AmTrust International Insurance, Ltd.
(a wholly-owned subsidiary of AmTrust Financial Services, Inc.)

Financial Statements
Years Ended December 31, 2010 and 2009

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

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Independent Auditors' Report

The Board of Directors
AmTrust International Insurance, Ltd.

We have audited the accompanying balance sheets of AmTrust International Insurance, Ltd. (the "Company") as of December 31, 2010 and 2009 and the related statements of income, changes in shareholders' equity and comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Company accounts for its investment in AmTrust International Underwriters Limited ("AIUL"), AmTrust Europe, Ltd. ("AEL"), AmTrust Captive Holdings Limited ("ACHL") and AmTrust Insurance International Management ("AIIM"), wholly-owned subsidiaries, on the equity method of accounting. Accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for using the full consolidation method. At December 31, 2010 and 2009, the Company reported its investment in AIUL under the equity method at $110,295,864 and $77,046,551, respectively. At December 31, 2010 and 2009, the Company reported its investment in AEL under the equity method at $58,836,257 and $21,176,792, respectively. At December 31, 2010 and 2009, the Company reported its investment in ACHL at $31,117,263 and $29,511,379, respectively. At December 31, 2010, the Company reported its investment in AIIM under the equity method at $75,949,940. If the financial statements of AIUL, IGI, ACHL and AIIM had been fully consolidated with those of the Company, total assets and total liabilities would be increased by $883,912,253 and $560,273,138, respectively, as of December 31, 2010, and $434,397,634 and $263,833,110, respectively, as of December 31, 2009. Revenues and expenses would be increased by $100,742,893 and $64,045,007, respectively, for the year ended December 31, 2010, and $63,693,516 and $40,566,643, respectively, for the year ended December 31, 2009.

In our opinion, except for the effects of not consolidating the majority-owned subsidiaries as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations, changes in shareholders' equity and comprehensive income and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Certified Public Accountants

New York, New York

October 4, 2011

AmTrust International Insurance, Ltd.
(a wholly-owned subsidiary of AmTrust Financial Services, Inc.)

Balance Sheets
(expressed in US dollars)

December 31,	2010	2009
Assets		
Investments:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost: 2010 - $557,685,651; 2009 - $347,836,447)	$ 569,632,623	$360,188,121
Equity securities, available-for-sale, at fair value (cost: 2010 - $8,997,167; 2009 - $50,682,320)	8,571,795	41,540,944
Short-term investments	3,854,828	3,140,211
Other investments	1,327,502	772,574
Total Investments	583,386,748	405,641,850
Cash and Cash Equivalents	17,167,931	42,518,394
Accrued Interest and Dividends	2,936,546	1,455,248
Premium Receivable – Related Party (Note 10)	207,671,036	364,304,096
Premium Receivable	-	793,009
Reinsurance Recoverable – Related Party (Note 9)	386,932,194	293,626,000
Prepaid Reinsurance – Related Party (Note 10)	283,899,240	261,117,230
Deferred Acquisition Costs	119,374,418	97,175,057
Promissory Note Receivable – Related Party (Note 11)	5,540,453	5,540,453
Investment in AmTrust International Underwriters Limited (Note 2)	110,295,864	77,046,551
Investment in AEL Group, Ltd. (Note 2)	58,836,257	21,176,792
Investment in AmTrust Captive Holdings Limited (Note 2)	31,117,263	29,511,379
Investment in all Insurance Management Limited (Note 2)	75,949,940	-
Investment in American Capital Acquisitions Corp. (Note 7)	77,136,249	-
Other Receivables - Related Party (Note 10)	294,670,718	256,567,399
Prepaid Expenses and Other Assets	358,376	365,494
	$2,255,273,233	$1,856,838,952
Liabilities and Shareholders' Equity		
Liabilities:		
Reserve for losses and loss adjustment expenses	$ 568,091,122	$ 479,983,009
Ceded reinsurance payable	142,500	131,365
Ceded reinsurance payable - related party (Note 10)	95,628,932	85,154,730
Unearned premiums	544,982,060	504,704,224
Note payable - related party (Note 10)	167,974,835	167,974,835
Securities sold but not yet purchased, at market	8,847,043	16,314,556
Securities sold under agreements to repurchase, at contract value	347,617,000	172,774,000
Derivative liability	-	1,893,062
Other liabilities - related party (Note 10)	115,893,057	97,188,837
Accounts payable and accrued expenses	1,767,636	12,274,095
Total Liabilities	1,850,944,185	1,538,392,713
Commitments and Contingencies (Note 15)		
Shareholders' Equity:		
Capital stock, $1 par value, 250,000 shares authorized, issued and outstanding in 2010 and 2009	250,000	250,000
Additional paid-in capital	154,028,475	154,028,475
Accumulated other comprehensive income (loss)	3,778,107	(15,349,002)
Retained earnings	246,272,466	179,516,766
Total Shareholders' Equity	404,329,048	318,446,239
	$2,255,273,233	$1,856,838,952

See accompanying notes to financial statements.

AmTrust International Insurance, Ltd.
(a wholly-owned subsidiary of AmTrust Financial Services, Inc.)

Statements of Income
(expressed in US dollars)

Year ended December 31,	2010	2009
Premium Income:		
Premiums assumed	$412,027,395	$363,040,213
Change in unearned premiums	16,990,014	62,722,607
Net Earned Premium	395,037,381	300,317,606
Ceding Commission – Related Party	138,110,801	112,849,862
Total Revenues	533,148,182	413,167,468
Expenses:		
Loss and loss adjustment expense	249,526,725	184,722,276
Commissions	237,258,446	169,972,090
Other underwriting expenses	48,114,531	38,669,139
Total Underwriting Expenses	534,899,702	393,363,505
Underwriting (Loss) Income	(1,751,520)	19,803,963
Net Investment Income	13,554,725	12,531,331
Net Realized Losses	(1,927,519)	(34,859,671)
Equity in Earnings of:		
AmTrust International Underwriters Ltd. (Note 2)	16,325,619	11,276,659
AEL Group Ltd. (Note 2)	10,893,899	854,613
AmTrust Captive Holdings Ltd. (Note 2)	5,310,598	9,715,602
American Capital Acquisitions Corp. (Note 7)	25,332,338	-
Interest Expense	(982,440)	(2,958,495)
Net Income	$ 66,755,700	$ 16,364,002

See accompanying notes to financial statements.

AmTrust International Insurance, Ltd.
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Statements of Changes in Shareholders' Equity and Comprehensive Income
(expressed in US dollars)

Years ended December 31, 2010 and 2009

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2008	$250,000	$154,028,475	$163,152,764	$(120,425,874)	$197,005,365
Comprehensive income:					
Net income	-	-	16,364,002	-	16,364,002
Unrealized holding gain arising during the year	-	-	-	78,633,216	78,633,216
Foreign currency translation	-	-	-	7,346,358	7,346,358
Reclassification adjustment for realized gain included in net income	-	-	-	19,097,298	19,097,298
Total comprehensive income					121,440,874
Balance, December 31, 2009	250,000	154,028,475	179,516,766	(15,349,002)	318,446,239
Comprehensive income:					
Net income	-	-	66,755,700	-	66,755,700
Unrealized holding gain arising during the year	-	-	-	8,854,033	8,854,033
Foreign currency translation	-	-	-	2,342,462	2,342,462
Reclassification adjustment for realized gain included in net income	-	-	-	7,930,614	7,930,614
Total comprehensive income					85,882,809
Balance, December 31, 2010	$250,000	$154,028,475	$246,272,466	$3,778,107	$404,329,048

See accompanying notes to financial statements.

