues and expenses and disclosure of contingent assets and liabilities as of the date of the financial statements. As more information becomes known, these estimates and assumptions could change, which would have an impact on actual results that may differ materially from these estimates and judgments under different assumptions. We have not made any changes in estimates or judgments that have had a significant effect on the reported amounts as previously disclosed in our Annual Report on Form 10-K for the fiscal period ended December 31, 2015.

We implemented a two-for-one stock split on February 2, 2016. As a result, we retrospectively adjusted all share and per share amounts in the accompanying condensed consolidated financial statements and notes to the condensed consolidated financial statements to apply the effect of the stock split for all periods presented.

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Results of Operations

Consolidated Results of Operations for the Three and Nine Months Ended September 30, 2016 and 2015 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Gross written premium	$2,034,098	$1,780,813	$6,040,284	$5,190,338
Net written premium	$1,216,050	$1,142,983	$3,705,165	$3,194,893
Change in unearned premium	(19,814)	(97,575)	(252,895)	(231,138)
Net earned premium	1,196,236	1,045,408	3,452,270	2,963,755
Service and fee income (related parties - three months $19,367; $19,250 and nine months $61,137; $57,935)	146,611	126,143	429,082	346,766
Net investment income	59,919	40,425	160,079	111,281
Net realized and unrealized gain (loss) on investments	8,230	17,682	31,304	30,693
Total revenues	1,410,996	1,229,658	4,072,735	3,452,495
Loss and loss adjustment expense	811,048	709,604	2,310,514	1,961,362
Acquisition costs and other underwriting expenses (net of ceding commission - related party - three months $158,216; $138,036 and nine months $440,561; $385,945)	283,958	258,016	847,395	728,402
Other	137,542	116,900	398,698	313,487
Total expenses	1,232,548	1,084,520	3,556,607	3,003,251
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	178,448	145,138	516,128	449,244
Other income (loss):				
Interest expense (net of interest income - related party - three months $2,061; $2,115 and nine months $6,436; $6,514)	(23,950)	(12,862)	(61,388)	(32,763)
Loss on extinguishment of debt	—	(557)	—	(5,271)
Net gain on investment in life settlement contracts net of profit commission	5,485	4,616	28,891	19,085
Foreign currency (loss) gain	(8,320)	24,721	(70,428)	17,355
Acquisition gain on purchase	—	5,826	48,775	5,826
Total other (loss) income	(26,785)	21,744	(54,150)	4,232
Income before income taxes and equity in earnings (loss) of unconsolidated subsidiaries	151,663	166,882	461,978	453,476
Provision (benefit) for income taxes	35,516	(12,649)	91,160	38,635
Income before equity in earnings of unconsolidated subsidiaries	116,147	179,531	370,818	414,841
Equity in earnings of unconsolidated subsidiaries – related parties	1,954	13,477	12,532	23,048
Net income	118,101	193,008	383,350	437,889
Net income attributable to redeemable non-controlling interest and non-controlling interest of subsidiaries	(2,975)	(1,511)	(12,809)	(6,940)
Net income attributable to AmTrust Financial Services, Inc.	115,126	191,497	370,541	430,949
Dividends on preferred stock	(11,576)	(8,789)	(31,943)	(22,797)
Net income attributable to AmTrust common shareholders	$103,550	$182,708	$338,598	$408,152

Net realized gain (loss) on investments:				
Total other-than-temporary impairment loss	$(9,461)	$(7,636)	$(26,417)	$(10,118)
Portion of loss recognized in other comprehensive income	—	—	—	—
Net impairment losses recognized in earnings	(9,461)	(7,636)	(26,417)	(10,118)
Net realized gain (loss) on available for sale securities	14,380	16,049	53,106	29,306
Net unrealized gain on trading securities	3,311	9,269	4,615	11,505
Net realized investment gain (loss)	$8,230	$17,682	$31,304	$30,693
Key measures:				
Net loss ratio	67.8%	67.9%	66.9%	66.2%
Net expense ratio	23.7%	24.7%	24.6%	24.6%
Net combined ratio	91.5%	92.6%	91.5%	90.8%

Consolidated Results of Operations for the Three Months Ended September 30, 2016 and 2015 (Unaudited)

Gross Written Premium. Gross written premium increased $253.3 million, or 14.2%, to $2,034.1 million from $1,780.8 million for the three months ended September 30, 2016 and 2015, respectively. The increase of $253.3 million was attributable to growth primarily in our Small Commercial Business segment, the majority of which was attributable to an increase in the number of workers' compensation policies issued and our acquisition of Republic, which resulted in $120 million of additional gross written premium in this segment during the three months ended September 30, 2016. The increase in our Specialty Risk and Extended Warranty segment was attributable to our acquisitions of Warranty Solutions in September 2015, which produced $23 million of gross written premium during the three months ended September 30, 2016, and Nationale Borg in May 2016, which produced $27 million of gross written premium during the three months ended September 30, 2016. These increases were partially offset by the negative foreign currency impact of the weakening of the British pound sterling. The increase in our Specialty Program segment was attributable to our acquisition of Republic, which resulted in $62 million of additional gross written premium in this segment during the three months ended September 30, 2016, but was partially offset by the curtailment or termination of certain non-workers' compensation programs.

Net Written Premium. Net written premium increased $73.1 million, or 6.4%, to $1,216.1 million from $1,143.0 million for the three months ended September 30, 2016 and 2015, respectively. The increase (decrease) by segment was: Small Commercial Business - $(1.4) million, Specialty Risk and Extended Warranty - $68.2 million and Specialty Program – $6.2 million. Net written premium increased for the three months ended September 30, 2016 compared to the same period in 2015 due to the increase in gross written premium, partially offset by a decrease in the retention of gross written premium to 59.8% from 64.2% for the three months ended September 30, 2016 and 2015, respectively. In 2016, a larger percentage of premium in our Small Commercial Business segment, specifically from Republic, was ceded to third party reinsurers as compared to the Small Commercial Business premium ceded to third party reinsurers in the same period in 2015. Prior to the Republic acquisition, the majority of Small Commercial Business premium was reinsured under the Maiden Quota Share agreement.

Net Earned Premium. Net earned premium increased $150.8 million, or 14.4%, to $1,196.2 million from $1,045.4 million for the three months ended September 30, 2016 and 2015, respectively. The increase by segment was: Small Commercial Business — $23.3 million, Specialty Risk and Extended Warranty — $76.9 million and Specialty Program — $50.5 million. The increase in net earned premium resulted from an increase in gross written premium in the third quarter of 2016 compared to the third quarter of 2015.

Service and Fee Income. Service and fee income increased $20.5 million, or 16.2%, to $146.6 million from $126.1 million for the three months ended September 30, 2016 and 2015, respectively, most of which is attributable to our acquisition of Warranty Solutions. Fees for product warranty registration and claims handling services increased by approximately $4 million. Fees for services provided to Maiden, NGHC and ACP Re were consistent during the three months ended September 30, 2016 as compared to the same period a year ago.

Net Investment Income. Net investment income increased $19.5 million, or 48.2%, to $59.9 million from $40.4 million for the three months ended September 30, 2016 and 2015, respectively. The increase resulted primarily from having a 40.7% higher average value of invested assets during the three months ended September 30, 2016 compared to the same period in 2015, arising from our investment of certain proceeds from stock and debt offerings subsequent to September 30, 2015 and income from investment portfolios obtained through acquisitions.

Net Realized Gains/(Loss) on Investments. We had a net realized gain on investments of $8.2 million and $17.7 million for the three months ended September 30, 2016 and 2015, respectively. The decrease related primarily to a decrease in realized gains on trading securities, which were $1.0 million and $9.3 million during the three months

ended September 30, 2016 and 2015, respectively. In addition, we had realized losses for other-than-temporary impairment of securities during the three months ended September 30, 2016 and 2015 of $9.5 million and $7.6 million, respectively.

Loss and Loss Adjustment Expenses. Loss and loss adjustment expenses increased $101.4 million, or 14.3%, to $811.0 million for the three months ended September 30, 2016 from $709.6 million for the three months ended September 30, 2015. Our loss ratio for the three months ended September 30, 2016 and 2015 of 67.8% and 67.9%, respectively, was consistent period to period. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses. Acquisition costs and other underwriting expenses increased $25.9 million, or 10.1%, to $284.0 million for the three months ended September 30, 2016 from $258.0 million for the three months ended September 30, 2015. Acquisition costs and other underwriting expenses in each period were reduced by ceding commission primarily earned through the Maiden Quota Share, through which we receive a ceding commission of 31% of premiums ceded

for all business except retail commercial package business, and 34.375% for retail commercial package business. The ceding commission earned during the three months ended September 30, 2016 and 2015 was $161.3 million and $141.1 million, respectively. Ceding commission increased period over period as a result of increases in gross written premium and the retention of a smaller percentage of our gross written premium. On a consolidated basis, we retained 59.8% of our gross written premium for the three months ended September 30, 2016, compared to retaining 64.2% of our gross written premium in the third quarter of 2015. Our expense ratio on a consolidated basis decreased period over period as a percentage of earned premium, and was 23.7% and 24.7% during the three months ended September 30, 2016 and 2015, respectively. The decrease resulted primarily from lower expenses on Republic business that is fronted, along with our continuing efforts to leverage our existing workforce and infrastructure.

