December 18, 2014

Members of AmTrust's Audit Committee
c/o AmTrust Financial Services, Inc.
59 Maiden Lane, 43rd Floor
New York, NY 10038

Attention: Mr. Abraham Gulkowitz, Audit Committee Chairman
Mr. Donald T. DeCarlo, Audit Committee Member
Ms. Susan C. Fisch, Audit Committee Member

Re: 17 CFR § 240.10A-3(b)(3) Complaint & § 240.10A-3(b)(4) Investigation

Dear Mr. Gulkowitz, Mr. DeCarlo, and Ms. Fisch:

We write to alert you to what we believe are numerous instances of improper accounting and indications of material weaknesses in internal controls over financial reporting[1] at AmTrust Financial Services, Inc. ("AmTrust" or the "Company"). It is our belief that these deficiencies put shareholders, creditors, and policyholders at grave risk.

As such, we request that this complaint be treated in accordance with Rule 10A-3(b)(3),[2] and we urge you to initiate an investigation pursuant to Rule 10A-3(b)(4),[3] which authorizes the audit committee to "engage independent counsel and other advisers, as it determines necessary to carry out its duties" to ensure that AmTrust's financial controls are effective and that its accounting is in compliance with U.S. GAAP.[4]

As you know, there have been two *Barron's* articles,[5] as well as a number of reports published by the independent research firm Off Wall Street,[6] that have raised serious questions with respect to AmTrust's accounting practices. In our view, and for the reasons set forth herein, management's responses to these articles[7] have done little to refute the troubling assertions set forth therein. In fact, the Company's responses appear to corroborate the detailed and specific allegations that AmTrust's accounting is severely flawed.

In response to these troubling allegations, AmTrust has chosen to pursue litigation scare tactics designed to silence those who raise difficult questions about the Company's practices. The most recent example of these tactics is the Company's meritless lawsuit against me and my firm, which is devoid of any factual allegations and merely contains a conclusory recitation of alleged claims.[8]

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[1] PCAOB Auditing Standard No. 5.
[2] CFR § 240.10A-3(b)(3) Complaints.
[3] CFR § 240.10A-3(b)(4) Authority to engage advisers.
[4] AmTrust's Audit Committee Charter incorporates similar powers.
[5] *An Insurer's Feat: Turning Losses Into Gains* by Bill Alpert (February 8, 2014); *Balance-Sheet Risk Makes AmTrust Shares Vulnerable* by Bill Alpert (May 31, 2014).
[6] Off Wall Street was founded in 1990 and has warned clients about several companies that subsequently failed, including Enron Corp. and IndyMac Bancorp, among others.
[7] Including management commentary on the 4q13 earnings call and in AmTrust's "Response to Barron's."
[8] *See* AmTrust Financial Services, Inc. v. Alistair Capital Management, LLC, et al., Ind. No. 653816/2014 (N.Y. County), attached hereto as Exhibit A.

In light of the lengths to which management has gone in an attempt to silence its critics, one has to wonder what the Company is hiding. As members of AmTrust's Board of Directors, and specifically its Audit Committee, we believe it is your duty to find out.

We believe that the carefully documented assertions set forth in this letter provide compelling evidence that AmTrust's accounting is incorrect and that its internal controls over financial reporting are materially deficient. As members of the Audit Committee, we believe it is your obligation[9] to commence a full and fair independent investigation into the substantial and alarming concerns raised in the articles mentioned above and those set forth in this letter.

Note that in preparing this letter, we have relied *solely* upon publicly available documents such as AmTrust's filings with the Securities and Exchange Commission ("SEC") and similar agencies, foreign and domestic, whose materials are available online. All sources used for the information set forth in this letter are referenced herein. We have also spoken previously with AmTrust personnel through its formal investor relations channel, but the Company's representatives have declined to answer our questions for more than a year. We have not otherwise spoken with AmTrust employees or obtained any nonpublic information, material or otherwise. The conclusions expressed in this letter reflect our personal opinions, which are based upon the materials referenced in the letter. Please be advised that as a result of our analysis and the concerns expressed herein, Alistair Capital Fund, L.P. maintains a short position in AmTrust common stock and owns put options on the same.

