National General Holdings Corp.
Form 10-Q
November 09, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2015

OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to
Commission File Number: 001-36311

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	27-1046208 (IRS Employer Identification No.)
59 Maiden Lane, 38th Floor New York, New York (Address of Principal Executive Offices)	10038 (Zip Code)

(212) 380-9500
(Registrant's Telephone Number, Including Area Code)

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

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

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

Large Accelerated Filer o	Accelerated Filer o	Non-Accelerated Filer x (Do not check if a smaller	Smaller Reporting Company o

reporting company)

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

As of November 5, 2015, the number of common shares of the registrant outstanding was 105,434,793.

NATIONAL GENERAL HOLDINGS CORP.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2015 (unaudited)	December 31, 2014 (audited)
ASSETS		
Investments - NGHC		
Fixed maturities, available-for-sale, at fair value (amortized cost $1,621,363 and $1,330,760)	$1,631,552	$1,374,087
Equity securities, available-for-sale, at fair value (cost $67,113 and $52,272)	61,928	45,802
Short-term investments	5,000	50
Equity investment in unconsolidated subsidiaries	233,538	155,900
Other investments	6,041	4,764
Securities pledged (amortized cost $42,806 and $47,546)	43,711	49,456
Investments - Exchanges		
Fixed maturities, available-for-sale, at fair value (amortized cost $290,073 and $222,121)	285,705	222,739
Equity securities, available-for-sale, at fair value (cost $1,501 and $2,752)	1,544	2,817
Short-term investments	4,030	10,490
Total investments	2,273,049	1,866,105
Cash and cash equivalents (Exchanges - $11,765 and $9,437)	278,896	132,615
Accrued investment income (Exchanges - $2,287 and $1,898)	16,658	14,451
Premiums and other receivables, net (Related parties $68,219 and $64,129) (Exchanges - $62,846 and $58,238)	723,378	647,443
Deferred acquisition costs (Exchanges - $27,154 and $4,485)	152,576	125,999
Reinsurance recoverable on unpaid losses (Related parties - $54,458 and $88,970) (Exchanges - $64,848 and $23,583)	893,272	911,798
Prepaid reinsurance premiums (Exchanges - $62,577 and $26,924)	131,468	102,761
Income tax receivable (Exchanges - $1,884 and $0)	1,884	—
Notes receivable from related party	127,188	125,000
Due from affiliate (Exchanges - $8,242 and $0)	25,752	5,129
Premises and equipment, net	31,869	30,583
Intangible assets, net (Exchanges - $6,212 and $11,433)	266,859	248,837
Goodwill	125,246	70,764
Prepaid and other assets (Exchanges - $5,895 and $71)	36,238	43,231
Total assets	$5,084,333	$4,324,716
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unpaid loss and loss adjustment expense reserves (Exchanges - $136,777 and $111,848)	$1,565,318	$1,562,153
Unearned premiums (Exchanges - $151,163 and $119,998)	974,742	864,436
Unearned service contract and other revenue	12,871	8,527
Reinsurance payable (Related parties - $26,779 and $41,965) (Exchanges - $17,243 and $13,811)	92,812	111,641

Accounts payable and accrued expenses (Related parties - $45,707 and $38,576) (Exchanges - $42,209 and $17,691)	228,982	207,121
Due to affiliate (Exchanges - $0 and $1,552)	—	1,552
Securities sold under agreements to repurchase, at contract value	41,441	46,804
Deferred tax liability (Exchanges - $40,036 and $38,402)	67,714	67,535
Income tax payable (Exchanges - $0 and $1,059)	734	30,591
Notes payable (Exchanges owed to related party - $54,455 and $48,374)	401,486	299,082
Other liabilities (Exchanges - $59,065 and $5,710)	167,677	51,824
Total liabilities	3,553,777	3,251,266

See accompanying notes to unaudited condensed consolidated financial statements.

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

Stockholders’ equity:		
Common stock, $0.01 par value - authorized 150,000,000 shares, issued and outstanding 105,433,893 shares - 2015; authorized 150,000,000 shares, issued and outstanding 93,427,382 shares - 2014	1,054	934
Preferred stock, $0.01 par value - authorized 10,000,000 shares, issued and outstanding 2,365,000 shares - 2015; authorized 10,000,000 shares, issued and outstanding 2,200,000 shares - 2014. Aggregate liquidation preference $220,000 - 2015, $55,000 - 2014	220,000	55,000
Additional paid-in capital	896,700	690,736
Accumulated other comprehensive income	2,446	20,192
Retained earnings	401,527	292,832
Total National General Holdings Corp. Stockholders' Equity	1,521,727	1,059,694
Non-controlling interest (Exchanges - $8,675 and $13,670)	8,829	13,756
Total stockholders’ equity	1,530,556	1,073,450
Total liabilities and stockholders' equity	$5,084,333	$4,324,716

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Premium income:				
Gross premium written	$626,685	$497,595	$1,845,821	$1,612,210
Ceded premiums (related parties - three months $451; $1,180 and nine months $1,181; $44,147)	(101,046)	(66,025)	(310,747)	(194,599)
Net premium written	525,639	431,570	1,535,074	1,417,611
Change in unearned premium	(22,378)	6,836	(83,832)	(229,887)
Net earned premium	503,261	438,406	1,451,242	1,187,724
Ceding commission income	12,150	705	27,200	7,632
Service and fee income	60,907	45,894	173,335	121,086
Net investment income	18,472	13,697	52,955	34,232
Net realized loss on investments	(4,594)	(1,118)	(3,018)	(1,118)
Other revenue	(157)	373	(327)	480
Total revenues	590,039	497,957	1,701,387	1,350,036
Expenses:				
Loss and loss adjustment expense	302,259	275,019	895,774	755,970
Acquisition costs and other underwriting expenses	108,744	83,915	295,131	232,706
General and administrative expenses	118,581	90,128	343,426	243,386
Interest expense	9,428	4,709	27,109	7,821
Total expenses	539,012	453,771	1,561,440	1,239,883
Income before provision for income taxes and equity in earnings (losses) of unconsolidated subsidiaries	51,027	44,186	139,947	110,153
Provision for income taxes	8,614	10,026	24,892	17,786
Income before equity in earnings (losses) of unconsolidated subsidiaries	42,413	34,160	115,055	92,367
Equity in earnings (losses) of unconsolidated subsidiaries	2,288	(1,611)	8,900	(3,098)
Net income	44,701	32,549	123,955	89,269
Less: Net loss (income) attributable to non-controlling interest	(1,588)	770	453	776
Net income attributable to National General Holdings Corp. ("NGHC")	$43,113	$33,319	$124,408	$90,045
Dividends on preferred stock	(4,125)	(1,260)	(9,900)	(1,260)
Net income attributable to NGHC common stockholders	$38,988	$32,059	$114,508	$88,785
Earnings per common share:				
Basic earnings per share	$0.39	$0.34	$1.19	$0.98
Diluted earnings per share	$0.38	$0.34	$1.16	$0.96
Dividends declared per common share	$0.02	$0.01	$0.06	$0.03
Weighted average common shares outstanding:				
Basic	100,360,687	93,359,265	95,877,178	90,853,536
Diluted	102,940,728	95,663,429	98,314,808	92,615,198
Net realized loss on investments:				

Other-than-temporary impairment loss	$(6,009)	$—	$(8,492)	$—
Portion of loss recognized in other comprehensive income	—	—	—	—
Net impairment losses recognized in earnings	(6,009)	—	(8,492)	—
Other net realized gain (loss) on investments	1,415	(1,118)	5,474	(1,118)
Net realized loss on investments	$(4,594)	$(1,118)	$(3,018)	$(1,118)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$44,701	$32,549	$123,955	$89,269
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(208)	(2,785)	3,544	(3,227)
Gross unrealized holding gain (loss) on securities, net of tax of $(9,906) and $(4,995) for the three months ended September 30, 2015 and 2014, respectively, and $(14,433) and $8,400 for the nine months ended September 30, 2015 and 2014, respectively.	(15,681)	(9,277)	(26,746)	15,601
Reclassification adjustments for investment gain/loss included in net income:				
Other-than-temporary impairment loss, net of tax of $2,103 and $0 for the three months ended September 30, 2015 and 2014, respectively, and $2,972 and $0 for the nine months ended September 30, 2015 and 2014, respectively.	3,906	—	5,520	—
Other net realized (gain) loss on investments, net of tax of $(495) and $578 for the three months ended September 30, 2015 and 2014, respectively, and $(1,916) and $578 for the nine months ended September 30, 2015 and 2014, respectively.	(920)	1,074	(3,558)	1,074
Other comprehensive income (loss), net of tax	(12,903)	(10,988)	(21,240)	13,448
Comprehensive income	31,798	21,561	102,715	102,717
Less: Comprehensive loss (income) attributable to non-controlling interest	(1,232)	770	3,947	776
Comprehensive income attributable to NGHC	$30,566	$22,331	$106,662	$103,493

See accompanying notes to unaudited condensed consolidated financial statements.

NATIONAL GENERAL HOLDINGS CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands, Except Shares)
(Unaudited)

	Nine Months Ended September 30, 2015								
	Common Stock		Preferred Stock						
	Shares	$	Shares	$	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interest in Subsidiary	Total
Balance January 1, 2015	93,427,382	$934	2,200,000	$55,000	$690,736	$292,832	$20,192	$13,756	$1,073,450
Net income (loss)	—	—	—	—	—	124,408	—	(453)	123,955
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	3,544	—	3,544
Change in unrealized losses on investments, net of tax	—	—	—	—	—	—	(21,290)	(3,494)	(24,784)
Change in non-controlling interest	—	—	—	—	—	—	—	(980)	(980)
Preferred stock dividends	—	—	—	—	—	(9,900)	—	—	(9,900)
Common stock dividends	—	—	—	—	—	(5,813)	—	—	(5,813)
Issuance of common stock	11,500,000	115	—	—	210,527	—	—	—	210,642
Issuance of preferred stock	—	—	165,000	165,000	(5,448)	—	—	—	159,552
Common stock issued under employee stock plans and exercises of stock options	506,511	5	—	—	1,667	—	—	—	1,672
Stock-based compensation	—	—	—	—	(782)	—	—	—	(782)
Balance September 30, 2015	105,433,893	$1,054	2,365,000	$220,000	$896,700	$401,527	$2,446	$8,829	$1,530,556

Nine Months Ended September 30, 2014

	Common Stock		Preferred Stock						
	Shares	$	Shares	$	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interest in Subsidiary	Total
Balance January 1, 2014	79,731,800	$797	—	$—	$437,006	$197,552	$7,425	$ 87	$642,867
Net income (loss)	—	—	—	—	—	90,045	—	(776)	89,269
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(3,227)	—	(3,227)
Change in unrealized gains on investments, net of tax	—	—	—	—	—	—	16,675	—	16,675
Reciprocal Exchanges' equity on September 15, 2014, date of consolidation	—	—	—	—	—	—	—	37,341	37,341
Preferred stock dividends	—	—	—	—	—	(1,260)	—	—	(1,260)
Common stock dividends	—	—	—	—	—	(2,796)	—	—	(2,796)
Issuance of common stock	13,570,000	136	—	—	177,693	—	—	—	177,829
Issuance of preferred stock	—	—	2,200,000	55,000	(1,836)	—	—	—	53,164
Capital contributions	—	—	—	—	75,404	—	—	—	75,404
Exercises of stock options	106,412	1	—	—	838	—	—	—	839
Stock-based compensation	—	—	—	—	1,803	—	—	—	1,803
Balance September 30, 2014	93,408,212	$934	2,200,000	$55,000	$690,908	$283,541	$20,873	$ 36,652	$1,087,908

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$123,955	$89,269
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	22,134	19,716
Net amortization of premium on fixed maturities	4,179	2,338
Net amortization of discount on debt	6,298	—
Stock compensation expense	3,444	1,803
Equity in (earnings) losses of unconsolidated subsidiaries	(8,900)	3,098
Other net realized loss (gain) on investments	(5,474)	1,118
Other-than-temporary impairment loss	8,492	—
Realized gain on premises and equipment disposals	—	(23)
Bad debt expense	16,645	22,624
Foreign currency translation adjustment, net of tax	(1,438)	(3,227)
Changes in assets and liabilities:		
Accrued investment income	(4,208)	(1,928)
Premiums and other receivables	(92,274)	(232,823)
Deferred acquisition costs, net	(26,577)	(51,679)
Reinsurance recoverable on unpaid losses	18,526	77,659
Prepaid reinsurance premiums	(28,707)	15,556
Prepaid expenses and other assets	7,158	(2,803)
Unpaid loss and loss adjustment expense reserves	3,165	97,825
Unearned premiums	110,306	210,558
Unearned service contract and other revenue	(1,186)	1,630
Reinsurance payable	(18,829)	(27,235)
Accounts payable	526	116,331
Income tax payable	(30,244)	17,490
Deferred tax liability	2,743	(43,812)
Other liabilities	101,530	720
Net cash provided by operating activities	211,264	314,205
Cash flows from investing activities:		
Investment in unconsolidated subsidiaries	(68,859)	(16,690)
Distributions from unconsolidated subsidiaries	2,059	—
Purchases of other investments	(3,474)	(1,297)
Acquisition of consolidated subsidiaries, net of cash	(61,413)	(37,064)
Notes receivable from related party	—	(125,364)
Purchases of equity securities	(11,085)	(36,755)
Proceeds from sale of equity securities	2,339	1,703
Purchases of short term investments	(82,162)	(124,000)
Proceeds from sale of short-term investments	83,672	124,830
Purchases of premises and equipment	(9,584)	(7,048)
Proceeds from the sale of premises and equipment	—	794
Purchases of fixed maturities	(642,838)	(742,702)

Proceeds from sale and maturity of fixed maturities	276,697	313,373
Net cash used in investing activities	(514,648)	(650,220)

See accompanying notes to unaudited condensed consolidated financial statements.

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

Cash flows from financing activities:		
Securities sold under agreements to repurchase, net	(5,363)	(14,267)
Notes payable repayments	(631)	(84,436)
Proceeds from notes payable	96,550	250,000
Issuance of common stock, net of fees	210,642	177,829
Issuance of preferred stock, net of fees	159,552	53,164
Exercises of stock options	1,672	839
Dividends paid to preferred shareholders	(6,806)	—
Dividends paid to common shareholders	(5,610)	(2,796)
Net cash provided by financing activities	450,006	380,333
Effect of exchange rate changes on cash and cash equivalents	(341)	—
Net increase in cash and cash equivalents	146,281	44,318
Cash and cash equivalents, beginning of the period	132,615	73,823
Cash and cash equivalents, end of the period	$278,896	$118,141
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$52,700	$39,031
Cash paid for interest	8,524	9,082
Non-cash capital contribution	—	75,404

See accompanying notes to unaudited condensed consolidated financial statements.
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NATIONAL GENERAL HOLDINGS CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

1. Basis of Reporting

The accompanying unaudited interim condensed consolidated financial statements include the accounts of National General Holdings Corp. and its subsidiaries (the “Company” or “NGHC”) and have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP” or “U.S. GAAP”) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the U.S. Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, previously filed with the SEC on March 9, 2015. The balance sheet at December 31, 2014 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

The unaudited condensed consolidated financial statements as of September 30, 2015 and for the three and nine months ended September 30, 2015, and the audited condensed consolidated balance sheet as of December 31, 2014, also include the accounts and operations of Adirondack Insurance Exchange, a New York reciprocal insurer, and New Jersey Skylands Insurance Association, a New Jersey reciprocal insurer (together with their subsidiaries, the “Reciprocal Exchanges” or "Exchanges"), following the Company's acquisition on September 15, 2014 of two management companies that are the attorneys-in-fact for the Reciprocal Exchanges. The Company does not own the Reciprocal Exchanges but manages their business operations through its wholly-owned management companies.

These interim condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim period and all such adjustments are of a normal recurring nature. The results of operations for the interim period are not necessarily indicative, if annualized, of those to be expected for the full year. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

A detailed description of the Company’s significant accounting policies and management judgments is located in the audited consolidated financial statements, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC.

All significant inter-company transactions and accounts have been eliminated in the condensed consolidated financial statements.

To facilitate period-to-period comparisons, certain reclassifications have been made to prior period consolidated financial statement amounts to conform to current period presentation.

2. Recent Accounting Pronouncements

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2015, as compared to those described in our Annual Report on Form 10-K for the year ended December 31, 2014, that are of significance, or potential significance, to the Company.

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

NATIONAL GENERAL HOLDINGS CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

In June 2014, the FASB issued ASU 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. ASU 2014-11 requires new disclosures for certain transactions comprised of (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. Such disclosures include: (a) the carrying amount of assets derecognized (sold) as of the date of derecognition; (b) the amount of gross proceeds received by the transferor at the time of derecognition for the assets derecognized; (c) the information about the transferor’s ongoing exposure to the economic return on the transferred financial assets; and (d) the amounts that are reported in the statement of financial position arising from the transaction, such as those represented by derivative contracts. ASU 2014-11 also requires expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. Such disclosures include: (i) a disaggregation of the gross obligation by the class of collateral pledged; (ii) the remaining contractual time to maturity of the agreements; and (iii) a discussion of the potential risks associated with the agreements and the related collateral pledged including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed. For public entities, the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for all annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. All other amendments in this Update are effective for public entities for the first interim or annual period beginning after December 15, 2014. The disclosure requirements are not required to be presented for comparative periods before the effective date. The Company adopted ASU 2014-11 on April 1, 2015 and the effects of adoption were limited to the expanded disclosure requirements about the nature of collateral pledged in the Company's repurchase agreements which are accounted for as secured borrowings. The implementation of the standard did not have an impact on the Company’s results of operations, financial position or liquidity.

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

In April 2015, the FASB issued ASU 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”, as part of its initiative to reduce complexity in accounting standards. ASU 2015-03 amends the current practice where debt issuance costs were recognized as separate assets (i.e., deferred charges) on the balance sheet and were not deducted from the carrying value of the debt liability. ASU 2015-03 amends the current practice and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. The amendments in ASU 2015-03 are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early

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adoption of the amendments in ASU 2015-03 is permitted for financial statements that have not been previously issued. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The Company adopted ASU 2015-03 on April 1, 2015 which resulted in the reclassification of $4,923 of debt issuance costs from Prepaid and other assets to Notes payable in the Company's Condensed Consolidated Balance Sheet as of December 31, 2014 (see Note 10, "Debt").

In May 2015, the FASB issued ASU 2015-09, "Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts" to expand existing GAAP disclosure requirements for short-duration contracts regarding the liability for unpaid claims and claim adjustment expenses. The amendments in ASU 2015-09 are intended to increase the transparency of significant estimates made in measuring those liabilities, improve comparability by requiring consistent disclosure of information, and provide financial statement users with additional information to facilitate analysis of the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities and the development of loss reserve estimates. Specifically, the amendments require the following information for annual reporting periods about the liability for unpaid claims and claim adjustment expenses: (1) incurred and paid claims development information by accident year, on a net basis after risk mitigation through reinsurance, for the number of years for which claims incurred typically remain outstanding; (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses, with separate disclosure of reinsurance recoverable on unpaid claims for each period presented in the statement of financial position; (3) the total of incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses for each accident year presented of incurred claims development information, accompanied by a description of reserving methodologies (as well as any changes to those methodologies); (4) quantitative information about claim frequency (unless it is impracticable to do so) for each accident year presented of incurred claims development information, accompanied by a qualitative description of methodologies used for determining claim frequency information (as well as any changes to these methodologies); and (5) the average annual percentage payout of incurred claims by age (that is, history of claims duration) for the same number of accident years as presented in (3) and (4) above for all claims except health insurance claims. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a roll forward of the liability for unpaid claims and claim adjustment expenses. For health insurance claims, the amendments require the disclosure of the total of incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses. Additional disclosures about liabilities for unpaid claims and claim adjustment expenses reported at present value include the following: (1) the aggregate amount of discount for the time value of money deducted to derive the liability for unpaid claims and claim adjustment expenses for each period presented in the statement of financial position; (2) the amount of interest accretion recognized for each period presented in the statement of income; and (3) the line item(s) in the statement of income in which the interest accretion is classified. The amendments in ASU 2015-09 are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. In the year of initial application of the amendments in ASU 2015-09, an insurance entity need not disclose information about claims development for a particular category that occurred earlier than five years before the end of the first financial reporting year in which the amendments are first applied if it is impracticable to obtain the information required to satisfy the disclosure requirement. For each subsequent year following the year of initial application, the minimum required number of years will increase by at least 1 but need not exceed 10 years, including the most recent period presented in the statement of financial position. Early application of the amendments in ASU 2015-09 is permitted. The amendments should be applied retrospectively by providing comparative disclosures for each period presented, except for those requirements that apply only to the current period. The adoption of ASU 2015-09 is expected to be limited to disclosure requirements and is not expected to have an effect on the Company’s results of operations, financial position or liquidity.

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

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" which defers the effective date of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the

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guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for
Measurement-Period Adjustments" which applies to all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. The amendments in ASU 2015-16 require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in ASU 2015-16 require that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in ASU 2015-16 require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in ASU 2015-16 are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, and should be applied prospectively to adjustments to provisional amounts that occur after the effective with earlier application permitted for financial statements that have not been issued. The only disclosures required at transition will be the nature of and reason for the change in accounting principle. An entity should disclose that information in the first annual period of adoption and in the interim periods within the first annual period if there is a measurement-period adjustment during the first annual period in which the changes are effective. The adoption of ASU 2015-16 is not expected to have a material effect on the Company’s results of operations, financial position or liquidity.

3. Reciprocal Exchanges

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

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

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

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

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

	September 15, 2014
Assets:	
Cash and investments	$235,684
Accrued investment income	1,975
Premiums receivables	62,412
Reinsurance recoverable on unpaid losses	19,137
Prepaid reinsurance premiums	27,166
Intangible assets, net	13,901
Income tax receivable	819
Other assets	124
Total assets	$361,218
Liabilities:	
Unpaid loss and loss adjustment expense reserves	$113,828
Unearned premiums	114,786
Reinsurance payable	5,167
Accounts payable and accrued expenses	10,120
Deferred tax liability	39,238
Notes payable	44,600
Due to affiliate	17,808
Other liabilities	4,506
Total liabilities	350,053
Stockholders’ equity:	
Non-controlling interest	11,165
Total stockholders’ equity	11,165
Total liabilities and stockholders' equity	$361,218

For the three months ended September 30, 2015, the Reciprocal Exchanges recognized total revenues, total expenses and net income of $52,498, $50,934 and $1,564, respectively. For the three months ended September 30, 2014, the Reciprocal Exchanges recognized total revenues, total expenses and net loss of $6,751, $7,496 and $(745), respectively. For the nine months ended September 30, 2015, the Reciprocal Exchanges recognized total revenues, total expenses and net loss of $136,702, $137,223 and $(521), respectively. For the nine months ended September 30, 2014, the Reciprocal Exchanges recognized total revenues, total expenses and net loss of $6,751, $7,496 and $(745), respectively.

For the three months ended September 30, 2015 and 2014, the Company earned service and fee income from the Reciprocal Exchanges in the amount of $11,194 and $0, respectively. For the nine months ended September 30, 2015 and 2014, the Company earned service and fee income from the Reciprocal Exchanges in the amount of $30,504 and $0, respectively. Such amounts are eliminated in our consolidated earnings.

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4. Investments

(a) Available-for-Sale Securities

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

September 30, 2015	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities:				
Common stock	$57,166	$554	$(5,665)	$52,055
Preferred stock	11,448	43	(74)	11,417
Fixed maturities:				
U.S. Treasury	19,406	1,254	(3)	20,657
Federal agencies	1,945	31	—	1,976
States and political subdivision bonds	188,823	4,248	(793)	192,278
Foreign government	29,412	418	(148)	29,682
Corporate bonds	1,044,046	28,028	(33,113)	1,038,961
Residential mortgage-backed securities	408,984	11,044	(84)	419,944
Commercial mortgage-backed securities	135,961	1,654	(3,566)	134,049
Asset-backed securities	4,981	3	—	4,984
Structured securities	120,684	39	(2,286)	118,437
Total	$2,022,856	$47,316	$(45,732)	$2,024,440
Less: Securities pledged	42,806	905	—	43,711
Total net of Securities pledged	$1,980,050	$46,411	$(45,732)	$1,980,729
NGHC	$1,731,282	$45,923	$(40,014)	$1,737,191
Reciprocal Exchanges	291,574	1,393	(5,718)	287,249
Total	$2,022,856	$47,316	$(45,732)	$2,024,440

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

The amortized cost and fair value of available-for-sale fixed maturities and securities pledged, held as of September 30, 2015, by contractual maturity, are shown in the table below. Actual maturities may differ from contractual maturities because some borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	NGHC		Reciprocal Exchanges		Total	
September 30, 2015	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value
Due in one year or less	$9,756	$10,116	$500	$500	$10,256	$10,616
Due after one year through five years	248,555	256,096	23,455	22,991	272,010	279,087
Due after five years through ten years	719,103	716,196	140,508	139,001	859,611	855,197
Due after ten years	224,397	219,252	43,023	42,823	267,420	262,075
Mortgage-backed securities	462,358	473,603	82,587	80,390	544,945	553,993
Total	$1,664,169	$1,675,263	$290,073	$285,705	$1,954,242	$1,960,968

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(b) Investment Income

The components of net investment income consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest				
Cash and short term investments	$2	$11	$11	$28
Equity securities	102	—	299	—
Fixed maturities	17,321	13,858	48,243	35,537
Investment Income	17,425	13,869	48,553	35,565
Investment expense	(1,110)	(106)	(2,381)	(1,135)
Repurchase Agreements interest income (expense)	78	(66)	(25)	(198)
Other Income [1]	2,079	—	6,808	—
Net Investment Income	$18,472	$13,697	$52,955	$34,232
NGHC	$16,140	$13,697	$46,403	$34,232
Reciprocal Exchanges	2,332	—	6,552	—
Net Investment Income	$18,472	$13,697	$52,955	$34,232

[1] Includes interest income of $2,115 and $6,514 for the three and nine months ended September 30, 2015, respectively, under the ACP Re Credit Agreement (see Note 15, "Related Party Transactions").