Income Before Other Income (Expense), Income Taxes and Equity Earnings of Unconsolidated Subsidiaries. Income before other income (expense), income taxes and equity earnings of unconsolidated subsidiaries increased $33.3 million, or 23.0%, to $178.4 million for the three months ended September 30, 2016 from $145.1 million /s/ Sérgio Socha/s/ Milton Almicar Silva Vargas

Sérgio SochaMilton Almicar Silva Vargas /s/ José Luiz Acar Pedro/s/ Noberto Pinto Barbedo

José Luiz Acar PedroNoberto Pinto Barbedo /s/ Armando Trivelato Filho/s/ Carlos Alberto Rodrigues Guilherme

Armando Trivelato FilhoCarlos Alberto Rodrigues Guilherme /s/ José Alcides Munhoz/s/ José Guilherme Lembi de Faria

José Alcides MunhozJosé Guilherme Lembi de Faria /s/ Luiz Pasteur Vasconcellos Machado/s/ Sérgio de Oliveira

Luiz Pasteur Vasconcellos MachadoSérgio de Oliveira /s/ Domingos Figueiredo de Abreu/s/ Ademir Cossiello

Domingos Figueiredo de AbreuAdemir Cossiello /s/ Antonio Bornia/s/ Dorival Antônio Bianchi

Antonio BorniaDorival Antônio Bianchi /s/ Edison Antonelli

Edison Antonelli

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
* Márcio Artur Laurelli Cypriano	President, Member	July 30, 2004.
* Décio Tenerello	Executive Vice President	July 30, 2004.
* Laércio Albino Cezar	Executive Vice President	July 30, 2004.
* Arnaldo Alves Vieira	Executive Vice President	July 30, 2004.
* Sérgio Socha	Executive Vice President	July 30, 2004.
/s/ Milton Almicar Silva Vargas Milton Almicar Silva Vargas	Executive Vice President	July 30, 2004.
* José Luiz Acar Pedro	Executive Vice President	July 30, 2004.
* Noberto Pinto Barbedo	Executive Vice President	July 30, 2004.
* Armando Trivelato Filho	Managing Director	July 30, 2004.
* Carlos Alberto Rodrigues Guilherme	Managing Director	July 30, 2004.
* José Alcides Munhoz	Managing Director	July 30, 2004.
* José Guilherme Lembi de Faria	Managing Director	July 30, 2004.
* Luiz Pasteur Vasconcellos Machado	Managing Director	July 30, 2004.
* Sérgio de Oliveira	Managing Director	July 30, 2004.
* Domingos Figueiredo de Abreu	Managing Director	July 30, 2004.
* Ademir Cossiello	Managing Director	July 30, 2004.

Signature	Title	Date
*	Member	July 30, 2004.
Antonio Bornia		
*	Member	July 30, 2004.
Dorival Antônio Bianchi		
*	Authorized U.S. Representative	July 30, 2004.
Edison Antonelli		

*By: /s/ Milton Almicar Silva Vargas
Milton Almicar Silva Vargas
Attorney-in-fact
Pursuant to powers of attorney filed with
the Commission herewith or previously

EXHIBIT INDEX

Exhibit Number	Item
1.1	Form of Exchange Agent Agreement.
3.1	*Estatuto Social* (bylaws) of Banco Bradesco S.A., with English translation thereof (incorporated by reference to the exhibits to the Annual Report on Form 20-F (Commission File No. 1-15250) filed with the Securities and Exchange Commission on June 30, 2004).
4.1	Indenture, dated as of October 24, 2003, by and between Banco Bradesco S.A., acting through its Grand Cayman branch, as Issuer, and The Bank of New York Trust Company (Cayman) Limited, as Trustee.
4.2	Form of Note.
4.3	Registration Rights Agreement, dated as of October 24, 2003, by and among Banco Bradesco S.A., acting through its Grand Cayman branch, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Initial Purchaser.
4.4	Policy of Political Risk Insurance for Capital Market Transactions dated as of October 24, 2003.
4.5	Issuer Consent Agreement, dated as of October 24, 2003, by and among Sovereign Risk Insurance Ltd., as Agent for the Insurers, Banco Bradesco S.A., acting through its Grand Cayman branch, and Banco Bradesco S.A., acting through its principal office in Brazil.
5.1	Opinion of Clifford Chance US LLP, special U.S. counsel to Banco Bradesco S.A., regarding the validity of the notes registered hereby.
5.2	Opinion of Appleby Spurling Hunter, special Cayman Islands counsel to Banco Bradesco S.A., regarding the validity of the notes registered hereby.
5.3	Opinion of Pinheiro Neto, counsel to Banco Bradesco S.A., regarding the validity of the notes registered hereby.
8.1	Opinion of Clifford Chance US LLP, special U.S. counsel to Banco Bradesco S.A., regarding tax matters.
8.2	Opinion of Appleby Spurling Hunter, special Cayman Islands counsel to Banco Bradesco S.A., regarding tax matters (contained in Exhibit 5.2).
8.3	Opinion of Pinheiro Neto, counsel to Banco Bradesco S.A., regarding tax matters.
12	Computation of Ratio of Earnings to Fixed Charges.

Exhibit Number	Item
21	List of Subsidiaries of Banco Bradesco S.A. (incorporated by reference to the exhibits to the Annual Report on Form 20-F (Commission File No. 1-15250) filed with the Securities and Exchange Commission on June 30, 2004).
23.1	Consent of PricewaterhouseCoopers, independent accountants to Banco Bradesco S.A.
23.2	Consent of Clifford Chance US LLP, special U.S. counsel to Banco Bradesco S.A. (contained in Exhibit 5.1).
23.3	Consent of Appleby Spurling Hunter, special Cayman Islands counsel to Banco Bradesco S.A. (contained in Exhibit 5.2).
23.4	Consent of Pinheiro Neto, counsel to Banco Bradesco S.A. (contained in Exhibit 5.3).
24	Powers of Attorney of Banco Bradesco S.A. (included on signature page to Registration Statement).
25	Statement of Eligibility and Qualification under the Trust Indenture Act of 1939 of The Bank of New York, as Trustee, on Form T-1, relating to the 8.75% Subordinated Notes due 2013 (including Exhibit 7 to Form T-1).
99.1	Form of Letter of Transmittal for the Notes.
99.2	Form of Notice of Guaranteed Delivery.
99.3	Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
99.4	Form of Letter to Clients.

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Foreign Currency Gain (Loss). The foreign currency transaction loss was $70.4 million during the nine months ended September 30, 2016 compared to a transaction gain of $17.4 million during the same period in 2015. The loss during the nine months ended September 30, 2016 was the result of the weakening of the British pound sterling compared to the Euro, which negatively impacted our U.K. insurance subsidiaries that write Euro-denominated risks that are re-valued at the end of each reporting period.

Provision (benefit) for Income Tax. Income tax provision for the nine months ended September 30, 2016 was $91.2 million, which resulted in an effective tax rate of 19.7%, compared to an income tax benefit of $38.6 million, which resulted in an effective tax rate of 8.5% for the nine months ended September 30, 2015. The overall increase in the effective tax rates in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 resulted from a change in profitability by jurisdiction, a significant favorable return to provision adjustment in the third quarter of 2015 compared to a slightly unfavorable return to provision adjustment in third quarter of 2016, and the release of a valuation allowance on a deferred tax asset in the second quarter of 2016.

Equity in Earnings of Unconsolidated Subsidiaries - Related Parties. Equity in earnings of unconsolidated subsidiaries - related parties was $12.5 million and $23.0 million for the nine months ended September 30, 2016 and 2015, respectively. The decrease in 2016 related to a non-recurring realized gain of $9.6 million recognized in the nine months ended September 30, 2015 related to a decrease in our ownership percentage of NGHC as the result of NGHC's public offering in August 2015.

Small Commercial Business Segment Results of Operations for the Three and Nine Months Ended September 30, 2016 and 2015 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Gross written premium	$998,071	$797,654	$3,124,761	$2,574,602
Net written premium	$457,869	$459,290	$1,684,035	$1,499,922
Change in unearned premium	59,127	34,364	(89,967)	(99,218)
Net earned premium	516,996	493,654	1,594,068	1,400,704
Loss and loss adjustment expense	(344,531)	(320,391)	(1,060,165)	(909,081)
Acquisition costs and other underwriting expenses	(125,412)	(130,792)	(405,854)	(365,184)
	(469,943)	(451,183)	(1,466,019)	(1,274,265)
Underwriting income	$47,053	$42,471	$128,049	$126,439
Key measures:				
Net loss ratio	66.6%	64.9%	66.5%	64.9%
Net expense ratio	24.3%	26.5%	25.5%	26.1%
Net combined ratio	90.9%	91.4%	92.0%	91.0%

Small Commercial Business Segment Results of Operations for the Three Months Ended September 30, 2016 and 2015 (Unaudited)

Gross Written Premium. Gross written premium increased $200.4 million, or 25.1%, to $998.1 million for the three months ended September 30, 2016 from $797.7 million for the three months ended September 30, 2015. The increase was attributable to our acquisition of Republic, an increase in the number of workers' compensation policies issued and improved pricing on our commercial vehicle business. The acquisition of Republic contributed approximately $120 million of gross written premium, and the acquisitions of ARI and Springfield contributed an additional $10 million of gross written premium for the three months ended September 30, 2016.