AmTrust International Insurance, Ltd.
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Statements of Cash Flows
(expressed in US dollars)

Year ended December 31,	2010	2009
Cash Flows From Operating Activities:		
Net income	$ 66,755,700	$ 16,364,002
Adjustments to reconcile net income to net cash used in operating activities:		
Realized (gain) loss on investments	(18,886,279)	9,627,038
Non-cash write down on investments	20,813,798	24,778,198
Equity in earnings of AmTrust International Underwriters Ltd.	(16,325,619)	(11,276,659)
Equity in earnings of AEL Group Ltd.	(10,893,899)	(854,613)
Equity in earnings of AmTrust Captive Holdings Ltd.	(5,310,598)	(9,715,602)
Equity in earnings of American Capital Acquisitions Corp.	(25,332,338)	-
Marked to market adjustment on derivative liability	(33,062)	454,435
Changes in assets and liabilities:		
Accrued interest and dividends	(1,481,298)	2,964,569
Premiums receivable - primarily related party	156,633,060	(231,232,261)
Premiums receivable	793,009	23,124,527
Reinsurance recoverable- related party	(93,306,194)	(72,412,000)
Prepaid insurance - primarily related party	(22,782,010)	(20,512,585)
Deferred acquisition costs	(22,199,361)	(25,042,667)
Prepaid expenses and other assets	7,118	(365,494)
Other assets - related party	(38,103,319)	(127,129,802)
Other liabilities - related party	(149,034,177)	62,363,165
Accounts payable and accrued expenses	(10,973,868)	5,418,834
Unearned premiums	40,277,836	84,317,468
Ceded reinsurance payable - primarily related party	37,656,337	(14,720,006)
Reserve for losses and loss adjustment expenses	88,108,113	83,118,041
Net Cash Used In Operating Activities	(3,617,051)	(200,731,412)
Cash Flows From Investing Activities:		
Purchases of fixed maturity and equity securities	(2,373,663,977)	(17,822,360)
Proceeds from sale of fixed maturity and equity securities	2,178,262,682	208,078,145
Proceeds from other investments	(460,500)	1,076,092
(Purchases of) proceeds from short-term investments	(714,617)	66,877,657
Net Cash (Used In) Provided By Investing Activities	(196,576,412)	258,209,534
Cash Flows From Financing Activities:		
Securities sold under agreements to repurchase, net	174,843,000	(46,707,000)
Net (Decrease) Increase in Cash and Cash Equivalents	(25,350,463)	10,771,122
Cash and Cash Equivalents, Beginning of Year	42,518,394	31,747,272
Cash and Cash Equivalents, End of Year	$ 17,167,931	$ 42,518,394

Supplemental Non-Cash Financing Activity:

In 2010, the Company in lieu of cash contributed approximately $27,171,000 of marketable securities to Maiden Insurance Company, Ltd. to settle certain payables for reinsurance. This transaction affected the proceeds from sales of fixed maturities and ceded reinsurance payable financial statement line items.

See accompanying notes to financial statements.

1. Description of Company and Business

AmTrust International Insurance, Ltd. ("AII" or the "Company"), formerly AST International Insurance, Ltd., was incorporated under the laws of Bermuda on August 10, 1982. The Company is a wholly-owned subsidiary of AmTrust Financial Services, Inc. ("AmTrust"), a company incorporated in the United States of America.

The Company currently operates four business segments, Small Commercial Business; Specialty Risk and Extended Warranty; Specialty Program and Personal Lines Reinsurance (began in 2010 with the investment in ACAC). The Small Commercial Business segment provides workers' compensation to small businesses that operate in low and medium hazard classes, such as restaurants, retail stores and physicians and other professional offices and commercial package and other property and casualty insurance products to small businesses. The Specialty Risk and Extended Warranty segment provides coverage for consumer and commercial goods and custom designed coverages, such as accidental damage plans and payment protection plans offered in connection with the sale of consumer and commercial goods, in the United States and Europe, and certain niche property, casualty and specialty liability risks in the United States and Europe, including general liability, employers' liability and professional and medical liability. The Specialty program segment provides workers' compensation, package products, general liability, commercial auto liability and other specialty commercial property and casualty insurance to a narrowly defined, homogeneous, group of small and middle market companies whose business model and risk profile generally requires in-depth knowledge of a specific industry or sector focus in order to appropriately evaluate, price and manage the coverage risk. Lastly, the Personal Lines Reinsurance segment was formed in connection with the Personal Lines Quota Share entered into in connection with the acquisition of GMAC's U.S. consumer property and casualty insurance business (the "GMAC Business") during March 2010.

2. Investment in Subsidiaries

The Company's management has chosen not to consolidate its wholly-owned subsidiaries using a full consolidation method as required by accounting principles generally accepted in the United States of America ("U.S. GAAP"). Alternatively, the Company has accounted for these subsidiaries using the equity method of accounting.

AmTrust International Underwriters Limited ("AIUL")

In 2003, the Company acquired 100% of AIUL by exchanging certain intercompany notes receivable and its participation in a loan note issued by AmTrust Pacific Limited ("APL"), which was subsequently paid in full. AIUL is an insurance company licensed in Ireland.

As of December 31, 2010 and 2009, the Company carried its investment in AIUL at $110,295,864 and $77,046,551, respectively. As stated below, the total shareholders' equity of AIUL presented at December 31, 2010 and 2009 was $128,027,637 and $96,328,976, respectively. In 2006, AIUL issued 8% cumulative redeemable preferred stock in the amount of $16,000,000 to related parties. Income available for dividends was $1,280,000 for the years ended December 31, 2010 and 2009. These items account for the difference in carrying value and shareholders' equity of AIUL.

The table below contains a summary of assets, liabilities, revenue and expenses for AIUL as follows:

December 31,	2010	2009
Total assets	$227,849,075	$171,854,424
Total liabilities	99,821,438	75,525,448
Total shareholders' equity	$128,027,637	$96,328,976
Total revenues	$ 30,646,489	$25,306,701
Total expenses	13,040,870	12,750,042
Net income	17,605,619	12,556,659
Dividends to preferred shareholders	1,280,000	1,280,000
Net income available to common shareholders	$ 16,325,619	$11,276,659

The table below contains a reconciliation of the Company's investment in AIUL as follows:

December 31,	2010	2009
AIUL shareholders' equity	$128,027,637	$96,328,976
Less: preferred shares issued to affiliate	17,731,773	19,282,425
Investment at end of year	$110,295,864	$77,046,551

AmTrust Europe Ltd. ("AEL")

In 2007, the Company acquired 100% of the issued and outstanding stock of AEL (f/k/a IGI Group, Ltd.), a United Kingdom specialty issuer for approximately $15.2 million including acquisition costs. AEL is an insurance company licensed in the United Kingdom.

As of December 31, 2010 and 2009, the Company carried its investment in AEL at $58,836,257 and $21,176,792, respectively. In 2007, AEL issued 2,000 shares of 8% cumulative redeemable preferred stock for £2,000,000 to AII Insurance Management Limited ("AIIM") and AII Reinsurance Broker, Ltd. ("AIIB") which are companies controlled by AII's ultimate parent company. During March of 2010, the shares were converted to common shares of AEL. The common equity ownership percentage of AEL as of December 31, 2010 is as follows:

AII	79.0%
AIIM	10.5
AIIB	10.5

Income available for dividends related to the 8% cumulative redeemable preferred stock was $-0- and $250,356 for the years ended December 31, 2010 and 2009, respectively. Additionally, between 2007 and 2010, IGI issued 37,700 shares of 8% non-cumulative non-redeemable preferred stock for £37,700,000 to related parties, of which 20,500 shares in the amount of £20,500,000 were issued to the Company. These items account for the difference in carrying value and shareholders' equity of AEL.

The table below contains a summary of assets, liabilities, revenue and expenses for AEL as follows:

December 31,	2010	2009
Total assets	$554,034,171	$216,241,671
Total liabilities	458,359,548	171,517,502
Total shareholders' equity	$ 95,674,623	$ 44,724,169
Total revenues	$ 69,348,647	$ 38,386,815
Total expenses	56,124,412	37,281,847
Income from continuing operations	$ 13,224,235	$ 1,104,968
Dividends to preferred shareholders	$ -	$ 250,356
Net income available to common shareholders	$ 13,224,235	$ 854,612
Non-controlling interest	2,330,336	-
Net income attributable to AII	$ 10,893,899	$ 854,612

The table below contains a reconciliation of the Company's investment in AEL as follows:

December 31,	2010	2009
AEL shareholders' equity	$95,674,381	$44,724,169
Less: preferred shares issued to affiliate	36,838,124	23,547,377
Investment at end of year	$58,836,257	$21,176,792

AmTrust Captive Holdings Limited ("ACHL")

In 2009, the Company acquired all the issued and outstanding stock of Imagine Captive Holdings Limited ("ICHL"), a Luxembourg holding company, which owned all of the issued and outstanding stock of Imagine Re Beta SA, Imagine Re (Luxembourg) 2007 SA and Imagine Re SA (collectively, the "Captives"), each of which is a Luxembourg domiciled captive insurance company, from Imagine Finance SARL ("SARL"). ICHL subsequently changed its name to AmTrust Captive Holdings Limited and the Captives changed their names to AmTrust Re Beta, AmTrust Re 2007 (Luxembourg) and AmTrust Captive Solutions Limited, respectively. Additionally, the Captives had previously entered into a stop loss agreement with Imagine Insurance Company Limited ("Imagine") by which Imagine agreed to cede certain losses to the Captives. Concurrently, with the Company's purchase of ACHL, the Company entered into a novation agreement by which AII assumed all of Imagine's rights and obligations under the stop loss agreement. Subsequent to this acquisition, ACHL acquired the following entities in 2009 and 2010:

(a) Watt Re, a Luxembourg domiciled captive insurance company, from CREOS LUXEMBOURG S.A. (formerly CEGEDEL S.A.) and ENOVOUS Luxembourg S.A. (formerly CEGEDEL PARTICIPATIONS S.A.). Watt Re subsequently changed its name to AmTrust Re Gamma. The purchase price of Watt Re was approximately $30,200,000. The Company recorded approximately $34,500,000 of cash, intangible assets of $5,500,000 and a deferred tax liability of approximately $9,800,000. The Company assigned a life of three years to the intangible assets.