(c) Realized Gains and Losses

Proceeds from sales of equity securities and fixed maturities during the nine months ended September 30, 2015 and 2014 were $148,508 and $193,749, respectively. For the three and nine months ended September 30, 2015, the Company recognized an other-than-temporary impairment ("OTTI") loss of $6,009 and $8,492, respectively, on investments based on our qualitative and quantitative review.

The tables below indicate the gross realized gains and losses (including any OTTI) for the three and nine months ended September 30, 2015 and 2014.

Three Months Ended September 30, 2015	Gross Gains	Gross Losses	Net Gains (Losses)
Equity securities	$—	$(55)	$(55)
Fixed maturities	1,579	(109)	1,470
OTTI	—	(6,009)	(6,009)
Total gross realized gains and losses	$1,579	$(6,173)	$(4,594)
NGHC	$1,349	$(6,067)	$(4,718)
Reciprocal Exchanges	230	(106)	124
Total gross realized gains and losses	$1,579	$(6,173)	$(4,594)

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Three Months Ended September 30, 2014	Gross Gains	Gross Losses	Net Gains (Losses)
Equity securities	$—	$(505)	$(505)
Fixed maturities	152	(204)	(52)
Other	—	(561)	(561)
Total gross realized gains and losses	$152	$(1,270)	$(1,118)
NGHC	$152	$(1,270)	$(1,118)
Reciprocal Exchanges	—	—	—
Total gross realized gains and losses	$152	$(1,270)	$(1,118)

Nine Months Ended September 30, 2015	Gross Gains	Gross Losses	Net Gains (Losses)
Equity securities	$5	$(55)	$(50)
Fixed maturities	6,669	(1,145)	5,524
OTTI	—	(8,492)	(8,492)
Total gross realized gains and losses	$6,674	$(9,692)	$(3,018)
NGHC	$5,537	$(8,826)	$(3,289)
Reciprocal Exchanges	1,137	(866)	271
Total gross realized gains and losses	$6,674	$(9,692)	$(3,018)

Nine Months Ended September 30, 2014	Gross Gains	Gross Losses	Net Gains (Losses)
Equity securities	$—	$(505)	$(505)
Fixed maturities	152	(204)	(52)
Other	—	(561)	(561)
Total gross realized gains and losses	$152	$(1,270)	$(1,118)
NGHC	$152	$(1,270)	$(1,118)
Reciprocal Exchanges	—	—	—
Total gross realized gains and losses	$152	$(1,270)	$(1,118)

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(d) Unrealized Gains and Losses

Unrealized gains (losses) on investments as of September 30, 2015 and December 31, 2014 consisted of the following:

	September 30, 2015	December 31, 2014
Net unrealized loss on common stock	$(5,111)	$(6,345)
Net unrealized loss on preferred stock	(31)	(60)
Net unrealized gain on fixed maturities	6,726	45,855
Net unrealized gain (loss) on other	(278)	18
Deferred income tax expense	(409)	(13,787)
Net unrealized gains, net of deferred income tax expense	$897	$25,681
NGHC	$3,708	$24,998
Reciprocal Exchanges	(2,811)	683
Net unrealized gains, net of deferred income tax expense	897	25,681
Non-controlling interest	2,811	(683)
NGHC net unrealized gains, net of deferred income tax expense	$3,708	$24,998
Period Ended:		
NGHC year-to-date change in net unrealized gains, net of deferred income tax expense	$(21,290)	$17,938

(e) Gross Unrealized Losses

The tables below summarize the gross unrealized losses on equity securities and fixed maturities by length of time the security has continuously been in an unrealized loss position as of September 30, 2015 and December 31, 2014:

	Less Than 12 Months			12 Months or More			Total	
September 30, 2015	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common stock	$42,260	$(5,643)	7	$136	$(22)	2	$42,396	$(5,665)
Preferred stock	4,952	(74)	1	—	—	—	4,952	(74)
U.S. Treasury	501	(3)	2	—	—	—	501	(3)
States and political subdivision bonds	21,855	(643)	23	5,879	(150)	12	27,734	(793)
Foreign government	4,444	(148)	2	—	—	—	4,444	(148)
Corporate bonds	335,634	(27,477)	193	24,231	(5,636)	13	359,865	(33,113)
Residential mortgage-backed securities	9,523	(44)	14	2,036	(40)	8	11,559	(84)
Commercial mortgage-backed securities	73,727	(3,566)	29	—	—	—	73,727	(3,566)
Structured securities	92,372	(2,286)	44	—	—	—	92,372	(2,286)
Total	$585,268	$(39,884)	315	$32,282	$(5,848)	35	$617,550	$(45,732)
NGHC	$435,365	$(34,166)	177	$32,282	$(5,848)	35	$467,647	$(40,014)

Reciprocal Exchanges	149,903	(5,718)	138	—	—	—	149,903	(5,718)
Total	$585,268	$(39,884)	315	$32,282	$(5,848)	35	$617,550	$(45,732)

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	Less Than 12 Months			12 Months or More			Total	
December 31, 2014	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common stock	$33,717	$(7,349)	3	$—	$—	—	$33,717	$(7,349)
Preferred stock	—	—	—	4,878	(125)	1	4,878	(125)
U.S. Treasury	6,343	(3)	5	—	—	—	6,343	(3)
States and political subdivision bonds	16,320	(92)	39	8,341	(77)	8	24,661	(169)
Foreign government	5,536	(658)	1	—	—	—	5,536	(658)
Corporate bonds	116,880	(5,594)	108	23,592	(3,105)	10	140,472	(8,699)
Residential mortgage-backed securities	15,598	(34)	17	1,975	(58)	3	17,573	(92)
Commercial mortgage-backed securities	33,735	(189)	10	—	—	—	33,735	(189)
Asset-backed securities	4,869	(91)	3	—	—	—	4,869	(91)
Total	$232,998	$(14,010)	186	$38,786	$(3,365)	22	$271,784	$(17,375)
NGHC	$142,313	$(12,899)	97	$38,786	$(3,365)	22	$181,099	$(16,264)
Reciprocal Exchanges	90,685	(1,111)	89	—	—	—	90,685	(1,111)
Total	$232,998	$(14,010)	186	$38,786	$(3,365)	22	$271,784	$(17,375)

There were 350 and 208 securities at September 30, 2015 and December 31, 2014, respectively, that account for the gross unrealized loss, none of which are deemed by the Company to be an OTTI. At September 30, 2015, we have determined that the unrealized losses on fixed maturities were primarily due to market interest rate movements since their date of purchase. Significant factors influencing the Company’s determination that none of these securities were OTTI included the magnitude of unrealized losses in relation to cost, the nature of the investment and management’s intent not to sell these securities and it being more likely than not that the Company will not be required to sell these investments before anticipated recovery of fair value to the Company’s cost basis.

As of September 30, 2015, of the $5,848 of unrealized losses related to securities in unrealized loss positions for a period of twelve or more consecutive months, $1,972 of those unrealized losses were related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost. Those unrealized losses were evaluated based on factors such as discounted cash flows and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations.

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(f) Credit Quality of Investments

The tables below summarize the credit quality of our fixed maturities, securities pledged and preferred securities as of September 30, 2015 and December 31, 2014, as rated by Standard & Poor's.

	NGHC				Reciprocal Exchanges			
September 30, 2015	Cost or Amortized Cost	Fair Value	Percentage of Fixed Maturities and Preferred Securities		Cost or Amortized Cost	Fair Value	Percentage of Fixed Maturities and Preferred Securities	
U.S. Treasury	$13,473	$14,695	0.9	%	$5,933	$5,962	2.1	%
AAA	321,450	330,800	19.6	%	42,195	41,689	14.5	%
AA, AA+, AA-	330,481	337,158	20.0	%	55,328	55,694	19.4	%
A, A+, A-	343,200	355,948	21.1	%	63,797	63,577	22.1	%
BBB, BBB+, BBB-	438,571	437,946	26.0	%	90,932	89,720	31.2	%
BB+ and lower	226,941	208,589	12.4	%	33,389	30,607	10.7	%
Total	$1,674,116	$1,685,136	100.0	%	$291,574	$287,249	100.0	%

	NGHC				Reciprocal Exchanges			
December 31, 2014	Cost or Amortized Cost	Fair Value	Percentage of Fixed Maturities and Preferred Securities		Cost or Amortized Cost	Fair Value	Percentage of Fixed Maturities and Preferred Securities	
U.S. Treasury	$19,068	$20,475	1.4	%	$18,378	$18,504	8.2	%
AAA	359,424	370,058	25.9	%	24,956	25,027	11.1	%
AA, AA+, AA-	275,905	282,443	19.8	%	—	—	—	%
A, A+, A-	300,789	318,955	22.3	%	99,754	100,412	44.5	%
BBB, BBB+, BBB-	328,594	335,745	23.5	%	48,440	48,486	21.5	%
BB+ and lower	99,529	100,745	7.1	%	33,345	33,127	14.7	%
Total	$1,383,309	$1,428,421	100.0	%	$224,873	$225,556	100.0	%

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The tables below summarize the investment quality of our corporate bond holdings and industry concentrations as of September 30, 2015 and December 31, 2014.

September 30, 2015	AAA	AA+, AA, AA-	A+,A,A-	BBB+, BBB, BBB-	BB+ or Lower	Fair Value	% of Corporate Bonds Portfolio
Corporate Bonds:							
Financial Institutions	— %	3.1 %	24.0 %	11.1 %	2.7 %	$424,992	40.9 %
Industrials	— %	3.7 %	10.6 %	32.3 %	6.6 %	553,210	53.2 %
Utilities/Other	0.5 %	— %	0.7 %	3.5 %	1.2 %	60,759	5.9 %
Total	0.5 %	6.8 %	35.3 %	46.9 %	10.5 %	$1,038,961	100.0 %
NGHC	0.5 %	6.6 %	30.1 %	38.8 %	8.8 %	$879,533	84.8 %
Reciprocal Exchanges	— %	0.2 %	5.2 %	8.1 %	1.7 %	159,428	15.2 %
Total	0.5 %	6.8 %	35.3 %	46.9 %	10.5 %	$1,038,961	100.0 %

December 31, 2014	AAA	AA+, AA, AA-	A+,A,A-	BBB+, BBB, BBB-	BB+ or Lower	Fair Value	% of Corporate Bonds Portfolio
Corporate Bonds:							
Financial Institutions	1.4 %	3.6 %	26.9 %	8.9 %	2.5 %	$376,236	43.3 %
Industrials	— %	2.4 %	9.4 %	31.7 %	5.9 %	427,592	49.4 %
Utilities/Other	— %	— %	2.2 %	3.1 %	2.0 %	63,434	7.3 %
Total	1.4 %	6.0 %	38.5 %	43.7 %	10.4 %	$867,262	100.0 %
NGHC	1.4 %	6.0 %	34.0 %	38.6 %	8.3 %	$762,822	88.3 %
Reciprocal Exchanges	— %	— %	4.5 %	5.1 %	2.1 %	104,440	11.7 %
Total	1.4 %	6.0 %	38.5 %	43.7 %	10.4 %	$867,262	100.0 %

(g) Restricted Cash and Investments

The Company, in order to conduct business in certain states, is required to maintain letters of credit or assets on deposit to support state mandated regulatory requirements and certain third party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets held are primarily in the form of cash or certain high grade securities. The fair values of our restricted assets as of September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015	December 31, 2014
Restricted cash	$14,999	$7,937
Restricted investments - fixed maturities at fair value	48,426	56,049
Total restricted cash and investments	$63,425	$63,986

(h) Other

The Company enters into reverse repurchase and repurchase agreements, which are accounted for as either collateralized lending or borrowing transactions and are recorded at contract amounts, which approximate fair value. For the collateralized borrowing transactions (i.e., repurchase agreements), the Company receives cash or securities that it invests or holds in short-term or fixed income securities.

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As of September 30, 2015 and December 31, 2014, the Company had no collateralized lending transaction principal outstanding.

As of September 30, 2015, the Company had collateralized borrowing transaction principal outstanding of $41,441 at an interest rate of 0.50%. As of December 31, 2014, the Company had collateralized borrowing transaction principal outstanding of $46,804 at interest rates between 0.30% and 0.35%. Interest income or expense associated with the repurchase borrowing agreements for the three and nine months ended September 30, 2015 was income of $78 and expense of $25, respectively, and for the three and nine months ended September 30, 2014 was expense of $66 and $198, respectively. The Company had $43,711 and $49,456 of collateral pledged in support for these agreements as of September 30, 2015 and December 31, 2014, respectively.

The table below summarizes the remaining contractual maturity of the Company's repurchase agreements as of September 30, 2015.

	September 30, 2015				
	Remaining Contractual Maturity of the Repurchase Agreements				
	Overnight and Continuous	Up to 30 days	30 - 90 days	Greater Than 90 days	Total
Repurchase agreements:					
Residential mortgage-backed securities	$—	$41,441	$—	$—	$41,441
Total Securities sold under agreements to repurchase, at contract value	$—	$41,441	$—	$—	$41,441

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

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

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

5. Fair Value of Financial Instruments

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

The Company utilized a pricing service to estimate fair value measurements for approximately 100.0% of its fixed maturities. For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the fair value hierarchy. The Company receives the quoted market prices from nationally recognized third-party pricing services (“pricing services”). When quoted market prices are unavailable,

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the Company utilizes a pricing service to determine an estimate of fair value. This pricing method is used, primarily, for fixed maturities. The fair value estimates provided by the pricing service are included in Level 2 of the fair value hierarchy. If the Company determines that the fair value estimate provided by the pricing service does not represent fair value or if quoted market prices and an estimate from pricing services are unavailable, the Company produces an estimate of fair value based on dealer quotations of the bid price for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, the Company will then determine if the estimate is in Level 2 or Level 3 of the fair value hierarchy.

The following describes the valuation techniques used by the Company to determine the fair value of financial instruments held as of September 30, 2015.

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

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

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

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

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

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

Notes Payable - The amount reported in the accompanying condensed consolidated balance sheets for these financial instruments represents the carrying value of the debt. As of September 30, 2015, the current fair value of the Company's 7.625% Notes which are publicly traded was $93,680 and is classified as Level 1 in the fair value hierarchy. As of September 30, 2015, the current fair value of the Company's 6.75% Notes and Imperial Surplus Notes, which are not publicly traded, were $272,834 and $4,989, respectively. The fair value of the Company’s 6.75% Notes was determined using market-based metrics and the

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magnitude and timing of contractual interest and principal payments. The Imperial Surplus Notes were valued using the Black Derman-Toy interest rate lattice model. In addition, as of September 30, 2015, the current fair value of the Reciprocal Exchanges' Surplus Notes, which are not publicly traded, was $47,500. The fair value of the Reciprocal Exchanges' Surplus Notes was determined by discounting the estimated interest and principal payments by an appropriate yield. As of December 31, 2014, the current fair value of the Company's 6.75% Notes and Imperial Surplus Notes, which are not publicly traded, were $276,014 and $4,982, respectively. In addition, as of December 31, 2014, the current fair value of the Reciprocal Exchanges' Surplus Notes, which are not publicly traded, was $42,000. The Company's 6.75% Notes, Imperial Surplus Notes and Reciprocal Exchanges' Surplus Notes are classified as Level 3 in the fair value hierarchy.

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

September 30, 2015	Recurring Fair Value Measures			
	Level 1	Level 2	Level 3	Total
Assets				
Equity securities:				
Common stock	$12,329	$—	$39,726	$52,055
Preferred stock	—	11,417	—	11,417
Fixed maturities:				
U.S. Treasury	20,657	—	—	20,657
Federal agencies	—	1,976	—	1,976
States and political subdivision bonds	—	192,278	—	192,278
Foreign government	—	29,682	—	29,682
Corporate bonds	—	1,038,961	—	1,038,961
Residential mortgage-backed securities	—	419,944	—	419,944
Commercial mortgage-backed securities	—	134,049	—	134,049
Asset-backed securities	—	4,984	—	4,984
Structured securities	—	118,437	—	118,437
Short term investments	—	9,030	—	9,030
Total assets	$32,986	$1,960,758	$39,726	$2,033,470
NGHC	$27,023	$1,675,442	$39,726	$1,742,191
Reciprocal Exchanges	5,963	285,316	—	291,279
Total assets	$32,986	$1,960,758	$39,726	$2,033,470

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

The following tables provide a summary of changes in fair value of the Company’s Level 3 financial assets for the three and the nine months ended September 30, 2015 and the year ended December 31, 2014:

	Balance as of July 1, 2015	Net income (loss)	Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of September 30, 2015
Common stock	$39,726	$—	$—	$—	$ —	$—	$39,726
Total	$39,726	$—	$—	$—	$ —	$—	$39,726

	Balance as of January 1, 2015	Net income (loss)	Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of September 30, 2015
Common stock	$34,389	$—	$ 5,337	$—	$ —	$—	$39,726
Total	$34,389	$—	$ 5,337	$—	$ —	$—	$39,726

	Balance as of January 1, 2014	Net income (loss)	Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2014
Common stock	$—	$—	$ (7,328)	$41,717	$ —	$—	$34,389
Total	$—	$—	$ (7,328)	$41,717	$ —	$—	$34,389

There have not been any transfers between Level 1 and Level 2, or Level 2 and Level 3, respectively, during the periods represented by these consolidated financial statements. The Company's policy is to recognize transfers between levels when events or circumstances warrant transfers.

The Company does not measure any assets or liabilities at fair value on a nonrecurring basis at September 30, 2015 and December 31, 2014. The carrying value of the Company’s cash and cash equivalents, premiums and other receivables, accrued

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interest and accounts payable and accrued expenses approximates fair value given the short-term nature of such items and are classified as Level 1 in the fair value hierarchy. The carrying value of the Company's securities sold under agreements to repurchase approximates fair value given the short-term nature of the agreements and are classified as Level 2 in the fair value hierarchy.

6. Equity Investments in Unconsolidated Subsidiaries

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

On March 28, 2013, the Company entered into a Stock Purchase Agreement with ACP Re to acquire 50% of the issued and outstanding shares of AMT Capital Holdings S.A. ("AMTCH"), a Luxembourg Societe Anonyme, for a cash contribution in the amount of $12,136. ACP Re and the Company are majority owned and controlled by a common parent and the transaction was accounted for as between entities under common control. AMTCH's primary purpose is to acquire certain life settlement contracts. AmTrust owns the remaining 50% of AMTCH. The Company accounts for AMTCH using the equity method of accounting. The Company's 50% equity interest in AMTCH at the acquisition date was approximately $22,411. The difference between the equity interest and consideration paid was recorded as additional paid-in capital of $10,275.

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

A life settlement contract is a contract between the owner of a life insurance policy and a third party who obtains the ownership and beneficiary rights of the underlying life insurance policy. The Company, along with AmTrust, is obligated to pay premiums on these life insurance policies as they come due. A third party serves as the administrator for two of the life settlement contract portfolios, for which it receives an administrative fee. The third-party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met.

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

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

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

	Nine Months Ended September 30,	
	2015	2014
Balance at beginning of the period	$146,089	$126,186
Distributions	(1,923)	—
Contributions	565	16,676
Equity in earnings (losses) of unconsolidated subsidiaries	8,588	(2,590)
Change in equity method investments	7,230	14,086
Balance at end of the period	$153,319	$140,272

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The following tables summarize total assets and total liabilities as of September 30, 2015 and December 31, 2014 and the results of operations for the Company's unconsolidated equity method investment in the LSC Entities for the three and nine months ended September 30, 2015 and 2014.

Condensed balance sheet data	September 30, 2015	December 31, 2014
Investments in life settlement contracts at fair value	$271,249	$264,517
Total assets	333,802	318,598
Total liabilities	27,164	26,420
Members' equity	306,638	292,178
NGHC's 50% ownership interest	$153,319	$146,089

	Three Months Ended September 30,	
Condensed results of operations	2015	2014
Revenue, net of commission	$5,400	$(2,453)
Total expenses	1,246	456
Net income (loss)	$4,154	$(2,909)
NGHC's 50% ownership interest	$2,077	$(1,455)

	Nine Months Ended September 30,	
Condensed results of operations	2015	2014
Revenue, net of commission	$21,541	$(2,727)
Total expenses	4,365	2,452
Net income (loss)	$17,176	$(5,179)
NGHC's 50% ownership interest	$8,588	$(2,590)

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

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

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

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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, 2015 and December 31, 2014 and, only includes data for policies to which the LSC Entities assigned value at those dates:

	September 30, 2015	December 31, 2014
Average age of insured	81.8 years	81.1 years
Average life expectancy, months[1]	114	121
Average face amount per policy	$6,588	$6,624
Effective discount rate[2]	13.9 %	14.0 %

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

The LSC Entities' assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The fair value measurements used in estimating the present value calculation are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonably vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value amount. If the life expectancies were increased or decreased by 4 months and the discount factors were increased or decreased by 1% while all other variables were held constant, the carrying value of the investment in life insurance policies would increase or (decrease) by the unaudited amounts summarized below as of September 30, 2015 and December 31, 2014:

	Change in life expectancy	
	Plus 4 Months	Minus 4 Months
Investment in life policies:		
September 30, 2015	$(35,235)	$37,787
December 31, 2014	$(34,686)	$36,486

	Change in discount rate[1]	
	Plus 1%	Minus 1%
Investment in life policies:		
September 30, 2015	$(22,330)	$24,938
December 31, 2014	$(22,705)	$25,456

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

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The Company and AmTrust are committed to providing additional capital support to the LSC Entities to keep the life settlement policies in-force. The Company and AmTrust, each, are committed to provide 50% of the additional required capital. Below is a summary of total premiums to be paid for each of the five succeeding fiscal years to keep the existing life insurance policies in force as of September 30, 2015. The actual capital commitment may differ from the amounts shown based on policy lapses and terminations, death benefits received and other operating cash flows of the LSC Entities:

	Premiums Due on Life Settlement Contracts
2015	$45,181
2016	60,707
2017	40,446
2018	40,079
2019	37,652
Thereafter	514,923
Total	$738,988

In August 2011, the Company formed 800 Superior, LLC with AmTrust, for the purposes of acquiring an office building in Cleveland, Ohio. The cost of the building was approximately $7,500. AmTrust has been appointed managing member of 800 Superior, LLC. The Company and AmTrust each have a 50% ownership interest in 800 Superior, LLC for which the Company is not the primary beneficiary. Additionally, in 2012, the Company entered into an office lease with 800 Superior, LLC for approximately 134,000 square feet. The lease period is for 15 years and the Company paid 800 Superior, LLC $664 and $1,992 for the three and nine months ended September 30, 2015, respectively. For the three and nine months ended September 30, 2014, the Company paid 800 Superior, LLC $561 and $1,683, respectively.

The Company's equity interest in 800 Superior, LLC as of September 30, 2015 and December 31, 2014 was $1,791 and $2,140, respectively. For the three and nine months ended September 30, 2015, the Company recorded equity in earnings (losses) from 800 Superior, LLC of $(190) and $(349), respectively. For the three and nine months ended September 30, 2014, the Company recorded equity in earnings (losses) from 800 Superior, LLC of $(183) and $(576), respectively. (See Note 15, "Related Party Transactions").

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

The Company's equity interest in East Ninth & Superior as of September 30, 2015 and December 31, 2014 was $4,129 and $4,079, respectively. For the three and nine months ended September 30, 2015, the Company recorded equity in earnings (losses) from East Ninth & Superior of $13 and $50, respectively. For the three and nine months ended September 30, 2014, the Company recorded equity in earnings (losses) from East Ninth & Superior of $27 and $68, respectively.

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

The Company’s equity interest in North Dearborn as of September 30, 2015 was $10,121. For the three and nine months ended September 30, 2015, the Company recorded equity in earnings (losses) from North Dearborn of $319 and $542, respectively. (See Note 15, "Related Party Transactions").

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

The Company’s equity interest in 4455 LBJ Freeway, LLC as of September 30, 2015 was $10,463. For the three and nine months ended September 30, 2015, the Company recorded equity in earnings (losses) from 4455 LBJ Freeway, LLC of $69 and $69, respectively. (See Note 15, "Related Party Transactions").

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

The Company’s equity interest in Illinois Center as of September 30, 2015 was $53,715. For the three and nine months ended September 30, 2015, the Company recorded equity in earnings (losses) from Illinois Center of $0 and $0, respectively. (See Note 15, "Related Party Transactions").

7. Recent Acquisitions

On April 1, 2015, the Company closed on the acquisition of Assigned Risk Solutions Ltd. ("ARS"), a New Jersey based managing general agency that services assigned risk, personal auto, and commercial lines of business, for a purchase price of approximately $48,000 in cash and potential future earnout payments.

On January 23, 2015, the Company closed on the acquisition of Healthcare Solutions Team, LLC (“HST”), an Illinois based healthcare insurance general agency. The Company paid approximately $15,000 on the acquisition date and agreed to pay potential future earn out payments based on the overall profitability of HST and the business underwritten by the Company's insurance subsidiaries which is produced by HST.

No individual acquisition or acquisitions in the aggregate were materially significant that required any pro forma financial information.

8. Goodwill and Intangible Assets, Net

Goodwill

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

Intangible Assets

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

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The composition of goodwill and intangible assets at September 30, 2015 and December 31, 2014 consisted of the following:

September 30, 2015	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Trademarks	$8,200	$6,188	$2,012	5 years
Loss reserve discount	12,451	12,201	250	7 years
Agent relationships	41,711	13,080	28,631	11 - 17 years
Affinity partners	800	418	382	11 years
Value in policies-in-force	8,501	7,459	1,042	1 year
Renewal rights	26,100	5,150	20,950	7 years
Management contracts	151,427	—	151,427	indefinite life
State licenses	62,165	—	62,165	indefinite life
Goodwill	125,246	—	125,246	indefinite life
Total	$436,601	$44,496	$392,105	
NGHC	$422,700	$36,807	$385,893	
Reciprocal Exchanges	13,901	7,689	6,212	
Total	$436,601	$44,496	$392,105	

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

Goodwill and intangible assets are subject to annual impairment testing or on an interim basis whenever events or changes in circumstances indicate that the carrying value of a reporting unit may not be recoverable.