Summary of Issues Addressed

Section	Area of Concern	Accounting Standard
I	Material Weakness in Internal Controls over Financial Reporting	SAS No. 115
II	Accounting for Deferred Acquisition Costs ("DAC")	ASC 944-30
III	Valuation of Life Settlement Contracts ("LSCs")	ASC 820-10-35
IV	Reinsurance Assets Related to Maiden Holdings, Ltd. ("Maiden")	ASC 944-40-25
V	Consolidation of Luxembourg Reinsurance Captives	Reg. S-X (§210.3A)
VI	Accounting for Loss & LAE Reserves Assumed in Acquisitions	ASC 944-805

I. Adequacy of Internal Accounting Controls for Financial Reporting

We question whether AmTrust has effective internal controls for financial reporting purposes for several reasons, each of which is explained in further detail below.

First, we are concerned about the frequent and material differences between amounts reported in AmTrust's Forms 8-K, filed with the SEC in conjunction with quarterly earnings reports, and amounts reported to the SEC in the Company's Forms 10-K and 10-Q. We believe these frequent and often material discrepancies indicate the Company is reporting inaccurate information in one or both of the filings for a given period.

Second, we believe AmTrust's loss reserve triangles indicate that either accident years 2008 and 2009 are woefully deficient (the reserve triangles negative remaining reserves) or, more likely, AmTrust's

[9] As set forth in the Audit Committee Charter.

disclosures reflect flawed data that validate our skepticism of the Company's reported financial statements.

Third, we have noticed that amounts disclosed in AmTrust's balance sheets, cash flow statements, and purchase price allocations for "Accrued Expenses and Other Liabilities" appear to be irreconcilable, as discussed further below. In addition, the amount AmTrust reports for Accrued Expenses and Other Liabilities in the footnotes to the Company's financial statements does not even correspond to the amount reported in the balance sheet.

Fourth, we note that Ronald Pipoly, Jr., AmTrust's Chief Financial Officer ("CFO"), served as the CFO of Maiden Holdings, Ltd. ("Maiden") during the period that PricewaterhouseCoopers determined Maiden had "deficiencies which aggregate to a material weakness in internal control over financial reporting".[10]

We believe these signs of weak internal controls for financial reporting purposes are indicative of an environment in which an accounting fraud could be perpetuated if members of the Audit Committee fail to fulfill their duty of care in diligently monitoring the Company's control environment. Furthermore, we believe the weak internal controls have manifested themselves in several areas, which we discuss in subsequent sections.

Inconsistent Financial Reporting

The table below compares various data points AmTrust disclosed in Forms 8-K, announcing quarterly results, to the same items reported in the Company's corresponding Form 10-K or 10-Q. One can see that there is a distinct pattern of material discrepancies.

[10] Maiden's Schedule DEF14A filed May 31, 2008.

	Form 10-K or 10-Q Amount Less Form 8-K Amount							
	Assets				Liabilities		Equity	Income Statement
	Cash & Investments	Premiums Receivable	Goodwill & Intangibles	Total Assets	Loss & LAE Reserves	Unearned Premiums	Shareholders' Equity	Net Income
1q09	(0.78)	-	-	(13.73)	(2.85)	(10.88)	-	-
2q09	-	-	-	(3.67)	-	-	-	-
3q09	-	(8.26)	-	(12.66)	-	-	-	-
4q09	-	-	-	-	-	-	-	-
1q10	2.49	-	-	-	-	-	-	-
2q10	-	-	-	-	-	-	-	-
3q10	-	-	-	-	1.68	-	-	-
4q10	-	-	-	-	-	-	-	-
1q11	-	(2.60)	-	-	-	-	-	-
2q11	-	(94.81)	-	(94.81)	-	-	-	-
3q11	-	-	-	-	-	-	-	-
4q11	-	-	-	-	-	-	-	-
1q12	-	(7.65)	-	(9.18)	(0.27)	(6.03)	-	-
2q12	-	-	-	-	-	-	-	-
3q12	-	-	-	-	-	-	-	-
4q12	-	47.08	-	(4.37)	(4.84)	-	-	-
1q13	-	-	-	(29.43)	(3.10)	-	-	-
2q13	(0.74)	2.76	-	-	-	-	-	-
3q13	-	(43.59)	-	Not Disclosed	-	-	-	-
4q13	(9.42)	(21.78)	-	Not Disclosed	(115.78)	1.43	-	-
1q14	-	(43.92)	-	Not Disclosed	-	-	-	-
2q14	-	-	-	Not Disclosed	-	-	-	-
3q14	-	-	-	Not Disclosed	-	-	-	-

Sources: AmTrust Forms 10-K, 10-Q, and 8-K.