(b) Group 4 Falck Reinsurance S.A., a Luxembourg domiciled captive insurance company, from Group 4 Securitas (International) B.V. Group 4 Falck Reinsurance S.A. subsequently changed its name to AmTrust Re Omega. The purchase price of Group 4 Falck Reinsurance S.A. was approximately $22,800,000. The Company recorded approximately $25,100,000 of cash, intangible assets of $2,200,000 and a deferred tax liability of $4,500,000. The Company assigned a life of three years to the intangible assets.

(c) Euro International Reinsurance S.A., a Luxembourg domiciled captive insurance company, from TALANX AG. Euro International Reinsurance S.A. subsequently changed its name to AmTrust Re Delta. The purchase price of Euro International Reinsurance S.A. was approximately $58,300,000. The Company recorded approximately $65,700,000 of cash, intangible assets of $8,600,000 and a deferred tax liability of $16,000,000. The Company assigned a life of two years to the intangible assets.

The Company paid approximately $111 million for these entities collectively which resulted in the receipt of cash of approximately $138 million, accounts receivable of approximately $66 million and intangible assets of approximately $16 million, as well as loss reserves of approximately $79 million and a deferred tax liability of approximately $30 million.

The aforementioned ACHL transactions allow the Company to obtain the benefit of the captives' capital and utilization of their existing and future loss reserves through a series of reinsurance arrangements with a subsidiary of the Company.

Through a series of mergers that took place in 2010, AmTrust Re Beta and AmTrust Re Gamma merged into AmTrust Re Omega and AmTrust Re 2007 (Luxembourg), respectively, followed by AmTrust Re Omega merging into AmTrust Re 2007 (Luxembourg). As of December 31, 2010, ACHL held all of the issued and outstanding stock of the three remaining Captives: AmTrust Captive Solutions Limited, AmTrust Re 2007 (Luxembourg) and AmTrust Re Delta.

As of December 31, 2010, the Company carried its investment in ACHL at $31,117,263.

The table below contains a summary of assets, liabilities, revenue and expenses for ACHL as follows:

December 31,	2010	2009
Total assets	$48,927,565	$46,301,539
Total liabilities	17,810,302	16,790,160
Total shareholders' equity	$31,117,263	$29,511,379
Total revenues	$ 747,757	$ -
Total expenses	(4,562,841)	(9,715,602)
Net income available to common shareholders	$ 5,310,598	$ 9,715,602

All Insurance Management Limited ("AIIM")

On December 31, 2010, the Company's parent settled certain intercompany liabilities by contributing its wholly-owned subsidiary, AIIM to AII. AIIM is a Bermuda based investment management and service company. AIIM provides accounting and administrative services to the Company. The Company pays AIIM quarterly fees equal to 1.25% of the gross written premiums received. For the years ended December 31, 2010 and 2009, the Company incurred fees of $10,938,506 and $9,116,731, respectively. In addition, AIIM provides investment management services to the Company as well as other related parties. The Company pays AIIM a fee equal to 1% of the average value of the Company's assets. For the years ended December 31, 2010 and 2009, the Company incurred asset management fees of $5,388,698 and $5,353,573, respectively.

The table below contains a summary of assets and liabilities for AIIM as follows:

December 31, 2010	
Total assets	$75,949,940
Total liabilities	-
Total shareholders' equity	$75,949,940

The shareholders' equity represents AII's investment in AIIM.

3. Significant Accounting Policies

Basis of Presentation

Except as disclosed in Note 2 above, the financial statements have been prepared in accordance with U.S. GAAP.

Cash and Cash Equivalents

Cash and cash equivalents are presented at cost, which approximates fair value. The Company considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents. The Company maintains its cash balances at several financial institutions. The Federal Deposit Insurance Corporation ("FDIC") secures accounts up to $250,000 at these institutions. Management monitors balances in excess of insured limits and believes they do not represent a significant credit risk to the Company.

Investments

The Company accounts for its investments in accordance with the Financial Standards Accounting Board ("FASB") Accounting Standards Codification ("ASC") 320, "Investments - Debt and Equity Securities", which requires that fixed maturity and equity securities that have readily determined fair values be segregated into categories based upon the Company's intention for those securities. In accordance with ASC 320, the Company has classified its fixed maturities and equity securities as available-for-sale. The Company may sell its available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors. Available-for-sale fixed maturity securities and equity securities are reported at their estimated fair values based on quoted market prices or a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of comprehensive income in shareholders' equity. Realized gains and losses are determined on the specific identification method.

The following are the types of investments the Company has:

(a) Short-term investments — Short-term investments are carried at cost, which approximates fair value, and include investments with maturities between 91 days and less than one year at date of acquisition. As of December 31, 2010 and 2009, short-term investments consisted primarily of money market investments.

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

(c) Mortgage and asset-backed securities — For mortgage and asset-backed securities, the Company recognizes income using the retrospective adjustment method based on prepayments and the estimated economic life of the securities. The effective yield reflects actual payments to date plus anticipated future payments.

(d) Limited partnerships — The Company uses the equity method of accounting for investments in limited partnerships in which its ownership interest of the limited partnership enables the Company to influence the operating or financial decisions of the investee company, but the Company's interest in the limited partnership does not require consolidation. The Company's proportionate share of equity in net income of these unconsolidated affiliates is reported in net investment income.

(e) Derivatives and Hedging Activities — The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio. Derivatives are financial arrangements among two or more parties with returns linked to an underlying equity, debt, commodity, asset, liability, foreign exchange rate or other index. Unless subject to a scope exclusion, the Company carries all derivatives on the balance sheet at fair value. The changes in fair value of the derivative are presented as a component of operating income. The Company primarily utilizes the following types of derivatives:

- Credit default swap contracts ("CDS"), which are valued in accordance with the terms of each contract between the Company and the issuer of the CDS based on the current interest rate spreads and credit risk of the referenced obligation of the underlying issuer and interest accrual through the valuation date. Fair values are based on the price of the underlying bond on the valuation date. (The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract.) Such amounts are limited to the total equity of the account;
- Interest rate swaps ("IS"), which are valued in terms of the contract between the Company and the issuer of the swaps, are based on the difference between the stated floating rate of the underlying indebtedness, and a predetermined fixed rate for such indebtedness with the result that the indebtedness carries a net fixed interest rate; and
- Contracts for difference contracts ("CFD"), which are valued based on the market price of the underlying stock. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract.

(f) Securities sold under agreements to repurchase, at contract value — Securities sold under agreements to repurchase are accounted for as collateralized borrowing transactions and are recorded at their contracted repurchase amounts, plus accrued interest. The Company minimizes the credit risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring exposure and collateral value and generally requiring additional collateral to be deposited with the Company when necessary.

Net investment income consists primarily of interest and dividends less expenses. Interest on fixed maturities, adjusted for any amortization of premium or discount, is recorded as income when earned. Investment expenses are accrued as incurred. Realized investment gains or losses are computed using the specific costs of securities sold, and, if applicable, include write-downs on investments having other-than-temporary decline in value.

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

- the current fair value compared to amortized cost;
- the length of time the security's fair value has been below its amortized cost;

- specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments;
- whether management intends to sell the security and, if not, whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis;
- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings;
- the occurrence of a discrete credit event resulting in the issuer defaulting on material outstanding obligations or the issuer seeking protection under bankruptcy laws; and
- other items, including company management, media exposure, sponsors, marketing and advertising agreements, debt restructurings, regulatory changes, acquisitions and dispositions, pending litigation, distribution agreements and general industry trends.

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other than temporary. The Company writes down investments immediately that it considers to be impaired based on the above criteria collectively.

Based on guidance in FASB ASC 320-10-65, in the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is more likely than not that such holder will be required to sell the debt security before recovery of its amortized cost basis, is required to separate the decline in fair value into (a) the amount representing the credit loss and (b) the amount related to other factors. The amount of total decline in fair value related to the credit loss shall be recognized in earnings as an OTTI with the amount related to other factors recognized in accumulated other comprehensive loss, net of tax. OTTI credit losses result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of the loss realization.

Fair Value of Financial Instruments

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

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 the 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, 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 the Level 2 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 Level 2 or Level 3 of the fair value hierarchy.

Fixed Maturities

The Company utilized a pricing service to estimate fair value measurements for all of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted market prices in active markets. Since fixed maturities other than U.S. treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements using relevant market data, benchmark curves, sector groupings and matrix pricing. The pricing service utilized by the Company has indicated it will produce an estimate of fair value only if there is verifiable information to produce a valuation. As the fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes, the estimates of fair value other than U.S. Treasury securities are included in Level 2 of the fair value hierarchy. U.S. Treasury securities are included in the amount disclosed in Level 1 of the fair value hierarchy as the estimates are based on unadjusted prices. The Company's Level 2 investments include obligations of U.S. government agencies, municipal bonds, corporate debt securities and other mortgage backed securities.