Included in the Company’s amortization expense for the three and nine months ended September 30, 2015 is an impairment charge of $0 and $367, respectively, related to certain agent relationship intangible assets. Included in the Company’s amortization expense for the three and nine months ended September 30, 2014 is an impairment charge of $0 and $736, respectively, related to certain agent relationship intangible assets. No goodwill impairment was recorded for the three and nine months ended September 30, 2015. No goodwill impairment was recorded for the three and nine months ended September 30, 2014. The increase in goodwill of $54,482 from December 31, 2014 to September 30, 2015 was primarily related to the Company's HST and ARS acquisitions. The increase in intangible assets of $18,022 from December 31, 2014 to September 30, 2015 was primarily related to the Company's ARS acquisition.

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Finite-lived intangible assets are amortized under the straight-line method, except for loss reserve discounts, which the Company amortizes using an accelerated method, which approximates underlying claim payments. The Company also uses the accelerated method of amortization for affinity partners and agents' relationships based on the estimated attrition of those relationships. For the three and nine months ended September 30, 2015, the Company amortized approximately $4,403 and $13,637, respectively, related to its intangible assets with a finite life, which includes amortization relating to intangibles owned by the Reciprocal Exchanges of $1,355 and $5,220 for the three and nine months ended September 30, 2015, respectively. For the three and nine months ended September 30, 2014, the Company amortized approximately $2,834 and $8,786, respectively, related to its intangible assets with a finite life, which includes amortization relating to intangibles owned by the Reciprocal Exchanges of $353 and $353 for the three and nine months ended September 30, 2014, respectively.

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

Year ending	NGHC	Reciprocal Exchanges	Total
2015 (remaining three months)	$2,804	$1,272	$4,076
2016	10,329	460	10,789
2017	10,330	460	10,790
2018	6,325	460	6,785
2019	5,585	460	6,045
2020	4,122	—	4,122
Thereafter	10,660	—	10,660
	$50,155	$3,112	$53,267

9. Stockholders' Equity

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

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

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

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10. Debt

7.625% Subordinated Notes due 2055

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

The 7.625% Notes bear interest at a rate equal to 7.625% per year, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, beginning on December 15, 2015. The 7.625% Notes are the Company’s subordinated unsecured obligations and rank (i) senior in right of payment to any future junior subordinated debt, (ii) equal in right of payment with any unsecured, subordinated debt that the Company incurs in the future that ranks equally with the 7.625% Notes, and (iii) subordinate in right of payment to any of the Company’s existing and future senior debt, including amounts outstanding under the Company’s $135,000 revolving credit facility, the Company’s 6.75% Notes and certain of the Company’s other obligations. In addition, the 7.625% Notes are structurally subordinated to all existing and future indebtedness, liabilities and other obligations of the Company’s subsidiaries. The 7.625% Notes mature on September 15, 2055, unless earlier redeemed or purchased by the Company. Interest expense on the 7.625% Notes for the three and nine months ended September 30, 2015 was $1,056 and $1,056, respectively.

The Indenture contains customary covenants, such as reporting of annual and quarterly financial results, and restrictions on certain mergers and consolidations. The Indenture also includes covenants relating to the incurrence of debt if the Company’s consolidated leverage ratio would exceed 0.35 to 1.00, a limitation on liens, a limitation on the disposition of stock of certain of the Company’s subsidiaries and a limitation on transactions with certain of the Company’s affiliates. The Company was in compliance with all of the covenants contained in the Indenture as of September 30, 2015.

6.75% Notes due 2024

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

The 6.75% Notes bear interest at a rate equal to 6.75% per year, payable semiannually in arrears on May 15 and November 15 of each year, beginning on November 15, 2014. The 6.75% Notes are the Company’s general unsecured obligations and rank equally in right of payment with its other existing and future senior unsecured indebtedness and senior in right of payment to any of its indebtedness that is contractually subordinated to the 6.75% Notes. The 6.75% Notes are also effectively subordinated to any of the Company’s existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness and are structurally subordinated to the existing and future indebtedness of the Company’s subsidiaries (including trade payables). The 6.75% Notes mature on May 15, 2024, unless earlier redeemed or purchased by the Company. Interest expense on the 6.75% Notes for the three and nine months ended September 30, 2015 was $4,317 and $12,809, respectively. Interest expense on the 6.75% Notes for the three and nine months ended September 30, 2014 was $4,253 and $5,964, respectively.

The Indenture contains customary covenants, such as reporting of annual and quarterly financial results, and restrictions on certain mergers and consolidations. The Indenture also includes covenants relating to the incurrence of debt if the Company's consolidated leverage ratio would exceed 0.35 to 1.00, a limitation on liens, a limitation on the disposition of stock of certain of the Company's subsidiaries and a limitation on transactions with certain of the Company's affiliates. The Company was in compliance with all of the covenants contained in the Indenture as of September 30, 2015.

Revolving Credit Agreements

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

The Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and

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dispositions. There are also financial covenants that require the Company to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. The Credit Agreement also provides for customary events of default, with grace periods where customary, including failure to pay principal when due, failure to pay interest or fees within three business days after becoming due, failure to comply with covenants, breaches of representations and warranties, default under certain other indebtedness, certain insolvency or receivership events affecting the Company and its subsidiaries, the occurrence of certain material judgments, or a change in control of the Company. Upon the occurrence and during the continuation of an event of default, the administrative agent, upon the request of the requisite percentage of the lenders, may terminate the obligations of the lenders to make loans and to issue letters of credit under the Credit Agreement, declare the Company’s obligations under the Credit Agreement to become immediately due and payable and/or exercise any and all remedies and other rights under the Credit Agreement. The Credit Agreement has a maturity date of May 30, 2018.

Borrowings under the Credit Agreement bear interest at either the Alternate Base Rate ("ABR") or LIBOR. ABR borrowings (which are borrowings bearing interest at a rate determined by reference to the ABR) under the Credit Agreement will bear interest at (x) the greatest of (a) the prime rate in effect on such day, (b) the federal funds effective rate on such day plus 0.5 percent or (c) the adjusted LIBOR for a one-month interest period on such day plus 1 percent, plus (y) a margin that is adjusted on the basis of the Company’s consolidated leverage ratio. Eurodollar borrowings under the Credit Agreement will bear interest at the adjusted LIBOR for the interest period in effect plus a margin that is adjusted on the basis of the Company’s consolidated leverage ratio. Fees payable by the Company under the Credit Agreement include a letter of credit participation fee (the margin applicable to Eurodollar borrowings), a letter of credit fronting fee with respect to each letter of credit (0.125%) and a commitment fee on the available commitments of the lenders (a range of 0.20% to 0.30% based on the Company’s consolidated leverage ratio, and which rate was 0.25% as of September 30, 2015). The Company was in compliance with all of the covenants under the Credit Agreement as of September 30, 2015.

As of September 30, 2015 and December 31, 2014, there was no outstanding balance on the line of credit. There was no interest expense for the Company's existing and repaid lines of credit for the three or nine months ended September 30, 2015. Interest expense for the Company's existing and repaid lines of credit for the three and nine months ended September 30, 2014 was $29 and $1,162, respectively.

Imperial-related Debt

The Company's subsidiary, Imperial Fire and Casualty Insurance Company, is the issuer of $5,000 principal amount of Surplus Notes due 2034 ("Imperial Surplus Notes"). The notes bear interest at an annual rate equal to LIBOR plus 4.05%, payable quarterly. The notes are redeemable by the Company at a redemption price equal to 100% of their principal amount. Interest expense on the Imperial Surplus Notes for the three and nine months ended September 30, 2015 was $56 and $164, respectively. Interest expense on the Imperial Surplus Notes for the three and nine months ended September 30, 2014 was $55 and $55, respectively.

Reciprocal Exchanges' Surplus Notes

ACP Re (or subsidiaries thereof), a related party, holds the surplus notes issued by the Reciprocal Exchanges ("Reciprocal Exchanges' Surplus Notes") when they were originally capitalized. The obligation to repay principal and interest on these surplus notes is subordinated to the Reciprocal Exchanges’ other liabilities, including obligations to policyholders and claimants for benefits under insurance policies. Principal and interest on these surplus notes are payable only with regulatory approval. Interest expense on the Reciprocal Exchanges' Surplus Notes for the three and nine months ended September 30, 2015 was $3,584 and $11,078, respectively, which includes amortization of $1,908 and $6,081, respectively. Interest expense on the Reciprocal Exchanges' Surplus Notes for the three and nine months ended September 30, 2014 was $272 and $272, respectively, with no amortization. (See Note 15, "Related Party Transactions").

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Maturities of the Company's debt for the five years subsequent to September 30, 2015 are as follows:

	2015 (remaining three months)	2016	2017	2018	2019	2020	Thereafter	Total
7.625% Notes	$—	$—	$—	$—	$—	$—	$100,000	$100,000
6.75% Notes	—	—	—	—	—	—	250,000	250,000
Imperial Surplus Notes	—	—	—	—	—	—	5,000	5,000
Reciprocal Exchanges' Surplus Notes	—	—	—	—	—	—	54,455	54,455
Total principal amount of debt	$—	$—	$—	$—	$—	$—	$409,455	$409,455
Less: Unamortized debt issuance costs and unamortized discount								(7,969)
Carrying amount of debt								$401,486

As of September 30, 2015 and December 31, 2014, the Company had outstanding letters of credit of approximately $0 and $12,142, respectively.

11. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income attributable to common NGHC stockholders	$38,988	$32,059	$114,508	$88,785
Weighted average number of common shares outstanding – basic	100,360,687	93,359,265	95,877,178	90,853,536
Potentially dilutive securities:				
Share options	2,217,367	2,075,584	2,074,956	1,673,422
Restricted stock units	362,674	228,580	362,674	88,240
Weighted average number of common shares outstanding – diluted	102,940,728	95,663,429	98,314,808	92,615,198
Basic earnings per share attributable to NGHC common stockholders	$0.39	$0.34	$1.19	$0.98
Diluted earnings per share attributable to NGHC common stockholders	$0.38	$0.34	$1.16	$0.96

As of September 30, 2015 and 2014, 2,155,484 and 2,791,099 share options, respectively, were excluded from diluted earnings per common share as they were anti-dilutive.

12. Share-Based Compensation

The Company currently has two equity incentive plan (the “Plans”). The Plans authorize up to an aggregate of 7,435,000 shares of Company stock for awards of options to purchase shares of the Company’s common stock, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), unrestricted stock and other performance awards. The aggregate number of shares of common stock for which awards may be issued may not exceed 7,435,000 shares, subject to the authority of the Company’s

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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, 2015, 1,768,870 shares of Company common stock remained available for grants under the Plans.

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

A summary of the Company’s stock option activity for the nine months ended September 30, 2015 and 2014 is shown below:

	Nine Months Ended September 30,			
	2015		2014	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	5,110,593	$8.88	5,058,363	$8.48
Granted	—	—	195,000	17.63
Forfeited	(30,759)	8.26	—	—
Exercised	(835,801)	6.41	(106,412)	6.90
Outstanding at end of period	4,244,033	$9.37	5,146,951	$8.86

Options granted during the nine months ended September 30, 2015 and 2014 were 0 and 195,000, respectively. The Company had approximately $4,014 and $5,999 of unrecognized compensation cost related to unvested stock options as of September 30, 2015 and December 31, 2014, respectively. As of September 30, 2015 and December 31, 2014, all option grants outstanding had an approximate weighted average remaining life of 7.1 and 7.9 years, respectively. As of September 30, 2015 and December 31, 2014, there were 2,444,940 and 2,347,412 exercisable shares with a weighted average exercise price of $8.50 and $7.81, respectively.

The intrinsic value of stock options exercised during the nine months ended September 30, 2015 and 2014 was $7,243 and $1,037, respectively. The intrinsic value of stock options that were outstanding as of September 30, 2015 and 2014 was $32,647 and $44,022, respectively.

Cash received from options exercised was $1,672 and $839 during the nine months ended September 30, 2015 and 2014, respectively.

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A summary of the Company's RSU activity for the nine months ended September 30, 2015 and 2014 is shown below:

	Nine Months Ended September 30,			
	2015		2014	
	RSUs	Weighted Average Grant Date Fair Value	RSUs	Weighted Average Grant Date Fair Value
Non-vested at beginning of period	327,555	$17.44	—	$—
Granted	216,910	20.34	330,555	17.45
Vested	(66,240)	17.67	—	—
Forfeited	(115,551)	17.57	—	—
Non-vested at end of period	362,674	$19.16	330,555	$15.91

Compensation expense for all share-based compensation under ASC 718-10-30 was $1,180 and $3,444 for the three and nine months ended September 30, 2015, respectively, and $884 and $1,803 for the three and nine months ended September 30, 2014, respectively.

13. Service and Fee Income

The following table summarizes service and fee income by category:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Installment fees	$8,257	$7,816	$24,689	$22,021
Commission revenue	16,843	16,593	46,120	46,331
General agent fees	20,559	10,837	55,991	26,004
Late payment fees	3,063	3,148	8,996	8,633
Group health administrative fees	4,524	1,133	10,461	2,772
Finance and processing fees	6,529	5,163	23,340	11,672
Other	1,132	1,204	3,738	3,653
Total	$60,907	$45,894	$173,335	$121,086

14. Income Taxes

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

The Company uses the estimated annual effective tax rate method as prescribed under ASC 740, "Income Taxes". Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated, are excluded from the estimated annual effective tax rate. In these cases, the actual tax expense or benefit is reported in the same period as the related item. Certain tax effects are also not reflected in the estimated annual effective tax rate, primarily certain changes in the realizability of deferred tax assets and uncertain tax positions.

The Company establishes deferred tax liabilities equal to approximately 30% of the unutilized statutory equalization reserves carried at its Luxembourg reinsurance companies. The deferred tax liability is adjusted each reporting period based primarily on amounts ceded to the Luxembourg reinsurer under the intercompany reinsurance agreements. As the income or loss of the Luxembourg entity is primarily from intercompany activity, the impact on the consolidated pre-tax income for the consolidated group is generally zero. Accordingly, the reduction of the deferred tax liability for the utilization of equalization reserves creates

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a deferred tax benefit reflected in the income tax provision in the accompanying condensed consolidated statements of income. As there is no net effect on the consolidated pre-tax income from the intercompany reinsurance activity, the deferred tax benefit related to these transactions reduces the consolidated effective tax rate of the Company. As of September 30, 2015 and December 31, 2014, the Company had approximately $106,615 and $134,975, respectively, of unutilized equalization reserves and an associated deferred tax liability of approximately $31,984 and $40,493, respectively.

The following table is a reconciliation of the difference in the Company's income tax expense compared to the statutory rate of 35%:

	Three Months Ended September 30,					
	2015			2014		
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total
Income (loss) before provision (benefit) for income taxes and equity in earnings of unconsolidated subsidiaries	$48,689	$2,338	$51,027	$45,142	$(956)	$44,186
Tax at Federal statutory rate 35%	$17,041	$818	$17,859	$15,800	$(335)	$15,465
Tax effects resulting from:						
Exempt foreign income	(2,574)	—	(2,574)	1,918	—	1,918
Statutory equalization reserves	3,600	—	3,600	(3,917)	—	(3,917)
Other, net	(10,227)	(44)	(10,271)	(3,564)	124	(3,440)
Total income tax reported	$7,840	$774	$8,614	$10,237	$(211)	$10,026
Effective tax rate	16.1%	33.1%	16.9%	22.7%	22.1%	22.7%

	Nine Months Ended September 30,					
	2015			2014		
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total
Income (loss) before provision (benefit) for income taxes and equity in earnings of unconsolidated subsidiaries	$140,945	$(998)	$139,947	$111,109	$(956)	$110,153
Tax at Federal statutory rate 35%	$49,331	$(349)	$48,982	$38,888	$(335)	$38,553
Tax effects resulting from:						
Exempt foreign income	(7,273)	—	(7,273)	(1,736)	—	(1,736)
Statutory equalization reserves	(8,887)	—	(8,887)	(16,659)	—	(16,659)
Other, net	(7,802)	(128)	(7,930)	(2,496)	124	(2,372)
Total income tax reported	$25,369	$(477)	$24,892	$17,997	$(211)	$17,786
Effective tax rate	18.0%	47.8%	17.8%	16.2%	22.1%	16.1%

The Company's consolidated effective tax rate, which includes the Reciprocal Exchanges, decreased by 5.8% from 22.7% for the three months ended September 30, 2014 to 16.9% for the three months ended September 30, 2015. This was primarily driven by an increase in excludable foreign income. The Company's consolidated effective tax rate, which includes the Reciprocal Exchanges, increased by 1.7% from 16.1% for the nine months ended September 30, 2014 to 17.8% for the nine months ended September 30, 2015.

As permitted by ASC 740, "Income Taxes", the Company recognizes interest and penalties, if any, related to unrecognized tax benefits in its income tax provision. The Company does not have any unrecognized tax benefits and, therefore, has not recorded any unrecognized tax benefits, or any related interest and penalties, as of September 30, 2015 and December 31, 2014. No interest

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or penalties have been recorded by the Company for the three or nine months ended September 30, 2015 and 2014. The Company does not anticipate any significant changes to its total unrecognized tax benefits in the next 12 months.

Excluding the Reciprocal Exchanges, the Company’s subsidiaries are currently open to audit by the IRS for the years ended December 31, 2012 and thereafter for Federal tax purposes.

15. Related Party Transactions

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

Agreements with AmTrust and Affiliated Entities

Asset Management Agreement

Pursuant to an Asset Management Agreement among NGHC and AII Insurance Management Limited (“AIIM”), a subsidiary of AmTrust, the Company pays AIIM a fee for managing the Company’s investment portfolio. Pursuant to the asset management agreement, AIIM provides investment management services for a quarterly fee of 0.05% of the average value of assets under management if the average value of the account for the previous calendar quarter is less than or equal to $1 billion, and 0.0375% of the average value of assets under management if the average value of the account for the previous calendar quarter is greater than $1 billion. Following the initial one-year term, the agreement may be terminated upon 30 days written notice by either party. The amounts charged for such expenses were $628 and $1,717 for the three and nine months ended September 30, 2015, respectively, while the amounts charged for such expenses were $496 and $1,352, for the three and nine months ended September 30, 2014, respectively. As of September 30, 2015 and December 31, 2014, there was a payable to AIIM related to these services in the amount of $1,216 and $564, respectively.

Master Services Agreement

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

The Company recorded expenses and capitalized costs related to the Master Services Agreement of $10,239 and $25,141 for the three and nine months ended September 30, 2015, respectively, while the amounts for such expenses and capitalized costs were $6,141 and $20,231 for the three and nine months ended September 30, 2014, respectively. As of September 30, 2015 and December 31, 2014, there was a payable related to the services received under this agreement in the amount of $19,891 and $13,621, respectively.

Reinsurance Agreements

On July 1, 2012, a wholly-owned subsidiary of the Company, Integon National, entered into an agreement with an AmTrust subsidiary, Risk Services, LLC ("RSL"). RSL provides certain consulting and marketing services to promote the Company's captive insurance program to potential agents. RSL receives 1.5% of all net premiums written generated to the program. The amounts charged for such fees for the three and nine months ended September 30, 2015 were $38 and $112, respectively, while the amounts charged for such fees were $0 and $66 for the three and nine months ended September 30, 2014, respectively. As of September 30, 2015 and December 31, 2014, there was a payable for these services in the amount of $1 and $31, respectively.

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

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

The amounts related to these reinsurance treaties are as follows:

September 30, 2015	Recoverable (Payable) on Paid and Unpaid Losses and LAE	Commission Receivable	Premium Receivable (Payable)
Wesco	$(51)	$—	$(73)
AARC	809	111	(387)
December 31, 2014	**Recoverable (Payable) on Paid and Unpaid Losses and LAE**	**Commission Receivable**	**Premium Receivable (Payable)**
Wesco	$(3,987)	$—	$(638)
AARC	706	94	(350)
Three Months Ended September 30, 2015	**Assumed (Ceded) Earned Premiums**	**Commission Income**	**Assumed (Ceded) Losses and LAE**
Wesco	$(2)	$1	$(518)
AARC	(387)	149	(221)
Three Months Ended September 30, 2014	**Assumed (Ceded) Earned Premiums**	**Commission Income (Expense)**	**Assumed (Ceded) Losses and LAE**
Wesco	$5,310	$(1,320)	$3,825
AARC	(344)	111	(148)
Nine Months Ended September 30, 2015	**Assumed (Ceded) Earned Premiums**	**Commission Income**	**Assumed (Ceded) Losses and LAE**
Wesco	$69	$212	$(413)
AARC	(1,108)	359	(586)
Nine Months Ended September 30, 2014			

	Assumed (Ceded) Earned Premiums	Commission Income (Expense)	Assumed (Ceded) Losses and LAE
Wesco	$15,978	$(4,062)	$12,511
AARC	(967)	284	(514)

NGHC Quota Share Agreement

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

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On August 1, 2013, the Company provided notice to parties of the NGHC Quota Share agreement that it was terminating the agreement. The Company no longer cedes any net earned premiums and net incurred losses and LAE on business with effective dates after July 31, 2013. The termination was on a run-off basis, meaning the Company continued to cede 50% of the net premiums and the related net losses with respect to policies in force as of July 31, 2013 through the expiration of such policies, the last of which expired on July 31, 2014.

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

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

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

The amounts related to this reinsurance treaty are as follows:

Three Months Ended September 30, 2015	Ceded Earned Premiums	Ceding Commission Expense	Ceded Losses and LAE
ACP Re	$—	$(825)	$1,702
Maiden Insurance Company	—	(1,373)	2,825
Technology Insurance Company	—	(567)	1,149
Total	$—	$(2,765)	$5,676
Three Months Ended September 30, 2014	**Ceded Earned Premiums**	**Ceding Commission Income**	**Ceded Losses and LAE**
ACP Re	$186	$201	$2,063
Maiden Insurance Company	310	335	3,437
Technology Insurance Company	124	134	1,375
Total	$620	$670	$6,875
Nine Months Ended September 30, 2015	**Ceded Earned Premiums**	**Ceding Commission Expense**	**Ceded Losses and LAE**
ACP Re	$—	$(734)	$2,516
Maiden Insurance Company	—	(1,224)	4,194
Technology Insurance Company	—	(489)	1,678

Total	$—	$(2,447)	$8,388

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Nine Months Ended September 30, 2014	Ceded Earned Premiums	Ceding Commission Income	Ceded Losses and LAE
ACP Re	$12,859	$4,100	$11,370
Maiden Insurance Company	21,432	6,776	18,936
Technology Insurance Company	8,573	2,719	7,593
Total	$42,864	$13,595	$37,899

Included in ceding commission income was $0 and $0 for the three and nine months ended September 30, 2015, respectively, and $104 and $6,353 for the three and nine months ended September 30, 2014, respectively, which represented recovery of successful acquisition cost of the reinsured contracts. These amounts have been netted against acquisition costs and other underwriting expenses in the accompanying condensed consolidated statements of income.

September 30, 2015	Reinsurance Recoverable on Paid and Unpaid Losses and LAE	Ceded Commission Payable	Ceded Premium Payable
ACP Re	$19,642	$—	$8,533
Maiden Insurance Company	32,736	—	14,221
Technology Insurance Company	13,095	—	5,689
Total	$65,473	$—	$28,443
December 31, 2014	Reinsurance Recoverable on Paid and Unpaid Losses and LAE	Ceded Commission Payable	Ceded Premium Payable
ACP Re	$30,517	$3	$7,792
Maiden Insurance Company	50,861	5	12,987
Technology Insurance Company	20,345	2	5,195
Total	$101,723	$10	$25,974

The Company nets the ceded commission receivable against ceded premium payable in the condensed consolidated balance sheets as the NGHC Quota Share Agreement allows for net settlement. The agreement also stipulates that if the Company would be denied full statutory credit for reinsurance ceded pursuant to the credit for reinsurance laws or regulations in any applicable jurisdiction, the reinsurers will secure an amount equal to that obligation through a letter of credit; assets held in trust for the benefit of the Company or cash. ACP Re and Maiden Insurance Company held assets in trust in the amount of $17,859 and $26,820, respectively, as of September 30, 2015 and $31,044 and $58,513, respectively, as of December 31, 2014.

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

800 Superior, LLC

As described in Note 6, "Equity Investments in Unconsolidated Subsidiaries", the Company formed 800 Superior, LLC along with AmTrust, whereby each entity owns a 50% interest. In 2012, the Company also entered into a lease agreement with 800 Superior, LLC for a period of 15 years whereby the Company leased approximately 134,000 square feet. The Company paid 800 Superior, LLC $664 and $1,992 for the three and nine months ended September 30, 2015, respectively, and $561 and $1,683 for the three and nine months ended September 30, 2014, respectively. For more information on the 800 Superior, LLC related party transactions, see Note 16, "Related Party Transactions - 800 Superior, LLC" of our Annual Report on Form 10-K for the year ended December 31, 2014.

North Dearborn Building Company, L.P.

In February 2015, the Company invested $9,714 in North Dearborn, a limited partnership that owns an office building in Chicago, Illinois. AmTrust is also a limited partner in North Dearborn, and the general partner is NA Advisors, an entity controlled

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by Michael Karfunkel and managed by an unrelated third party. The Company and AmTrust each received a 45% limited partnership interest in North Dearborn for their respective $9,714 investments, while NA Advisors invested approximately $2,200 and holds a 10% general partnership interest and a 10% profit interest, which NA Advisors pays to the unrelated third party manager. North Dearborn appointed NA Advisors as the general manager to oversee the day-to-day operations of the office building. North Dearborn is considered to be a VIE, for which the Company is not a primary beneficiary. The Company accounts for North Dearborn using the equity method of accounting.