Net Written Premium. Net written premium decreased $1.4 million, or 0.3%, to $457.9 million for the three months ended September 30, 2016 from $459.3 million for the three months ended September 30, 2015. The decrease resulted from an increase in gross written premium for the three months ended September 30, 2016 compared to the same period in 2015, which was then entirely offset by a decrease in the retention of gross written premium during 2016 compared to 2015. Our retention of gross written premium for the segment was 45.9% and 57.6% for the three months ended September 30, 2016 and 2015, respectively. We ceded a large portion of the gross written premium generated in connection with our acquisition of Republic to third party reinsurers, which resulted in the decrease in retention of gross written premium period over period.

Net Earned Premium. Net earned premium increased $23.3 million, or 4.7%, to $517.0 million for the three months ended September 30, 2016 from $493.7 million for the three months ended September 30, 2015. As premiums written are earned ratably over an annual period, the increase in net earned premium resulted from higher net written premium for the twelve months ended September 30, 2016 compared to the same period in 2015.

Loss and Loss Adjustment Expenses. Loss and loss adjustment expenses increased $24.1 million, or 7.5%, to $344.5 million for the three months ended September 30, 2016 from $320.4 million for the three months ended September 30, 2015. Our loss ratio for the segment for the three months ended September 30, 2016 increased to 66.6% compared to 64.9% for the three months ended September 30, 2015. The increase in the loss ratio was the result, primarily, of higher current accident year selected ultimate losses as compared to selected ultimate losses in the prior period, which related to growth in our non-workers' compensation business, to which we assign a higher ultimate loss selection. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses. Acquisition costs and other underwriting expenses decreased $5.4 million, or (4.1)%, to $125.4 million for the three months ended September 30, 2016 from $130.8 million for the three months ended September 30, 2015. Acquisition costs and other underwriting expenses were reduced by ceding commission of $71.9 million and $70.8 million earned during the three months ended September 30, 2016 and 2015, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, as the segment received a consistent allocation of ceding commission for its proportionate share of our overall policy acquisition expense. The expense ratio was 24.3% and 26.5% for the three months ended September 30, 2016 and 2015, respectively. The decrease was a result of business fronted by Republic that generates expenses that are fully reimbursed by the insurance carrier for which it fronts, along with our continuing efforts to leverage our existing workforce and infrastructure.

Net Earned Premiums less Expense Included in Combined Ratio (Underwriting Income). Net premiums earned less expenses included in combined ratio increased $4.6 million, or 10.8%, to $47.1 million for the three months ended September 30, 2016 from $42.5 million for the three months ended September 30, 2015. The increase resulted primarily from an increase to earned premium and a decrease in the expense ratio during the three months ended September 30, 2016 compared to the three months ended September 30, 2015, partially offset by an increase in the loss ratio.

Small Commercial Business Segment Results of Operations for the Nine Months Ended September 30, 2016 and 2015 (Unaudited)

Gross Written Premium. Gross written premium increased $550.2 million, or 21.4%, to $3,124.8 million for the nine months ended September 30, 2016 from $2,574.6 million for the nine months ended September 30, 2015. The increase was attributable to an increase in the number of workers' compensation policies issued, improved pricing on commercial vehicle business and continued growth in California, New York and Florida. The acquisition of Republic contributed approximately $222 million of incremental gross written premium, and the acquisitions of ARI and Springfield contributed an additional $40 million of gross written premium for the nine months ended September 30, 2016.

Net Written Premium. Net written premium increased $184.1 million, or 12.3%, to $1,684.0 million for the nine months ended September 30, 2016 from $1,499.9 million for the nine months ended September 30, 2015. The increase resulted from an increase in gross written premium for the nine months ended September 30, 2016 compared to the same period in 2015, partially offset by a decrease in the retention of gross written premium during 2016 compared to 2015. Our retention of gross written premium for

the segment decreased to 53.9% from 58.3% for the nine months ended September 30, 2016 and 2015, respectively, primarily because we ceded to third party reinsurers a large portion of the gross written premium generated as result of our 2016 acquisition of Republic.

Net Earned Premium. Net earned premium increased $193.4 million, or 13.8%, to $1,594.1 million for the nine months ended September 30, 2016 from $1,400.7 million for the nine months ended September 30, 2015. As premiums written are earned ratably over an annual period, the increase in net earned premium resulted from higher net written premium for the twelve months ended September 30, 2016 compared to the same period in 2015.

Loss and Loss Adjustment Expenses. Loss and loss adjustment expenses increased $151.1 million, or 16.6%, to $1,060.2 million for the nine months ended September 30, 2016 from $909.1 million for the nine months ended September 30, 2015. Our loss ratio for the segment for the nine months ended September 30, 2016 increased to 66.5% compared to 64.9% for the nine months ended September 30, 2015. The increase in the loss ratio was the result, primarily, of higher current accident year selected ultimate losses as compared to selected ultimate losses in the prior period, which related to growth in our non-workers' compensation business, to which we assign a higher ultimate loss selection. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses. Acquisition costs and other underwriting expenses increased $40.7 million, or 11.1%, to $405.9 million for the nine months ended September 30, 2016 from $365.2 million for the nine months ended September 30, 2015. Acquisition costs and other underwriting expenses were reduced by ceding commission of $218.5 million and $195.0 million earned during the nine months ended September 30, 2016 and 2015, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, as the segment received a consistent allocation of ceding commission for its proportionate share of our overall policy acquisition expense. The expense ratio was 25.5% and 26.1% for the nine months ended September 30, 2016 and 2015, respectively, and decreased primarily from earned premium increasing at a larger rate compared to the increase in acquisition costs and other underwriting expenses. The business fronted by Republic, which was a large percentage of the business in this segment during the nine months ended September 30, 2016, has much lower expenses than the business in the comparative 2015 period.

Net Earned Premiums less Expense Included in Combined Ratio (Underwriting Income). Net premiums earned less expenses included in combined ratio increased $1.6 million, or 1.3%, to $128.0 million for the nine months ended September 30, 2016 from $126.4 million for the nine months ended September 30, 2015. The increase resulted primarily from an increase to earned premium and a decrease in the expense ratio, partially offset by an increase in the loss ratio during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

Specialty Risk and Extended Warranty Segment Results of Operations for the Three and Nine Months Ended September 30, 2016 and 2015 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Gross written premium	$598,977	$577,284	$1,779,984	$1,528,017
Net written premium	$448,847	$380,600	$1,233,741	$975,073
Change in unearned premium	(21,526)	(30,218)	(126,695)	(11,592)
Net earned premium	427,321	350,382	1,107,046	963,481
Loss and loss adjustment expense	(293,956)	(253,136)	(736,220)	(647,121)
Acquisition costs and other underwriting expenses	(89,784)	(69,876)	(237,967)	(197,450)
	(383,740)	(323,012)	(974,187)	(844,571)
Underwriting income	$43,581	$27,370	$132,859	$118,910
Key measures:				
Net loss ratio	68.8%	72.2%	66.5%	67.2%
Net expense ratio	21.0%	20.0%	21.5%	20.5%
Net combined ratio	89.8%	92.2%	88.0%	87.7%

Specialty Risk and Extended Warranty Segment Results of Operations for the Three Months Ended September 30, 2016 and 2015 (Unaudited)

Gross Written Premium. Gross written premium increased $21.7 million, or 3.8%, to $599.0 million for the three months ended September 30, 2016 from $577.3 million for the three months ended September 30, 2015. The increase in our U.S. business was the result of organic growth, expansion of existing business and the acquisition of Warranty Solutions, which contributed $23 million of gross written premium. Our May 2016 acquisition of Nationale Borg added gross written premium of $27 million to our European business, but fluctuations in European currencies reduced our gross written premiums during the third quarter of 2016 by approximately $25 million.

Net Written Premium. Net written premium increased $68.2 million, or 17.9%, to $448.8 million for the three months ended September 30, 2016 from $380.6 million for the three months ended September 30, 2015. The increase resulted from an increase of gross written premium for the three months ended September 30, 2016 compared to the same period in 2015 and an increase in our retention of gross written premium to 74.9% from 65.9% for the three months ended September 30, 2016 and 2015, respectively. The increase in the retention of gross written premium related, primarily, to the Warranty Solutions business, acquired in September 2015, which is not reinsured under the Maiden Quota Share agreement.

Net Earned Premium. Net earned premium increased $76.9 million, or 22.0%, to $427.3 million for the three months ended September 30, 2016 from $350.4 million for the three months ended September 30, 2015. As net written premium is earned ratably over the term of a policy, the increase in net earned premium resulted from an increase in net written premium, partially offset by the writing of a higher mix of longer term business during the twelve months ended September 30, 2016 compared to the same period in 2015.

Loss and Loss Adjustment Expenses. Loss and loss adjustment expenses increased $40.8 million, or 16.1%, to $294.0 million for the three months ended September 30, 2016 from $253.1 million for the three months ended September 30, 2015. Our loss ratio for the segment for the three months ended September 30, 2016 decreased to 68.8% compared to

72.2% for the same period in 2015. The decrease in the loss ratio resulted from lower selected ultimate losses for current accident years as compared to originally selected ultimate losses in prior accident years from a stabilizing of our ultimate losses on certain casualty lines in our European specialty risk and extended warranty business. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses. Acquisition costs and other underwriting expenses increased $19.9 million, or 28.5%, to $89.8 million for the three months ended September 30, 2016 from $69.9 million for the three months ended

September 30, 2015. Acquisition costs and other underwriting expenses were reduced by ceding commission of $50.4 million and $37.8 million earned during the three months ended September 30, 2016 and 2015, respectively. The ceding commission was consistent period over period as the segment received a consistent allocation of ceding commission for its proportionate share of our overall policy acquisition expense. The expense ratio was 21.0% for the three months ended September 30, 2016 compared to 20.0% for the three months ended September 30, 2015. The increase in the expense ratio resulted from increases in policy acquisition expense, predominantly as a result of the Warranty Solutions acquisition.