The Company has *not* provided any explanatory notes in its SEC filings, and differences are not attributable to purchase price allocation changes, since goodwill and intangibles have not been the source of such discrepancies. By contrast, a review of AmTrust's peer entities did not reveal any such discrepancies in line items that were not re-stated or detailed in an explanatory note.[11]

Loss & LAE Reserve Triangles

As the table below demonstrates, AmTrust's "Analysis of Loss and Loss Adjustment Expense Reserve Development"[12] implies that the remaining reserves for accident years 2008 and 2009 are *negative*, which is an "accounting impossibility."

[11] This same exercise for Meadowbrook (NYSE: MIG) resulted in only one difference over the same period. Subsequent to Meadowbrook's 2q13 earnings report, it was downgraded by A.M. Best which prompted the company to write-off goodwill in its Form 10-Q. This difference was announced in a separate Form 8-K prior to filing of the related Form 10-Q.
[12] AmTrust's 2013 Form 10-K, page 19.

Remaining Net Reserves	Accident Year							
	2006	2007	2008	2009	2010	2011	2012	2013
	$ 124,874	$ 301,608	$ 106,111	$ 135,113	$ 243,383	$ 527,684	$ 612,027	$ 1,687,051
1 Year Later	$ 101,135	$ 258,195	$ 35,485	$ 52,080	$ 140,895	$ 369,103	$ 452,123	
2 Years Later	$ 71,262	$ 230,024	$ (21,804)	$ (2,388)	$ 88,420	$ 290,874		
3 Years Later	$ 62,917	$ 204,094	$ (54,435)	$ (35,780)	$ 67,172			
4 Years Later	$ 51,598	$ 189,790	$ (72,894)	$ (51,572)				
5 Years Later	$ 44,190	$ 184,205	$ (95,456)					
6 Years Later	$ 41,608	$ 181,695						
7 Years Later	$ 38,969							
8 Years Later								
9 Years Later								
10 Years Later								

Cumulative Paid amounts > *Revised* Reserve
(An **"Accounting Impossibility"**)

The result implied by AmTrust's disclosure is clearly nonsensical and, therefore, indicative of poor internal controls for financial reporting, significant under-reserving, or bad data. However, even if it is "merely" bad data, the implications are highly concerning because actuaries rely upon the data that drives this disclosure to estimate AmTrust's liabilities as well as its equity and net income.

Irreconcilable Amounts Reported for "Accrued Expenses & Other Liabilities"

In addition, AmTrust's financial statements appear to be irreconcilable with one another. For example, AmTrust's "Accrued Expenses & Other Liabilities" balance has increased by more than one would expect based upon AmTrust's cash flow statement and purchase price allocations, as set forth in the table below.

Accrued Expenses and Other Liabilities	2009	2010	2011*	2012*	2013	2009-2013
Beginning Balance	$ 144,304	$ 180,325	$ 193,008	$ 311,793	$ 406,447	N/A
Ending Balance	$ 180,325	$ 195,060	$ 267,643	$ 406,447	$ 650,858	N/A
Increase (Decrease)	$ 36,021	$ 14,735	$ 74,635	$ 94,654	$ 244,411	$ 464,456
Less Adjustments for Acquisitions	$ -	$ 40,768	$ 1,205	$ -	$ 179,196	$ 221,169
Expected Cash Flow Statement Amount	$ 36,021	$ (26,033)	$ 73,430	$ 94,654	$ 65,215	$ 243,287
Less Actual Cash Flow Statement Amount	$ 27,191	$ (61,350)	$ 44,071	$ 67,350	$ (13,071)	$ 64,191
Cash Flow Actual Relative to Expected	**$ (8,830)**	**$ (35,317)**	**$ (29,359)**	**$ (27,304)**	**$ (78,286)**	**$ (179,096)**