The Company’s equity interest in North Dearborn as of September 30, 2015 was $10,121. For the three and nine months ended September 30, 2015, the Company recorded equity in earnings (losses) from North Dearborn of $319 and $542, respectively.

4455 LBJ Freeway, LLC

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

The Company’s equity interest in 4455 LBJ Freeway, LLC as of September 30, 2015 was $10,463. For the three and nine months ended September 30, 2015, the Company recorded equity in earnings (losses) from 4455 LBJ Freeway, LLC of $69 and $69, respectively.

Illinois Center Building, L.P.

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

The Company’s equity interest in Illinois Center as of September 30, 2015 was $53,715. For the three and nine months ended September 30, 2015, the Company recorded equity in earnings (losses) from Illinois Center of $0 and $0, respectively.

Agreements with ACP Re and Affiliated Entities

In connection with the acquisition of Tower Group International, Ltd. ("Tower") by ACP Re, the Company entered into the agreements described below.

Personal Lines Master Agreement

On July 23, 2014, the Company and ACP Re entered into the Amended and Restated Personal Lines Master Agreement (the "Master Agreement"). The Master Agreement provided for the implementation of the various transactions associated with the acquisition of Tower by ACP Re. In addition, the Master Agreement requires the Company to pay ACP Re contingent consideration in the form of a three-year earn-out (the "Contingent Payments") of 3% of gross premium written of the Tower personal lines business written or assumed by the Company following the Merger. The Contingent Payments are subject to a maximum of $30,000, in the aggregate, over the three-year period.

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

Integon National entered into the Personal Lines Quota Share Reinsurance Agreement (the "PL Reinsurance Agreement"), with Tower’s ten statutory insurance companies (collectively, the “Tower Companies”), pursuant to which Integon National reinsures 100% of all losses under the Tower Companies’ new and renewal personal lines business written after September 15, 2014. The ceding commission payable by Integon National under the PL Reinsurance Agreement is equal to the sum of (i) reimbursement of the Tower Companies’ acquisition costs in respect of the business covered, including commission payable to

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National General Insurance Marketing, Inc., a subsidiary of the Company (“NGIM”), pursuant to the PL MGA Agreement (as defined below), and premium taxes and (ii) 2% of gross premium written (net of cancellations and return premiums) collected pursuant to the PL MGA Agreement. In connection with the execution of the PL Reinsurance Agreement, the Personal Lines Cut-Through Quota Share Reinsurance Agreement, dated January 3, 2014, by and among the Tower Companies and Integon National (the “Cut-Through Reinsurance Agreement”), was terminated on a run-off basis, with the reinsurance of all policies reinsured under such agreement remaining in effect.

As of September 30, 2015 and December 31, 2014, there was a net receivable due from the Tower Companies of $44,267 and $43,998, respectively. As a result of the PL Reinsurance Agreement and the Cut-Through Reinsurance Agreement, during the three and nine months ended September 30, 2015, the Company assumed $26,752 and $127,232, respectively, of premium from the Tower Companies and recorded $11,873 and $44,591, respectively, of ceding commission expense, while during the three and nine months ended September 30, 2014, the Company assumed $79,298 and $359,083, respectively, of premium from the Tower Companies and recorded $18,297 and $75,182, respectively, of ceding commission expense. Additionally, during the three and nine months ended September 30, 2015, the Company earned premium of $54,508 and $212,080, respectively, while during the three and nine months ended September 30, 2014, the Company earned premium of $84,593 and $228,010, respectively, under these reinsurance agreements. During the three and nine months ended September 30, 2015, the Company incurred losses and loss adjustment expenses of $29,629 and $121,884, respectively, and during the three and nine months ended September 30, 2014, the Company incurred losses and loss adjustment expenses of $41,806 and $127,283, respectively, under these reinsurance agreements.

PL MGA Agreement

NGIM produces and manages all new and renewal personal lines business of the Tower Companies pursuant to a Personal Lines Managing General Agency Agreement (the "PL MGA Agreement"). As described above, all post-September 15, 2014 personal lines business written by the Tower Companies is reinsured by Integon National pursuant to the PL Reinsurance Agreement. The Tower Companies pay NGIM a 10% commission on all business written pursuant to the PL MGA Agreement. All payments by the Tower Companies to NGIM pursuant to the PL MGA Agreement are netted out of the ceding commission payable by Integon National to the Tower Companies pursuant to the PL Reinsurance Agreement. During the three and nine months ended September 30, 2015, the Company recorded $2,607 and $10,634, respectively, while during the three and nine months ended September 30, 2014, the Company recorded $0 and $0, respectively, of commission income, as a result of the PL MGA Agreement.

PL Administrative Services Agreement

National General Management Corp., a subsidiary of the Company ("NGMC"), the Tower Companies and an affiliated company, CastlePoint Reinsurance Company, Ltd (“CP Re”), entered into the Personal Lines LPTA Administrative Services Agreement (the "PL Administrative Agreement"), pursuant to which NGMC administers the run-off of CP Re’s and the Tower Companies’ personal lines business written prior to September 15, 2014 at cost. CP Re and the Tower Companies reimburse NGMC for its actual costs, including costs incurred in connection with claims operations, out-of-pocket expenses, costs incurred in connection with any required modifications to NGMC's claims systems and an allocated portion of the claims service expenses paid by Integon National to the Tower Companies pursuant to the Cut-Through Reinsurance Agreement. As a result of the PL Administrative Agreement, the Company was reimbursed $13,640 and $19,408 during the three and nine months ended September 30, 2015, respectively, while during the three and nine months ended September 30, 2014, the Company was reimbursed $0 and $0, respectively. As of September 30, 2015 and December 31, 2014, there was a receivable related to the PL

Administrative Agreement of $9,687 and $1,546, respectively.

Stop-Loss and Retrocession Agreements

National General Re, Ltd., a subsidiary of the Company (“NG Re Ltd.”), along with AmTrust International Insurance, Ltd., an affiliate of the Company (“AII”), as reinsurers, entered into a $250,000 Aggregate Stop Loss Reinsurance Agreement (the "Stop-Loss Agreement") with CP Re. NG Re Ltd. and AII also entered into an Aggregate Stop Loss Retrocession Contract (the "Retrocession Agreement") with ACP Re pursuant to which ACP Re is obligated to reinsure the full amount of any payments that NG Re Ltd. and AII are obligated to make to CP Re under the Stop-Loss Agreement. Pursuant to the Stop-Loss Agreement, each of NG Re Ltd. and AII provide, severally, $125,000 of stop loss coverage with respect to the run-off of the Tower business written on or before September 15, 2014. The reinsurers’ obligation to indemnify CP Re under the Stop-Loss Agreement will be triggered only at such time as CP Re’s ultimate paid net loss related to the run-off of the pre-September 15, 2014 Tower business exceeds a retention equal to the Tower Companies’ loss and loss adjustment reserves and unearned premium reserves as of September 15, 2014. CP Re will pay AII and NG Re Ltd. total premium of $56,000 on the fifth anniversary of the Stop-Loss Agreement. The

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premium payable by NG Re Ltd. and AII to ACP Re pursuant to the Retrocession Agreement will be $56,000 in the aggregate, less a ceding commission of 5.5% to be retained by NG Re Ltd. and AII. The Company will record this reinsurance transaction under the deposit method of accounting.

Credit Agreement

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

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

The Company recorded interest income of $2,115 and $6,514 for the three and nine months ended September 30, 2015, respectively, while during the three and nine months ended September 30, 2014, the Company recorded interest income of $365 and $365, respectively, under the ACP Re Credit Agreement.

Surplus Notes of the Reciprocal Exchanges

ACP Re, an affiliate of the Company, holds the surplus notes carried at $54,455 and $48,374 as of September 30, 2015 and December 31, 2014, respectively, issued by the Reciprocal Exchanges. The obligation to repay principal and interest on the Reciprocal Exchanges' Surplus Notes is subordinated to the Reciprocal Exchanges' other liabilities. Principal and interest on the Reciprocal Exchanges' Surplus Notes are payable only with regulatory approval (see Note 10, "Debt").

AIBD Health Plan

On September 1, 2012, the Company purchased The Association Benefits Solution companies, a group of companies affiliated with the accident and health insurance industry. As part of the purchase, the Company is now affiliated with AIBD Health Plan which is a welfare benefit plan for several member groups. As of September 30, 2015 and December 31, 2014, the Company had a receivable of $5,419 and $5,377, respectively. Also, as part of this plan, the Company utilizes an employer trust to administer additional claims. As of September 30, 2015 and December 31, 2014, the Company had a receivable to the employer trust in the amount of $5,570 and $605, respectively.

16. Segment Information

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

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

NATIONAL GENERAL HOLDINGS CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Shares and Per Share Data)

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

Three Months Ended September 30, 2015	Property and Casualty	Accident and Health	Corporate and Other	Total
Underwriting revenue:				
Gross premium written	$583,091	$43,594	$—	$626,685
Ceded premiums	(91,301)	(9,745)	—	(101,046)
Net premium written	491,790	33,849	—	525,639
Change in unearned premium	(33,636)	11,258	—	(22,378)
Net earned premium	458,154	45,107	—	503,261
Ceding commission income	11,883	267	—	12,150
Service and fee income	41,247	19,660	—	60,907
Total underwriting revenue	511,284	65,034	—	576,318
Underwriting expenses:				
Loss and loss adjustment expense	268,740	33,519	—	302,259
Acquisition costs and other underwriting expenses	91,379	17,365	—	108,744
General and administrative expenses	104,520	14,061	—	118,581
Total underwriting expenses	464,639	64,945	—	529,584
Underwriting income	46,645	89	—	46,734
Net investment income	—	—	18,472	18,472
Net realized losses on investments	—	—	(4,594)	(4,594)
Other revenue	—	—	(157)	(157)
Equity in earnings of unconsolidated subsidiaries	—	—	2,288	2,288
Interest expense	—	—	(9,428)	(9,428)
Provision for income taxes	—	—	(8,614)	(8,614)
Net loss (income) attributable to non-controlling interest	—	—	(1,588)	(1,588)
Net income attributable NGHC	$46,645	$89	$(3,621)	$43,113
NGHC	$43,179	$89	$(155)	$43,113
Reciprocal Exchanges	3,466	—	(3,466)	—
Net income attributable NGHC	$46,645	$89	$(3,621)	$43,113

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Three Months Ended September 30, 2014	Property and Casualty	Accident and Health	Corporate and Other	Total
Underwriting revenue:				
Gross premium written	$479,866	$17,729	$—	$497,595
Ceded premiums	(65,962)	(63)	—	(66,025)
Net premium written	413,904	17,666	—	431,570
Change in unearned premium	(4,966)	11,802	—	6,836
Net earned premium	408,938	29,468	—	438,406
Ceding commission income	705	—	—	705
Service and fee income	31,378	14,516	—	45,894
Total underwriting revenue	441,021	43,984	—	485,005
Underwriting expenses:				
Loss and loss adjustment expense	256,769	18,250	—	275,019
Acquisition costs and other underwriting expenses	68,419	15,496	—	83,915
General and administrative expenses	79,078	11,050	—	90,128
Total underwriting expenses	404,266	44,796	—	449,062
Underwriting income (loss)	36,755	(812)	—	35,943
Net investment income	—	—	13,697	13,697
Net realized losses on investments	—	—	(1,118)	(1,118)
Other revenue	—	—	373	373
Equity in losses of unconsolidated subsidiaries	—	—	(1,611)	(1,611)
Interest expense	—	—	(4,709)	(4,709)
Provision for income taxes	—	—	(10,026)	(10,026)
Net loss (income) attributable to non-controlling interest	684	—	86	770
Net income (loss) attributable NGHC	$37,439	$(812)	$(3,308)	$33,319
NGHC	$38,123	$(812)	$(3,247)	$34,064
Reciprocal Exchanges	(684)	—	(61)	(745)
Net income (loss) attributable NGHC	$37,439	$(812)	$(3,308)	$33,319

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Nine Months Ended September 30, 2015	Property and Casualty	Accident and Health	Corporate and Other	Total
Underwriting revenue:				
Gross premium written	$1,692,412	$153,409	$—	$1,845,821
Ceded premiums	(284,121)	(26,626)	—	(310,747)
Net premium written	1,408,291	126,783	—	1,535,074
Change in unearned premium	(69,598)	(14,234)	—	(83,832)
Net earned premium	1,338,693	112,549	—	1,451,242
Ceding commission income	26,380	820	—	27,200
Service and fee income	118,584	54,751	—	173,335
Total underwriting revenue	1,483,657	168,120	—	1,651,777
Underwriting expenses:				
Loss and loss adjustment expense	816,022	79,752	—	895,774
Acquisition costs and other underwriting expenses	254,855	40,276	—	295,131
General and administrative expenses	301,187	42,239	—	343,426
Total underwriting expenses	1,372,064	162,267	—	1,534,331
Underwriting income	111,593	5,853	—	117,446
Net investment income	—	—	52,955	52,955
Net realized losses on investments	—	—	(3,018)	(3,018)
Other revenue	—	—	(327)	(327)
Equity in earnings of unconsolidated subsidiaries	—	—	8,900	8,900
Interest expense	—	—	(27,109)	(27,109)
Provision for income taxes	—	—	(24,892)	(24,892)
Net loss (income) attributable to non-controlling interest	—	—	453	453
Net income attributable NGHC	$111,593	$5,853	$6,962	$124,408
NGHC	$108,336	$5,853	$10,219	$124,408
Reciprocal Exchanges	3,257	—	(3,257)	—
Net income attributable NGHC	$111,593	$5,853	$6,962	$124,408

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Nine Months Ended September 30, 2014	Property and Casualty	Accident and Health	Corporate and Other	Total
Underwriting revenue:				
Gross premium written	$1,494,337	$117,873	$—	$1,612,210
Ceded premiums	(194,339)	(260)	—	(194,599)
Net premium written	1,299,998	117,613	—	1,417,611
Change in unearned premium	(202,218)	(27,669)	—	(229,887)
Net earned premium	1,097,780	89,944	—	1,187,724
Ceding commission income	7,632	—	—	7,632
Service and fee income	76,440	44,646	—	121,086
Total underwriting revenue	1,181,852	134,590	—	1,316,442
Underwriting expenses:				
Loss and loss adjustment expense	697,207	58,763	—	755,970
Acquisition costs and other underwriting expenses	185,632	47,074	—	232,706
General and administrative expenses	207,314	36,072	—	243,386
Total underwriting expenses	1,090,153	141,909	—	1,232,062
Underwriting income (loss)	91,699	(7,319)	—	84,380
Net investment income	—	—	34,232	34,232
Net realized losses on investments	—	—	(1,118)	(1,118)
Other revenue	—	—	480	480
Equity in losses of unconsolidated subsidiaries	—	—	(3,098)	(3,098)
Interest expense	—	—	(7,821)	(7,821)
Provision for income taxes	—	—	(17,786)	(17,786)
Net loss (income) attributable to non-controlling interest	684	—	92	776
Net income (loss) attributable NGHC	$92,383	$(7,319)	$4,981	$90,045
NGHC	$93,067	$(7,319)	$5,042	$90,790
Reciprocal Exchanges	(684)	—	(61)	(745)
Net income (loss) attributable NGHC	$92,383	$(7,319)	$4,981	$90,045

The following tables summarize the financial position of the Company's operating segments as of September 30, 2015 and December 31, 2014:

September 30, 2015	Property and Casualty	Accident and Health	Corporate and Other	Total
Premiums and other receivables, net	$628,040	$95,338	$—	$723,378
Deferred acquisition costs	150,411	2,165	—	152,576
Reinsurance recoverable on unpaid losses	893,272	—	—	893,272
Prepaid reinsurance premiums	131,468	—	—	131,468
Goodwill and Intangible assets, net	312,781	79,324	—	392,105
Corporate and other assets	—	—	2,791,534	2,791,534
Total assets	$2,115,972	$176,827	$2,791,534	$5,084,333

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

The following tables show an analysis of the Company's gross and net premiums written and net earned premium by geographical location for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,					
	2015			2014		
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total
Gross premium written - North America	$536,583	$79,864	$616,447	$481,047	$9,993	$491,040
Gross premium written - Europe	10,238	—	10,238	6,555	—	6,555
Total	$546,821	$79,864	$626,685	$487,602	$9,993	$497,595
Net premium written - North America	$209,390	$43,650	$253,040	$200,913	$7,205	$208,118
Net premium written - Bermuda	262,361	—	262,361	210,372	—	210,372
Net premium written - Europe	10,238	—	10,238	13,080	—	13,080
Total	$481,989	$43,650	$525,639	$424,365	$7,205	$431,570
Net earned premium - North America	$183,113	$34,296	$217,409	$196,453	$6,692	$203,145
Net earned premium - Bermuda	264,161	—	264,161	210,371	—	210,371
Net earned premium - Europe	21,691	—	21,691	24,890	—	24,890
Total	$468,965	$34,296	$503,261	$431,714	$6,692	$438,406

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	Nine Months Ended September 30,					
	2015			2014		
	NGHC	Reciprocal Exchanges	Total	NGHC	Reciprocal Exchanges	Total
Gross premium written - North America	$1,553,584	$217,830	$1,771,414	$1,515,687	$9,993	$1,525,680
Gross premium written - Europe	74,407	—	74,407	86,530	—	86,530
Total	$1,627,991	$217,830	$1,845,821	$1,602,217	$9,993	$1,612,210
Net premium written - North America	$600,386	$93,053	$693,439	$772,232	$7,205	$779,437
Net premium written - Bermuda	727,228	—	727,228	511,643	—	511,643
Net premium written - Europe	114,407	—	114,407	126,531	—	126,531
Total	$1,442,021	$93,053	$1,535,074	$1,410,406	$7,205	$1,417,611
Net earned premium - North America	$525,233	$98,440	$623,673	$570,506	$6,692	$577,198
Net earned premium - Bermuda	727,228	—	727,228	511,642	—	511,642
Net earned premium - Europe	100,341	—	100,341	98,884	—	98,884
Total	$1,352,802	$98,440	$1,451,242	$1,181,032	$6,692	$1,187,724

The following tables show an analysis of the Company's gross premium written, net premium written and net earned premium by product type for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Gross Premium Written	2015	2014	2015	2014
Property and Casualty				
Personal Auto	$307,799	$315,672	$935,339	$953,010
Homeowners	103,423	74,583	263,544	290,667
RV/Packaged	40,447	39,490	121,093	120,183
Commercial Auto	48,052	35,619	139,880	107,173
Other	3,506	4,509	14,726	13,311
Property and Casualty Total	$503,227	$469,873	$1,474,582	$1,484,344
Accident and Health Total	43,594	17,729	153,409	117,873
NGHC Total	$546,821	$487,602	$1,627,991	$1,602,217
Reciprocal Exchanges				
Personal Auto	$24,177	$4,330	$67,641	$4,330
Homeowners	48,229	5,013	128,951	5,013
Other	7,458	650	21,238	650
Reciprocal Exchanges Total	$79,864	$9,993	$217,830	$9,993
Total	$626,685	$497,595	$1,845,821	$1,612,210

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	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Premium Written	2015	2014	2015	2014
Property and Casualty				
Personal Auto	$257,432	$273,922	$805,081	$795,511
Homeowners	105,028	57,105	250,874	273,190
RV/Packaged	40,113	38,900	119,781	115,263
Commercial Auto	43,502	32,249	127,753	96,009
Other	2,065	4,523	11,749	12,820
Property and Casualty Total	$448,140	$406,699	$1,315,238	$1,292,793
Accident and Health Total	33,849	17,666	126,783	117,613
NGHC Total	$481,989	$424,365	$1,442,021	$1,410,406
Reciprocal Exchanges				
Personal Auto	$(3,516)	$4,063	$38,619	$4,063
Homeowners	46,902	2,636	40,079	2,636
Other	264	506	14,355	506
Reciprocal Exchanges Total	$43,650	$7,205	$93,053	$7,205
Total	$525,639	$431,570	$1,535,074	$1,417,611

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Earned Premium	2015	2014	2015	2014
Property and Casualty				
Personal Auto	$251,754	$268,155	$786,397	$719,483
Homeowners	92,283	58,730	219,633	165,507
RV/Packaged	38,489	38,885	112,041	109,746
Commercial Auto	39,440	31,920	111,491	84,841
Other	1,892	4,556	10,691	11,511
Property and Casualty Total	$423,858	$402,246	$1,240,253	$1,091,088
Accident and Health Total	45,107	29,468	112,549	89,944
NGHC Total	$468,965	$431,714	$1,352,802	$1,181,032
Reciprocal Exchanges				
Personal Auto	$14,494	$4,043	$60,965	$4,043
Homeowners	17,105	2,221	26,991	2,221
Other	2,697	428	10,484	428
Reciprocal Exchanges Total	$34,296	$6,692	$98,440	$6,692
Total	$503,261	$438,406	$1,451,242	$1,187,724

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17. Subsequent Events

On October 8, 2015, the Company sold an additional $100,000 aggregate principal amount of the Company's 6.75% Notes to certain purchasers in a private placement. The 6.75% Notes bear interest at a rate equal to 6.75% per year, payable semiannually in arrears on May 15 and November 15 of each year, beginning on November 15, 2015. The 6.75% Notes are the Company's general unsecured obligations and rank equally in right of payment with its other existing and future senior unsecured indebtedness and senior in right of payment to any of its indebtedness that is contractually subordinated to the 6.75% Notes. The 6.75% Notes are also effectively subordinated to any of the Company's existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness and are structurally subordinated to the existing and future indebtedness of the Company's subsidiaries (including trade payables). The 6.75% Notes mature on May 15, 2024, unless earlier redeemed or purchased by the Company. The net proceeds the Company received from the issuance were approximately $98,850, after deducting the estimated issuance expenses payable by the Company. The Company intends to use the net proceeds from the issuance for general corporate purposes, including strategic acquisitions and to support its current and future policy writings.

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

On October 1, 2015, the Company closed on a master transaction agreement with QBE Investments (North America), Inc. ("QBE Parent") and its subsidiary, QBE Holdings, Inc. (together with QBE Parent, "QBE"), pursuant to which the Company acquired QBE's lender placed insurance business ("LPI Business"), including certain of QBE's affiliates engaged in the LPI Business. The transaction included the acquisition of certain assets, including loan-tracking systems and technology, client servicing accounts, intellectual property, and vendor relationships, as well as the assumption of the related insurance liabilities in a reinsurance transaction through which the Company received the loss reserves, unearned premium reserves, and invested assets. The aggregate consideration for the transaction was approximately $90,000, subject to certain adjustments.

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.

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. There can be no assurance that actual developments will be those anticipated by us. Actual results may differ materially from those expressed or implied in these statements as a result of significant risks and uncertainties, including, but not limited to, non-receipt of expected payments from insureds or reinsurers, changes in interest rates, a downgrade in the financial strength ratings of our insurance subsidiaries, the effect of the performance of financial markets on our investment portfolio, our ability to accurately underwrite and price our products and to maintain and establish accurate loss reserves, estimates of the fair value of our life settlement contracts, 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, developments relating to existing agreements, disruptions to our business relationships with AmTrust Financial Services, Inc., ACP Re Ltd., Maiden Holdings, Ltd., or third party agencies, breaches in data security or other disruptions with our technology, heightened competition, changes in pricing environments, and changes in asset valuations. Additional information about these risks and uncertainties, as well as others that may cause actual results to differ materially from those projected, is contained in our filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2014, 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 specialty personal lines insurance holding company. Through our subsidiaries, we provide a variety of insurance products, including personal and commercial automobile, homeowners and umbrella, supplemental health, and other niche insurance products. We sell insurance products with a focus on underwriting profitability through a combination of our customized and predictive analytics and our technology driven low cost infrastructure.

We manage our business through two segments: Property and Casualty ("P&C") and Accident and Health ("A&H"). We transact business primarily through our fifteen regulated domestic insurance subsidiaries: Integon Casualty Insurance Company, Integon General Insurance Corporation, Integon Indemnity Corporation, Integon National Insurance Company (“Integon National”), Integon Preferred Insurance Company, New South Insurance Company, MIC General Insurance Corporation, National General Insurance Company, National General Assurance Company, National General Insurance Online, Inc., National Health Insurance Company, Personal Express Insurance Company, Imperial Fire and Casualty Insurance Company, National Automotive Insurance Company and Agent Alliance Insurance Company. Our insurance subsidiaries have been assigned an "A-" (Excellent) group rating by A.M. Best.

We currently conduct a limited amount of business outside the United States, primarily in Bermuda, Luxembourg and Sweden.

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

We evaluate our operations by monitoring key measures of growth and profitability, including net loss ratio, net combined ratio (non-GAAP) and operating leverage. We target a net combined ratio (non-GAAP) between 90% and 95% while seeking to maintain optimal operating leverage in our insurance subsidiaries commensurate with our A.M. Best rating objectives. To achieve our targeted net combined ratio (non-GAAP) we continually seek ways to reduce our operating costs and lower our expense ratio. For the nine months ended September 30, 2015, our annualized operating leverage (the ratio of net earned premium to average total stockholders' equity) was 1.5x, which was within our planned target operating leverage of between 1.5x and 2.0x.

Investment income is also an important part of our business. Because we often do not settle claims until several months or longer after we receive the original policy premiums, we are able to invest cash from premiums for significant periods of time. We invest our capital and surplus in accordance with state and regulatory guidelines. Our net investment income was $53.0 million and $34.2 million for the nine months ended September 30, 2015 and 2014, respectively. We held 10.9% and 6.6% of total invested assets in cash and cash equivalents as of September 30, 2015 and December 31, 2014, respectively.