Equity Securities

For public common and preferred stocks, the Company receives estimates from a pricing service that are based on observable market transactions and includes these estimates in Level 1 of the fair value hierarchy.

Other Investments

The Company has approximately 1% of its investment portfolio in limited partnerships or hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 of the fair value hierarchy. The Company has determined that its investments in Level 3 securities are not material to its financial position or results of operations.

Derivatives

The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. Derivatives, as defined in FASB ASC 815-10-15 are financial arrangements among two or more parties with returns linked to an underlying equity, debt, commodity, asset, liability, foreign exchange rate or other index. The Company carries all derivatives on its balance sheet at fair value. The changes in fair value of the derivative are presented as a component of operating income. Changes in fair value of a derivative used as a hedge are presented as a component of other comprehensive income. The Company primarily utilizes the following types of derivatives at any one time.

The Company estimates fair value using information provided by the portfolio manager for IS and CDS and the counterparty for CFD and classifies derivatives as Level 3 of the fair value hierarchy.

Recognition of Revenue

Reinsurance assumed premiums and related costs are based upon reports received from ceding companies. Unearned premium reserves are established for the portion of reinsurance assumed premiums to be recognized over the remaining contract period. Insurance premiums are earned on a pro rata basis over the policy period. A reserve for uncollectible premiums is established when considered appropriate.

Reserve for Losses and Loss Adjustment Expenses

The liabilities for unpaid losses and loss adjustment expenses (“LAE”) represent the estimated liabilities for reported claims, claims incurred but not yet reported and the related LAE. Liability for unpaid losses and LAE represents management’s best estimate of the ultimate net cost of all reported and unreported losses incurred through December 31. The reserves for unpaid losses and LAE are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Foreign Currency Translation

The Company assigns functional currencies to its foreign operations, which are generally the currencies of the local operating environment. Foreign currency amounts are remeasured to the functional currency, and the resulting foreign exchange gains and losses are reflected in earnings. Functional currency amounts are then translated into U.S. dollars. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of accumulated other changes in equity from non-owner sources. The foreign currency remeasurement and translation are calculated using current exchange rates for the items reported on the balance sheets and average exchange rates for items recorded in earnings.

Deferred Policy Acquisition Costs

The Company defers commission expenses, premium taxes and assessments, as well as certain marketing, sales, underwriting and safety costs that vary with and are primarily related to the acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. The Company may realize deferred policy acquisition costs only if the ratio of loss and LAE reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%

the Company could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve. The Company considers anticipated investment income in determining whether a premium deficiency relating to short duration contracts exists. The change in net deferred acquisition costs was $22,199,361 and $25,042,667 for the years ended December 31, 2010 and 2009, respectively. The amortization for deferred acquisition costs was $69,126,882 and $72,132,390 for 2010 and 2009, respectively.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, investments and premiums receivable. Investments are diversified through many industries and geographic regions through the use of money managers who employ different investment strategies. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and investments. At December 31, 2010 and 2009, the outstanding premiums receivable balances are primarily due from related parties.

Reinsurance

Reinsurance premiums, losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums earned and losses incurred ceded to other companies have been recorded as a reduction of premium revenue and losses and LAE. Commissions allowed by reinsurers on business ceded have been recorded as ceding commission revenue. Reinsurance recoverables are reported relating to the portion of reserves and paid losses and LAE that are ceded to other companies. The Company remains contingently liable for all loss payments, in the event of failure to collect from the reinsurer.

Income Taxes

At the present time, no income, profit, capital or capital gain taxes are levied in Bermuda and, accordingly, the Company has recorded no provision for such taxes. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 28, 2016.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions, which include the reserves for losses and LAE, are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. On an on-going basis, management reevaluates its assumptions and the methods of calculating its estimates. While management believes that the amounts included in the financial statements reflect the Company's best estimates and assumptions, actual results could differ from these estimates.

Reclassifications

Certain accounts in the prior year's financial statements have been reclassified for comparative purposes to conform to the current year's presentation. This did not have any impact on the net income of the Company.

Recent Accounting Pronouncements

In October 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts". ASU 2010-26 modifies the types of costs that may be deferred, allowing insurance companies to only defer costs directly related to a successful contract acquisition or renewal. These costs include incremental direct costs of successful contracts, the portion of employees' salaries and benefits related to time spent on acquisition activities for successful contracts and other costs incurred in the acquisition of a contract. Additional disclosure of the type of acquisition costs capitalized is also required. ASU 2010-26 is effective on a prospective basis for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted as of the beginning of a company's annual period. The Company is currently evaluating the impact of the adoption of ASU 2010-26 on its financial position.

In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements". This update requires additional disclosures about fair value measurements, including disclosure regarding the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for the transfers. For fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances which includes gains, losses, purchases, sales, issuances and settlements disclosed separately for the period is required. Additionally, fair value measurement disclosures will need disaggregation for each class of assets and liabilities. The requirements are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure about purchases, sales, issuances and settlements, which is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the guidance as of January 1, 2010 and the revised guidance did not have an impact on its results of operations, financial position or liquidity.

In August 2009, the FASB issued updated guidance for the accounting for the fair value measurement of liabilities. The guidance provides clarification that, in certain circumstances in which a quoted price in an active market for the identical liability is not available, a company is required to measure fair value using one or more of the following valuation techniques: the quoted price of the identical liability when traded as an asset, the quoted prices for similar liabilities or similar liabilities when traded as assets, and/or another valuation technique that is consistent with the principles of fair value measurements. The guidance also clarifies that a company is not required to include an adjustment for restrictions that prevent the transfer of the liability and, if an adjustment is applied to the quoted price used in a valuation technique, the result is a Level 2 or 3 fair value measurement. The guidance was effective for interim and annual periods beginning after August 27, 2009. The adoption of the guidance on October 1, 2009 did not have any effect on the Company's results of operations, financial position or liquidity.

In April 2009, the FASB issued new guidance for the accounting for other-than-temporary impairments. Under the new guidance, which is now part of ASC 320, "Investments – Debt and Equity Securities" , an other-than-temporary impairment is recognized when an entity has the intent to sell a debt security or when it is more likely than not an entity will be required to sell the debt security before its anticipated recovery. Additionally, the new guidance changes the presentation and amount of other-than-temporary losses recognized in the income statement for instances when the Company determines that there is a credit loss on a debt security but it is more likely than not that the entity will not be required to sell the security prior to the anticipated recovery of its remaining cost basis. For these debt securities, the amount representing the credit loss will be reported as an impairment loss in the statement of income and the amount related to all other factors will be reported in accumulated other comprehensive

income. The new guidance also requires the presentation of other-than-temporary impairments separately from realized gains and losses on the face of the income statement.

In addition to the changes in measurement and presentation, the new guidance is intended to enhance the existing disclosure requirements for other-than-temporary impairments and requires all disclosures related to other-than-temporary impairments in both interim and annual periods. The new guidance was effective for interim periods ended after June 15, 2009, with early adoption permitted for periods ended after March 15, 2009. The Company adopted the new guidance on April 1, 2009. The adoption did not have a material impact on its results of operations, financial position, or liquidity.

In April 2009, the FASB issued new guidance for determining when a transaction is not orderly and for estimating fair value when there has been a significant decrease in the volume and level of activity for an asset or liability. The new guidance, which is now part of ASC 820, “Fair Value Measurements and Disclosures”, requires the disclosure of the inputs and valuation techniques used, as well as any changes in valuation techniques and inputs used during the period, to measure fair value in interim and annual periods. The provisions of the new guidance were effective for interim periods ended after June 15, 2009, with early adoption permitted for periods ended after March 15, 2009. The Company adopted the new provisions on April 1, 2009 and the adoption did not have a material effect on its results of operations, financial position or liquidity.

In April 2009, the FASB issued new guidance related to the disclosure of the fair value of financial instruments. The new guidance, which is now part of ASC 820, “Fair Value Measurements and Disclosures”, requires disclosure about fair value of financial instruments in interim and annual financial statements. The new guidance was effective for periods ended after June 15, 2009, with early adoption permitted for periods ended after March 15, 2009. The Company adopted the new provisions on April 1, 2009 and the adoption did not have a material effect on its results of operations, financial position or liquidity.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

December 31,	2010	2009
Cash held in checking and savings accounts	$ 31,777	$ 346,528
Cash held with investment brokers	16,509,558	24,610,318
Cash held in money market funds	626,596	17,561,548
	$17,167,931	$42,518,394

As of December 31, 2010 and 2009, cash held in money market funds in the amount of $626,596 and $17,561,548, respectively, are restricted and held in trust pursuant to an intercompany reinsurance trust agreement in favor of related ceding insurers as further discussed in Note 9 - Reinsurance.