Net Earned Premiums less Expenses Included in Combined Ratio (Underwriting Income). Net earned premiums less expenses included in combined ratio increased $16.2 million, or 59.2%, to $43.6 million for the three months ended September 30, 2016 from $27.4 million for the three months ended September 30, 2015. The increase was attributable to an increase in the segment's earned premium and a decrease in the segment’s loss ratio during the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

Specialty Risk and Extended Warranty Segment Results of Operations for the Nine Months Ended September 30, 2016 and 2015 (Unaudited)

Gross Written Premium. Gross written premium increased $252.0 million, or 16.5%, to $1,780.0 million for the nine months ended September 30, 2016 from $1,528.0 million for the nine months ended September 30, 2015. We experienced growth both domestically and in our European business during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. In our European business, we grew our core businesses, including warranty and general liability products, and our Lloyd's business during the nine months of 2016 compared to the same period in 2015. Our May 2016 acquisition of Nationale Borg added gross written premium of $37 million to our European business, while fluctuations in European currencies reduced our gross written premiums during 2016 by approximately $84 million. Our U.S. business increased during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, primarily based on growth in existing businesses and the acquisition of Warranty Solutions, which contributed $69 million of gross written premium.

Net Written Premium. Net written premium increased $258.7 million, or 26.5%, to $1,233.7 million for the nine months ended September 30, 2016 from $975.1 million for the nine months ended September 30, 2015 as a result of an increase of gross written premium for the nine months ended September 30, 2016 compared to the same period in 2015, and an increase in our retention of gross written premium period over period. Our overall retention of gross written premium for the segment was 69.3% and 63.8% for the nine months ended September 30, 2016 and 2015, respectively. The increase in the retention of gross written premium related, primarily, to the Warranty Solutions business, acquired in September 2015, which is not reinsured under the Maiden Quota Share agreement

Net Earned Premium. Net earned premium increased $143.6 million, or 14.9%, to $1,107.0 million for the nine months ended September 30, 2016 from $963.5 million for the nine months ended September 30, 2015. Net earned premium increased due to an increase in net written premium, which was partially offset by the writing of a larger percentage of longer term business during the twelve months ended September 30, 2016 compared to the same period in 2015, which is earned ratably over the term of a policy.

Loss and Loss Adjustment Expenses. Loss and loss adjustment expenses increased $89.1 million, or 13.8%, to $736.2 million for the nine months ended September 30, 2016 from $647.1 million for the nine months ended September 30, 2015. Our loss ratio for the segment for the nine months ended September 30, 2016 decreased to 66.5% compared to 67.2% for the same period in 2015. The decrease in the loss ratio resulted from having a higher percentage of earned premium in lines of business with lower ultimate loss selections during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses. Acquisition costs and other underwriting expenses increased $40.5 million, or 20.5%, to $238.0 million for the nine months ended September 30, 2016 from $197.5 million for the nine months ended September 30, 2015. Acquisition costs and other underwriting expenses were reduced by ceding commission of $125.8 million and $105.5 million earned during the nine months ended September 30, 2016 and 2015, respectively. The ceding commission was consistent period over period as the segment received a consistent allocation of ceding commission for its proportionate share of our overall policy acquisition expense. The expense ratio was 21.5% for the nine months ended September 30, 2016 compared to 20.5% for the nine months ended September 30, 2015. The increase in the expense ratio resulted from increases in policy acquisition expenses from our acquisition of Warranty Solutions.

Net Earned Premiums less Expenses Included in Combined Ratio (Underwriting Income). Net earned premiums less expenses included in combined ratio increased $13.9 million, or 11.7%, to $132.9 million for the nine months ended September 30, 2016 from $118.9 million for the nine months ended September 30, 2015. The increase was attributable to an increase in the segment's earned premium and a decrease in the segment's loss ratio during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

Specialty Program Segment Results of Operations for The Three and Nine Months Ended September 30, 2016 and 2015 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Gross written premium	$437,050	$405,875	$1,135,539	$1,087,719
Net written premium	$309,334	$303,093	$787,389	$719,898
Change in unearned premium	(57,415)	(101,721)	(36,233)	(120,328)
Net earned premium	251,919	201,372	751,156	599,570
Loss and loss adjustment expense	(172,561)	(136,077)	(514,129)	(405,160)
Acquisition costs and other underwriting expenses	(68,762)	(57,348)	(203,574)	(165,768)
	(241,323)	(193,425)	(717,703)	(570,928)
Underwriting income	$10,596	$7,947	$33,453	$28,642
Key measures:				
Net loss ratio	68.5%	67.6%	68.4%	67.6%
Net expense ratio	27.3%	28.5%	27.1%	27.6%
Net combined ratio	95.8%	96.1%	95.5%	95.2%

Specialty Program Segment Results of Operations for the Three Months Ended September 30, 2016 and 2015 (Unaudited)

Gross Written Premium. Gross written premium increased $31.2 million, or 7.7%, to $437.1 million for the three months ended September 30, 2016 from $405.9 million for the same period in 2015. The majority of the increase, $62 million, resulted from the acquisition of Republic. The increase was partially offset by the termination or curtailment of certain workers' compensation programs and commercial package programs.

Net Written Premium. Net written premium increased $6.2 million, or 2.1%, to $309.3 million for the three months ended September 30, 2016 from $303.1 million for the same period in 2015 as a result of a small increase in gross written premium for the three months ended September 30, 2016 compared to the three months ended September 30, 2015, offset by the cession of a larger percentage of gross written premium to reinsurers during 2016 compared to 2015. Our overall retention of gross written premium for the segment was 70.8% and 74.7% for the three months ended September 30, 2016 and 2015, respectively. The decrease in the retention of gross written premium related to an increase in business written that is reinsured under the Maiden Quota Share agreement.

Net Earned Premium. Net earned premium increased $50.5 million, or 25.1%, to $251.9 million for the three months ended September 30, 2016 from $201.4 million for the same period in 2015. As premiums written are earned ratably over an annual period, the increase in net premium earned resulted from higher net written premium for the annual period prior to the twelve months ended September 30, 2016 compared to the same period in 2015.

Loss and Loss Adjustment Expenses. Loss and loss adjustment expenses increased $36.5 million, or 26.8%, to $172.6 million for the three months ended September 30, 2016, compared to $136.1 million for the same period in 2015. Our loss ratio for the segment increased to 68.5% compared to 67.6% for the three months ended September 30, 2016 and 2015, respectively. The increase in the loss ratio resulted from higher selected ultimate losses for current and prior accident years as compared to originally selected ultimate losses in prior accident years. This was the result, primarily, of revisions to our selected ultimate losses on certain casualty lines due to an increase in our incurred but not reported claim reserves. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses. Acquisition costs and other underwriting expenses increased $11.4 million, or 19.9%, to $68.8 million for the three months ended September 30, 2016 from $57.3 million for the same period in 2015. Acquisition costs and other underwriting expenses were reduced by ceding commission of $39.0 million and $30.9 million earned during the three months ended September 30, 2016 and 2015, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, as the segment received its proportionate share of our overall policy acquisition expense. The expense ratio was 27.3% for the three months ended September 30, 2016 compared to 28.5% for the three months ended September 30, 2015. The decrease in the expense ratio during the three months ended September 30, 2016 related to the issuance of a higher percentage of workers' compensation policies, which have lower policy acquisition costs than other types of business in this segment, along with our continuing efforts to leverage our existing workforce and infrastructure.

Net Earned Premiums less Expense Included in Combined Ratio (Underwriting Income). Net earned premiums less expenses included in combined ratio increased $2.6 million, or 33%, to $10.6 million for the three months ended September 30, 2016 from $7.9 million for the three months ended September 30, 2015. The increase resulted from higher earned premium and a decrease in the expense ratio in 2016 compared to 2015.

Specialty Program Segment Results of Operations for the Nine Months Ended September 30, 2016 and 2015 (Unaudited)

Gross Written Premium. Gross written premium increased $47.8 million, or 4.4%, to $1,135.5 million for the nine months ended September 30, 2016 from $1,087.7 million for the same period in 2015. Gross written premium increased modestly period over period as the increase in gross written premium from the acquisition of Republic, which contributed $113 million of gross written premium, was offset by the termination or curtailment of certain workers' compensation programs and commercial package programs.

Net Written Premium. Net written premium increased $67.5 million, or 9.4%, to $787.4 million for the nine months ended September 30, 2016 from $719.9 million for the same period in 2015. The increase in net written premium resulted from an increase in gross written premium for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, and the cession of a smaller percentage of gross written premium to reinsurers during 2016 compared to 2015. Our overall retention of gross written premium for the segment was 69.3% and 66.2% for the nine months ended September 30, 2016 and 2015, respectively. The increase in the retention of gross written premium related to an increase, as compared to the same period in 2015, in business written that is not reinsured under the Maiden Quota Share agreement.