Our most significant balance sheet liability is our unpaid loss and loss adjustment expense ("LAE") reserves. As of September 30, 2015 and December 31, 2014, our reserves, net of reinsurance recoverables, were $672.0 million and $650.4 million, respectively. We record reserves for estimated losses under insurance policies that we write and for LAE related to the investigation and settlement of policy claims. Our reserves for loss and LAE represent the estimated cost of all reported and unreported loss and LAE incurred and unpaid at any time based on known facts and circumstances. Our reserves, excluding life reserves, for loss and LAE incurred and unpaid are not discounted using present value factors. Our loss reserves are reviewed quarterly by internal actuaries and at least annually by our external actuaries. Reserves are based on estimates of the most likely ultimate cost of individual claims. These estimates are inherently uncertain. Judgment is required to determine the relevance of our historical experience and industry information under current facts and circumstances. The interpretation of this historical and industry data can be impacted by external forces, principally frequency and severity of future claims, the length of time needed to achieve ultimate settlement of claims, inflation of medical costs, insurance policy coverage interpretations, jury determinations and legislative changes. Accordingly, our reserves may prove to be inadequate to cover our actual losses. If we change our estimates, these changes would be reflected in our results of operations during the period in which they are made, with increases in our reserves resulting in decreases in our earnings.

Recent Acquisitions

On October 1, 2015, we closed our acquisition of certain business lines and assets from Assurant Health, which is a business segment of Assurant, Inc. Included in the transaction are the small group self-funded and supplemental product lines, as well as the acquisition of North Star Marketing, a proprietary small group sales channel. The purchase price was an aggregate cash payment of $14.0 million.

On October 1, 2015, we closed on a master transaction agreement with QBE Investments (North America), Inc. ("QBE Parent") and its subsidiary, QBE Holdings, Inc. (together with QBE Parent, "QBE"), pursuant to which we acquired QBE's lender placed insurance business ("LPI Business"), including certain of QBE's affiliates engaged in the LPI Business. The transaction included the acquisition of certain assets, including loan-tracking systems and technology, client servicing accounts, intellectual property, and vendor relationships, as well as the assumption of the related insurance liabilities in a reinsurance transaction through which we received the loss reserves, unearned premium reserves, and invested assets. The aggregate consideration for the transaction was approximately $90.0 million, subject to certain adjustments.

On April 1, 2015, we closed our acquisition of Assigned Risk Solutions Ltd., a New Jersey based managing general agency that services assigned risk, personal auto, and commercial lines of business, for a purchase price of approximately $48.0 million in cash and potential future earnout payments.

On January 23, 2015, we closed our acquisition of Healthcare Solutions Team, LLC (“HST”), an Illinois based healthcare insurance general agency. We paid approximately $15.0 million on the acquisition date and agreed to pay potential future earn out payments based on the overall profitability of HST and the business underwritten by our insurance subsidiaries which is produced by HST.

Principal Revenue and Expense Items

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

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

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

Net earned premium. Net earned premium is the earned portion of our net premium written. We generally earn insurance premium on a pro rata basis over the term of the policy. At the end of each reporting period, premium written that is not earned is classified as unearned premium, which is earned in subsequent periods over the remaining term of the policy. Our policies typically have a term of six months or one year. For a six-month policy written on January 1, 2015, we would earn half of the premium in the first quarter of 2015 and the other half in the second quarter of 2015.

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

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

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

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

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 loss. We classify equity securities and our fixed-maturity securities as available-for-sale. We report net unrealized gains (losses) on those securities classified as available-for-sale separately within other comprehensive income.

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

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

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

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

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

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

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

Equity in earnings (losses) from unconsolidated subsidiaries. This represents primarily our share in earnings or losses of our investment in four companies that own life settlement contracts, which includes the gain realized upon a mortality event and the change in fair value of the investments in life settlements as evaluated at the end of each reporting period. These unconsolidated subsidiaries determine the fair value of life settlement contracts based upon an estimate of the discounted cash flow of the anticipated death benefits incorporating a number of factors, such as current life expectancy assumptions, expected premium payment obligations and increased cost assumptions, 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. The gain realized upon a mortality event is the difference between the death benefit received and the recorded fair value of that particular policy.

Insurance Ratios

Net loss ratio. The net loss ratio is a measure of the underwriting profitability of an insurance company's business. Expressed as a percentage, this is the ratio of loss and LAE incurred to net earned premium.

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

Net combined ratio (non-GAAP). The net combined ratio (non-GAAP) is a measure of an insurance company's overall underwriting profit. This is the sum of the net loss and net operating expense ratio (non-GAAP). If the net combined ratio (non-

GAAP) is at or above 100 percent, an insurance company cannot be profitable without investment income, and may not be profitable if investment income is insufficient.

Net operating expense ratio and net combined ratio are considered non-GAAP financial measures under applicable SEC rules because a component of those ratios, net operating expense, is calculated by offsetting acquisition costs and other underwriting expenses and general and administrative expenses by ceding commission income and service and fee income, and is therefore a non-GAAP measure. Management uses net operating expense ratio (non-GAAP) and net combined ratio (non-GAAP) to evaluate financial performance against historical results and establish targets on a consolidated basis. Other companies may calculate these measures differently, and, therefore, their measures may not be comparable to those used by the Company's management. For a reconciliation showing the total amounts by which acquisition costs and other underwriting expenses and general and administrative expenses were offset by ceding commission income and service and fee income in the calculation of net operating expense, see "Results of Operations - Consolidated Results of Operations for the Three and Nine Months Ended September 30, 2015 and 2014 (Unaudited)" below.

Personal Lines Quota Share

Effective March 1, 2010, Integon National entered into a 50% quota share reinsurance treaty (the "Personal Lines Quota Share"), pursuant to which Integon National ceded 50% of the gross premium written of its P&C business (excluding premium ceded to state-run reinsurance facilities) to a group of affiliated reinsurers consisting of a subsidiary of AmTrust Financial Services, Inc. ("AmTrust"), ACP Re Ltd. ("ACP Re") and Maiden Insurance. Quota share reinsurance refers to reinsurance under which the insurer (the "ceding company," which under the Personal Lines Quota Share is Integon National) transfers, or cedes, a fixed percentage of liabilities, premium and related losses for each policy covered on a pro rata basis in accordance with the terms and conditions of the relevant agreement. The reinsurer pays the ceding company a ceding commission on the premiums ceded to compensate the ceding company for various expenses, such as underwriting and policy acquisition expenses, that the ceding company incurs in connection with the ceded business.

The Personal Lines Quota Share provided that the reinsurers, severally, in accordance with their participation percentages, received 50% of our P&C gross premium written (excluding premium ceded to state-run reinsurance facilities) and assumed 50% of the related losses and allocated LAE. The participation percentages were: Maiden Insurance, 25%; ACP Re, 15%; and AmTrust, 10%.

Effective August 1, 2013, as permitted by the Personal Lines Quota Share, we terminated our cession of P&C premium to our quota share reinsurers and now retain 100% of such P&C gross premium written and related losses with respect to all new and renewal P&C policies bound after August 1, 2013. We continued to cede 50% of P&C gross premium written and related losses with respect to policies in effect as of July 31, 2013 to the quota share reinsurers until the expiration of such policies, which was completed as of July 31, 2014.

Critical Accounting Policies

Our discussion and analysis of our results of operations, financial condition and liquidity are based upon our condensed 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 year ended December 31, 2014.

Results of Operations

Consolidated Results of Operations for the Three Months Ended September 30, 2015 and 2014 (Unaudited)

	Three Months Ended September 30,							
	2015				2014			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(Amounts in Thousands)							
Gross premium written	$546,821	$79,864	$—	$626,685	$487,602	$9,993	$—	$497,595
Ceded premiums	(64,832)	(36,214)	—	(101,046)	(63,237)	(2,788)	—	(66,025)
Net premium written	$481,989	$43,650	$—	$525,639	$424,365	$7,205	$—	$431,570
Change in unearned premium	(13,024)	(9,354)	—	(22,378)	7,349	(513)	—	6,836
Net earned premium	$468,965	$34,296	$—	$503,261	$431,714	$6,692	$—	$438,406
Ceding commission income	(2,348)	14,498	—	12,150	668	37	—	705
Service and fee income	70,853	1,248	(11,194)	60,907	45,872	22	—	45,894
Underwriting expenses:								
Loss and loss adjustment expense	288,684	13,575	—	302,259	269,668	5,351	—	275,019
Acquisition costs and other underwriting expenses	98,686	10,095	(37)	108,744	83,642	273	—	83,915
General and administrative expenses	106,832	22,906	(11,157)	118,581	88,317	1,811	—	90,128
Total underwriting expenses	$494,202	$46,576	$(11,194)	$529,584	$441,627	$7,435	$—	$449,062
Underwriting income (loss)	$43,268	$3,466	$—	$46,734	$36,627	$(684)	$—	$35,943
Net investment income	16,140	2,332	—	18,472	13,697	—	—	13,697
Net realized gain (loss) on investments	(4,718)	124	—	(4,594)	(1,118)	—	—	(1,118)
Other revenue	(157)	—	—	(157)	373	—	—	373
Equity in earnings (losses) of unconsolidated subsidiaries	2,288	—	—	2,288	(1,611)	—	—	(1,611)
Interest expense	(5,844)	(3,584)	—	(9,428)	(4,437)	(272)	—	(4,709)
Income (loss) before provision (benefit) for income taxes	$50,977	$2,338	$—	$53,315	$43,531	$(956)	$—	$42,575
Less: Provision (benefit) for income taxes	7,840	774	—	8,614	10,237	(211)	—	10,026
Net income (loss)	$43,137	$1,564	$—	$44,701	$33,294	$(745)	$—	$32,549

Less: Net loss (income) attributable to non-controlling interest	(24)	(1,564)	—	(1,588)	25	745	—	770
Net income attributable NGHC	$43,113	$—	$—	$43,113	$33,319	$—	$—	$33,319
Net loss ratio	61.6 %	39.6 %		60.1 %	62.5 %	80.0 %		62.7 %
Net operating expense ratio (non-GAAP)	29.2 %	50.3 %		30.7 %	29.1 %	30.3 %		29.1 %
Net combined ratio (non-GAAP)	90.8 %	89.9 %		90.8 %	91.6 %	110.3 %		91.8 %

Reconciliation of net operating expense ratio (non-GAAP):	Three Months Ended September 30,							
	2015				2014			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(Amounts in Thousands)							
Total expenses	$500,046	$50,160	$(11,194)	$539,012	$446,064	$7,707	$—	$453,771
Less: Loss and loss adjustment expense	288,684	13,575	—	302,259	269,668	5,351	—	275,019
Less: Interest expense	5,844	3,584	—	9,428	4,437	272	—	4,709
Less: Ceding commission income	(2,348)	14,498	—	12,150	668	37	—	705
Less: Service and fee income	70,853	1,248	(11,194)	60,907	45,872	22	—	45,894
Net operating expense	$137,013	$17,255	$—	$154,268	$125,419	$2,025	$—	$127,444
Net earned premium	$468,965	$34,296	$—	$503,261	$431,714	$6,692	$—	$438,406
Net operating expense ratio (non-GAAP)	29.2 %	50.3 %		30.7 %	29.1 %	30.3 %		29.1 %

Consolidated Results of Operations for the Nine Months Ended September 30, 2015 and 2014 (Unaudited)

	Nine Months Ended September 30,							
	2015				2014			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(Amounts in Thousands)							
Gross premium written	$1,631,581	$217,830	$(3,590)	$1,845,821	$1,602,217	$9,993	$—	$1,612,210
Ceded premiums	(189,560)	(124,777)	3,590	(310,747)	(191,811)	(2,788)	—	(194,599)
Net premium written	$1,442,021	$93,053	$—	$1,535,074	$1,410,406	$7,205	$—	$1,417,611
Change in unearned premium	(89,219)	5,387	—	(83,832)	(229,374)	(513)	—	(229,887)
Net earned premium	$1,352,802	$98,440	$—	$1,451,242	$1,181,032	$6,692	$—	$1,187,724
Ceding commission income	(1,249)	28,449	—	27,200	7,595	37	—	7,632
Service and fee income	200,849	2,990	(30,504)	173,335	121,064	22	—	121,086
Underwriting expenses:								
Loss and loss adjustment expense	838,950	56,824	—	895,774	750,619	5,351	—	755,970
Acquisition costs and other underwriting expenses	274,227	20,967	(63)	295,131	232,433	273	—	232,706
General and administrative expenses	325,036	48,831	(30,441)	343,426	241,575	1,811	—	243,386
Total underwriting expenses	$1,438,213	$126,622	$(30,504)	$1,534,331	$1,224,627	$7,435	$—	$1,232,062
Underwriting income (loss)	$114,189	$3,257	$—	$117,446	$85,064	$(684)	$—	$84,380
Net investment income	46,403	6,552	—	52,955	34,232	—	—	34,232
Net realized gain (loss) on investments	(3,289)	271	—	(3,018)	(1,118)	—	—	(1,118)
Other revenue	(327)	—	—	(327)	480	—	—	480
Equity in earnings (losses) of unconsolidated subsidiaries	8,900	—	—	8,900	(3,098)	—	—	(3,098)
Interest expense	(16,031)	(11,078)	—	(27,109)	(7,549)	(272)	—	(7,821)
	$149,845	$(998)	$—	$148,847	$108,011	$(956)	$—	$107,055

Income (loss) before provision (benefit) for income taxes								
Less: Provision (benefit) for income taxes	25,369	(477)	—	24,892	17,997	(211)	—	17,786
Net income (loss)	$124,476	$(521)	$—	$123,955	$90,014	$(745)	$—	$89,269
Less: Net loss (income) attributable to non-controlling interest	(68)	521	—	453	31	745	—	776
Net income attributable NGHC	$124,408	$—	$—	$124,408	$90,045	$—	$—	$90,045
Net loss ratio	62.0 %	57.7 %		61.7 %	63.6 %	80.0 %		63.6 %
Net operating expense ratio (non-GAAP)	29.5 %	39.0 %		30.2 %	29.2 %	30.3 %		29.2 %
Net combined ratio (non-GAAP)	91.5 %	96.7 %		91.9 %	92.8 %	110.3 %		92.8 %

Reconciliation of net operating expense ratio (non-GAAP):	Nine Months Ended September 30, 2015				2014			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(Amounts in Thousands)							
Total expenses	$1,454,244	$137,700	$(30,504)	$1,561,440	$1,232,176	$7,707	$—	$1,239,883
Less: Loss and loss adjustment expense	838,950	56,824	—	895,774	750,619	5,351	—	755,970
Less: Interest expense	16,031	11,078	—	27,109	7,549	272	—	7,821
Less: Ceding commission income	(1,249)	28,449	—	27,200	7,595	37	—	7,632
Less: Service and fee income	200,849	2,990	(30,504)	173,335	121,064	22	—	121,086
Net operating expense	$399,663	$38,359	$—	$438,022	$345,349	$2,025	$—	$347,374
Net earned premium	$1,352,802	$98,440	$—	$1,451,242	$1,181,032	$6,692	$—	$1,187,724
Net operating expense ratio (non-GAAP)	29.5 %	39.0 %		30.2 %	29.2 %	30.3 %		29.2 %

During 2013, we terminated the Personal Lines Quota Share on a run-off basis (the "Quota Share Runoff") pursuant to which we historically ceded 50% of our P&C gross premium written and related losses (excluding premium ceded to state-run reinsurance facilities) to our quota share reinsurers. Effective July 31, 2014, no additional premium is being ceded under the Personal Lines Quota Share.

Effective January 1, 2014, we entered into the Tower Cut-Through Reinsurance Agreement and effective September 15, 2014, we entered into the PL Reinsurance Agreement (such reinsurance agreements collectively, the "Tower Reinsurance Agreements") under which during the nine months ended September 30, 2014, we assumed unearned premium relating to in-force personal lines business and reinsured new and renewal personal lines policies written after January 1, 2014. In addition, as of September 15, 2014, in connection with the acquisition of the Management Companies for the Reciprocal Exchanges, the financial position and results of operations of the Reciprocal Exchanges are consolidated into our accounts.

On June 27, 2014, we purchased certain assets of Imperial Management Corporation ("Imperial"), including its underwriting subsidiaries Imperial Fire & Casualty Insurance Company and National Automotive Insurance Company, its retail agency subsidiary ABC Insurance Agencies, and its managing general agency subsidiary RAC Insurance Partners.

As a result of the Quota Share Runoff, the Tower Reinsurance Agreements, the Imperial acquisition, and the consolidation of the Reciprocal Exchanges, comparisons between our 2015 and 2014 results will be less meaningful.

Consolidated Results of Operations for the Three Months Ended September 30, 2015 Compared with the Three Months Ended September 30, 2014 (Unaudited)

Gross premium written. Gross premium written increased by $129.1 million from $497.6 million for the three months ended September 30, 2014 to $626.7 million for the three months ended September 30, 2015, due to an increase of $103.2 million in premiums received from the P&C segment primarily as a result of the consolidation of the Reciprocal Exchanges (increase of $69.9 million) and organic growth (increase of $33.3 million). Premiums received from the A&H segment increased $25.9 million primarily due to organic growth.

Net premium written. Net premium written increased by $94.1 million from $431.6 million for the three months ended September 30, 2014 to $525.6 million for the three months ended September 30, 2015. Net premium written for the P&C segment increased by $77.9 million for the three months ended September 30, 2015 compared to the same period in 2014 primarily as a result of an increase in Imperial premium (increase of $9.6 million), the consolidation of the Reciprocal Exchanges (increase of $36.4 million) and organic growth (increase of $31.2 million). Net premium written for the A&H segment increased by $16.2 million primarily due to organic growth.

Net earned premium. Net earned premium increased by $64.9 million, or 14.8%, from $438.4 million for the three months ended September 30, 2014 to $503.3 million for the three months ended September 30, 2015. The increase by segment was: P&C - $49.2 million and A&H - $15.6 million. The increase in the P&C segment was primarily attributable to an increase in Imperial premium (increase of $7.3 million), the consolidation of the Reciprocal Exchanges (increase of $27.6 million) and organic growth (increase of $13.7 million). The increase in the A&H segment was primarily due to organic growth.

Ceding commission income. Ceding commission income increased from $0.7 million for the three months ended September 30, 2014 to $12.2 million for the three months ended September 30, 2015, reflecting the consolidation of the Reciprocal Exchanges, partially offset by a decrease from the Quota Share Runoff (including a sliding scale adjustment to our terminated third party quota share in the third quarter of 2015). Our consolidated ceding commission ratio, which includes the Reciprocal Exchanges, increased from 0.2% to 2.4%. Excluding the Reciprocal Exchanges, the ceding commission ratio was (0.5)% and 0.2% for the three months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' ceding commission ratio was 42.3% and 0.6% for the three months ended September 30, 2015 and 2014, respectively.

Service and fee income. Service and fee income increased by $15.0 million, or 32.7%, from $45.9 million for the three months ended September 30, 2014 to $60.9 million for three months ended September 30, 2015. The increase was primarily attributable to the increase of $5.1 million in service and fee income related to our A&H segment as a result of organic growth and an increase of $9.9 million related to our P&C segment as a result of organic growth.

The components of service and fee income are as follows:

	Three Months Ended September 30,		
(amounts in thousands)	2015	2014	Change
Installment fees	$8,257	$7,816	$441
Commission revenue	16,843	16,593	250
General agent fees	20,559	10,837	9,722
Late payment fees	3,063	3,148	(85)
Group health administrative fees	4,524	1,133	3,391
Finance and processing fees	6,529	5,163	1,366
Other	1,132	1,204	(72)
Total	$60,907	$45,894	$15,013

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $27.2 million, or 9.9%, from $275.0 million for the three months ended September 30, 2014 to $302.3 million for the three months ended September 30, 2015, primarily reflecting the Imperial acquisition, the consolidation of the Reciprocal Exchanges and loss experience in our domestic stop loss programs. The changes by segment were: P&C - increased $12.0 million and A&H - increased $15.3 million. Loss and LAE for the three months ended September 30, 2015 included $4.7 million of favorable development on prior accident year loss and LAE reserves primarily attributable to positive development on claims in the P&C segment for private passenger automobile liability. Loss and LAE for the three months ended September 30, 2014 included $6.1 million of unfavorable development on prior accident year loss and LAE reserves caused by $1.3 million of loss emergence in the P&C segment attributable to claims for private passenger automobile liability and personal injury protection and $4.8 million of loss emergence in the A&H segment, of which $0.5 million related to domestic medical stop loss programs and $4.3 million related to European A&H policies. Our consolidated net loss ratio, which includes the Reciprocal Exchanges, decreased from 62.7% for the three months ended September 30, 2014 to 60.1% for the three months ended September 30, 2015 with a lower P&C segment net loss ratio driven by product mix changes, partially offset by a higher A&H segment net loss ratio resulting from higher loss experience in our domestic stop loss programs. Excluding the Reciprocal Exchanges, the net loss ratio was 61.6% and 62.5% for the three months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' net loss ratio was 39.6% and 80.0% for the three months ended September 30, 2015 and 2014, respectively, including $2.3 million of favorable development on prior accident year loss and LAE reserves for the three months ended September 30, 2015.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $24.8 million, or 29.6%, from $83.9 million for the three months ended September 30, 2014 to $108.7 million for the three months ended September 30, 2015 primarily due to an increase in Tower premium retention, the consolidation of the Reciprocal Exchanges and as a result of organic growth.

General and administrative expenses. General and administrative expenses increased by $28.5 million, or 31.6%, from $90.1 million for the three months ended September 30, 2014 to $118.6 million for the three months ended September 30, 2015 primarily as a result of an increase in Tower premium retention, the consolidation of the Reciprocal Exchanges and as a result of organic growth.

Net operating expense; net operating expense ratio (non-GAAP). Net operating expense increased by $26.8 million, or 21.0% from $127.4 million for the three months ended September 30, 2014 to $154.3 million for the three months ended September 30, 2015. The consolidated net operating expense ratio (non-GAAP), which includes the Reciprocal Exchanges, increased to 30.7% in the three months ended September 30, 2015 from 29.1% in the three months ended September 30, 2014 primarily as a result of increased general and administrative expenses, and increased acquisition costs and other underwriting expenses, partially offset by increased service and fee income and maturation of the A&H business. Excluding the Reciprocal Exchanges, the net operating expense ratio was 29.2% and 29.1% for the three months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' net operating expense ratio was 50.3% and 30.3% for the three months ended September 30, 2015 and 2014, respectively.

Net investment income. Net investment income increased by $4.8 million, or 34.9%, from $13.7 million for the three months ended September 30, 2014 to $18.5 million for the three months ended September 30, 2015 primarily due to an increase in average invested assets as a result of our (i) issuance of Series B preferred stock in the first half of 2015 and (ii) debt and common stock issuances in the third quarter of 2015.

Net realized gain (loss) on investments. Net realized losses on investments increased by $3.5 million from a loss of $1.1 million for the three months ended September 30, 2014 to a $4.6 million loss for the three months ended September 30, 2015 primarily due to the recognition of a $6.0 million OTTI charge in the three months ended September 30, 2015 relating to certain investments in the energy and natural resources sectors based on our qualitative and quantitative OTTI review, partially offset by net realized gains on the sale of investments of $1.4 million for the three months ended September 30, 2015 compared to net realized losses on the sale of investments of $1.1 million for the three months ended September 30, 2014.

Equity in earnings (losses) of unconsolidated subsidiaries. Equity in earnings of unconsolidated subsidiaries, which primarily relates to our 50% interest in life settlement entities, increased $3.9 million, from $1.6 million in losses for the three months ended September 30, 2014 to $2.3 million in earnings for the three months ended September 30, 2015, due to the change in fair market value of the life settlement contracts.

Interest expense. Interest expense for the three months ended September 30, 2015 and 2014 was $9.4 million and $4.7 million, respectively, increasing primarily due to our August 2015 issuance of $100.0 million aggregate principal amount of 7.625% Notes and the consolidation of the Reciprocal Exchanges.

Provision for income taxes. Consolidated income tax expense, which includes the Reciprocal Exchanges, decreased by $1.4 million, from $10.0 million for the three months ended September 30, 2014, reflecting an effective tax rate of 22.7%, to $8.6 million for the three months ended September 30, 2015, reflecting an effective tax rate of 16.9%. The reduction in the Company’s effective tax rate was primarily driven by an increase in excludable foreign income. Income tax expense included a tax detriment of $3.6 million for the three months ended September 30, 2015 and a tax benefit of $3.9 million for the three months ended September 30, 2014 attributable to the movement of the deferred tax liability associated with the equalization reserves of our Luxembourg reinsurers. The effect of this increased the effective tax rate for the three months ended September 30, 2015 by 7.1% and decreased it by 8.9% for the three months ended September 30, 2014.

NGHC, excluding the Reciprocal Exchanges, had income tax expense of $7.8 million and $10.2 million for the three months ended September 30, 2015 and 2014, respectively, reflecting effective tax rates of 16.1% and 22.7%, respectively.

The Reciprocal Exchanges had pre-tax income of $2.3 million and a pre-tax loss of $1.0 million for the three months ended September 30, 2015 and 2014, respectively. A full valuation allowance is recorded on the Reciprocal Exchanges. The Reciprocal Exchanges' valuation allowance as of September 30, 2015 was $21.5 million.

Consolidated Results of Operations for the Nine Months Ended September 30, 2015 Compared with the Nine Months Ended September 30, 2014 (Unaudited)

Gross premium written. Gross premium written increased by $233.6 million from $1,612.2 million for the nine months ended September 30, 2014 to $1,845.8 million for the nine months ended September 30, 2015 due to an increase of $198.1 million in premiums received from the P&C segment primarily as a result of an increase in Imperial premium (increase of $45.7 million), the consolidation of the Reciprocal Exchanges (increase of $204.2 million) and organic growth (increase of $56.0 million), partially offset by a decrease in our Tower business (decrease of $109.8 million) which included a large one-time unearned premium reserve assumption of $158.8 million in 2014. Premiums received from the A&H segment increased $35.5 million primarily as a result of organic growth (increase of $45.1 million), partially offset by a decrease in our EHC business (decrease of $12.1 million) which included a large one-time unearned premium reserve assumption of $15.2 million in 2014.