**The 2012 Beginning Balance is greater than the 2011 Ending Balance due to a change in the accrued liability for contingent consideration related to the acquisition of BTIS (closed December 2011, retroactive revised December 2012).*

2010 Acquisition(s): Warrantech ($29,475 Accrued Liabilities & $11,293 Deferred Revenues)

2011 Acquisition(s): Majestic ($1,205 Accrued Expenses and Other Liabilities)

2012 Acquisition(s): N/A (No acquisitions with purchase allocated to Accrued Expenses & Other Liabilities)

2013 Acquisition(s): Car Care ($83.993), Sequoia ($15,624), MIHC ($23,629); Sagicor ($55,950)

Such discrepancies could imply that AmTrust is failing to recognize expenses, and thus overstating net income, when the Company makes cash payments for which it did not already have a reserve – another "accounting impossibility."

Making matters worse, AmTrust's footnote detailing the components of "Accrued Expenses and Other Liabilities" does not even match the amount reported on the balance sheet for 2013,[13] as the excerpts below highlight.

[13] Conversely, the footnote and balance sheet amounts match in 2012, which indicates the two *should* line up in 2013.

With the existence of multiple discrepancies within the same filing for "Accrued Expenses and Other Liabilities," we struggle to see how one could confidently rely on AmTrust's financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss expense reserves	$ 4,368,234	$ 2,426,400
Unearned premiums	2,680,982	1,773,593
Ceded reinsurance premiums payable (related party $393,941; $333,962)	635,588	528,322
Reinsurance payable on paid losses	18,818	13,410
Funds held under reinsurance treaties	27,574	33,946
Note payable on collateral loan – related party	167,975	167,975
Securities sold but not yet purchased, at market	—	56,711
Securities sold under agreements to repurchase, at contract value	293,222	234,911
Accrued expenses and other current liabilities (recorded at fair value $11,945; $11,750)	650,858	406,447
Deferred income taxes	265,881	244,758
Debt	560,174	301,973
Total liabilities	9,669,306	6,188,446

10. Accrued Expenses and Other Liabilities

(Amounts in Thousands) **As of December 31,**	**2013**	**2012**
Premium taxes, assessments and surcharges payable	$ 173,274	$ 110,540
Redeemable contractual obligations	132,608	—
Accounts and commissions payable	100,780	76,806
Deferred warranty revenue	84,230	62,721
Other accrued expenses and liabilities	147,112	156,380
	$ 638,004	$ 406,447

AmTrust's CFO Oversaw Financial Reporting Subject to a Material Weakness at Maiden

Should an investigation into AmTrust's accounting validate our concerns, it would not be the first time AmTrust's CFO has overseen financial reporting that was inadequate. For example, the following disclosure indicates Maiden had a series of deficiencies which aggregated to a material weakness in internal control over financial reporting when Pipoly served as its CFO.

> In addition, during the reporting period and up to the dismissal date, there have been no reportable events (as defined in Item 304(a)(1)(v) of the SEC's Regulation S-K), except that <u>the following deficiencies which aggregate to a material weakness in internal control over financial reporting</u> (the "reportable event") were identified:
>
> - <u>Failure to give appropriate consideration to U.S. GAAP accounting rules or to have documentation of the basis for our opinion and conclusion regarding the application of U.S. GAAP;</u>
> - Lack of an independent preparer and reviewer for various accounting tasks, including the preparation of the financial statements and disclosures; and

- Lack of formality regarding certain controls surrounding the control environment (emphasis added).[14]

While the circumstances may be different at AmTrust than they were at Maiden in 2007, we believe Mr. Pipoly's apparent "[f]ailure to give appropriate consideration to U.S. GAAP" indicates Maiden's problems extended beyond having insufficient support staff.

Given the breadth of errors and inconsistencies highlighted in this section, it appears AmTrust has systemic weaknesses in internal controls for financial reporting that likely should have been identified by AmTrust's auditor and communicated to the Audit Committee in accordance with SAS No. 115. Furthermore, the deficiencies highlighted indicate that an investigation led by management would lack credibility, leaving an independent investigation as the only viable option, in our opinion.