Net Earned Premium. Net earned premium increased $151.6 million, or 25.3%, to $751.2 million for the nine months ended September 30, 2016 from $599.6 million for the same period in 2015. As premiums written are earned ratably over an annual period, the increase in net premium earned resulted from higher net written premium for the annual period prior to the twelve months ended September 30, 2016 compared to the same period in 2015.

Loss and Loss Adjustment Expenses. Loss and loss adjustment expenses increased $109.0 million, or 26.9%, to $514.1 million for the nine months ended September 30, 2016, compared to $405.2 million for the same period in 2015. Our loss ratio for the segment increased to 68.4% compared to 67.6% for the nine months ended September 30, 2016 and 2015, respectively. The increase in the loss ratio resulted from higher selected ultimate losses for current and prior accident years as compared to originally selected ultimate losses in prior accident years. This was the result, primarily, of revisions to our selected ultimate losses on certain casualty lines due to an increase in our incurred but not reported claim reserves. We did not have any material increases or decreases as a result of prior year loss development.

Acquisition Costs and Other Underwriting Expenses. Acquisition costs and other underwriting expenses increased $37.8 million, or 22.8%, to $203.6 million for the nine months ended September 30, 2016 from $165.8 million for the same period in 2015. Acquisition costs and other underwriting expenses were reduced by ceding commission of $107.6 million and $88.5 million earned during the nine months ended September 30, 2016 and 2015, respectively. The ceding commission increased period over period as a result of an increase in net earned premium, as the segment received a larger allocation of ceding commission for its proportionate share of our overall policy acquisition expense. The expense ratio was 27.1% for the nine months ended September 30, 2016 compared to 27.6% for the nine months ended September 30, 2015. The decrease in the expense ratio during the nine months ended September 30, 2016 related to the issuance of a higher percentage of workers' compensation policies, which have lower policy acquisition costs than other types of business in this segment.

Net Earned Premiums less Expense Included in Combined Ratio (Underwriting Income). Net earned premiums less expenses included in combined ratio increased $4.8 million, or 16.8%, to $33.5 million for the nine months ended September 30, 2016 from $28.6 million for the nine months ended September 30, 2015 due to an increase in earned premium and a reduction in expense ratio, partially offset by an increase in the loss ratio in 2016 compared to 2015.

Liquidity and Capital Resources

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 fixed maturity and equity securities. We forecast claim payments based on our historical trends. We seek to manage the funding of claim payments by actively managing available cash and forecasting cash flows on short-term and long-term bases. Cash payments for claims were approximately $1,867 million and $1,391 million in the nine months ended September 30, 2016 and 2015, respectively. We expect that projected cash flow from operations will provide us sufficient liquidity for at least twelve months to fund our anticipated growth, by providing capital to increase the surplus of our insurance subsidiaries, as well as for the payment of claims and operating expenses, payment of interest and principal on our debt facilities, payment of any cash in settlement of convertible senior notes submitted by holders for conversion, and other holding company expenses. We anticipate net income from operations will create sufficient additional surplus at our insurance subsidiaries, which will fund our growth. However, if our growth attributable to potential acquisitions, internally generated growth or a combination of these, exceeds our projections, we may have to raise additional capital sooner to support our growth and manage our debt profile. As a result, we may from time to time raise capital from the issuance of equity, debt, equity-related debt or other capital securities, or seek to redeem, repurchase or exchange for other securities, prior to maturity, some or all of our outstanding debt in the open market, as circumstances allow. If we cannot obtain adequate capital or refinance all or a portion of our debt 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 operation could be adversely affected.

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

	Nine Months Ended September 30,	
(Amounts in Thousands)	2016	2015
Cash and cash equivalents provided by (used in):		
Operating activities	$839,914	$468,108
Investing activities	(835,920)	(959,608)
Financing activities	182,325	507,624

Net cash provided by operating activities for the nine months ended September 30, 2016 increased compared to cash provided by operating activities in the nine months ended September 30, 2015. The increase in cash provided from operations resulted primarily from an increase in reinsurance premium payable, loss and loss expense reserves and deferred tax liabilities in 2016 compared to 2015.

Net cash used in investing activities was approximately $835.9 million during the nine months ended September 30, 2016 and consisted primarily of approximately $415 million for the net purchase of fixed maturity securities, equity securities and short-term investments, approximately $176 million for an increase in restricted cash, approximately $139 million for acquisitions, and approximately $94 million for capital expenditures. Net cash used in investing activities was $960 million for the nine months ended September 30, 2015 and consisted primarily of approximately $659 million for the net purchase of fixed maturity securities, equity securities, and short-term investments, approximately $71 million for restricted cash, approximately $220 million for acquisitions and approximately $100 million for capital expenditures, partially offset by the net proceeds of approximately $86 million received from the maturity of life settlement contracts.

Net cash provided by financing activities was approximately $182 million for the nine months ended September 30, 2016 compared to approximately $508 million net cash provided by financing activities during the nine months ended

September 30, 2015. In 2016, we issued preferred stock for approximately $417 million and entered into secured loans of approximately $46 million, which was partially offset by common and preferred stock dividends paid of approximately $110 million, and approximately $152 million to repurchase shares of our stock. In 2015, we issued preferred stock for approximately $177 million, common stock for approximately $172 million, issued $285 million in subordinated notes, and utilized our revolving credit facility for $10 million, which was partially offset by common and preferred stock dividends paid of $83 million, and approximately $62 million paid to settle conversions of our 2021 Notes.

Other Material Changes in Financial Position

(Amounts in thousands)	September 30, 2016	December 31, 2015
Selected Assets:		
Fixed maturities, available-for-sale	$ 7,043,815	$ 5,433,797
Premium receivable, net	2,405,638	2,115,653
Reinsurance recoverable	4,040,073	3,008,670
Selected Liabilities:		
Loss and loss expense reserve	9,427,770	7,208,367
Unearned premium	4,900,926	4,014,728
Debt	1,235,316	989,356

The increase in fixed maturities, available-for-sale, from December 31, 2015 to September 30, 2016 was primarily attributable to the acquisitions and utilization of cash from our two preferred shared offerings during the nine months ended September 30, 2016. The increase in premium receivable, net related to higher premium writings and the acquisition of Republic. The majority of the increase in reinsurance recoverable related to the acquisition of Republic. The increase in loss and loss expense reserve and unearned premium related to an increase in premium writings and acquisitions. The increase in debt related primarily to the debt incurred and assumed in connection with the acquisition of Republic.

Common Stock

The Company implemented a two-for-one stock split on February 2, 2016.

Preferred Stock

We have outstanding six separate series (Series A through F) of non-cumulative preferred stock. Five of these series (Series B, C, D, E and F) were issued in offerings using depositary shares, each representing a 1/40th interest in a share of the particular series of preferred stock. Dividends on the Series A Preferred Stock and the Series B, C, D, E and F Preferred Stock represented by depositary shares are payable on the liquidation preference amount, on a non-cumulative basis, when, as and if declared by our Board of Directors, quarterly in arrears, on March 15, June 15, September 15, and December 15 of each year.

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 amount per share of Preferred Stock $	Net proceeds ($ in thousands)	Dividend paid during the nine months ended September 30, 2016 ($ in thousands)
A	6.75	4,600,000	N/A	$ 25	$ 111,130	$ 1,941
B	7.25	105,000	4,200,000	1,000	101,702	1,903

C	7.625	80,000	3,200,000	1,000	77,480	1,525
D	7.50	182,500	7,300,000	1,000	176,529	3,422
E	7.75	143,750	5,750,000	1,000	139,042	2,785
F	6.95	287,500	11,500,000	1,000	278,222	—

For a detailed description of our Series A Preferred Stock and Series B, C and D Preferred Stock represented by depositary shares, refer to Note 20. “Stockholder’s Equity” in Item 8. “Financial Statements and Supplementary Data” in our 2015 Form 10-K. For a detailed description related to our Series E and F Preferred Stock represented by depositary shares, refer to Note 15. “Stockholder’s Equity and Accumulated Other Comprehensive Income (Loss)” to the accompanying financial statements included elsewhere in this report.

Credit Facilities

$350 million credit facility

Our five-year, $350 million credit facility is a revolving credit facility with a letter of credit sublimit of $175 million and an expansion feature of not more than an additional $150 million. As of September 30, 2016, we had outstanding borrowings of $130 million and outstanding letters of credit in place under this Credit Agreement of $114.2 million, which reduced the total aggregate availability under the facility to $99.9 million and the availability for letters of credit to $60.8 million.

Borrowings under this credit facility bear interest at either the Alternate Base Rate or the LIBO rate. Borrowings bearing interest at a rate determined by reference to the Alternate Base Rate will bear interest at (x) the greatest of (a) the administrative agent’s prime rate, (b) the federal funds effective rate plus 0.5% or (c) the adjusted LIBO rate for a one-month interest period on such day plus 1.0%, plus (y) a margin ranging from 0.125% to 0.625%, adjusted on the basis of our consolidated leverage ratio. Eurodollar borrowings will bear interest at the adjusted LIBO rate for the interest period in effect plus a margin ranging from 1.125% to 1.625%, adjusted on the basis of our consolidated leverage ratio.

Fees payable by us under this credit facility include a letter of credit participation fee (equal to the margin applicable to Eurodollar borrowings), a letter of credit fronting fee with respect to each letter of credit (0.125%) and a commitment fee on the available commitments of the lenders (a range based on our consolidated leverage ratio, which was greater than or equal to 25% but less than 30%, resulting in a commitment fee rate of 0.20%).