Net premium written. Net premium written increased by $117.5 million from $1,417.6 million for the nine months ended September 30, 2014 to $1,535.1 million for the nine months ended September 30, 2015. Net premium written for the P&C segment increased by $108.3 million for the nine months ended September 30, 2015 compared to the same period in 2014 primarily as a result of an increase in Imperial premium (increase of $50.4 million), the Quota Share Runoff (increase of $42.9 million), the consolidation of the Reciprocal Exchanges (increase of $85.8 million) and organic growth (increase of $51.6 million), partially offset by a decrease in our Tower business (decrease of $122.4 million) which included a large one-time unearned premium reserve assumption of $158.8 million in 2014. Net premium written for the A&H segment increased by $9.2 million, primarily as a result of organic growth (increase of $18.7 million), partially offset by a decrease in our EHC business (decrease of $12.1 million) which included a large one-time unearned premium reserve assumption of $15.2 million in 2014.

Net earned premium. Net earned premium increased by $263.5 million, or 22.2%, from $1,187.7 million for the nine months ended September 30, 2014 to $1,451.2 million for the nine months ended September 30, 2015. The increase by segment was: P&C - $240.9 million and A&H - $22.6 million. The increase in the P&C segment was primarily attributable to an increase in Tower premium retention (increase of $15.4 million), the Quota Share Runoff (increase of $42.9 million), Imperial premium (increase of $49.8 million), the consolidation of the Reciprocal Exchanges (increase of $91.7 million) and organic growth (increase of $41.1 million). The increase in the A&H segment was primarily due to organic growth.

Ceding commission income. Ceding commission income increased from $7.6 million for the nine months ended September 30, 2014 to $27.2 million for the nine months ended September 30, 2015, reflecting the consolidation of the Reciprocal Exchanges, partially offset by a decrease from the Quota Share Runoff (including a sliding scale adjustment to our terminated third party quota share in the third quarter of 2015). Our consolidated ceding commission ratio, which includes the Reciprocal Exchanges, increased from 0.6% to 1.9%. Excluding the Reciprocal Exchanges, the ceding commission ratio was (0.1)% and 0.6% for the nine months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' ceding commission ratio was 28.9% and 0.6% for the nine months ended September 30, 2015 and 2014, respectively.

Service and fee income. Service and fee income increased by $52.2 million, or 43.2%, from $121.1 million for the nine months ended September 30, 2014 to $173.3 million for the nine months ended September 30, 2015. The increase was primarily attributable to the increase of $10.1 million in service and fee income related to our A&H segment as a result of organic growth and an increase of $42.1 million related to our P&C segment primarily as a result of organic growth.

The components of service and fee income are as follows:

	Nine Months Ended September 30,		
(amounts in thousands)	2015	2014	Change
Installment fees	$24,689	$22,021	$2,668
Commission revenue	46,120	46,331	(211)
General agent fees	55,991	26,004	29,987
Late payment fees	8,996	8,633	363
Group health administrative fees	10,461	2,772	7,689
Finance and processing fees	23,340	11,672	11,668
Other	3,738	3,653	85
Total	$173,335	$121,086	$52,249

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $139.8 million, or 18.5%, from $756.0 million for the nine months ended September 30, 2014 to $895.8 million for the nine months ended September 30, 2015, primarily reflecting the Quota Share Runoff, the Imperial acquisition, the consolidation of the Reciprocal Exchanges and loss experience in our domestic stop loss programs. The changes by segment were: P&C - increased $118.8 million and A&H - increased $21.0 million. Loss and LAE for the nine months ended September 30, 2015 included $2.6 million of favorable development on prior accident year loss and LAE reserves consisting of $4.7 million of positive development on claims in the P&C segment for private passenger automobile liability partially offset by $2.1 million of loss emergence in the A&H segment, of which $1.4 million related to domestic medical stop loss programs and $0.7 million related to European A&H policies. Loss and LAE for the nine months ended September 30, 2014 included $21.0 million of unfavorable development on prior accident year loss and LAE reserves caused by $5.8 million of loss emergence in the P&C segment attributable to claims for private passenger automobile liability and personal injury protection and $15.5 million of loss emergence in the A&H segment, of which $6.7 million related to domestic medical stop loss programs and $8.8 million related to European A&H policies. Our consolidated net loss ratio, which includes the Reciprocal Exchanges, decreased from 63.6% for the nine months ended September 30, 2014 to 61.7% for the nine months ended September 30, 2015 with a lower P&C segment net loss ratio driven by product mix changes, partially offset by a higher A&H segment net loss ratio resulting from higher loss experience in our domestic stop loss programs. Excluding the Reciprocal Exchanges, the net loss ratio was 62.0% and 63.6% for the nine months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' net loss ratio was 57.7% and 80.0% for the nine months ended September 30, 2015 and 2014, respectively, including

$2.3 million of favorable development on prior accident year loss and LAE reserves for the nine months ended September 30, 2015.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $62.4 million, or 26.8% from $232.7 million for the nine months ended September 30, 2014 to $295.1 million for the nine months ended September 30, 2015 primarily due to an increase in Tower premium retention, the Quota Share Runoff, the consolidation of the Reciprocal Exchanges and as a result of organic growth, partially offset by the consolidation of our EHC business as all new and renewal policies placed by EHC after April 1, 2014 are underwritten by our European insurance subsidiaries.

General and administrative expenses. General and administrative expenses increased by $100.0 million, or 41.1%, from $243.4 million for the nine months ended September 30, 2014 to $343.4 million for the nine months ended September 30, 2015 primarily as a result of an increase in Tower premium retention, the consolidation of the Reciprocal Exchanges and higher organic growth.

Net operating expense; net operating expense ratio (non-GAAP). Net operating expense increased by $90.6 million, or 26.1% from $347.4 million for the nine months ended September 30, 2014 to $438.0 million for the nine months ended September 30, 2015. The consolidated net operating expense ratio (non-GAAP), which includes the Reciprocal Exchanges, increased to 30.2% in the nine months ended September 30, 2015 from 29.2% in the nine months ended September 30, 2014 primarily as a result of increased general and administrative expenses, and increased acquisition costs and other underwriting expenses, partially offset by increased service and fee income and maturation of the A&H business. Excluding the Reciprocal Exchanges, the net operating expense ratio was 29.5% and 29.2% for the nine months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' net operating expense ratio was 39.0% and 30.3% for the nine months ended September 30, 2015 and 2014, respectively.

Net investment income. Net investment income increased by $18.7 million, or 54.7%, from $34.2 million for the nine months ended September 30, 2014 to $53.0 million for the nine months ended September 30, 2015 primarily due to an increase in average invested assets as a result of our (i) capital raising activities in the first half of 2014; (ii) issuance of Series B preferred stock in the first half of 2015; and (iii) debt and common stock issuances in the third quarter of 2015.

Net realized gain (loss) on investments. Net realized losses on investments increased by $1.9 million from a loss of $1.1 million for the nine months ended September 30, 2014 to a $3.0 million loss for the nine months ended September 30, 2015 primarily due to the recognition of a $8.5 million OTTI charge in the nine months ended September 30, 2015 relating to certain investments in the energy and natural resources sectors based on our qualitative and quantitative OTTI review, partially offset by net realized gains on the sale of investments of $5.5 million for the nine months ended September 30, 2015 compared to net realized losses on the sale of investments of $1.1 million for the nine months ended September 30, 2014.

Equity in earnings (losses) of unconsolidated subsidiaries. Equity in earnings of unconsolidated subsidiaries, which primarily relates to our 50% interest in life settlement entities, increased $12.0 million, from $3.1 million in losses for the nine months ended September 30, 2014 to $8.9 million in earnings for the nine months ended September 30, 2015, due to the change in fair market value of the life settlement contracts.

Interest expense. Interest expense for the nine months ended September 30, 2015 and 2014 was $27.1 million and $7.8 million, respectively, increasing primarily due to our (i) May 2014 issuance of $250.0 million aggregate principal amount of 6.75% Notes; (ii) August 2015 issuance of $100.0 million aggregate principal amount of 7.625% Notes; and (iii) the consolidation of the Reciprocal Exchanges.

Provision for income taxes. Consolidated income tax expense, which includes the Reciprocal Exchanges, increased by $7.1 million, or 40.0%, from $17.8 million for the nine months ended September 30, 2014, reflecting an effective tax rate of 16.1%, to $24.9 million for the nine months ended September 30, 2015, reflecting an effective tax rate of 17.8%. Income tax expense included a tax benefit of $8.9 million and $16.7 million for the nine months ended September 30, 2015 and 2014, respectively, attributable to the reduction of the deferred tax liability associated with the equalization reserves of our Luxembourg reinsurers. The effect of this tax benefit reduced the effective tax rate for the nine months ended September 30, 2015 and 2014 by 6.4% and 15.1%, respectively.

NGHC, excluding the Reciprocal Exchanges, had income tax expense of $25.4 million and $18.0 million for the nine months ended September 30, 2015 and 2014, respectively, reflecting effective tax rates of 18.0% and 16.2%, respectively.

The Reciprocal Exchanges had pre-tax losses of $1.0 million and $1.0 million for the nine months ended September 30, 2015 and 2014, respectively. A full valuation allowance is recorded on the Reciprocal Exchanges. The Reciprocal Exchanges' valuation allowance as of September 30, 2015 was $21.5 million.

P&C Segment - Results of Operations for the Three Months Ended September 30, 2015 and 2014 (Unaudited)

	Three Months Ended September 30,							
	2015				2014			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(Amounts in Thousands)							
Gross premium written	$503,227	$79,864	$—	$583,091	$469,873	$9,993	$—	$479,866
Ceded premiums	(55,087)	(36,214)	—	(91,301)	(63,174)	(2,788)	—	(65,962)
Net premium written	$448,140	$43,650	$—	$491,790	$406,699	$7,205	$—	$413,904
Change in unearned premium	(24,282)	(9,354)	—	(33,636)	(4,453)	(513)	—	(4,966)
Net earned premium	$423,858	$34,296	$—	$458,154	$402,246	$6,692	$—	$408,938
Ceding commission income	(2,615)	14,498	—	11,883	668	37	—	705
Service and fee income	51,193	1,248	(11,194)	41,247	31,356	22	—	31,378
Underwriting expenses:								
Loss and loss adjustment expense	255,165	13,575	—	268,740	251,418	5,351	—	256,769
Acquisition costs and other underwriting expenses	81,321	10,095	(37)	91,379	68,146	273	—	68,419
General and administrative expenses	92,771	22,906	(11,157)	104,520	77,267	1,811	—	79,078
Total underwriting expenses	$429,257	$46,576	$(11,194)	$464,639	$396,831	$7,435	$—	$404,266
Underwriting income (loss)	$43,179	$3,466	$—	$46,645	$37,439	$(684)	$—	$36,755
Net loss ratio	60.2 %	39.6 %		58.7 %	62.5 %	80.0 %		62.8 %
Net operating expense ratio (non-GAAP)	29.6 %	50.3 %		31.2 %	28.2 %	30.3 %		28.2 %
Net combined ratio (non-GAAP)	89.8 %	89.9 %		89.9 %	90.7 %	110.3 %		91.0 %

Reconciliation of net operating expense ratio (non-GAAP):	Three Months Ended September 30,							
	2015				2014			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(Amounts in Thousands)							
Total underwriting expenses	$429,257	$46,576	$(11,194)	$464,639	$396,831	$7,435	$—	$404,266

Less: Loss and loss adjustment expense	255,165	13,575	—	268,740	251,418	5,351	—	256,769
Less: Ceding commission income	(2,615)	14,498	—	11,883	668	37	—	705
Less: Service and fee income	51,193	1,248	(11,194)	41,247	31,356	22	—	31,378
Net operating expense	$125,514	$17,255	$—	$142,769	$113,389	$2,025	$—	$115,414
Net earned premium	$423,858	$34,296	$—	$458,154	$402,246	$6,692	$—	$408,938
Net operating expense ratio (non-GAAP)	29.6 %	50.3 %		31.2 %	28.2 %	30.3 %		28.2 %

P&C Segment - Results of Operations for the Nine Months Ended September 30, 2015 and 2014 (Unaudited)

	Nine Months Ended September 30, 2015				2014			
	NGHC	Reciprocal Exchanges	Eliminations	Total	NGHC	Reciprocal Exchanges	Eliminations	Total
	(Amounts in Thousands)							
Gross premium written	$1,478,172	$217,830	$(3,590)	$1,692,412	$1,484,344	$9,993	$—	$1,494,337
Ceded premiums	(162,934)	(124,777)	3,590	(284,121)	(191,551)	(2,788)	—	(194,339)
Net premium written	$1,315,238	$93,053	$—	$1,408,291	$1,292,793	$7,205	$—	$1,299,998
Change in unearned premium	(74,985)	5,387	—	(69,598)	(201,705)	(513)	—	(202,218)
Net earned premium	$1,240,253	$98,440	$—	$1,338,693	$1,091,088	$6,692	$—	$1,097,780
Ceding commission income	(2,069)	28,449	—	26,380	7,595	37	—	7,632
Service and fee income	146,098	2,990	(30,504)	118,584	76,418	22	—	76,440
Underwriting expenses:								
Loss and loss adjustment expense	759,198	56,824	—	816,022	691,856	5,351	—	697,207
Acquisition costs and other underwriting expenses	233,951	20,967	(63)	254,855	185,359	273	—	185,632
General and administrative expenses	282,797	48,831	(30,441)	301,187	205,503	1,811	—	207,314
Total underwriting expenses	$1,275,946	$126,622	$(30,504)	$1,372,064	$1,082,718	$7,435	$—	$1,090,153
Underwriting income (loss)	$108,336	$3,257	$—	$111,593	$92,383	$(684)	$—	$91,699
Net loss ratio	61.2%	57.7%		61.0%	63.4%	80.0%		63.5%
Net operating expense ratio (non-GAAP)	30.1%	39.0%		30.7%	28.1%	30.3%		28.1%
Net combined ratio (non-GAAP)	91.3%	96.7%		91.7%	91.5%	110.3%		91.6%

	Nine Months Ended September 30,							
Reconciliation of net operating expense ratio (non-GAAP):	2015				2014			
	NGHC		Eliminations	Total	NGHC		Eliminations	Total

		Reciprocal Exchanges				Reciprocal Exchanges		
	(Amounts in Thousands)							
Total underwriting expenses	$1,275,946	$126,622	$(30,504)	$1,372,064	$1,082,718	$7,435	$—	$1,090,153
Less: Loss and loss adjustment expense	759,198	56,824	—	816,022	691,856	5,351	—	697,207
Less: Ceding commission income	(2,069)	28,449	—	26,380	7,595	37	—	7,632
Less: Service and fee income	146,098	2,990	(30,504)	118,584	76,418	22	—	76,440
Net operating expense	$372,719	$38,359	$—	$411,078	$306,849	$2,025	$—	$308,874
Net earned premium	$1,240,253	$98,440	$—	$1,338,693	$1,091,088	$6,692	$—	$1,097,780
Net operating expense ratio (non-GAAP)	30.1%	39.0%		30.7%	28.1%	30.3%		28.1%

P&C Segment Results of Operations for the Three Months Ended September 30, 2015 Compared with the Three Months Ended September 30, 2014 (Unaudited)

Gross premium written. Gross premium written increased by $103.2 million, or 21.5%, from $479.9 million for the three months ended September 30, 2014 to $583.1 million for the three months ended September 30, 2015 primarily as a result of the consolidation of the Reciprocal Exchanges (increase of $69.9 million) and organic growth (increase of $33.3 million).

Net premium written. Net premium written increased by $77.9 million from $413.9 million for the three months ended September 30, 2014 to $491.8 million for the three months ended September 30, 2015 primarily as a result of an increase in Imperial premium (increase of $9.6 million), the consolidation of the Reciprocal Exchanges (increase of $36.4 million) and organic growth (increase of $31.2 million).

Net earned premium. Net earned premium increased by $49.2 million, or 12.0%, from $408.9 million for the three months ended September 30, 2014 to $458.2 million for the three months ended September 30, 2015 primarily as a result of an increase in Imperial premium (increase of $7.3 million), the consolidation of the Reciprocal Exchanges (increase of $27.6 million) and organic growth (increase of $13.7 million).

Ceding commission income. Our ceding commission income increased by $11.2 million, from $0.7 million for the three months ended September 30, 2014 to $11.9 million for the three months ended September 30, 2015 reflecting the consolidation of the Reciprocal Exchanges, partially offset by a decrease from the Quota Share Runoff (including a sliding scale adjustment to our terminated third party quota share in the third quarter of 2015). Our P&C segment ceding commission ratio, which includes the Reciprocal Exchanges, increased from 0.2% for the three months ended September 30, 2014 to 2.6% for the three months ended September 30, 2015. Excluding the Reciprocal Exchanges, the ceding commission ratio was approximately (0.6)% and 0.2% for the three months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' ceding commission ratio was 42.3% and 0.6% for the three months ended September 30, 2015 and 2014, respectively.

Service and fee income. Service and fee income increased by $9.9 million, or 31.5% from $31.4 million for the three months ended September 30, 2014 to $41.2 million for the three months ended September 30, 2015 as a result of organic growth.

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $12.0 million, or 4.7%, from $256.8 million for the three months ended September 30, 2014 to $268.7 million for the three months ended September 30, 2015 primarily reflecting organic growth and the consolidation of the Reciprocal Exchanges. Our P&C segment net loss ratio, which includes the Reciprocal Exchanges, decreased from 62.8% for the three months ended September 30, 2014 to 58.7% for the three months ended September 30, 2015 primarily due to product mix changes. Excluding the Reciprocal Exchanges, the net loss ratio was 60.2% and 62.5% for the three months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' net loss ratio was 39.6% and 80.0% for the three months ended September 30, 2015 and 2014, respectively.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $23.0 million from $68.4 million for the three months ended September 30, 2014 to $91.4 million for the three months ended September 30, 2015. The increase was primarily due to an increase in Tower premium retention, the consolidation of the Reciprocal Exchanges, and as a result of organic growth.

General and administrative expenses. General and administrative expenses increased by $25.4 million from $79.1 million for the three months ended September 30, 2014 to $104.5 million for the three months ended September 30, 2015 primarily as a result of an increase in Tower premium retention and the consolidation of the Reciprocal Exchanges.

Net operating expense; net operating expense ratio (non-GAAP). Net operating expense increased by $27.4 million, or 23.7%, from $115.4 million for the three months ended September 30, 2014 to $142.8 million for the three months ended September 30, 2015. The P&C segment net operating expense ratio (non-GAAP), which includes the Reciprocal Exchanges, increased from 28.2% for the three months ended September 30, 2014 to 31.2% for the three months ended September 30, 2015 primarily as a result of increased general and administrative expenses, and increased acquisition costs and other underwriting expenses, partially offset by increased service and fee income. Excluding the Reciprocal Exchanges, the net operating expense ratio was 29.6% and 28.2% for the three months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' net operating expense ratio was 50.3% and 30.3% for the three months ended September 30, 2015 and 2014, respectively.

Underwriting income. Underwriting income increased from $36.8 million for the three months ended September 30, 2014 to $46.6 million for the three months ended September 30, 2015 primarily as a result of the organic growth. The P&C segment combined ratio, which includes the Reciprocal Exchanges, for the three months ended September 30, 2015 decreased to 89.9% compared to 91.0% for the same period in 2014, reflecting the improved net loss ratio, partially offset by the higher net operating expense ratio. Excluding the Reciprocal Exchanges, the combined ratio was 89.8% and 90.7% for the three months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' combined ratio was 89.9% and 110.3% for the three months ended September 30, 2015 and 2014, respectively.

P&C Segment Results of Operations for the Nine Months Ended September 30, 2015 Compared with the Nine Months Ended September 30, 2014 (Unaudited)

Gross premium written. Gross premium written increased by $198.1 million, or 13.3%, from $1,494.3 million for the nine months ended September 30, 2014 to $1,692.4 million for the nine months ended September 30, 2015 primarily as a result of an increase in Imperial premium (increase of $45.7 million), the consolidation of the Reciprocal Exchanges (increase of $204.2 million) and organic growth (increase of $56.0 million), partially offset by a decrease in our Tower business (decrease of $109.8 million) which included a large one-time unearned premium reserve assumption of $158.8 million in 2014.

Net premium written. Net premium written increased by $108.3 million from $1,300.0 million for the nine months ended September 30, 2014 to $1,408.3 million for the nine months ended September 30, 2015 primarily as a result of an increase in Imperial premium (increase of $50.4 million), the Quota Share Runoff (increase of $42.9 million), the consolidation of the

Reciprocal Exchanges (increase of $85.8 million) and organic growth (increase of $51.6 million), partially offset by a decrease in our Tower business (decrease of $122.4 million) which included a large one-time unearned premium reserve assumption of $158.8 million in 2014.

Net earned premium. Net earned premium increased by $240.9 million, or 21.9%, from $1,097.8 million for the nine months ended September 30, 2014 to $1,338.7 million for the nine months ended September 30, 2015 primarily as a result of an increase in Tower premium retention (increase of $15.4 million), the Quota Share Runoff (increase of $42.9 million), Imperial premium (increase of $49.8 million), the consolidation of the Reciprocal Exchanges (increase of $91.7 million) and organic growth (increase of $41.1 million).

Ceding commission income. Our ceding commission income increased by $18.7 million from $7.6 million for the nine months ended September 30, 2014 to $26.4 million for the nine months ended September 30, 2015 reflecting the consolidation of the Reciprocal Exchanges, partially offset by a decrease from the Quota Share Runoff (including a sliding scale adjustment to our terminated third party quota share in the third quarter of 2015). Our P&C segment ceding commission ratio, which includes the Reciprocal Exchanges, increased from 0.7% for the nine months ended September 30, 2014 to 2.0% for the nine months ended September 30, 2015. Excluding the Reciprocal Exchanges, the ceding commission ratio was (0.2)% and 0.7% for the nine months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' ceding commission ratio was 28.9% and 0.6% for the nine months ended September 30, 2015 and 2014, respectively.

Service and fee income. Service and fee income increased by $42.1 million, or 55.1%, from $76.4 million for the nine months ended September 30, 2014 to $118.6 million for the nine months ended September 30, 2015 primarily as a result of organic growth.

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $118.8 million, or 17.0%, from $697.2 million for the nine months ended September 30, 2014 to $816.0 million for the nine months ended September 30, 2015 primarily reflecting the Quota Share Runoff, the Imperial acquisition and the consolidation of the Reciprocal Exchanges. Our P&C segment net loss ratio, which includes the Reciprocal Exchanges, decreased from 63.5% for the nine months ended September 30, 2014 to 61.0% for the nine months ended September 30, 2015 primarily due to product mix changes. Excluding the Reciprocal Exchanges, the net loss ratio was 61.2% and 63.4% for the nine months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' net loss ratio was 57.7% and 80.0% for the nine months ended September 30, 2015 and 2014, respectively.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $69.2 million from $185.6 million for the nine months ended September 30, 2014 to $254.9 million for the nine months ended September 30, 2015. The increase was primarily due to an increase in Tower premium retention, the Quota Share Runoff, the consolidation of the Reciprocal Exchanges and as a result of organic growth.

General and administrative expenses. General and administrative expenses increased by $93.9 million from $207.3 million for the nine months ended September 30, 2014 to $301.2 million for the nine months ended September 30, 2015 primarily as a result of an increase in Tower premium retention, the consolidation of the Reciprocal Exchanges and approximately $7.2 million of expenses related to transition and integration costs for the Tower Personal Lines business.

Net operating expense; net operating expense ratio (non-GAAP). Net operating expense increased by $102.2 million, or 33.1%, from $308.9 million for the nine months ended September 30, 2014 to $411.1 million for the nine months ended September 30, 2015. The P&C segment net operating expense ratio (non-GAAP), which includes the Reciprocal Exchanges, increased from 28.1% for the nine months ended September 30, 2014 to 30.7% for the nine months ended September 30, 2015 primarily as a result of increased general and administrative expenses, and increased acquisition costs and other underwriting expenses, partially offset by increased service and fee income. Excluding the Reciprocal Exchanges, the net operating expense ratio was 30.1% and 28.1% for the nine months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' net operating expense ratio was 39.0% and 30.3% for the nine months ended September 30, 2015 and 2014, respectively.

Underwriting income. Underwriting income increased from $91.7 million for the nine months ended September 30, 2014 to $111.6 million for the nine months ended September 30, 2015 primarily as a result of organic growth. The P&C segment combined ratio, which includes the Reciprocal Exchanges, for the nine months ended September 30, 2015 increased to 91.7% compared to 91.6% for the same period in 2014. Excluding the Reciprocal Exchanges, the combined ratio was 91.3% and 91.5% for the nine months ended September 30, 2015 and 2014, respectively. The Reciprocal Exchanges' combined ratio was 96.7% and 110.3% for the nine months ended September 30, 2015 and 2014, respectively.

A&H Segment - Results of Operations for the Three and Nine Months Ended September 30, 2015 and 2014 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Amounts in Thousands)			
Gross premium written	$43,594	$17,729	$153,409	$117,873
Ceded premiums	(9,745)	(63)	(26,626)	(260)
Net premium written	$33,849	$17,666	$126,783	$117,613
Change in unearned premium	11,258	11,802	(14,234)	(27,669)
Net earned premium	$45,107	$29,468	$112,549	$89,944
Ceding commission income	267	—	820	—
Service and fee income	19,660	14,516	54,751	44,646
Underwriting expenses:				
Loss and loss adjustment expense	33,519	18,250	79,752	58,763
Acquisition costs and other underwriting expenses	17,365	15,496	40,276	47,074
General and administrative expenses	14,061	11,050	42,239	36,072
Total underwriting expenses	$64,945	$44,796	$162,267	$141,909
Underwriting income (loss)	$89	$(812)	$5,853	$(7,319)
Net loss ratio	74.3%	61.9%	70.9%	65.3%
Net operating expense ratio (non-GAAP)	25.5%	40.8%	23.9%	42.8%
Net combined ratio (non-GAAP)	99.8%	102.7%	94.8%	108.1%

Reconciliation of net operating expense ratio (non-GAAP):	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Amounts in Thousands)			
Total underwriting expenses	$64,945	$44,796	$162,267	$141,909
Less: Loss and loss adjustment expense	33,519	18,250	79,752	58,763
Less: Ceding commission income	267	—	820	—
Less: Service and fee income	19,660	14,516	54,751	44,646
Net operating expense	$11,499	$12,030	$26,944	$38,500
Net earned premium	$45,107	$29,468	$112,549	$89,944
Net operating expense ratio (non-GAAP)	25.5%	40.8%	23.9%	42.8%

A&H Segment Results of Operations for the Three Months Ended September 30, 2015 Compared with the Three Months Ended September 30, 2014 (Unaudited)

Gross premium written. Gross premium written increased by $25.9 million, from $17.7 million for the three months ended September 30, 2014 to $43.6 million for the three months ended September 30, 2015 primarily due to organic growth.