5. Investments

The original or amortized cost, estimated market value and gross unrealized appreciation and depreciation of fixed maturities and equity securities are summarized as follows at December 31, 2010 and 2009:

December 31, 2010

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 1,081,200	$ 19,500	$ -	$ 1,100,700
Common stock	7,915,967	1,211,332	(1,656,204)	7,471,095
U.S. treasury securities	52,397,735	151,554	(1,422,899)	51,126,390
Corporate bonds:				
Finance	26,589,395	1,194,591	(20,979)	27,763,007
Industrial	6,365,139	-	(45,146)	6,319,993
Utilities	4,877,253	433,077	-	5,310,330
Residential mortgage and agency-backed securities	457,370,271	13,155,204	(1,237,572)	469,287,903
Municipals	10,085,858	-	(260,858)	9,825,000
	$566,682,818	$16,165,258	$(4,643,658)	$578,204,418

December 31, 2009

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 1,105,000	$ -	$ (218,250)	$ 886,750
Common stock	49,577,320	4,000,680	(12,923,806)	40,654,194
U.S. treasury securities	11,627,624	-	(85,064)	11,542,560
Corporate bonds:				
Finance	18,874,969	1,909,189	(60,838)	20,723,320
Industrial	8,706,956	402,867	-	9,109,823
Residential mortgage and agency-backed securities	308,626,898	10,535,126	(349,606)	318,812,418
	$398,518,767	$16,847,862	$(13,637,564)	$401,729,065

Proceeds from sales and maturities of investments in available-for-sale securities during the years ended December 31, 2010 and 2009 were $2,178,262,682 and $208,078,145, respectively.

The amortized cost and estimated fair value of the Company's investments in fixed Maturity securities at December 31, 2010 are summarized by stated maturity, as follows. Mortgage-backed securities do not have a single maturity date and have been included below without a due date. Actual maturities may differ for some securities because borrowers may have the right to call or prepay obligations.

December 31, 2010	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	3,824,229	3,975,783
Due after five years through ten years	86,405,293	86,543,937
Due after ten years	10,085,858	9,825,000
Mortgage-backed securities	457,370,271	469,287,903
	$557,685,651	$569,632,623

Net investment income for the years ended December 31, 2010 and 2009 is comprised of:

Year ended December 31,	2010	2009
Interest income, net	$16,761,411	$18,522,234
Dividends	129,823	10,607
	16,891,234	18,532,841
Less: Asset management expense – primarily related party	3,336,509	6,001,510
	$13,554,725	$12,531,331

At December 31, 2010 and 2009, the aggregate amount of unrealized losses and the aggregate related fair values of investments with unrealized losses were segregated into the following time periods during which the investments had been in continuous unrealized loss positions:

December 31, 2010	Less Than 12 Months		12 Months or More		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Common and preferred stock	$ -	$ -	$3,550,963	$(1,656,204)	$ 3,550,963	$(1,656,204)
U.S. government agencies	47,164,000	(1,422,899)	-	-	47,164,000	(1,422,899)
Corporate bonds:						
Finance	5,396,844	(20,547)	37	(432)	5,396,881	(20,979)
Industrial	6,319,100	(45,146)	-	-	6,319,100	(45,146)
Utilities	-	-	-	-	-	-
Residential mortgage and agency-backed securities	150,575,172	(1,237,572)	-	-	150,575,172	(1,237,572)
Municipals	9,825,000	(260,858)	-	-	9,825,000	(260,858)
Total temporarily impaired available-for-sale securities	$219,280,116	$(2,987,022)	$3,551,000	$(1,656,636)	$222,831,116	$(4,643,658)

December 31, 2009

	Less Than 12 Months		12 Months or More		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Common and preferred stock	$ 7,081,275	$(2,891,809)	$16,345,399	$(10,250,247)	$ 23,426,674	$(13,142,056)
U.S. government agencies	11,542,560	(85,064)	-	-	11,542,560	(85,064)
Corporate bonds:						
Finance	7,355,097	(60,838)	-	-	7,355,097	(60,838)
Industrial	-	-	-	-	-	-
Utilities	-	-	-	-	-	-
Residential mortgage and agency-backed securities	22,934,683	(107,105)	74,279,815	(242,501)	97,214,498	(349,606)
Total temporarily impaired available-for-sale securities	$48,913,615	$(3,144,816)	$90,625,214	$(10,492,748)	$139,538,829	$(13,637,564)

The number of securities in an unrealized loss position greater than 12 months and less than 12 months was 8 and 9, respectively, as of December 31, 2010 and was 15 and 18, respectively, as of December 31, 2009.

The Company's investment portfolio does not contain significant investments held with one single issuer. The unrealized losses related to the Company's investments in fixed maturity securities are predominantly interest rate related. The Company has both the intent and ability to hold individual securities until their maturity

The Company's realized gains and losses on fixed maturity, equity securities and derivatives are summarized as follows:

December 31, 2010

	Gross Gains	Gross Losses	Net Gain/Loss
Fixed maturities	$10,348,910	$ (5,110,626)	$ 5,238,284
Equity securities	19,322,036	(5,707,103)	13,614,933
Derivatives	33,062	-	33,062
Write-down of fixed maturities	-	(10,540,005)	(10,540,005)
Write-down of equity securities	-	(10,273,793)	(10,273,793)
	$29,704,008	$(30,352,445)	$ (1,927,519)

December 31, 2009

	Gross Gains	Gross Losses	Net Gain/Loss
Fixed maturities	$1,464,441	$ (3,017,862)	$ (1,553,421)
Equity securities	6,297,841	(10,324,117)	(4,026,276)
Derivatives	-	(4,501,776)	(4,501,776)
Write-down of fixed maturities	-	(4,429,044)	(4,429,044)
Write-down of equity securities	-	(20,349,154)	(20,349,154)
	$7,762,282	$(42,621,953)	$(34,859,671)

Securities sold but not yet purchased, represent obligations of the Company to deliver the specified security at the contracted price and thereby create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value and, as of December 31, 2010 and 2009, was $8,483,043 and $15,359,556 for corporate bonds, respectively, and $364,000 and $955,000 for equity securities, respectively. These transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, may exceed the amount reflected at December 31, 2010. Substantially all securities owned are pledged to the clearing broker to sell or repledge the securities to others subject to certain limitations. The Company is subject to certain inherent risks arising from its investing activities of selling securities. The ultimate cost to the Company to acquire these securities may exceed the liability reflected in these financial statements.

Securities sold under agreements to repurchase, at contract value, are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities that it invests or holds in short-term or fixed income securities. As of December 31, 2010, there was $347,617,000 principal amount outstanding at interest rates between 0.32% and 0.4%. Interest expense associated with these repurchase agreements for the year ended 2010 was approximately $610,000, of which $63,000 was accrued as of December 31, 2010. The Company has $351,211,000 of collateral pledged in support of these agreements. As of December 31, 2009, there was $172,774,000 principal amount outstanding at interest rates between 0.25% and 0.3%. Interest expense associated with these repurchase agreements for the year ended 2009 was approximately $1,662,000, of which $23,000 was accrued as of December 31, 2009. The Company had $176,494,000 of collateral pledged in support of these agreements.

6. Fair Value of Financial Instruments

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of December 31, 2010 and 2009:

December 31, 2010	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$ 51,126,390	$51,126,390	$ -	$ -
Corporate bonds	39,393,330	-	39,393,330	-
Residential mortgage agency backed securities	469,287,903	-	469,287,903	-
Municipals	9,825,000	-	9,825,000	-
Equity securities	8,571,795	8,571,795	-	-
Short-term investments	3,854,828	3,854,828	-	-
Other investments	1,327,502	-	-	1,327,502
Total	$583,386,748	$63,553,013	$518,506,233	$1,327,502
Liabilities:				
Securities sold but not yet purchased, at market	$ 8,847,043	$364,000	$ 8,483,043	$ -
Securities sold under agreements to repurchase, at contract value	347,617,000	-	347,617,000	-
Total	$356,464,043	$364,000	$356,464,043	$ -

December 31, 2009	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$ 11,542,560	$11,542,560	$ -	$ -
Corporate bonds	29,833,143	-	29,833,143	-
Residential mortgage agency backed securities	318,812,418	-	318,812,418	-
Equity securities	41,540,944	41,540,944	-	-
Short-term investments	3,140,211	3,140,211	-	-
Other investments	772,574	-	-	772,574
Total	$405,641,850	$56,223,715	$348,645,561	$772,574
Liabilities:				
Securities sold but not yet purchased, at market	$172,774,000	$ -	$172,774,000	$ -
Securities sold under agreements to repurchase, at contract value	16,314,556	955,000	15,359,556	-
Derivatives	1,893,062	-	-	1,893,062
Total	$190,981,618	$955,000	$188,133,556	$1,893,062

The following tables provide a summary of changes in fair value of the Company's Level 3 financial assets and liabilities as of December 31, 2010 and 2009:

December 31, 2010

	Assets	Liabilities	Total
Beginning balance as of January 1, 2010	$ 772,574	$(1,893,062)	$(1,120,488)
Total net losses for the year included in:			
Net loss	94,420	33,062	127,482
Other comprehensive loss	-	-	-
Purchases and issuances	550,469	-	550,469
Sales and settlements	(89,961)	1,860,000	1,770,039
Net transfers into (out of) Level 3	-	-	-
Ending balance as of December 31, 2010	$1,327,502	$ -	$ 1,327,502

December 31, 2009

	Assets	Liabilities	Total
Beginning balance as of January 1, 2009	$ 9,744,093	$(1,438,627)	$ 8,305,466
Total net losses for the year included in:			
Net loss	-	(4,569,773)	(4,569,773)
Other comprehensive loss	-	-	-
Purchases and issuances	55,141	-	55,141
Sales and settlements	(9,026,660)	4,115,338	(4,911,322)
Net transfers into (out of) Level 3		-	-
Ending balance as of December 31, 2009	$ 772,574	$(1,893,062)	$(1,120,488)

7. Investment in ACAC

During 2010, the Company's parent settled certain intercompany liabilities by contributing its 21.25% equity ownership of AmTrust Capital Acquisition Corp. ("ACAC") in lieu of cash to AII. ACAC was contributed to AII at its net book value of approximately $53,045,761. ACAC was formed by the Michael Karfunkel 2005 Grantor Retained Annuity Trust (the "Trust") and AmTrust Financial Services, Inc. for the purpose of acquiring from GMAC Insurance Holdings, Inc. ("GMACI") and Motor Insurance Corporation ("MIC", together with GMACI, "GMAC") GMAC's U.S. consumer property and casualty insurance business. The acquired GMAC consumer property and casualty insurance business (the "GMAC Business") is a writer of automobile coverages through independent agents in the United States. The GMAC Business encompassed all fifty states and its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the "GMAC Insurers"). Michael Karfunkel, individually, and the Trust, which is controlled by Michael Karfunkel, own 100% of ACAC's common stock (subject to the Company's parent company conversion rights described below). Michael Karfunkel is the Chairman of the Board of Directors of the Company's parent and the father-in-law of Barry D. Zyskind, the Chief Executive Officer of the Company's parent. The ultimate beneficiaries of the Trust include Michael Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman of the Board of Directors of ACAC.

The Company's parent, the Trust and Michael Karfunkel, individually, each shall be required to make its or his proportional share of the deferred payments payable by ACAC to GMAC pursuant to the GMAC Securities Purchase Agreement, which is payable over a period of three years from the date of the closing of the Acquisition, to the extent that ACAC is unable to otherwise provide for such payments. The Company's proportionate share of such deferred payments shall not exceed $22,500,000. The acquired GMAC Business is a writer of automobile coverages through independent agents in the United States. The GMAC Business had a net written premium in excess of $900,000,000 in 2010 that encompassed all fifty states. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the "GMAC Insurers").

In connection with the Company's investment in ACAC:

(i) the Company's parent provides ACAC and its subsidiaries information technology development services at cost plus 20%. In addition, once a new system to be developed by the Company's parent is implemented and ACAC or its affiliates begin using the system in its operations, the Company will be entitled to an additional fee for use of the systems in the amount of 1.25% of gross premiums of ACAC and its affiliates. The Company's parent recorded approximately $2,022,000 of fee income for the year ended December 31, 2010 related to this agreement. The terms and conditions of the above are subject to regulatory approval.

(ii) AIIM manages the assets of ACAC and its subsidiaries for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1 billion or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1 billion. As a result of this agreement, AIIM earned approximately $1,456,000 of investment management fees for the year ended December 31, 2010.

(iii) ACAC is providing the Company's parent with access to its agency sales force to distribute the Company's products, and ACAC will use its best efforts to have said agency sales team appointed as the Company's agents.

(iv) ACAC will grant the Company's parent a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMAC in connection with the acquisition.

(v) Technology Insurance Company ("TIC"), effective March 1, 2010, reinsures 10% of the net premiums of the GMAC Business, pursuant to a 50% quota share reinsurance agreement ("Personal Lines Quota Share") with the GMAC Insurers, as cedents, and the Company, American Capital Partners Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. TIC has a 20% participation in the Personal Lines Quota Share, by which it receives 10% of net premiums of the personal lines business. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, shall receive 50% of the net premium of the GMAC Insurers and assume 50% of the related net losses. The Personal Lines Quota Share has an initial term of three years and shall renew automatically for successive three year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. Notwithstanding the foregoing, TIC's participation in the Personal Lines Quota Share may be terminated by the GMAC Insurers on 60 days written notice in the event the Company becomes insolvent, is placed into receivership, its financial condition is impaired by 50% of the amount of its surplus at the inception of the Personal Lines Quota Share or latest anniversary, whichever is greater, is subject to a change of control, or ceases writing new and renewal business. The GMAC Insurers also may terminate the agreement on nine months written notice following the effective date of an initial public offering or private placement of stock by ACAC or a subsidiary. TIC may terminate its participation in the Personal Lines Quota Share on 60 days written notice in the event the GMAC Insurers are subject to a change of control, cease writing new and renewal business, effect a reduction in their net retention without the Company's consent or fail to remit premium as required by the terms of the Personal Lines Quota Share. The Personal Lines Quota Share provides that the reinsurers pay a provisional ceding commission equal to 32.5% of ceded earned premium, net of premiums ceded by the personal lines companies 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 60.5% or less and a minimum of 30.5% if the loss ratio is 64.5% or higher. The Personal Lines Quota Share was subject to a premium cap that limited the premium that could be ceded by the GMAC Insurers to TIC to $110,000,000 during calendar year 2010 to the extent TIC were to determine, in good faith, that it could not assume additional premium. The premium cap increases by 10% per annum thereafter. As a result of this agreement, TIC assumed $82,295,000 of business from the GMAC Insurers during the year ended December 31, 2010.

8. Reserve for Losses and Loss Adjustment Expenses

The following table provides reconciliation for losses and LAE for the years ended December 31, 2010 and 2009:

December 31,	2010	2009
Unpaid losses and LAE, gross of related reinsurance recoverables at beginning of year	$479,983,009	$396,864,968
Less: Reinsurance recoverables at beginning of year	249,972,932	173,968,379
Net balance, beginning of year	230,010,077	222,896,589
Incurred related to:		
Current year	245,278,703	188,764,825
Prior year	4,248,022	(2,739,250)
Total incurred losses during the year	249,526,725	186,025,575
Paid losses and LAE related to:		
Current year	(127,509,075)	(116,125,325)
Prior year	(107,127,030)	(62,786,762)
Total payments for losses and LAE	(234,636,105)	(178,912,087)
Plus reinsurance recoverables at end of year	323,190,425	249,972,932
Reserve, December 31	$568,091,122	$479,983,009
Comprised of:		
Reserve for reported losses and LAE	$380,787,660	$276,765,247
Reserves for losses incurred but not reported	187,303,462	203,217,762
	$568,091,122	$479,983,009

Loss development for prior accident years increased by $4,248,022 in 2010 and decreased by $2,739,250 in 2009. The unfavorable development during 2010 was attributed to the Company's parent company's Specialty Program Business segment due to higher actuarial estimates based on actual losses. The favorable development during 2009 was attributable to the Company's parent company's Workers Compensation business offset by unfavorable development in the Specialty Program Business.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends.

The estimation of reserves for unpaid losses and LAE is based on factors existing at the date of estimation. Accordingly, future events may result in ultimate loss and LAE significantly varying from a reasonable provision as of the date of estimation.

9. Reinsurance

The Company utilizes reinsurance agreements to proportionately share risk. These agreements provide for recovery from reinsurers of a portion of losses and LAE under certain circumstances without relieving the insurer of its obligation to the policyholder. Losses and LAE incurred and premiums earned are reflected after deduction for reinsurance. In the event reinsurers are unable to meet their obligations under reinsurance agreements, the Company would not be able to realize the full value of the reinsurance recoverable balances. The Company periodically evaluates the financial condition of its reinsurers in order to minimize its exposure to significant losses from reinsurer insolvencies. Reinsurance does not discharge or diminish the primary liability of the Company; however, it does permit recovery of losses on such risks from the reinsurers.

The Company has the following reinsurance agreements:

Maiden Quota Share

During the third quarter of 2007, the Company's parent, AmTrust, and Maiden Holdings, Ltd. ("Maiden") entered into a master agreement with Maiden, as amended, by which the Company and Maiden Insurance Company, Ltd. ("Maiden Insurance") entered into a quota share reinsurance agreement (the "Maiden Quota Share"), as amended, by which (a) AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by AmTrust's U.S., Irish and U.K. insurance companies (the "AmTrust Ceding Insurers"), net of the cost of unaffiliated insuring reinsurance (and in the case of AmTrust's U.K. insurance subsidiary, AEL, net of commissions) and 40% of losses and (b) the Company transferred to Maiden Insurance 40% of the AmTrust Ceding Insurers' unearned premium reserves, effective July 1, 2007, with respect to the Company's then current lines of business, excluding risks for which the AmTrust Ceding Insurers' net retention exceeded $5,000 ("Covered Business").