II. Accounting for Deferred Acquisition Costs ("DAC")

As discussed in *Barron's*,[15] AmTrust appears to understate its expense ratio, and therefore overstate its net income, as a result of a mismatch in the Company's recognition of acquisition costs and premiums in a way that may violate U.S. GAAP.

Comparing AmTrust's Net DAC[16] as a percentage of the Company's Net Unearned Premiums[17] (the "DAC Ratio") to the Company's current and historical net expense ratio indicates that the Company's accounting for acquisition costs may be violating the "matching principle."

Since underwriting expenses are comprised of amortization of previously deferred acquisition costs and period expenses (which are not eligible for capitalization), one would expect DAC as a percentage of Net Unearned Premiums to remain *below* the expense ratio in order to allow for period expenses. However, AmTrust's DAC Ratio implies period expenses will be meaningfully negative in the future.

In addition, we believe AmTrust's management provided a misleading answer by comparing AmTrust's *net* DAC to *gross* Unearned Premiums when questioned by *Barron's*:

> The company produced for *Barron's* a chart showing AmTrust's cost/revenue deferrals ratio as 18% in the September quarter, around the middle of its peers. But the ratios used by the company were actually an apples-to-oranges comparison of *net* costs to *gross* revenues, in which the deferred cost numerator was reduced by reinsurance commissions. However, the unearned premium denominator was not reduced by the corresponding prepaid reinsurance premiums. As we show in the bottom chart of the Post-IPO Prosperity graphic, the proper net/net ratio makes a big difference for AmTrust. Instead of the middle-of-the-pack 18% ratio

[14] Maiden Schedule DEF14A, filed on May 31, 2008 (emphasis added).
[15] *An Insurer's Feat: Turning Losses Into Gains* by Bill Alpert (February 8, 2014).
[16] DAC is presented net of deferred ceding commissions with the exception of the portion attributable to the portion that represents the recovery of other underwriting expenses. This portion of deferred ceding commissions was reclassified as accrued expenses and other current liabilities beginning with 2q14.
[17] Net Unearned Premiums are Unearned Premiums (Gross) less Prepaid Reinsurance Premiums.

> it showed, AmTrust's net/net ratio for September's quarter was 29% – some 10 percentage points higher than the peer average we show.[18]

We believe management would have provided an explanation that was not so inadequate if one was available. The absence of a cogent explanation deserves the attention of the Audit Committee, especially because AmTrust's low expense ratio is one of the primary drivers of the Company's superior reported results.

The specific rule that AmTrust's DAC Ratio seems to violate is ASC 944-30-35-1A, which requires acquisition costs to be recognized *proportionate to* a company's recognition of deferred revenue and/or ASC 944-30-35-64.

> **ASC 944-30-35-1A**:
>
> Acquisition costs capitalized under paragraph 944-30-25-1 [Successful Efforts] shall be charged to expense in proportion to premium revenue recognized under Subtopic 944-605 [Revenue Recognition] (emphasis added).

Additionally, AmTrust's significant ceding commissions should *not* impact the relationship between the rates at which the Company recognizes capitalized costs (Net DAC) and deferred revenues (Net Unearned Premiums) because ASC 944-30-35-64 requires that insurers' *net* acquisition costs are recognized proportionate to the associated *net* revenue.

> **ASC 944-30-35-64**:
>
> Proceeds from reinsurance transactions that represent recovery of acquisition costs shall reduce applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net revenue recognized (emphasis added).

Furthermore, we would note that the pace of recognition of premiums and acquisition costs applies *regardless of the type or duration of policies issued by an insurance company*.

The tables set forth below demonstrate our point. The first table calculates AmTrust's Net Premiums Earned ("NPE") recognized during a given year as a percentage of Net Unearned Premiums at the beginning of a given year, which serves as a proxy for the pace at which AmTrust recognizes previously deferred premium revenues. Since 2007, the Company has generally reported NPE as a percentage of the beginning balance of Net Unearned premiums of approximately 150-190%.[19]