Interest expense, including amortization of the deferred origination costs and fees associated with the letters of credit, was approximately $3.4 million and $2.6 million for nine months ended September 30, 2016 and 2015, respectively.

Funds at Lloyd's facility

We use this £300 million (or $389 million) letter of credit facility to support our capacity at Lloyd’s as a member and/or reinsurer of Syndicates 2526, 1206 and 44 for the 2016 underwriting year of account, as well as prior open years of account. The facility is 35% secured by a pledge of a collateral account.

Fees payable under this letter of credit facility include a letter of credit issuance fee payable on the secured portion of the letters of credit at the rate of 0.50% and on the unsecured portion of the letters of credit determined based on AII's then-current financial strength rating issued by A.M. Best. As of September 30, 2016, the applicable letter of credit fee rate on the unsecured portion was 1.15% based on AII's A.M. Best financial strength rating of “A”. We also pay a commitment fee of 0.35% per year on the aggregate unutilized and uncanceled amount of the facility, and pay a facility fee upon closing of 0.15% of the total aggregate commitment.

As of September 30, 2016, the Company had outstanding letters of credit of £300.0 million (or $380.5 million) in place under this credit facility, which reduced the aggregate availability under this facility to £6.8 million (or $8.8 million). We recorded total interest expense of approximately $3.4 million and $2.3 million during the nine months ended September 30, 2016 and 2015, respectively.

Other letter of credit facilities

We, through one of our subsidiaries, have a secured letter of credit facility with Comerica Bank that we utilize to comply with the deposit requirements of the State of California and the U.S. Department of Labor as security for our obligations to workers’ compensation and Federal Longshore and Harbor Workers’ Compensation Act policyholders.

The credit limit is for $75 million, of which $48.1 million was utilized as of September 30, 2016. We are required to pay a letter of credit participation fee for each letter of credit in the amount of 0.40%. In addition, we, through certain subsidiaries, have additional existing stand-by letters of credit with various lenders in the amount of $1.6 million as of September 30, 2016.

Through our acquisition of Nationale Borg, we assumed their existing credit facilities pursuant to which trade related guarantees and comparable standby letters of credit are issued primarily to secure obligations owed by Nationale Borg to third parties in the normal course of business. The credit facilities are with Deutsche Bank Netherlands N.V. and ING Bank N.V. and are primarily used to obtain guarantees for the benefit of financial institutions. The credit limit under these credit facilities is approximately £76.6 million (or $88.4 million). The credit facilities were utilized for £56.2 million (or $63.2 million) as of September 30, 2016. We recorded total interest expense of $0.4 million for the nine months ended September 30, 2016.

For further information on these credit facilities, including applicable restrictive covenants and events of default, see Note 12. "Debt" in Item 8. "Financial Statements and Supplementary Data" in our 2015 Form 10-K.

Outstanding Notes

Convertible Debt

We have an outstanding principal balance of $215 million of Convertible Senior Notes due 2044 ("2044 Notes"), with a carrying value of approximately $165 million, that bear interest at a rate equal to 2.75% per year, payable semiannually in arrears on June 15th and December 15th of each year. Additionally, we have an outstanding principal balance of $6 million of Convertible Senior Notes due 2021 ("2021 Notes"), with a carrying a value of approximately $5 million, that bear interest at a rate equal to 5.5% per year, payable semiannually in arrears on June 15th and December 15th of each year. Interest expense recognized on the 2044 Notes was $9.4 million and $9.1 million during the nine months ended September 30, 2016 and 2015, respectively. Interest expense recognized on the 2021 Notes was $0.3 million and $0.7 million for the nine months ended September 30, 2016 and 2015, respectively. For further information on the 2044 Notes and the 2021 Notes, including contingent interest on the 2044 Notes, conversion triggers, redemption and repurchase features and the exchange of 2021 Notes for 2044 Notes, see Note 12. "Debt" in Item 8. "Financial Statements and Supplementary Data" in our 2015 Form 10-K.

6.125% Notes due 2023

We have outstanding $250 million aggregate principal amount of our 6.125% notes due 2023 ("2023 Notes"), with a carrying value of approximately $248 million, that bear interest at a rate equal to 6.125% per year, payable semiannually in arrears on February 15th and August 15th of each year. The interest rate will increase by 0.50% per year if our consolidated leverage ratio exceeds 30% and will increase an additional 1.00% per year (for an aggregate increase of 1.50% per year) if the consolidated leverage ratio exceeds 35%. As of September 30, 2016, the consolidated leverage ratio was less than 30%. Interest expense recognized on the 2023 Notes was approximately $11.7 million and $11.7 million for the nine months ended September 30, 2016 and 2015, respectively. For further information on the 2023 Notes, including restrictive covenants and events of default, see Note 12. "Debt" in Item 8. "Financial Statements and Supplementary Data" in our 2015 Form 10-K.

7.25% Subordinated Notes due 2055

We have outstanding $150 million aggregate principal amount of our 7.25% subordinated notes due 2055 (the "7.25% 2055 Notes"), with a carrying value of approximately $145 million that bear interest at a rate equal to 7.25% per year, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing on September 15, 2015. The 7.25% 2055 Notes mature on June 15, 2055. We have the right to redeem the 7.25% 2055 Notes, in whole or in part, on June 18, 2020, or on any interest payment date thereafter, at a redemption price equal to 100% of the principal amount of the notes plus accrued and unpaid interest to, but not including, the date of redemption. The 7.25% 2055 Notes are our subordinated unsecured obligations and are structurally subordinated to all our existing and future indebtedness, liabilities and other obligations of our subsidiaries. Interest expense, including amortization of deferred origination costs, recognized on the 7.25% 2055 Notes was $8.3 million and $3.1 million for the nine months ended September 30, 2016 and 2015, respectively. For further information on the 7.25% 2055 Notes, see Note 12. "Debt" in Item 8. "Financial Statements and Supplementary Data" in our 2015 Form 10-K.

2035-2037 Notes

We have outstanding $124 million aggregate principal amount of four junior subordinated debenture notes ("2035-2037 Notes"). These debenture notes, maturing between 2035 and 2037, were issued by us using the proceeds

from issuing trust preferred securities in connection with establishing four special purpose trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on our common stock under certain circumstances, including default of payment. We recognized interest expense, including amortization of deferred origination costs, of approximately $4.6 million and $5.2 million for the nine months ended September 30, 2016 and 2015, respectively. For further information on the 2035-2037 Notes, see Note 12. "Debt" in Item 8. "Financial Statements and Supplementary Data" in our 2015 Form 10-K.

2033-2037 TPS Notes

Through our acquisition of Republic, we assumed $93 million aggregate principal amount of five junior subordinated debenture notes ("2033-2037 TPS Notes"). These debenture notes mature between 2033 and 2037. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration

of dividends on our common stock under certain circumstances, including default of payment. We recognized interest expense, including amortization of deferred origination costs, of approximately $1.8 million for the nine months ended September 30, 2016.

7.50% Subordinated Notes due 2055

We have outstanding $135 million aggregate principal amount of our 7.50% subordinated notes due 2055 (the "7.50% 2055 Notes"), with a carrying value of approximately $131 million, that bear interest at a rate equal to 7.50% per year, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing December 15, 2015. The 7.50% 2055 Notes mature on September 15, 2055. We have the right to redeem the 7.50% 2055 Notes, in whole or in part, on September 16, 2020, or on any interest payment date thereafter, at a redemption price equal to 100% of the principal amount of the 7.50% 2055 Notes plus accrued and unpaid interest to, but not including, the date of redemption. The 7.50% 2055 Notes are our subordinated unsecured obligations and are structurally subordinated to all existing and future indebtedness, liabilities and other obligations of our subsidiaries. Interest expense, including amortization of deferred origination costs, recognized on the 7.50% 2055 Notes was $7.7 million for the nine months ended September 30, 2016. For further information on the 7.50% 2055 Notes, see Note 12. "Debt" in Item 8. "Financial Statements and Supplementary Data" in our 2015 Form 10-K.

Delek Promissory Note

We have outstanding a term promissory note to Delek Finance U.S. Inc. in the amount of $104.7 million that we issued as part of the consideration for our acquisition of Republic. The principal will be paid in four equal installments on each of the first four anniversaries of the issuance date. The note bears interest of 5.75% per annum and is payable from time to time based on the outstanding principal balance until the promissory note is fully paid. In the event we are required to pay indebtedness under our revolving credit facility or our 2023 Notes on an accelerated basis, the holder of the term promissory note may cause us to repay unpaid principal and interest immediately. We recorded interest expense, including amortization of the deferred origination costs and fees associated with the loan agreement, of approximately $2.8 million for the nine months ended September 30, 2016.

Short-Term Borrowings

We did not engage in short-term borrowings to fund our operations or for liquidity purposes during the nine months ended September 30, 2016.

Contractual Obligations

During the nine months ended September 30, 2016, our contractual obligations have not changed materially from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2015.