In June 2008, the Company's parent, pursuant to the Maiden Quota Share, offered to cede to Maiden Insurance and Maiden Insurance agreed to assume 100% of unearned premium and losses related to in-force retail commercial package business assumed by the Company's parent company in connection with its acquisition of UBI, the commercial package business of Unitrin, Inc. ("Unitrin") from a subsidiary of Unitrin and 40% of prospective net premium written and loss with respect to certain business written by AmTrust's Irish insurance subsidiary, AIU, for which AIU retains in excess of $5,000,000 per loss.

The Maiden Quota Share, as amended, further provides that AII receives a ceding commission of 31% of ceded written premiums with respect to Covered Business, except retail commercial package business, for which the ceding commission is 34.375%. The Maiden Quota Share, which had an initial term of three years, has been renewed for a three-year term effective July 1, 2010 and will automatically renew for successive three year terms, unless either the Company or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three year term. In addition, either party is entitled to terminate on thirty days' notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of the Company or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Insurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers.

Maiden is a publicly-held Bermuda insurance holding company (Nasdaq: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, the principal shareholders, and, respectively, the Chairman of the Board of Directors, a director, and the Chief Executive Officer and director of the Company. As of December 31, 2009, assuming full exercise of outstanding warrants, Michael Karfunkel owns or controls approximately 13.9% of the issued and outstanding capital stock of Maiden, George Karfunkel owns or controls approximately 9.4% of the issued and outstanding capital stock of Maiden and Mr. Zyskind owns or controls approximately 4.99% of the issued and outstanding stock of Maiden. Mr. Zyskind serves as the non-executive Chairman of the Board of Maiden's Board of Directors. Maiden Insurance, a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer.

The following is the effect on the Company's balance sheet as of December 31, 2010 and 2009 related to the Maiden Quota Share agreement:

	2010	2009
Assets and liabilities:		
Reinsurance recoverable	$ 386,932,194	$ 293,626,000
Prepaid reinsurance premium	283,899,240	261,117,680
Ceded reinsurance premiums payable	(95,628,932)	(85,154,730)
Note payable	(167,974,835)	(167,974,835)
Results of operations:		
Premium written – ceded	$(463,042,966)	$(379,784,891)
Change in unearned premium – ceded	21,771,284	21,854,777
Earned premium – ceded	$(441,271,682)	$(357,930,114)
Ceding commission on premium written	$ 144,597,515	$ 118,990,943
Ceding commission – deferred	(6,486,714)	(6,140,532)
Ceding commission earned	$ 138,110,801	$ 112,850,411
Incurred loss and loss adjustment expense – ceded	$ 295,469,130	$259,780,091
Interest expense	$ 982,440	$ 2,958,495

The Maiden Quota Share requires that Maiden Insurance provide to AII sufficient collateral to secure its proportional share of AII's obligations to the U.S. AmTrust Ceding Insurers. AII is required to return to Maiden Insurance any assets of Maiden Insurance in excess of the amount required to secure its proportional share of AII's collateral requirements, subject to certain deductions. In order to secure its proportional share of AII's obligation to the AmTrust Ceding Insurers domiciled in the U.S., AII currently has outstanding a collateral loan issued to Maiden Insurance in the amount of $167,974,835 (see Note 10 - "Related Party Transactions"). Effective December 1, 2008, AII and Maiden Insurance entered into a Reinsurer Trust Assets Collateral Agreement whereby Maiden Insurance is required to provide AII the assets required to secure Maiden's proportional share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral as of December 31, 2010 was approximately $362,000,000. Maiden retains ownership of the collateral in the trust account.

Reinsurance Agreements with Subsidiaries of Parent Company

During 2001, the Company entered into a reinsurance agreement ("Intercompany Reinsurance Agreement") with two related parties, Technology Insurance Company ("TIC") and Rochdale Insurance Company ("RIC"), which covers certain lines of business produced by the related parties. The premiums ceded are computed after giving effect to all other quota share and excess of loss agreements. The Intercompany Reinsurance Agreement was amended on five occasions effective March 1, 2003, June 1, 2006, April 1, 2007, September 1, 2007 and June 1, 2008.

Pursuant to a first amendment to the Intercompany Reinsurance Agreement, which applied to policies with an effective date of January 1, 2003, TIC and RIC cede 70% to the Company. In addition, TIC and RIC cede and the Company assumes 100% of assigned risk or similar plans. An assigned risk is one underwritten by special insurance facilities established under state laws to provide certain coverage for those who cannot purchase policies in the open market.

Pursuant to the second amendment to the Intercompany Reinsurance Agreement, Wesco Insurance Company ("WIC"), a related party, cedes 70% of its risks to the Company, net of any applicable third-party reinsurance.

Pursuant to the third amendment to the Intercompany Reinsurance Agreement, AmTrust Europe, Ltd. ("AEL"), a related party, cedes 70% of its risks to the Company.

Pursuant to the fourth amendment to the Intercompany Reinsurance Agreement, Associated Industries Insurance Company, Inc. ("AIIC"), a related party, cedes 70% of its risks to the Company.

Pursuant to the fifth amendment to the Intercompany Reinsurance Agreement, Security National Insurance Company ("SNIC"), Milwaukee Casualty Insurance Company ("MCIC"), AmTrust Universal Insurance Company of Kansas, Inc. ("AICK") and AmTrust Lloyd's Insurance Company ("ALIC"), related parties, cede 70% of their retained risks to the Company.

Under the Intercompany Reinsurance Agreement, the Company pays a ceding commission which equals 70% of TIC's, RIC's, WIC's and AIIC's direct acquisition costs (commission), premium taxes and assessments. In addition, effective March 1, 2003, TIC, RIC and WIC charged the Company an additional ceding commission of 5% of direct written premiums ceded to cover other direct underwriting costs.

AIUL entered into a 60% quota share reinsurance agreement with the Company for the portion of AIUL's risks under its specialty risk and extended warranty business that is not ceded to third-party reinsurers. Although this Intercompany Reinsurance Agreement is broad enough to cover all of AIUL's specialty risk and extended risks to the extent that it is not reinsured with third-party reinsurers, AIUL has elected not to cede certain of these risks to the Company.

Pursuant to the Intercompany Reinsurance Agreement, the Company is required to hold certain assets in trust. As of December 31, 2010 and 2009, cash of $626,595 and $17,561,548, respectively, and investments of $596,630,626 and $360,188,123, respectively, were held in restricted trust accounts.

Reinsurance risks assumed by the Company are protected by excess of loss and aggregate excess of loss reinsurance, which limits the maximum of any one loss to $1,000,000.

The table below outlines the risks ceded by related parties and assumed by the Company, net of third-party reinsurance, under the current terms of the Intercompany Reinsurance Agreement:

Related Ceding Company	Percentage Assumed
TIC[(1) (3)]	70.00%
RIC[(1) (3)]	70.00%
AIUL (effective December 31, 2003)	60.00%
WIC[(1)] (effective June 1, 2006)	70.00%
AEL (effective April 1, 2007)	70.00%
AIIC (effective September 1, 2007)	70.00%
SNIC [(2)] (effective June 1, 2008)	70.00%
MCIC [(2)] (effective June 1, 2008)	70.00%
AICK [(2)] (effective June 1, 2008)	70.00%
ALIC [(2)] (effective June 1, 2008)	70.00%

(1) In addition, TIC, RIC and WIC cede 100% of assigned risk business to the Company.

(2) As part of the acquisition by the Company's parent for the commercial package business of Unitrin, the Company agreed to assume 100% of the unearned premium as of June 1, 2008 on policies associated with that acquisition; that unearned premium was subsequently ceded 100% to Maiden.

(3) The Company assumed 42.50% through February 28, 2003 from TIC and RIC.