Item	2007	2008	2009	2010	2011	2012	2013
Unearned Premiums	$ 527.8	$ 759.9	$ 871.8	$ 1,025.0	$ 1,336.2	$ 1,773.6	$ 2,681.0
Prepaid Reinsurance Premiums	$ 244.7	$ 372.0	$ 410.6	$ 485.0	$ 584.9	$ 754.8	$ 1,011.3
Net Unearned Premiums - Ending Balance	$ 283.1	$ 387.9	$ 461.2	$ 540.0	$ 751.3	$ 1,018.8	$ 1,669.7
Net Unearned Premiums - Beginning Balance	$ 250.8	$ 283.1	$ 387.9	$ 461.2	$ 540.0	$ 751.3	$ 1,018.8
Net Premiums Earned ("NPE")	$ 444.2	$ 439.1	$ 573.9	$ 745.7	$ 1,036.9	$ 1,418.9	$ 2,266.0
NPE / Net Unearned Premiums - Beginning Balance	**177%**	**155%**	**148%**	**162%**	**192%**	**189%**	**222%**

[18] *Barron's*: "An Insurer's Feat: Turning Losses Into Gains" by Bill Alpert; February 8, 2014.
[19] The anomalously high ratio in 2013 appears to be a result of acquisitions.

In light of ASC 944-30-35-1A's proportionality requirement (discussed above) and the 150-190% ratio noted in the table above, one would expect DAC amortization as a percentage the beginning balance of DAC to be 150-190%. Instead, AmTrust appears to amortize DAC much more slowly than it recognizes the corresponding premium revenue.

Item	2007	2008	2009	2010	2011	2012	2013
DAC - Ending Balance	$ 70.9	$ 104.0	$ 180.2	$ 224.7	$ 281.0	$ 349.1	$ 446.7
DAC - Beginning Balance	$ 43.1	$ 70.9	$ 104.0	$ 180.2	$ 224.7	$ 281.0	$ 349.1
DAC Amortization	$ 36.6	$ 70.3	$ 73.5	$ 102.1	$ 161.4	$ 181.7	$ 229.5
DAC Amortization / DAC - Beginning Balance	**85%**	**99%**	**71%**	**57%**	**72%**	**65%**	**66%**

We believe these tables demonstrate an extremely high likelihood of improper accounting and thus urge the Audit Committee to investigate AmTrust's DAC and other cost capitalization policies.[20]

III. Valuation of Life Settlement Contracts ("LSCs")

While AmTrust executives have defended the Company's valuation of life settlement contracts ("LSCs"), we believe it is increasingly clear[21] that AmTrust is violating ASC 820-10-35 by ignoring readily available information about the inputs market participants use to value life settlement contracts. [22]

AmTrust's most recent Form 10-Q makes clear that the discount rate actually *applied* to projected cash flows to value the Company's LSCs is 7.5%,[23] which is based on the Company's *cost of funding.*[24] However, AmTrust's cost of funding is clearly not the basis for, nor does it equate to, the rate of return a buyer would require on the contracts.[25]

AmTrust's executives have argued that the adjustments the Company makes to arrive at the projected cash flows create "reserves,"[26] thus making comparisons of AmTrust's 7.5% discount rate to peers' discount rates of 15-20% inappropriate.

However, as set forth in the table below, the adjustments AmTrust makes to create "reserves" are quite similar to the adjustments Imperial Financial Holdings, Inc. ("IFT") makes to projected cash flows before applying their respective discount rates.

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[20] AmTrust also reports a material balance of "Prepaid Expenses & Other Assets," about which the Company provides very limited disclosure other than LSCs (which represent less than one-third of the balance).
[21] Despite increased investor scrutiny, AmTrust has not quantified the "reserves" to which executives allude in SEC filings. Furthermore, the Company has not provided any disclosure to compare how its assumptions compare to market *before* applying the "investment discount rate."
[22] Pursuant to ASC 325-30 (Investments in Insurance Contracts), AmTrust has elected to value LSCs using the fair value method. ASC 820-10-35 (Fair Value) provides guidance on the selection of inputs.
[23] AmTrust's 3q14 Form 10-Q (Page 20): "The valuation of the portfolio is calculated net of all reserves using a 7.5% discount rate."
[24] AmTrust's 3q14 Form 10-Q (Page 20).
[25] Imperial Financial Holdings ("IFT") has consistently used discount rates in excess of 15% (typically 20%), reflecting market-based inputs, to value LSCs of similar duration.
[26] While AmTrust executives quantified "reserves" on the 1q13 earnings call and the December 16, 2013 business update call, the Company's SEC filings merely reference "policy specific adjustments and reserves" (3q14 Form 10-Q, page 19) without quantifying them and providing substantiation as required of key inputs to fair value estimates.