Reinsurance

Our insurance subsidiaries utilize reinsurance agreements to transfer portions of the underlying risk of the business we write to various affiliated and third-party reinsurance companies. Reinsurance does not discharge or diminish our obligation to pay claims covered by the insurance policies we issue; however, it does permit us to recover certain incurred losses from our reinsurers and our reinsurance recoveries reduce the 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) at the time we enter into our reinsurance agreements. We also enter into reinsurance relationships with third-party captives formed by agents and other business partners as a mechanism for sharing risk and profit. The total amount, cost and limits relating to the reinsurance

coverage we purchase may vary from year to year based upon a variety of factors, including the availability of quality reinsurance at an acceptable price and the level of risk that we choose to retain for our own account. We have not experienced any significant changes to our reinsurance programs since December 31, 2015. For a more detailed description of our reinsurance arrangements, including our reinsurance arrangements with Maiden Reinsurance Ltd., see ''Reinsurance'' 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, 2015.

Cash and Investment Portfolio

Cash, which consists of cash, cash equivalents and restricted cash and cash equivalents, along with our investment portfolio, which consists of fixed maturity securities, equity securities, and short-term investments, but excludes life settlement contracts, other investments and equity investments, increased $1,981 million, or 28.4%, to $8.9 billion for the nine months ended September 30, 2016 from $7.0 billion as of December 31, 2015. Our investment portfolio is primarily classified as available-for-sale, as defined by ASC 320, Investments — Debt and Equity Securities. The increase in our investment portfolio during the nine

months ended September 30, 2016 compared to December 31, 2015 was primarily attributable to the acquisition of ARI, Genworth, Nationale Borg and Republic, as well as the utilization of excess cash from our equity offerings during 2016. Our fixed maturity securities had a fair value of $7.0 billion and an amortized cost of $6.8 billion as of September 30, 2016. Our equity securities, including both available-for-sale and trading equity securities, had a fair value of $200.2 million with a cost of $194.1 million as of September 30, 2016.

Our cash and investment portfolio, exclusive of life settlement contracts, equity investment in unconsolidated related party subsidiaries, and other investments is summarized in the table below by type of investment:

(Amounts in Thousands)	September 30, 2016			December 31, 2015		
	Carrying Value	Percentage of Portfolio		Carrying Value	Percentage of Portfolio	
Cash, cash equivalents and restricted cash	$1,649,995	18.4	%	$1,312,669	18.9	%
Short-term investments	49,008	0.5		84,266	1.2	
U.S. treasury securities	295,721	3.3		70,759	1.0	
U.S. government agencies	7,679	0.1		45,558	0.7	
Municipals	875,989	9.8		540,426	7.8	
Foreign government	142,262	1.6		113,745	1.6	
Commercial mortgage back securities	179,717	2.0		151,318	2.2	
Residential mortgage backed securities:						
Agency backed	1,061,245	11.9		974,838	14.0	
Non-agency backed	63,195	0.7		120,229	1.7	
Collateralized loan / debt obligations	425,669	4.8		226,094	3.2	
Asset-backed securities	25,581	0.3		31,837	0.5	
Corporate bonds	3,966,757	44.4		3,158,993	45.3	
Preferred stocks	3,996	—		4,989	0.1	
Common stocks	196,186	2.2		126,779	1.8	
	$8,943,000	100.0	%	$6,962,500	100.0	%

The table below summarizes the credit quality of our fixed maturity securities as of September 30, 2016 and December 31, 2015, as rated by Standard and Poor’s:

	September 30, 2016		December 31, 2015	
U.S. Treasury	4.2	%	1.3	%
AAA	5.3		12.2	
AA	33.0		29.0	
A	29.7		28.8	
BBB, BBB+, BBB-	24.8		25.8	
BB, BB+, BB-	2.0		1.9	
B, B+, B-	0.6		0.1	
Other	0.4		0.9	
Total	100.0	%	100.0	%

The table below summarizes the average duration by type of fixed maturity as well as detailing the average yield as of September 30, 2016 and December 31, 2015:

	September 30, 2016		December 31, 2015	
	Average Yield %	Average Duration in Years	Average Yield %	Average Duration in Years
U.S. treasury securities	1.19	2.9	1.73	3.9
U.S. government agencies	1.71	4.5	2.63	4.2
Foreign government	1.84	5.9	2.27	5.7
Corporate bonds	3.36	5.9	3.33	6.1
Municipal bonds	3.03	7.4	3.33	6.9
Collateralized loan / debt obligations	4.98	0.6	4.22	1.1
Mortgage and asset backed securities	3.18	5.3	3.38	4.6

As of September 30, 2016, the weighted average duration of our fixed income securities was approximately 5.54 years and had an average yield of 3.26%.

Other investments represented approximately 1.4% and 1.4% of our total investment portfolio as of September 30, 2016 and December 31, 2015, respectively. At September 30, 2016, other investments consisted primarily of real estate partnerships totaling $80 million, private limited partnerships totaling $20 million, an interest in a syndicated term loan of $6 million, and annuity and other investments totaling $19 million. At December 31, 2015, other investments consisted primarily of real estate partnerships totaling $64.9 million, private limited partnerships totaling $21.2 million, an interest in a syndicated term loan of $6.3 million, and annuity and other investments totaling $6.7 million.

Based on guidance in FASB ASC 320-10-65, 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 than 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 loss net 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.

Quarterly, our Investment Committee (“Committee”) evaluates each available-for-sale security that has an unrealized loss as of the end of the subject reporting period for OTTI. We generally consider an investment, primarily equity securities, to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion or more) for over 24 months. In addition, the Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

- the current fair value compared to amortized cost;
- the length of time the security’s fair value has been below its amortized cost;
- specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments;

- whether management intends to sell the security and, if not, whether it is not more than 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 material outstanding obligations or the issuer seeking protection under bankruptcy laws; and
- other items, including company management, media exposure, sponsors, marketing and advertising agreements, debt restructuring, 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 write down investments immediately that we consider to be impaired based on the above criteria collectively.

The total impairment charges of our fixed and equity securities classified as available-for-sale for the nine months ended September 30, 2016 and 2015 are presented in the table below:

(Amounts in Thousands)	2016	2015
Equity securities	$19,977	$1,276
Fixed maturity securities	—	8,842
Other investments	6,440	$—
	$26,417	$10,118

Additionally, we had gross unrealized losses of $37.7 million related to available-for-sale fixed maturity securities and $6.3 million related to available-for-sale equity securities during the nine months ended September 30, 2016.

As of September 30, 2016, we own 2,242 purchase lots of corporate bonds in the financial institutions, industrial, and other sectors, which account for approximately 31%, 22.3% and 3%, respectively, and 87% in the aggregate of the total fair value of our fixed maturity securities, and 48%, 34% and 5%, respectively, and 56% in the aggregate of the total unrealized losses of our fixed maturity securities. We believe that the unrealized losses in these securities are the result, primarily, of general economic conditions and not the condition of the issuers, which we believe are solvent and have the ability to meet their obligations. Therefore, we expect that the market price for these securities should recover within a reasonable time. Additionally, we do not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost basis.

Our investment in marketable equity securities classified as available-for-sale consist of investments in preferred and common stock across a wide range of sectors. We evaluated the near-term prospects for recovery of fair value in relation to the severity and duration of the impairment and have determined in each case that the probability of recovery is reasonable and we have the ability and intent to hold these investments until a recovery of fair value. We believe the gross unrealized losses of $6.3 million as of September 30, 2016 are not material to our financial position.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk. We had fixed maturity securities (excluding $49.0 million of short-term deposits) with a fair value of $7.0 billion and carrying value of $6.8 billion as of September 30, 2016 that are subject to interest rate risk. Interest rate risk is the risk that we may incur losses due to adverse changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of our fixed maturity securities. We manage our exposure to interest rate risk through a disciplined asset and liability matching and capital management process. In the management of this risk, the characteristics of duration, credit and variability of cash flows are critical elements. These risks are assessed regularly and balanced within the context of our liability and capital position.

The table below summarizes the interest rate risk associated with our fixed maturity securities by illustrating the sensitivity of the fair value and carrying value of our fixed maturity securities as of September 30, 2016 to selected hypothetical changes in interest rates, and the associated impact on our stockholders' equity. We anticipate that we will continue to meet our obligations out of income. We classify our fixed securities and equity securities as

available-for-sale. Temporary changes in the fair value of our fixed maturity securities impact the carrying value of these securities and are reported in our stockholders' equity as a component of other comprehensive income, net of deferred taxes.

The selected scenarios 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 available-for-sale fixed maturity securities and on our stockholders' equity, each as of September 30, 2016.

Hypothetical Change in Interest Rates	Fair Value	Estimated Change in Fair Value	Hypothetical Percentage (Increase)Decrease in Shareholders' Equity
(Amounts in Thousands)			
200 basis point increase	$6,396,955	$(646,860)	(17.5)%
100 basis point increase	6,704,445	(339,370)	(9.2)%
No change	7,043,815	—	—
100 basis point decrease	7,391,031	347,216	9.4%
200 basis point decrease	7,754,123	710,308	19.2%

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. We currently have $1,420 million of debt instruments (including a $168.0 million Maiden collateral loan) of which $943 million are fixed rate debt instruments. A fluctuation of 100 basis points in interest on our variable rate debt instruments, which are tied to LIBOR, would affect our earnings and cash flows by $4.8 million before income tax, on an annual basis, but would not affect the fair market value of the variable rate debt.

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 liquidity risk of an unexpected rise in claims severity or frequency from catastrophic events or a single large loss. The availability, amount and cost of reinsurance depend on market conditions and may vary significantly.

Credit Risk. Credit risk is the potential loss arising principally from adverse changes in the financial condition of the issuers of our fixed maturity securities and the financial condition of our third party reinsurers. Additionally, we have counter-party credit risk with our repurchase agreement counter-parties and interest rate swap counter-parties.