The effects of reinsurance on assumption of premiums written and earned in 2010 and 2009 are as follows:

	2010		2009	
	Assumed Written	Assumed Earned	Assumed Written	Assumed Earned
Affiliates:				
TIC	$318,693,919	$315,067,751	$265,197,718	$229,621,383
RIC	74,793,279	80,085,358	80,124,404	83,107,901
WIC	143,669,673	131,320,749	144,069,393	112,471,151
AIIC	6,385,179	7,682,319	10,976,063	13,437,398
SNIC	27,722,927	26,647,019	29,827,057	37,683,646
MCIC	9,039,723	10,324,619	12,390,045	16,399,362
AICK	19,538,267	19,942,109	22,005,024	29,617,013
ALIC	34,057	164,732	401,931	1,066,756
IGI	86,759,480	69,896,002	52,238,872	30,580,408
AIUL	177,808,838	162,814,162	119,180,195	93,619,623
Non-affiliates	10,625,019	12,364,243	6,414,402	10,643,079
Gross premiums assumed	875,070,361	836,309,063	742,825,104	658,247,720
Premium ceded	463,042,966	441,271,682	379,784,891	357,930,114
Net premiums assumed	$412,027,395	$395,037,381	$363,040,213	$300,317,606

The total amounts included in the accompanying financial statements for reinsurance are as follows:

December 31, 2010

	Assumed (Ceded) Incurred Losses and LAE	Assumed (Ceded) Unpaid Losses and LAE	Assumed Unearned Premium
Affiliates:			
TIC	$215,200,735	$270,068,174	$164,178,975
RIC	31,966,805	106,069,462	38,734,616
WIC	109,585,192	106,096,164	125,915,346
AIIC	5,023,312	13,107,358	2,504,888
SNIC	19,904,440	24,013,337	13,925,623
MCIC	6,459,969	8,072,555	3,977,838
AICK	11,437,155	19,302,189	9,352,444
ALIC	(84,026)	644,621	(4)
AEL	55,755,472	38,477,843	57,378,636
AIUL	141,553,897	54,462,725	123,243,658
ACHL	(62,123,808)	(93,975,885)	-
Non-affiliates assumed	10,904,457	21,752,578	5,770,040
	545,583,600	568,091,121	544,982,060
Non-affiliates ceded	296,056,875	323,190,424	283,899,240
	$249,526,725	$244,900,697	$261,082,820

December 31, 2009

	Assumed (Ceded) Incurred Losses and LAE	Assumed (Ceded) Unpaid Losses and LAE	Assumed Unearned Premium
Affiliates:			
TIC	$147,922,710	$207,281,914	$159,548,359
RIC	54,276,513	110,193,971	43,605,570
WIC	85,914,231	72,663,346	113,475,457
AIIC	11,034,848	15,455,569	3,802,028
SNIC	24,893,206	24,732,359	12,849,715
MCIC	11,271,161	9,136,291	5,262,734
AICK	22,012,635	20,123,649	9,756,286
TLIC	1,182,164	1,162,150	130,671
IGI	25,706,482	10,732,110	40,515,157
AIUL	83,482,157	22,483,452	108,248,981
ACHL	(31,852,077)	(31,852,077)	-
Non-affiliates assumed	8,658,337	17,870,275	7,509,266
	444,502,367	479,983,009	504,704,224
Non-affiliates ceded	259,780,091	249,972,932	261,117,230
	$184,722,276	$230,010,077	$243,586,994

10. Related Party Transactions

Note Payable – Collateral for Proportionate Share of Reinsurance Obligation

In conjunction with the Maiden Quota Share agreement (see Note 9 - "Reinsurance"), AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby Maiden Insurance will lend to AII from time to time the amount of obligation of the AmTrust Ceding Insurers that AII is obligated to secure, not to exceed an amount equal to Maiden Insurance's proportionate share of such obligations to such AmTrust Ceding Insurers in accordance with the reinsurance agreement. The Company is required to deposit all proceeds from the advances into a sub-account of each trust account that has been established for each AmTrust Ceding Insurer. To the extent of the loan, Maiden Insurance shall be discharged from providing security for its proportionate share of the obligations as contemplated by the reinsurance agreement. If an AmTrust Ceding Insurer withdraws loan proceeds from the trust account for the purpose of reimbursing such AmTrust Ceding Insurer, for an ultimate net loss, the outstanding principal balance of the loan shall be reduced by the amount of such withdrawal. The loan agreement was amended in February 2008 to provide for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Each advance under the loan is secured by a promissory note. Advances totaled $167,974,835 as of December 31, 2010 and 2009. The Company recorded interest expense of $982,440 and $2,958,495 on this loan for the years ended December 31, 2010 and 2009, respectively.

Other Related Party Transactions

The majority of other insurance business is conducted directly with parties related through common ultimate ownership.

AmTrust North America, Inc. ("ANA") and AmTrust North America UBI, Inc. ("ANA UBI") are insurance agencies which serve as general agents for the Company and its affiliated insurance companies. The Company has reinsurance agreements with certain insurance companies related through common ultimate ownership (see "Note 9 – Reinsurance"). Premiums receivable related to these reinsurance agreements at December 31, 2010 and 2009 were $207,671,036 and $364,304,096, respectively.

AII Insurance Brokerage Limited ("AIIB"), a Bermuda domiciled company, is a reinsurance broker company which serves as a reinsurance broker for the Company. The Company appointed AIIB as its exclusive broker for the negotiation, procurement and/or placement of reinsurance by the Company. The Company pays AIIB reinsurance brokerage fees of 2% of gross written premium assumed by the Company during the year. For the years ended December 31, 2010 and 2009, the Company incurred reinsurance brokerage fees of $17,501,611 and $14,264,515, respectively.

Other receivable/(liabilities) due from/(to) related parties at December 31, 2010 and 2009 are as follows:

Due from Related Parties		2010	2009
ANA	Cash advance	$236,851,140	$124,245,005
ANA	Interest receivable on mortgage/note receivable	2,101,981	1,698,401
ANA-UBI	Cash advance	-	2,314,703
Westside Parkway	Cash advance	3,275,635	-
AFS	Cash advance	52,441,962	128,309,290
	Total	$294,670,718	$256,567,399

Due to Related Parties		2010	2009
AIIB	Investment management services fee	$(48,563,535)	$(40,674,834)
AIIM	Insurance services fees	(44,533,103)	(34,606,256)
ACHL	Intercompany loan	(22,755,369)	(21,866,697)
TIC	Miscellaneous	(41,050)	(41,050)
	Total	$(115,893,057)	$(97,188,837)

11 - Promissory Note Receivable – Related Party

In 2005, the Company issued a 15-year promissory note with a maturity date of October 1, 2020 to a related party in connection with the purchase of a commercial property that will be occupied by ANA, which is also related through common ownership. The note bears interest at the approximate rate of seven percent per annum and is secured by the underlying property. The promissory note requires quarterly installments of interest to be paid in the amount of $100,895. Interest receivable at December 31, 2010 and 2009 was $2,101,981 and $1,698,401, respectively.

Maturities of principal and interest for the Company's promissory note are as follows:

	2011	2012	2013	2014	2015	Thereafter
Interest	$403,580	$403,580	$403,580	$403,580	$403,580	$1,917,005
Promissory note	-	-	-	-	-	5,540,453
	$403,580	$403,580	$403,580	$403,580	$403,580	$7,457,458

12. Letter of Credit

The Company's parent has an agreement for the issuance of letters of credit in accordance with reinsurance agreements with related and unrelated ceding companies in the amount of approximately $28,825,000.

13. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, interest receivable, investments in debt and equity securities, mortgage notes receivable, premiums receivable, funds held in escrow, due from (to) related parties, accounts payable and accrued expenses and reserves for loss and loss adjustment expenses.

Fair Values

Cash and cash equivalents, interest receivable, premiums receivable, due from parent, funds held in escrow, accounts payable and accrued expenses, due to related parties and securities sold under agreements to repurchase approximate fair value due to their short-term nature.

Investments in securities classified as available-for-sale are stated at fair value in accordance with the last quoted price on the last trading day of the year, as advised by the independent professional investment advisors or custodians.

The mortgage note receivable is not stated at fair value. It is stated in accordance with a mortgage note agreement with a party related through common ultimate ownership.

Reserve for losses and loss adjustment expenses are not stated at fair value and are recorded at management's best estimate in accordance with an independent actuarial study of the ultimate cost of settlement of losses.

14. Statutory Capital and Surplus

The Company is registered as a Class 3 insurer under The Bermuda Insurance Act of 1978 and related regulations (the "Act"), which requires that the Company file a statutory financial return and maintain certain measures of solvency and liquidity during the year. As of December 31, 2010 and 2009, the Company met the required Minimum General Business Solvency Margin and the required Minimum Liquidity Ratio.

The required Minimum General Business Solvency Margin as of December 31, 2010 and 2009 was $62,104,109 and $54,915,221, respectively. The Company's statutory capital and surplus at December 31, 2010 and 2009 was $268,785,161 and $218,399,132, respectively.

The Minimum Liquidity Ratio is the ratio of the insurer's relevant assets to its relevant liabilities; the minimum allowable ratio is 75%. The Company's relevant assets as of December 31, 2010 and 2009 were $841,195,311 and $815,372,986, respectively, and 75% of its relevant liabilities at December 31, 2010 and 2009 were $705,618,559 and $519,100,959, respectively.

Distributions to shareholders are restricted to the extent that such a distribution would result in the Company not meeting the required Minimum General Business Solvency Margin or the required Minimum Liquidity Ratio.

15. Commitments and Contingencies

The Company was not party to any lawsuits arising in the ordinary course of its operations. Additionally, the Company does not have any material commitments arising from leases, employment agreements or financing arrangements as of December 31, 2010.

16. Subsequent Events

Subsequent events have been evaluated through October 4, 2011, the date the financial statements were available for issuance and there were no subsequent events requesting adjustments to the financial statements or disclosures as stated herein.