Adjustment / "Reserve"	AmTrust Financial Services, Inc.	Imperial Holdings, Inc.
Life Expectancy Blending	**	"As is the case with most market participants, the Company used a blend of life expectancies that are provided by two third-party LE providers."
Mortality Adjustment Reserve	"The Company establishes policy specific reserves for the following uncertainties: improvements in mortality, the possibility that the high net worth individuals represented in its portfolio may have access to better health care…"	However, because the 2008 VBT table does not account for anticipated improvements in mortality in the insured population, the table was modified in conjunction with outside consultants to reflect these expected mortality improvements.
Future Expenses	"...the future expenses related to the administration of the portfolio…"	No disclosure
Operational Risk	"...the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to the Company…"	In order to compensate a market participant for the perceived credit and challenge risks associated with these policies, the Company applied an additional 300 basis point risk premium
Highly Impaired Lives*	"...the volatility inherent in determining the life expectancy of insureds with significant reported health impairments…"	We currently use a probabilistic method of valuing life insurance policies, which we believe to be the preferred valuation method in the industry.
Source	*AmTrust Form 10-Q for the quarter ended September 30, 2014.*	*IFT Form 10-K for the year ended December 31, 2013.*
**Highly impaired lives have a distribution of outcomes such that the average LE is not representative of the expected value: http://us.milliman.com/insight/insurance/archive/pdfs/The-art-of-the-deal-pricing-life-settlements/*		
***Not mentioned in AmTrust's 3q14 Form 10-Q; AmTrust Response to Recent Stock Activity (December 16, 2013): "Among those reserves is a reserve for life expectancy blending."*		

Despite substantially similar adjustments made to projected cash flows ("reserves"), AmTrust and IFT apply significantly different discount rates to estimate fair value. Specifically, IFT applies a discount rate of *14.8% or greater*[27] to cash flows that are projected *after* making adjustments. In contrast, AmTrust applies a 7.5% "investment discount rate" to projected cash flows, which are net of "reserves."

We believe further evidence of the degree to which AmTrust's fair value inputs differ from market-based assumptions can be found in the rapid and significant gains reported in the annual financial statements filed by AMT Capital Holdings, S.A. ("AMTCH").[28]

In fact, AMTCH generated significant gains on LSCs *without having a single mortality event*. In light of the life expectancies implied by the table of projected premiums payable, it is unlikely there were any meaningful health impairments among policyholders. AMTCH's 2013 financial statements even implied a lengthening of life expectancies.[29]

Of course, AMTCH's gains of approximately $27 million on an investment of approximately $37 million in just over two years (late 2011-2013) echo the sizeable gains on LSCs AmTrust recognized in 2010 and 2011. More recently, the AmTrust entities that generated gains in 2010 and 2011 have

[27] IFT's 3q14 10-Q reports a discount rate of 14.8-20.8% for non-premium financed policies and a discount rate of 16.55-26.55% for policies that were originated using premium financing.
[28] Available via www.gbrdirect.eu.
[29] Page 15 of AMTCH's 2013 annual financial statements states: "The life expectancies of contracts held as of December 31, 2012 have been revised based on the new estimates as at December 31, 2013" and the associated table reflects zero policies with remaining life expectancies under three years whereas there were two policies with life expectancies of between two and three years in the prior year (zero mortality events).

started generating losses, which we believe corroborates our view that the Company's inputs fail to reflect the expectations of market participants and that the Company over-values its LSCs.

If AmTrust was utilizing market-based assumptions, one would expect limited, if any, income to be generated upon purchase because the seller would have searched out multiple bidders to maximize the selling price. As such, we encourage you to seek independent valuations of the policies using market-based inputs from third parties rather than merely retaining "an independent third-party actuary to *verify that the actuarial modeling* used by the company to determine fair value was performed correctly"[30] as the Company does now.

IV. Reinsurance Assets Related to Maiden Holdings, Ltd. ("Maiden")

Another significant deficiency with respect to AmTrust's accounting, in our opinion, relates to the sizeable differences between balance sheet accounts reported in AmTrust's financial statements and the amounts Maiden reports for the corresponding accounts in its financial statements.