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

We are subject to credit risk with respect to our third party reinsurers. Although our third party reinsurers are obligated to reimburse us to the extent we cede risk to them, we are ultimately liable to our policyholders on all risks that 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 have an A.M. Best rating of "A-" (Excellent) or better at the time we enter into the agreement and by performing, along with our reinsurance brokers, 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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations —Reinsurance."

Counter-party credit risk with our repurchase agreement counter-parties is mitigated by obtaining collateral. We obtain collateral in the amount of 110% of the value of the securities we have sold with agreement to repurchase. Additionally, repurchase agreements are only transacted with pre-approved counter-parties.

Foreign Currency Risk. We write insurance in the United Kingdom and certain other European Union member countries through several of our foreign insurance subsidiaries. While the functional currencies of these subsidiaries

are the Euros and the British Pound, we write coverages that are settled in local currencies, including, primarily, the Euro and British Pound. We attempt to maintain sufficient local currency assets on deposit to minimize our exposure to realized currency losses. Assuming a 5% increase in the exchange rate of the local currency in which the claims will be paid and that we do not hold that local currency, we would recognize a $70.3 million after tax realized currency loss based on our outstanding foreign denominated reserves of $2,163 million at September 30, 2016.

Equity Price Risk. Equity price risk is the risk that we may incur losses due to adverse changes in the market prices of the equity securities we hold in our investment portfolio, which include common stocks, non-redeemable preferred stocks and master limited partnerships. We classify our portfolio of equity securities as either available-for-sale or trading and carry these securities on our balance sheet at fair value. Accordingly, adverse changes in the market prices of our equity securities result in a decrease

in the value of our total assets and a decrease in our shareholders' equity. As of September 30, 2016, the equity securities in our investment portfolio had a fair value of $200.2 million, representing approximately 2% of our total invested assets on that date.

The table below illustrates the impact on our equity portfolio and financial position given a hypothetical movement in the broader equity markets. The selected scenarios in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the carrying value of our equity portfolio and on shareholders' equity as of September 30, 2016.

Hypothetical Change in S&P 500 Index	Fair Value	Estimated Change in Fair Value	Hypothetical Percentage (Increase) Decrease in Shareholders' Equity
(Amounts in Thousands)			
25% increase	$ 250,228	$ 50,046	1.0 %
No change	200,182	—	
25% decrease	150,136	(50,046)	(1.0)%

Off Balance Sheet Risk. Securities sold but not yet purchased represent our obligations to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. Our liability for securities to be delivered is measured at fair value and, as of September 30, 2016, was $23.8 million and consisted primarily of equity securities. These transactions result in off-balance sheet risk, as our ultimate cost to satisfy the delivery of securities sold but not yet purchased may exceed the amount reflected at September 30, 2016.

Item 4. Controls and Procedures

Our management, with the participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in the reports we file or submit under the Exchange Act is timely recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

During the most recent fiscal quarter, there have been no changes in our internal controls over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Securities Derivative Suit

We have received three stockholder demands for production, pursuant to Section 220 of the Delaware General Corporation Law, of our books and records. On April 7, 2015, one of those stockholders, Cambridge Retirement System, filed a derivative action in the Court of Chancery of the State of Delaware against the Company, as nominal defendant, and against our board of directors, Leah Karfunkel, and ACP Re, Ltd., as defendants. Cambridge amended its complaint on November 3, 2015 to add National General Holdings Corp. as a defendant. The stockholder purports to bring the derivative action on our behalf, alleging breaches of the duties of loyalty and care on the part of our directors and majority shareholders related to our transactions involving Tower Group International, Ltd. Cambridge's claim against National General Holdings Corp. and ACP Re, Ltd. is for unjust enrichment. The amended complaint seeks damages, disgorgement and reform of our governance practices. We believe the allegations in this action to be unfounded and will vigorously pursue our defenses; however, we cannot reasonably estimate the potential range of loss, if any.

Trust Risk Group dispute

In October 2014, a dispute arose between our subsidiary, AmTrust Europe Ltd., and its Italian medical liability broker, Trust Risk Group SpA ("TRG"), and agent, Trust Risk Italia SRL ("TRI," a subsidiary of TRG, collectively, “TRG”). TRG asserted that it was entitled to advanced commissions of approximately €95.8 million (or $106.3 million) related to our Italian medical liability business produced by TRG. TRG deducted approximately €42.2 million (or $46.8 million) from premium payable to us with the intention of deducting approximately €48.7 million (or $54.1 million) from future premium payable to us. We disputed that TRG was entitled to advanced commission. We terminated our brokerage and agency relationship with TRG and TRI, respectively, and notified our insureds and retail brokers to pay premiums directly to us.
TRG initiated two arbitration proceedings against us in Milan, Italy seeking monetary damages based upon its allegations that we improperly terminated the producer agreements and an entitlement to advanced commissions on the business produced for us. Subsequently, we commenced litigation in England and the U.S. against Antonio Somma, the current or former principal of TRG, and Marco Lacchini, the chairman of the two arbitration proceedings pending in Milan, Italy. We brought the English and U.S. legal actions based on allegations that the two ongoing Italian arbitrations were not being conducted in accordance with the law, as well as certain other matters. We were successful in our application in Italy to remove Mr. Lacchini as chairman of the two arbitral tribunals.

On July 15, 2016, the parties reached a settlement agreement that included the dismissal of all actions, claims and counterclaims among the parties, the terms of which all parties agreed to keep confidential.

Other than as discussed above, we are not involved presently in any material litigation nor, to our knowledge, is any material litigation threatened against us or our properties.

Item 1A. Risk Factors

“Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2015 includes a discussion of our risk factors. Except as reported in Part II, Item 1A. "Risk Factors" of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, there have been no material changes to the risk factors described in our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In December 2013, our Board of Directors approved a $150 million share repurchase program. In the second quarter of 2016, we entered into an amendment to our $350 million credit facility that expanded the restrictive covenant related to our repurchase of shares of our outstanding common stock. In connection with the amendment, our Board of Directors approved an increase of $200 million to our existing stock repurchase authorization. The Board of Directors may suspend, modify or terminate the repurchase program at any time without prior notice. Under this repurchase program, we are not obligated to repurchase any particular number of shares. Unless terminated earlier by resolution of our Board of Directors, the program will expire when we have repurchased the full value of the shares authorized. We completed approximately $48.8 million of common share repurchases during the third quarter of 2016 under this authorization.

The following table summarizes our stock repurchases for the three-month period ended September 30, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased	Maximum Number (or approximate dollar value)

			as Part of Publicly Announced Plan or Program	of Shares that May Yet be Purchased Under Plan or Program (1)
July 1 - 31, 2016	1,899,645	24.39	1,899,645	$140,380,405
August 1 - 31, 2016	103,390	24.34	103,390	137,864,237
September 1 - 30, 2016	—	—	—	137,864,237
Total	2,003,035		2,003,035	$137,864,237

(1) In April 2016, our Board of Directors approved an increase of $200 million to our existing stock repurchase authorization. From January 1, 2016 through September 30, 2016, we repurchased 6,167,993 common shares for approximately $152.3 million under this program.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Certificate of Designations of 6.95% Non-Cumulative Preferred Stock, Series F (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on September 27, 2016).
4.1	Form of Stock Certificate evidencing 6.95% Non-Cumulative Preferred Stock, Series F (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K (No. 001-33143) filed on September 27, 2016).
4.2	Deposit Agreement, dated September 27, 2016, among the Company, 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 (No. 001-33143) filed on September 27, 2016).
4.3	Form of depositary receipt (included as Exhibit A to Exhibit 4.2) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K (No. 001-33143) filed on September 27, 2016).
10.1	Endorsement No. 3 to the Quota Share Reinsurance Agreement among AmTrust Europe Ltd., AmTrust International Underwriters Limited and Maiden Reinsurance Ltd. (filed herewith).
10.2	Endorsement No. 4 to the Quota Share Reinsurance Agreement among AmTrust Europe Ltd., AmTrust International Underwriters Limited and Maiden Reinsurance Ltd. (filed herewith).
10.3	Amendment No. 6, dated July 13, 2016, to the Credit Agreement, dated September 12, 2014, among the Company, JPMorgan Chase Bank, N.A., as Administrative Agent, and the various lending institutions party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on July 15, 2016).
10.4	Restatement Agreement, dated July 28, 2016, among the Company as Administrative Agent, ACP Re, Ltd., Tower Group International, Ltd., ACP Re Holdings, LLC, and AmTrust International Insurance, Ltd. and National General Re Ltd., as Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-33143) filed on September 21, 2016).
10.5	

Amended and Restated Credit Agreement, dated September 20, 2016, among the Company 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 (No. 001-33143) filed on September 21, 2016).

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31.1	Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the quarter ended September 30, 2016.
31.2	Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the quarter ended September 30, 2016.
32.1	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, for the quarter ended September 30, 2016.
32.2	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, for the quarter ended September 30, 2016.
101.1	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015; (ii) the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015; (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015; (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015; and (v) the Notes to Unaudited Condensed Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AmTrust Financial Services, Inc.
(Registrant)

Date: November 9, 2016 /s/ Barry D. Zyskind
Barry D. Zyskind
Chairman, President and Chief Executive Officer

/s/ Ronald E. Pipoly, Jr.
Ronald E. Pipoly, Jr.
Chief Financial Officer