Net premium written. Net premium written increased by $16.2 million, from $17.7 million for the three months ended September 30, 2014 to $33.8 million for the three months ended September 30, 2015 primarily due to organic growth.

Net earned premium. Net earned premium increased by $15.6 million, from $29.5 million for the three months ended September 30, 2014 to $45.1 million for the three months ended September 30, 2015 primarily due to organic growth.

Service and fee income. Service and fee income increased by $5.1 million, or 35.4%, from $14.5 million for the three months ended September 30, 2014 to $19.7 million for the three months ended September 30, 2015 as a result of organic growth.

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $15.3 million, from $18.3 million for the three months ended September 30, 2014 to $33.5 million for the three months ended September 30, 2015. Our net loss ratio increased from 61.9% for the three months ended September 30, 2014 to 74.3% for the three months ended September 30, 2015. The loss ratio decrease in the three months ended September 30, 2015 was primarily due to a higher loss experience in our domestic stop loss programs.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses increased by $1.9 million from $15.5 million for the three months ended September 30, 2014 to $17.4 million for the three months ended September 30, 2015.

General and administrative expenses. General and administrative expenses increased by $3.0 million from $11.1 million for the three months ended September 30, 2014 to $14.1 million for the three months ended September 30, 2015 as a result of organic growth.

Net operating expense; net operating expense ratio (non-GAAP). Net operating expense decreased by $0.5 million from $12.0 million for the three months ended September 30, 2014 to $11.5 million for the three months ended September 30, 2015. The net operating expense ratio (non-GAAP) decreased from 40.8% for the three months ended September 30, 2014 to 25.5% for the three months ended September 30, 2015 primarily as a result of increased A&H premiums and higher service and fee income.

Underwriting income (loss). Underwriting income increased from a loss of $0.8 million for the three months ended September 30, 2014 to income of $0.1 million for the three months ended September 30, 2015 due to maturation of the A&H business. The combined ratio for the three months ended September 30, 2015 decreased to 99.8% compared to 102.7% for the same period in 2014. The combined ratio was lower due to improved profitability driven by a reduced expense ratio reflecting continued maturation of the A&H business and higher service and fee income, partially offset by the higher net loss ratio.

A&H Segment Results of Operations for the Nine Months Ended September 30, 2015 Compared with the Nine Months Ended September 30, 2014 (Unaudited)

Gross premium written. Gross premium written increased by $35.5 million, from $117.9 million for the nine months ended September 30, 2014 to $153.4 million for the nine months ended September 30, 2015 primarily as a result of organic growth (increase of $45.1 million), partially offset by a decrease in our EHC business (decrease of $12.1 million) which included a large one-time unearned premium reserve assumption of $15.2 million in 2014.

Net premium written. Net premium written increased by $9.2 million, from $117.6 million for the nine months ended September 30, 2014 to $126.8 million for the nine months ended September 30, 2015 primarily as a result of organic growth (increase of $18.7 million), partially offset by a decrease in our EHC business (decrease of $12.1 million) which included a large one-time unearned premium reserve assumption of $15.2 million in 2014.

Net earned premium. Net earned premium increased by $22.6 million, from $89.9 million for the nine months ended September 30, 2014 to $112.5 million for the nine months ended September 30, 2015 due to organic growth.

Service and fee income. Service and fee income increased by $10.1 million, or 22.6%, from $44.6 million for the nine months ended September 30, 2014 to $54.8 million for the nine months ended September 30, 2015 as a result of organic growth.

Loss and loss adjustment expense; net loss ratio. Loss and LAE increased by $21.0 million, from $58.8 million for the nine months ended September 30, 2014 to $79.8 million for the nine months ended September 30, 2015. Our net loss ratio increased from 65.3% for the nine months ended September 30, 2014 to 70.9% for the nine months ended

September 30, 2015. The loss ratio increase in the nine months ended September 30, 2015 was primarily driven by higher loss experience in our domestic stop loss programs.

Acquisition costs and other underwriting expenses. Acquisition costs and other underwriting expenses decreased by $6.8 million from $47.1 million for the nine months ended September 30, 2014 to $40.3 million for the nine months ended September 30, 2015 primarily due to the consolidation of our EHC business as all new and renewal policies placed by EHC after April 1, 2014 are underwritten by our European insurance subsidiaries, partially offset by organic growth.

General and administrative expenses. General and administrative expenses increased by $6.2 million from $36.1 million for the nine months ended September 30, 2014 to $42.2 million for the nine months ended September 30, 2015 as a result of organic growth.

Net operating expense; net operating expense ratio (non-GAAP). Net operating expense decreased by $11.6 million from $38.5 million for the nine months ended September 30, 2014 to $26.9 million for the nine months ended September 30, 2015. The net operating expense ratio (non-GAAP) decreased from 42.8% for the nine months ended September 30, 2014 to 23.9% for the nine months ended September 30, 2015 primarily as a result of increased A&H premiums and higher service and fee income.

Underwriting income (loss). Underwriting income increased from a loss of $7.3 million for the nine months ended September 30, 2014 to income of $5.9 million for the nine months ended September 30, 2015 due to maturation of the A&H business. The combined ratio for the nine months ended September 30, 2015 decreased to 94.8% compared to 108.1% for the same period in 2014. The combined ratio was lower due to improved profitability driven by a reduced expense ratio reflecting continued maturation of the A&H business and higher service and fee income, partially offset by a higher expense ratio.

Investment Portfolio

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

The average yield on our investment portfolio was 3.3% and 3.6% and the average duration of the portfolio was 5.00 and 5.65 years for the nine months ended September 30, 2015 and 2014, respectively.

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

September 30, 2015	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(amounts in thousands)			
Equity securities:				
Common stock	$57,166	$554	$(5,665)	$52,055
Preferred stock	11,448	43	(74)	11,417
Fixed maturities:				
U.S. Treasury	19,406	1,254	(3)	20,657
Federal agencies	1,945	31	—	1,976
States and political subdivision bonds	188,823	4,248	(793)	192,278
Foreign government	29,412	418	(148)	29,682
Corporate bonds	1,044,046	28,028	(33,113)	1,038,961
Residential mortgage-backed securities	408,984	11,044	(84)	419,944
Commercial mortgage-backed securities	135,961	1,654	(3,566)	134,049
Asset-backed securities	4,981	3	—	4,984
Structured securities	120,684	39	(2,286)	118,437
Total	$2,022,856	$47,316	$(45,732)	$2,024,440

Less: Securities pledged	42,806	905	—	43,711
Total net of Securities pledged	$1,980,050	$46,411	$(45,732)	$1,980,729
NGHC	$1,731,282	$45,923	$(40,014)	$1,737,191
Reciprocal Exchanges	291,574	1,393	(5,718)	287,249
Total	$2,022,856	$47,316	$(45,732)	$2,024,440

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

The increase in gross unrealized losses from $17.4 million at December 31, 2014 to $45.7 million at September 30, 2015 resulted from fluctuations in market interest rates.

The tables below summarize the credit quality of our fixed maturities, securities pledged and preferred securities as of September 30, 2015 and December 31, 2014, as rated by Standard & Poor's.

	NGHC			Reciprocal Exchanges		
September 30, 2015	Cost or Amortized Cost	Fair Value	Percentage of Fixed Maturities and Preferred Securities	Cost or Amortized Cost	Fair Value	Percentage of Fixed Maturities and Preferred Securities
	(amounts in thousands)					
U.S. Treasury	$13,473	$14,695	0.9%	$5,933	$5,962	2.1%
AAA	321,450	330,800	19.6%	42,195	41,689	14.5%
AA, AA+, AA-	330,481	337,158	20.0%	55,328	55,694	19.4%
A, A+, A-	343,200	355,948	21.1%	63,797	63,577	22.1%
BBB, BBB+, BBB-	438,571	437,946	26.0%	90,932	89,720	31.2%
BB+ and lower	226,941	208,589	12.4%	33,389	30,607	10.7%
Total	$1,674,116	$1,685,136	100.0%	$291,574	$287,249	100.0%

December 31, 2014	NGHC Cost or Amortized Cost	NGHC Fair Value	NGHC Percentage of Fixed Maturities and Preferred Securities		Reciprocal Exchanges Cost or Amortized Cost	Reciprocal Exchanges Fair Value	Reciprocal Exchanges Percentage of Fixed Maturities and Preferred Securities	
	(amounts in thousands)							
U.S. Treasury	$19,068	$20,475	1.4	%	$18,378	$18,504	8.2	%
AAA	359,424	370,058	25.9	%	24,956	25,027	11.1	%
AA, AA+, AA-	275,905	282,443	19.8	%	—	—	—	%
A, A+, A-	300,789	318,955	22.3	%	99,754	100,412	44.5	%
BBB, BBB+, BBB-	328,594	335,745	23.5	%	48,440	48,486	21.5	%
BB+ and lower	99,529	100,745	7.1	%	33,345	33,127	14.7	%
Total	$1,383,309	$1,428,421	100.0	%	$224,873	$225,556	100.0	%

The tables below summarize the investment quality of our corporate bond holdings and industry concentrations as of September 30, 2015 and December 31, 2014.

September 30, 2015	AAA		AA+, AA, AA-		A+,A,A-		BBB+, BBB, BBB-		BB+ or Lower		Fair Value	% of Corporate Bonds Portfolio	
					(amounts in thousands)								
Corporate Bonds:													
Financial Institutions	—	%	3.1	%	24.0	%	11.1	%	2.7	%	$424,992	40.9	%
Industrials	—	%	3.7	%	10.6	%	32.3	%	6.6	%	553,210	53.2	%
Utilities/Other	0.5	%	—	%	0.7	%	3.5	%	1.2	%	60,759	5.9	%
Total	0.5	%	6.8	%	35.3	%	46.9	%	10.5	%	$1,038,961	100.0	%
NGHC	0.5	%	6.6	%	30.1	%	38.8	%	8.8	%	$879,533	84.8	%
Reciprocal Exchanges	—	%	0.2	%	5.2	%	8.1	%	1.7	%	159,428	15.2	%
Total	0.5	%	6.8	%	35.3	%	46.9	%	10.5	%	$1,038,961	100.0	%

December 31, 2014	AAA		AA+, AA, AA-		A+,A,A-		BBB+, BBB, BBB-		BB+ or Lower		Fair Value	% of Corporate Bonds Portfolio	
					(amounts in thousands)								
Corporate Bonds:													
Financial Institutions	1.4	%	3.6	%	26.9	%	8.9	%	2.5	%	$376,236	43.3	%
Industrials	—	%	2.4	%	9.4	%	31.7	%	5.9	%	427,592	49.4	%
Utilities/Other	—	%	—	%	2.2	%	3.1	%	2.0	%	63,434	7.3	%
Total	1.4	%	6.0	%	38.5	%	43.7	%	10.4	%	$867,262	100.0	%
NGHC	1.4	%	6.0	%	34.0	%	38.6	%	8.3	%	$762,822	88.3	%
Reciprocal Exchanges	—	%	—	%	4.5	%	5.1	%	2.1	%	104,440	11.7	%
Total	1.4	%	6.0	%	38.5	%	43.7	%	10.4	%	$867,262	100.0	%

The amortized cost and fair value of available-for-sale fixed maturities and securities pledged, held as of September 30, 2015, by contractual maturity, are shown in the table below. Actual maturities may differ from contractual maturities because some borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

September 30, 2015	NGHC Cost or Amortized Cost	Fair Value	Reciprocal Exchanges Cost or Amortized Cost	Fair Value	Total Cost or Amortized Cost	Fair Value
	(amounts in thousands)					
Due in one year or less	$9,756	$10,116	$500	$500	$10,256	$10,616
Due after one year through five years	248,555	256,096	23,455	22,991	272,010	279,087
Due after five years through ten years	719,103	716,196	140,508	139,001	859,611	855,197
Due after ten years	224,397	219,252	43,023	42,823	267,420	262,075
Mortgage-backed securities	462,358	473,603	82,587	80,390	544,945	553,993
Total	$1,664,169	$1,675,263	$290,073	$285,705	$1,954,242	$1,960,968

Gross Unrealized Losses. The tables below summarize the gross unrealized losses on equity securities and fixed maturities by the length of time the security had continuously been in an unrealized loss position as of September 30, 2015 and December 31, 2014:

September 30, 2015	Less Than 12 Months Fair Market Value	Unrealized Losses	No. of Positions Held	12 Months or More Fair Market Value	Unrealized Losses	No. of Positions Held	Total Fair Market Value	Unrealized Losses
	(amounts in thousands)							
Common stock	$42,260	$(5,643)	7	$136	$(22)	2	$42,396	$(5,665)
Preferred stock	4,952	(74)	1	—	—	—	4,952	(74)
U.S. Treasury	501	(3)	2	—	—	—	501	(3)
States and political subdivision bonds	21,855	(643)	23	5,879	(150)	12	27,734	(793)
Foreign government	4,444	(148)	2	—	—	—	4,444	(148)
Corporate bonds	335,634	(27,477)	193	24,231	(5,636)	13	359,865	(33,113)
Residential mortgage-backed securities	9,523	(44)	14	2,036	(40)	8	11,559	(84)
Commercial mortgage-backed securities	73,727	(3,566)	29	—	—	—	73,727	(3,566)
Structured securities	92,372	(2,286)	44	—	—	—	92,372	(2,286)
Total	$585,268	$(39,884)	315	$32,282	$(5,848)	35	$617,550	$(45,732)
NGHC	$435,365	$(34,166)	177	$32,282	$(5,848)	35	$467,647	$(40,014)
Reciprocal Exchanges	149,903	(5,718)	138	—	—	—	149,903	(5,718)
Total	$585,268	$(39,884)	315	$32,282	$(5,848)	35	$617,550	$(45,732)

December 31, 2014	Less Than 12 Months Fair Market Value	Unrealized Losses	No. of Positions Held	12 Months or More Fair Market Value	Unrealized Losses	No. of Positions Held	Total Fair Market Value	Unrealized Losses
	(amounts in thousands)							
Common stock	$33,717	$(7,349)	3	$—	$—	—	$33,717	$(7,349)
Preferred stock	—	—	—	4,878	(125)	1	4,878	(125)
U.S. Treasury	6,343	(3)	5	—	—	—	6,343	(3)
States and political subdivision bonds	16,320	(92)	39	8,341	(77)	8	24,661	(169)
Foreign government	5,536	(658)	1	—	—	—	5,536	(658)
Corporate bonds	116,880	(5,594)	108	23,592	(3,105)	10	140,472	(8,699)
Residential mortgage-backed securities	15,598	(34)	17	1,975	(58)	3	17,573	(92)
Commercial mortgage-backed securities	33,735	(189)	10	—	—	—	33,735	(189)
Asset-backed securities	4,869	(91)	3	—	—	—	4,869	(91)
Total	$232,998	$(14,010)	186	$38,786	$(3,365)	22	$271,784	$(17,375)
NGHC	$142,313	$(12,899)	97	$38,786	$(3,365)	22	$181,099	$(16,264)
Reciprocal Exchanges	90,685	(1,111)	89	—	—	—	90,685	(1,111)
Total	$232,998	$(14,010)	186	$38,786	$(3,365)	22	$271,784	$(17,375)

There were 350 and 208 securities at September 30, 2015 and December 31, 2014, respectively, that account for the gross unrealized loss, none of which we deemed to be an other-than-temporary impairment ("OTTI") loss. Significant factors influencing our determination that none of these securities were OTTI included the magnitude of unrealized losses in relation to cost, the nature of the investment and management’s intent not to sell these securities and our determination that it was more likely than not that we would not be required to sell these investments before anticipated recovery of fair value to our cost basis.

For the three and nine months ended September 30, 2015, we recognized OTTI of $6.0 million and $8.5 million, respectively, on investments based on our qualitative and quantitative review.

Restricted Cash and Investments. In order to conduct business in certain states, we are required to maintain letters of credit or assets on deposit to support state-mandated regulatory requirements and certain third party agreements. We also utilize trust accounts to collateralize business with our reinsurance counterparties. Assets held on deposit or in trust accounts are primarily in the form of cash or certain high-grade securities. The fair values of our restricted assets as of September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015	December 31, 2014
	(amounts in thousands)	
Restricted cash	$14,999	$7,937
Restricted investments - fixed maturities at fair value	48,426	56,049
Total restricted cash and investments	$63,425	$63,986

Other. We enter into reverse repurchase and repurchase agreements, which are accounted for as either collateralized lending or borrowing transactions and are recorded at contract amounts which approximate fair value. For the collateralized borrowing transactions (i.e., repurchase agreements), we receive cash or securities that we invest or hold in short-term or fixed income securities.

As of September 30, 2015 and December 31, 2014, we had no collateralized lending transaction principal outstanding.

As of September 30, 2015, we had collateralized borrowing transaction principal outstanding of $41.4 million at an interest rate of 0.50%. As of December 31, 2014, we had collateralized borrowing transaction principal outstanding of $46.8 million at interest rates between 0.30% and 0.35%. Interest income or expense associated with the repurchase borrowing agreements for the three and nine months ended September 30, 2015 was income of $0.1 million and expense of $0.0 million, respectively, and for the three and nine months ended September 30, 2014 was expense of $0.1 million and $0.2 million, respectively. We had $43.7 million and $49.5 million of collateral pledged in support for these agreements as of September 30, 2015 and December 31, 2014, respectively.

Investment in Entities Holding Life Settlement Contracts

A life settlement contract is a contract between the owner of a life insurance policy and a third party who obtains the ownership and beneficiary rights of the underlying life insurance policy. During 2010, we formed Tiger Capital LLC (“Tiger”) with a subsidiary of AmTrust for the purpose of acquiring certain life settlement contracts. In 2011, we formed AMT Capital Alpha, LLC (“AMT Alpha”) with a subsidiary of AmTrust for the purpose of acquiring additional life settlement contracts. In the first quarter of 2013, we acquired a 50% interest in AMT Capital Holdings, S.A. (“AMTCH”), the other 50% of which is owned by AmTrust. Additionally, in December 2013, we formed AMT Capital Holdings II, S.A. ("AMTCH II") with AmTrust for the purpose of acquiring additional life settlement contracts. We have a 50% ownership interest in each of Tiger, AMT Alpha, AMTCH and AMTCH II (collectively, the “LSC Entities”). The LSC Entities may also acquire premium finance loans made in connection with the borrowers’ purchase of life insurance policies that are secured by the policies. The LSC Entities acquire the underlying policies through the borrowers’ voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator for two of the life settlement contract portfolios, for which it receives an administrative fee. The third-party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met.

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

As of September 30, 2015, we have a 50% ownership interest in the LSC Entities that hold certain life settlement contracts, and the fair value of these contracts owned by the LSC Entities is $271.2 million, with our proportionate interest being $135.6 million. Total capital contributions of approximately $1.1 million and $33.4 million were made to the LSC Entities during the nine months ended September 30, 2015 and 2014, respectively, for which we contributed approximately $0.6 million and $16.7 million in those same periods. The LSC Entities used the contributed capital to pay premiums and purchase policies.

As of September 30, 2015, the face value amounts of the 256 life insurance policies disclosed in the table below was approximately $1.6 billion. As of September 30, 2015, the LSC Entities owned no premium finance loans.

The following table describes details of our investment in LSC Entities as of September 30, 2015. This table shows the gross amounts for the portfolio of life insurance policies owned by the LSC Entities, in which we and AmTrust each own a 50% interest.

(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, 2015			
0 - 1	—	$—	$—
1 - 2	—	—	—
2 - 3	8	40,905	70,500
3 - 4	9	22,369	56,500
4 - 5	10	26,457	73,000
Thereafter	229	181,518	1,430,313
Total	256	$271,249	$1,630,313

(1) The LSC Entities determined the fair value as of September 30, 2015 based on 212 policies out of 256 policies, as the LSC Entities assigned no value to 44 of the policies as of September 30, 2015. The LSC Entities 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 LSC Entities are 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 LSC Entities' 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 LSC Entities expense all premiums paid, even on policies with zero fair value. Once the premium payments escalate, the LSC Entities 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 of the LSC Entities.

For the contracts where the LSC Entities 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, 2015:

(amounts in thousands, except number of life settlement contracts)	September 30, 2015
Number of policies with a negative value from discounted cash flow model as of period end	44
Premiums paid for the preceding twelve month period for period ended	$5,439
Death benefit received	$—

Premiums to be paid by the LSC Entities, in which we have 50% ownership interests, for each of the five succeeding fiscal years to keep the life insurance policies in force as of September 30, 2015, are as follows:

(amounts in thousands)	Premiums Due on Life Settlement Contracts
2015	$45,181
2016	60,707
2017	40,446
2018	40,079

2019	37,652
Thereafter	514,923
	$738,988

For additional information about the fair value of the life settlement contracts, see Note 6, "Equity Investments in Unconsolidated Subsidiaries" in the notes to our condensed consolidated financial statements. For additional information about the risks inherent in determining the fair value of the portfolio of life insurance policies, see Item 1A, “Risk Factors-Risks Relating to Our Business Generally-A portion of our financial assets consists of life settlement contracts that are subject to certain risks” of our Annual Report on Form 10-K for the year ended December 31, 2014.

Liquidity and Capital Resources

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

We may generate liquidity through the issuance of debt or equity securities or financing through borrowings under credit facilities, or a combination thereof. During the first half of 2015, we issued 6,600,000 depositary shares, each representing a 1/40th interest in a share of our 7.50% Non-Cumulative Preferred Stock, Series B (equivalent to 165,000 shares of Series B Preferred Stock). The total net proceeds we received from the issuance was approximately $159.6 million, after deducting the issuance expenses payable by us. In addition, during the third quarter of 2015, we issued 11,500,000 shares of common stock in a public offering at $19.00 per share. The total net proceeds we received from the issuance was approximately $210.6 million, after deducting the issuance expenses payable by us. Also, during the third quarter of 2015, we sold $100.0 million aggregate principal amount of our 7.625% Notes in a public offering. The net proceeds we received from the issuance was approximately $96.9 million, after deducting the underwriting discount and commissions, but before expenses. We also have a $135.0 million credit agreement under which there were no amounts outstanding as of September 30, 2015. The proceeds of borrowings under the credit agreement may be used for working capital, acquisitions and general corporate purposes. See "7.625% Subordinated Notes due 2055", "Common Stock", "Preferred Stock" and "Revolving Credit Agreements" below.

Our insurance subsidiaries are subject to statutory and regulatory restrictions imposed on insurance companies by their place of domicile which limit the amount of cash dividends or distributions that they may pay to us unless special permission is received from the insurance regulator of the relevant domicile. The aggregate limit imposed by the various domiciliary regulatory authorities of our insurance subsidiaries was approximately $387.3 million and $286.3 million as of September 30, 2015 and December 31, 2014, respectively, taking into account dividends paid in the prior twelve month periods. During the nine months ended September 30, 2015 and 2014, there were $20.8 million and $1.0 million, respectively, of dividends or return of capital paid by the insurance subsidiaries to National General Management Corp. ("Management Corp.") or the Company.

We forecast claim payments based on our historical experience. We seek to manage the funding of claim payments by actively managing available cash and forecasting cash flows on both a short-term and long-term basis. Cash payments for claims were $871.2 million and $572.9 million in the nine months ended September 30, 2015 and 2014, respectively. Historically, we have funded claim payments from cash flow from operations (principally premiums), net of amounts ceded to our third party reinsurers. We presently expect to maintain sufficient cash flow from operations to meet our anticipated claim obligations and operating and capital expenditure needs. Our cash and investment portfolio has increased from $1,998.7 million at December 31, 2014 to $2,551.9 million at September 30, 2015. We do not anticipate selling securities in our investment portfolio to pay claims or to fund operating expenses. Should circumstances arise that would require us to do so, we may incur losses on such sales, which would adversely affect our results of operations and financial condition and could reduce investment income in future periods.

Pursuant to an amended and restated management services agreement dated as of January 1, 2012 between Management Corp., on one hand, and certain of our other direct and indirect subsidiaries, on the other hand, such subsidiaries have delegated to Management Corp. underwriting duties, claims services, actuarial services, policyholder services, accounting, information technology and certain other administrative functions. The subsidiaries that are party to this agreement pay to Management Corp. a quarterly fee calculated as a percentage of the premium written by each such subsidiary, plus reimbursement for certain expenses.

During the nine months ended September 30, 2015 and 2014, Management Corp. was paid approximately $27.3 million and $20.4 million, respectively, in management fees.

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

The LSC Entities in which we own a 50% interest also purchase life settlement contracts that require the LSC Entities to make premium payments on individual life insurance policies in order to keep the policies in force. We presently expect to maintain sufficient cash flow to make future capital contributions to the LSC Entities to permit them to make future premium payments.

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

(amounts in thousands)	Nine Months Ended September 30,	
	2015	2014
Cash and Cash equivalents provided by (used in):		
Operating activities	$211,264	$314,205
Investing activities	(514,648)	(650,220)
Financing activities	450,006	380,333
Effect of exchange rate changes on cash and cash equivalents	(341)	—
Net Increase in Cash and Cash Equivalents	$146,281	$44,318

Comparison of the Nine Months Ended September 30, 2015 and 2014

Net cash provided by operating activities was approximately $211.3 million for the nine months ended September 30, 2015, compared with $314.2 million provided by operating activities for the same period in 2014. For the nine months ended September 30, 2015, net cash provided by operating activities decreased $102.9 million, primarily as a result of an increase in premiums and other receivables driven by the Tower Reinsurance Agreements, the Quota Share Runoff and the EHC business.

Net cash used in investing activities was $514.6 million for the nine months ended September 30, 2015, compared with net cash used in investing activities of $650.2 million for the nine months ended September 30, 2014. For the nine months ended September 30, 2015, net cash used in investing activities decreased primarily due to the change in loans to a related party (notes receivable) of $125.4 million, a decrease of $41.8 million in the purchases of short term investments and a decrease of $99.9 million in the purchases of fixed-maturity investments, partially offset by a decrease of $36.7 million in the proceeds from the sale and maturity of fixed-maturity investments, a $41.2 million decrease in the proceeds from the sale of short-term investments and an increase of $24.3 million in cash used for acquisitions.

Net cash provided by financing activities was $450.0 million for the nine months ended September 30, 2015, compared with net cash provided by financing activities of $380.3 million for the nine months ended September 30, 2014. For the nine months ended September 30, 2015, cash provided by financing activities increased versus the comparable period in 2014 primarily due to our: (a) issuances of 7.50% Non-Cumulative Series B Preferred Stock in the first half of 2015; (b) August 2015 sale of $100.0 million aggregate principal amount of 7.625% Notes; and (c) August 2015 issuance of common stock, partially offset by (i) the issuance of common stock in our February 2014 private placement; (ii) the May 2014 sale of our $250.0 million aggregate principal amount of 6.75% Notes; and (iii) the June 2014 issuance of 2,200,000 shares of 7.50% Non-Cumulative Series A Preferred Stock.

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Condensed Consolidating Balance Sheet Information

The following tables present the condensed consolidating balance sheets as of September 30, 2015 and December 31, 2014 (amounts in thousands):

	September 30, 2015			
	NGHC	Reciprocal Exchanges	Eliminations	Total
ASSETS				
Investments:				
Fixed maturities, available-for-sale, at fair value	$1,631,552	$285,705	$—	$1,917,257
Equity securities, available-for-sale, at fair value	61,928	1,544	—	63,472
Short-term investments	5,000	4,030	—	9,030
Equity investment in unconsolidated subsidiaries	233,538	—	—	233,538
Other investments	6,041	—	—	6,041
Securities pledged	43,711	—	—	43,711
Total investments	1,981,770	291,279	—	2,273,049
Cash and cash equivalents	267,131	11,765	—	278,896
Accrued investment income	14,371	2,287	—	16,658
Premiums and other receivables, net	660,532	62,846	—	723,378
Deferred acquisition costs	125,422	27,154	—	152,576
Reinsurance recoverable on unpaid losses	828,424	64,848	—	893,272
Prepaid reinsurance premiums	68,891	63,477	(900)	131,468
Income tax receivable	—	1,884	—	1,884
Notes receivable from related party	127,188	—	—	127,188
Due from affiliate	53,776	8,242	(36,266)	25,752
Premises and equipment, net	31,869	—	—	31,869
Intangible assets, net	260,647	6,212	—	266,859
Goodwill	125,246	—	—	125,246
Prepaid and other assets	30,343	5,895	—	36,238
Total assets	$4,575,610	$545,889	$(37,166)	$5,084,333
LIABILITIES AND STOCKHOLDERS’ EQUITY				
Liabilities:				
Unpaid loss and loss adjustment expense reserves	$1,428,541	$136,777	$—	$1,565,318
Unearned premiums	824,479	151,163	(900)	974,742
Unearned service contract and other revenue	12,871	—	—	12,871
Reinsurance payable	75,569	17,243	—	92,812
Accounts payable and accrued expenses	186,773	42,209	—	228,982
Due to affiliate	—	36,266	(36,266)	—
Securities sold under agreements to repurchase, at contract value	41,441	—	—	41,441
Deferred tax liability	27,678	40,036	—	67,714
Income tax payable	734	—	—	734
Notes payable	347,031	54,455	—	401,486
Other liabilities	108,612	59,065	—	167,677
Total liabilities	3,053,729	537,214	(37,166)	3,553,777
Stockholders’ equity:				
Common stock	1,054	—	—	1,054
Preferred stock	220,000	—	—	220,000
Additional paid-in capital	896,700	—	—	896,700

Accumulated other comprehensive income	2,446	—	—	2,446
Retained earnings	401,527	—	—	401,527
Total National General Holdings Corp. Stockholders' Equity	1,521,727	—	—	1,521,727
Non-controlling interest	154	8,675	—	8,829
Total stockholders’ equity	1,521,881	8,675	—	1,530,556
Total liabilities and stockholders' equity	$4,575,610	$545,889	$(37,166)	$5,084,333

	December 31, 2014		
	NGHC	Reciprocal Exchanges	Total
ASSETS			
Investments:			
Fixed maturities, available-for-sale, at fair value	$1,374,087	$222,739	$1,596,826
Equity securities, available-for-sale, at fair value	45,802	2,817	48,619
Short-term investments	50	10,490	10,540
Equity investment in unconsolidated subsidiaries	155,900	—	155,900
Other investments	4,764	—	4,764
Securities pledged	49,456	—	49,456
Total investments	1,630,059	236,046	1,866,105
Cash and cash equivalents	123,178	9,437	132,615
Accrued investment income	12,553	1,898	14,451
Premiums and other receivables, net	589,205	58,238	647,443
Deferred acquisition costs	121,514	4,485	125,999
Reinsurance recoverable on unpaid losses	888,215	23,583	911,798
Prepaid reinsurance premiums	75,837	26,924	102,761
Notes receivable from related party	125,000	—	125,000
Due from affiliate	5,129	—	5,129
Premises and equipment, net	30,583	—	30,583
Intangible assets, net	237,404	11,433	248,837
Goodwill	70,764	—	70,764
Prepaid and other assets	43,160	71	43,231
Total assets	$3,952,601	$372,115	$4,324,716
LIABILITIES AND STOCKHOLDERS’ EQUITY			
Liabilities:			
Unpaid loss and loss adjustment expense reserves	$1,450,305	$111,848	$1,562,153
Unearned premiums	744,438	119,998	864,436
Unearned service contract and other revenue	8,527	—	8,527
Reinsurance payable	97,830	13,811	111,641
Accounts payable and accrued expenses	189,430	17,691	207,121
Due to affiliate	—	1,552	1,552
Securities sold under agreements to repurchase, at contract value	46,804	—	46,804
Deferred tax liability	29,133	38,402	67,535
Income tax payable	29,532	1,059	30,591
Notes payable	250,708	48,374	299,082
Other liabilities	46,114	5,710	51,824
Total liabilities	2,892,821	358,445	3,251,266
Stockholders’ equity:			
Common stock	934	—	934
Preferred stock	55,000	—	55,000
Additional paid-in capital	690,736	—	690,736
Accumulated other comprehensive income	20,192	—	20,192
Retained earnings	292,832	—	292,832
Total National General Holdings Corp. Stockholders' Equity	1,059,694	—	1,059,694
Non-controlling interest	86	13,670	13,756

Total stockholders’ equity	1,059,780	13,670	1,073,450
Total liabilities and stockholders' equity	$3,952,601	$372,115	$4,324,716

Other Material Changes in Financial Position

(amounts in thousands)	September 30, 2015	December 31, 2014
Selected Assets:		
Premiums and other receivables, net	$723,378	$647,443
Prepaid reinsurance premiums	$131,468	$102,761
Selected Liabilities:		
Unearned premiums	$974,742	$864,436
Reinsurance payable	$92,812	$111,641
Other liabilities	$167,677	$51,824

During the nine months ended September 30, 2015, premiums and other receivables, net increased $75.9 million compared to December 31, 2014 primarily due to the increase in Tower premium retention, the ARS acquisition, the Quota Share Runoff and the EHC business. Prepaid reinsurance premiums increased $28.7 million compared to December 31, 2014 primarily due to the Tower Reinsurance Agreements.

During the nine months ended September 30, 2015, unearned premiums increased $110.3 million compared to December 31, 2014 primarily due to the increase in Tower premium retention and the EHC business. Reinsurance payable decreased $18.8 million compared to December 31, 2014 primarily due to the Tower Reinsurance Agreements, the Imperial acquisition and the EHC business. Other liabilities increased $115.9 million compared to December 31, 2014 primarily due to deferred revenue for ARS, the consolidation of the Reciprocal Exchanges and an increase in outstanding in process disbursements driven by growth in the business.

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 reinsurance relationships with third-party captives formed by agents as a mechanism for sharing risk and profit. The total amount, cost and limits relating to the reinsurance coverage we purchase may vary from year to year based upon a variety of factors, including the availability of quality reinsurance at an acceptable price and the level of risk that we choose to retain for our own account.

For a more detailed description of our reinsurance arrangements, 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, 2014.

7.625% Subordinated Notes due 2055

On August 18, 2015, we sold $100.0 million aggregate principal amount of our 7.625% subordinated notes due 2055 (the “7.625% Notes”) in a public offering. The net proceeds we received from the issuance was approximately $96.6 million, after deducting the underwriting discount, commissions and expenses.

The 7.625% Notes bear interest at a rate equal to 7.625% per year, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, beginning on December 15, 2015. The 7.625% Notes are our subordinated unsecured obligations and rank (i) senior in right of payment to any future junior subordinated debt, (ii) equal in right of payment with any unsecured, subordinated debt that we incur in the future that ranks equally with the 7.625% Notes, and (iii) subordinate in right of payment to any of our existing and future senior debt, including amounts outstanding under our $135.0 million revolving credit facility, our 6.75% Notes and certain of our other obligations. In addition, the 7.625% Notes are structurally subordinated to all existing and future indebtedness, liabilities and other obligations of our subsidiaries. The 7.625% Notes mature on September 15, 2055, unless earlier redeemed or purchased by us. Interest expense on the 7.625% Notes for the three and nine months ended September 30, 2015 was $1.1 million and $1.1 million, respectively.

The Indenture contains customary covenants, such as reporting of annual and quarterly financial results, and restrictions on certain mergers and consolidations. The Indenture also includes covenants relating to the incurrence of debt if our consolidated leverage ratio would exceed 0.35 to 1.00, a limitation on liens, a limitation on the disposition of stock of certain of our subsidiaries and a limitation on transactions with certain of our affiliates. We were in compliance with all covenants contained in the Indenture as of September 30, 2015.

6.75% Notes due 2024

On May 23, 2014, we sold $250.0 million aggregate principal amount of our 6.75% Notes due 2024 to certain purchasers in a private placement. The net proceeds we received from the issuance was approximately $245.0 million, after deducting the issuance expenses.

The 6.75% Notes bear interest at a rate equal to 6.75% per year, payable semiannually in arrears on May 15th and November 15th of each year, beginning on November 15, 2014. The 6.75% Notes are our general unsecured obligations and rank equally in right of payment with our other existing and future senior unsecured indebtedness and senior in right of payment to any of our indebtedness that is contractually subordinated to the 6.75% Notes. The 6.75% Notes are also effectively subordinated to any of our existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness and are structurally subordinated to the existing and future indebtedness of our subsidiaries (including trade payables). The 6.75% Notes mature on May 15, 2024, unless earlier redeemed or purchased by us. Interest expense on the 6.75% Notes for the three and nine months ended September 30, 2015 was $4.3 million and $12.8 million, respectively. Interest expense on the 6.75% Notes for the three and nine months ended September 30, 2014 was $4.3 million and $6.0 million, respectively.

The Indenture contains customary covenants, such as reporting of annual and quarterly financial results, and restrictions on certain mergers and consolidations. The Indenture also includes covenants relating to the incurrence of debt if our consolidated leverage ratio would exceed 0.35 to 1.00, a limitation on liens, a limitation on the disposition of stock of certain of our subsidiaries and a limitation on transactions with certain of our affiliates. We were in compliance with all covenants contained in the Indenture as of September 30, 2015.

Common Stock

On August 18, 2015, we issued 11,500,000 shares of common stock in a public offering, including 1,500,000 shares issued pursuant to the underwriters' over-allotment option. The common stock offering was priced to the public at $19.00 per share, resulting in net proceeds of $210.9 million, after deducting underwriting discount, but before expenses. The cost of issuance of stock of approximately $7.9 million was charged directly to additional paid-in capital. The net proceeds to us after underwriting discount, commissions and expenses were approximately $210.6 million.

Preferred Stock

Series A Preferred Stock

On June 25, 2014, we issued 2,200,000 shares of 7.50% Non-Cumulative Preferred Stock ("Series A Preferred Stock") in a public offering. Dividends on the Series A Preferred Stock when, as and if declared by the Company's Board of Directors (the "Board") or a duly authorized committee of the Board, will be payable on the liquidation preference amount of $25.00 per share, on a non-cumulative basis, quarterly in arrears on the 15th day of January, April, July and

October of each year (each, a "dividend payment date"), commencing on October 15, 2014, at an annual rate of 7.50%. Dividends on the Series A Preferred Stock are not cumulative. Accordingly, in the event dividends are not declared on the Series A Preferred Stock for payment on any dividend payment date, then those dividends will not accumulate and will not be payable. If the Company has not declared a dividend before the dividend payment date for any dividend period, the Company will have no obligation to pay dividends for that dividend period, whether or not dividends on the Series A Preferred Stock are declared for any future dividend payment. The net proceeds we received from the issuance was approximately $53.2 million, after deducting the underwriting discount and issuance expenses.

Series B Preferred Stock

On March 27, 2015, we completed a public offering of 6,000,000 of our depositary shares, each representing a 1/40th interest in a share of our 7.50% Non-Cumulative Preferred Stock, Series B, $0.01 par value per share (the "Series B Preferred Stock"), with a liquidation preference of $1,000 per share (equivalent to $25 per depositary share). Each depositary share entitles the holder to a proportional fractional interest in all rights and preferences of the Series B Preferred Stock represented thereby (including any dividend, liquidation, redemption and voting rights). Dividends on the Series B Preferred Stock represented by the depositary shares will be payable on the liquidation preference amount, on a non-cumulative basis, when, as and if declared by our Board of Directors, at a rate of 7.50% per annum, quarterly in arrears, on January 15, April 15, July 15, and October 15 of each year, beginning on July 15, 2015, from and including the date of original issuance. The Series B Preferred Stock represented by the depositary shares is not redeemable prior to April 15, 2020. After that date, we may redeem at our option, in whole or in part, the Series B Preferred Stock represented by the depositary shares at a redemption price of $1,000 per share (equivalent to $25 per depositary share) plus any declared and unpaid dividends for prior dividend periods and accrued but unpaid dividends (whether or not declared) for the then current dividend period. A total of 6,000,000 depositary shares (equivalent to 150,000 shares of Series B Preferred Stock) were issued. Net proceeds from this offering were $145.3 million. We incurred $5.0 million in underwriting discount and commissions and expenses, which were recognized as a reduction to additional paid-in capital.

On April 6, 2015, the underwriters exercised their over-allotment option with respect to an additional 600,000 depositary shares (equivalent to 15,000 shares of Series B Preferred Stock), on the same terms and conditions as the original March 27, 2015 issuance. Net proceeds from this additional offering were $14.5 million. We incurred an additional $0.5 million in underwriting discount and commissions, which were recognized as a reduction to additional paid-in capital.

Revolving Credit Agreements

On May 30, 2014, we entered into a $135.0 million credit agreement (the “Credit Agreement”), among JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association as Syndication Agent, and Associated Bank, National Association and First Niagara Bank, N.A., as Co-Documentation Agents. The credit facility is a revolving credit facility with a letter of credit sublimit of $10.0 million and an expansion feature not to exceed $50.0 million.

The Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. There are also financial covenants that require us to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. The Credit Agreement also provides for customary events of default, with grace periods where customary, including failure to pay principal when due, failure to pay interest or fees within three business days after becoming due, failure to comply with covenants, breaches of representations and warranties, default under certain other indebtedness, certain insolvency or receivership events affecting us and our subsidiaries, the occurrence of certain material judgments, or a change in control of the Company. Upon the occurrence and during the continuation of an event of default, the administrative agent, upon the request of the requisite percentage of the lenders, may terminate the obligations of the lenders to make loans and to issue letters of credit under the Credit Agreement, declare the Company’s obligations under the Credit Agreement to become immediately due and payable and/or exercise any and all remedies and other rights under the Credit Agreement. The Credit Agreement has a maturity date of May 30, 2018.

Borrowings under the Credit Agreement bear interest at either the Alternate Base Rate ("ABR") or LIBOR. ABR borrowings (which are borrowings bearing interest at a rate determined by reference to the ABR) under the Credit Agreement will bear interest at (x) the greatest of (a) the prime rate in effect on such day, (b) the federal funds effective rate on such day plus 0.5 percent or (c) the adjusted LIBOR for a one-month interest period on such day plus 1 percent, plus (y) a margin that is adjusted on the basis of our consolidated leverage ratio. Eurodollar borrowings under the Credit Agreement will bear interest at the adjusted LIBOR for the interest period in effect plus a margin that is adjusted on the basis of our consolidated leverage ratio. Fees payable by us under the Credit Agreement include a letter of credit participation fee (the margin applicable to Eurodollar borrowings), a letter of credit fronting fee with respect to each letter of credit (0.125%) and a commitment fee on the available commitments of the lenders (a range of 0.20% to 0.30% based on our consolidated leverage ratio, and which rate was 0.25% as of September 30, 2015). We were in compliance with all of the covenants under the Credit Agreement as of September 30, 2015.

As of September 30, 2015 and December 31, 2014, there was no outstanding balance on the line of credit. There was no interest expense for the Company's existing and repaid lines of credit for the three or nine months ended September 30, 2015. Interest expense for the Company's existing and repaid lines of credit for the three and nine months ended September 30, 2014 was $0.0 million and $1.2 million, respectively.

Imperial-related Debt

Our subsidiary, Imperial Fire and Casualty Insurance Company, is the issuer of $5.0 million principal amount of Surplus Notes due 2034 ("Imperial Surplus Notes"). The notes bear interest at an annual rate equal to LIBOR plus 4.05%, payable quarterly. The notes are redeemable by us at a redemption price equal to 100% of their principal amount. Interest expense on the Imperial Surplus Notes for the three and nine months ended September 30, 2015 was $0.1 million and $0.2 million, respectively. Interest expense on the Imperial Surplus Notes for the three and nine months ended September 30, 2014 was $0.1 million and $0.1 million, respectively.

Reciprocal Exchanges' Surplus Notes

ACP Re (or subsidiaries thereof), a related party, holds the surplus notes issued by the Reciprocal Exchanges ("Reciprocal Exchanges' Surplus Notes") when they were originally capitalized. The obligation to repay principal and interest on these surplus notes is subordinated to the Reciprocal Exchanges’ other liabilities, including obligations to policyholders and claimants for benefits under insurance policies. Principal and interest on these surplus notes are payable only with regulatory approval. Interest expense on the Reciprocal Exchanges' Surplus Notes for the three and nine months ended September 30, 2015 was $3.6 million and $11.1 million, respectively, which includes amortization of $1.9 million and $6.1 million, respectively. Interest expense on the Reciprocal Exchanges' Surplus Notes for the three and nine months ended September 30, 2014 was $0.3 million and $0.3 million, respectively, with no amortization. (See Note 15, "Related Party Transactions" in the notes to our condensed consolidated financial statements).

Securities Sold (Purchased) Under Agreements to Repurchase (Sell), at Contract Value

We enter into reverse repurchase and repurchase agreements, which are accounted for as either collateralized lending or borrowing transactions and are recorded at contract amounts which approximate fair value. For the collateralized borrowing transactions (i.e., repurchase agreements), we receive cash or securities that we invest or hold in short-term or fixed income securities.

As of September 30, 2015 and December 31, 2014, we had no collateralized lending transaction principal outstanding.

As of September 30, 2015, we had collateralized borrowing transaction principal outstanding of $41.4 million at an interest rate of 0.50%. As of December 31, 2014, we had collateralized borrowing transaction principal outstanding of $46.8 million at interest rates between 0.30% and 0.35%. Interest income or expense associated with the repurchase borrowing agreements for the three and nine months ended September 30, 2015 was income of $0.1 million and expense of $0.0 million, respectively, and for the three and nine months ended September 30, 2014 was expense of $0.1 million and $0.2 million, respectively. We had $43.7 million and $49.5 million of collateral pledged in support for these agreements as of September 30, 2015 and December 31, 2014, respectively.

Deferred Purchase Obligation

On April 15, 2013, we acquired EHC for an initial purchase price of approximately $23.6 million in cash. The transaction also includes a deferred purchase price arrangement whereby, once EBITDA (including EBITDA of a Company affiliate which underwrites products sold by EHC) when combined with EHC’s equity at closing exceeds the initial purchase price, the seller will be entitled to receive an amount corresponding to fifty percent of EHC’s EBITDA (including EBITDA of a Company affiliate which underwrites products sold by EHC) for each of the fiscal years

2015, 2016, 2017 and 2018. We currently estimate the total purchase price including the deferred arrangement to be approximately $37.3 million, of which the deferred purchase price arrangement will be approximately $13.7 million. EHC is a limited liability company incorporated and registered under the laws of Sweden and primarily administers accident and health business in that region. During the first quarter of 2015, we made an advance on the deferred purchase price arrangement of approximately $2.4 million.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Credit Risk. Credit risk is the potential loss arising principally from adverse changes in the financial condition of the issuers of our fixed-maturity securities and the financial condition of our third party reinsurers. Additionally, we have counter-party credit risk with our repurchase agreement 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 we have ceded. As a result, reinsurance contracts do not limit our ultimate obligations to pay claims covered under the insurance policies we issue and we might not collect amounts recoverable from our reinsurers. We address this credit risk by selecting reinsurers that 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 broker, periodic credit reviews of our reinsurers. If one of our reinsurers suffers a credit downgrade, we may consider various options to lessen the risk of asset impairment, including commutation, novation and letters of credit. See Item 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 105-110% of the value of the securities we have sold with agreement to repurchase. Additionally, repurchase agreements are only transacted with pre-approved counter-parties.

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 and preferred stock with a fair value of $1,972.4 million and an amortized cost of $1,965.7 million as of September 30, 2015 that are subject to interest rate risk. Interest rate risk is the risk that we may incur losses due to adverse changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of our fixed-maturity securities. We manage our exposure to interest rate risk through a disciplined asset and liability matching and capital management process. In the management of this risk, the characteristics of duration, credit and variability of cash flows are critical elements. These risks are assessed regularly and balanced within the context of our liability and capital position.

The table below summarizes the interest rate risk by illustrating the sensitivity of the fair value and carrying value of our fixed-maturity securities as of September 30, 2015 to selected hypothetical changes in interest rates, and the associated impact on our stockholders’ equity. We anticipate that we will continue to meet our obligations out of income. We classify our fixed-maturity and equity securities as available-for-sale. Temporary changes in the fair value of our fixed-maturity securities impact the carrying value of these securities and are reported in our stockholders’ equity as a component of accumulated other comprehensive income, net of deferred taxes.

The selected scenarios with our fixed-maturity securities, excluding $11.4 million of preferred stock, in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the fair value and carrying value of our fixed-maturity securities and on our stockholders’ equity, each as of September 30, 2015.

Hypothetical Change in Interest Rates	Fair Value	Estimated

		Change in Fair Value	Hypothetical Percentage Increase (Decrease) in Stockholders' Equity
	(Amounts in Thousands)		
200 basis point increase	$1,855,076	$(105,892)	(5.4)%
100 basis point increase	1,949,202	(11,766)	(0.6)
No change	1,960,968	—	—
100 basis point decrease	2,153,143	192,175	9.8
200 basis point decrease	2,264,918	303,950	15.5

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 $409.5 million principal amount of debt instruments of which $350.0 million are fixed-rate debt instruments. A fluctuation of 100 basis points in interest on our variable-rate debt instruments, which are tied to

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LIBOR, would affect our earnings and cash flows by $0.6 million before income tax, on an annual basis, but would not affect the fair market value of the variable-rate debt.

Off-Balance Sheet Risk. As of September 30, 2015 we did not have any off-balance sheet arrangements that have or are likely to have a material effect on our financial condition or results of operations.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with 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 such term is defined in Rules 13a-15(e) and 15d-15(e) under 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.

Changes in Internal Controls Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2015 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

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

Item 1A. Risk Factors

There have been no material changes to the Risk Factors described in Part I “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 as filed with the SEC.

Item 6. Exhibits

INDEX TO EXHIBITS

The following documents are filed as exhibits to this report:

Exhibit No.	Description
4.1	Second Supplemental Indenture, dated as of August 18, 2015, by and between the Company and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K filed on August 18, 2015)
4.2	Form of 7.625% Subordinated Notes due 2055 (included as Exhibit A to Exhibit 4.1) (incorporated by reference to Exhibit 4.3 to the Company’s Current Report on Form 8-K filed on August 18, 2015)
10.1	Master Transaction Agreement, dated as of July 15, 2015, by and among the QBE Investments (North America), Inc., QBE Holdings, Inc. and National General Holdings Corp. (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on July 16, 2015)
12.1	Computation of Ratio of Earnings to Fixed Charges (filed herewith)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.SC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.SC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.1	The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets at September 30, 2015 and December 31, 2014; (ii) the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014; (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014; (iv) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2015 and 2014; (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015

and 2014; and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements (submitted electronically herewith)

SIGNATURES

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

November 9, 2015

NATIONAL GENERAL HOLDINGS CORP.

By: /s/ Michael Karfunkel
Name: Michael Karfunkel
Title: Chairman and Chief Executive Officer

By: /s/ Michael Weiner
Name: Michael Weiner
Title: Chief Financial Officer