As can be seen in the table set forth below, the largest variance is between AmTrust's Reinsurance Recoverable and Maiden's Unpaid Loss & LAE Reserves ($348.2 million before adjusting for classification differences).

Description	Amount (mm)[31]
AmTrust Reinsurance Recoverable (vis-à-vis Maiden)	$ 1,144.2
Maiden Unpaid Loss & LAE Reserves (AmTrust Q.S. Segment)	$ 796.0
Difference in Loss & LAE Reserves Ceded (Assumed)	**$ 348.2**
AmTrust Prepaid Reinsurance Premiums (vis-à-vis Maiden)	$ 739.7
Maiden Unearned Premiums (AmTrust Q.S. Segment)	$ 687.4
Difference in Unearned Premiums Ceded (Assumed)	**$ 52.4**
AmTrust Ceded Reinsurance Premiums Payable (vis-à-vis Maiden)	$ (393.9)
Maiden Reinsurance Balance Receivable (AmTrust Q.S. Segment)	$ (278.6)
Difference in Ceded Premiums Payable (Assumed)	**$ (115.4)**
AmTrust Net Assets (vis-à-vis Maiden)	$ 1,489.9
Maiden Net Liabilities (AmTrust Q.S. Segment)	$ 1,204.8
Difference in Unearned Premiums Ceded (Assumed)	**$ 285.2**

A portion of the $348.2 million variance can be explained by the way the two companies classify amounts Maiden owes AmTrust for claims already paid by AmTrust, which AmTrust disclosed as $108 million.[32] However, even after adjusting for the $108 million classification difference, AmTrust and Maiden appear to carry significantly different estimates for the amount Maiden will pay AmTrust for claims related to premiums already earned.

[30] AmTrust's 3q14 Form 10-Q, page 19.
[31] Amounts disclosed in AmTrust's 2013 Form 10-K (Balance Sheet) and Maiden's 2013 Form 10-K (Segment Information & Schedule III).
[32] AmTrust's "Response to Barron's." This amount approximately corresponds to the $115.4 million difference between AmTrust's ceded premiums payable and Maiden's reinsurance balances receivable.

Description	Amount (mm)[33]
AmTrust Reinsurance Recoverable (vis-à-vis Maiden)	$ 1,144.2
Less Reinsurance Recoverable on Paid Losses (vis-à-vis Maiden)	$ (108.0)[34]
AmTrust Reinsurance Recoverable on Unpaid Losses (vis-à-vis Maiden)	**$ 1,036.2**
Maiden Unpaid Loss & LAE Reserves (AmTrust Q.S. Segment)	$ 796.0
Remaining Difference in Loss & LAE Reserves Ceded (Assumed)	**$ 240.2**

In AmTrust's "Response to Barron's," management seems to suggest the remaining $240.2 million difference in Unpaid Loss & LAE ceded (assumed) by AmTrust (Maiden) relates to reserves for claims incurred but not reported ("IBNR").

> Each quarter AmTrust provides a cession statement to Maiden which shows changes in written premium, changes in unearned premium, ceding commission, and changes in pure incurred losses. Pure incurred losses consist of changes in paid losses and case reserves and do not include IBNR. These cessions are made to Maiden strictly in accordance with the terms of the reinsurance contracts and, in particular, the agreed upon quota share percentages.[35]

The magnitude of the discrepancy is even more concerning when one considers the fact that Maiden uses the case reserve estimate reported to it by the cedant[36] and AmTrust's IBNR represents less than half of its reserves.[37] This implies that the amount AmTrust estimates it will recover from Maiden for IBNR is more than twice what Maiden estimates it will pay AmTrust for IBNR.[38] Such a large chasm is rather difficult to bridge with reasonable actuarial discretion, particularly between related party entities that are so important to one another.

If AmTrust is over-estimating the amount it will recover from Maiden in proportion to AmTrust's gross reserves, then AmTrust's equity is directly over-stated by a material amount, particularly relative to tangible equity. Furthermore, AmTrust would be in violation of U.S. GAAP if its reinsurance recoverables were not consistent with its gross reserves:

> **ASC 944-40-25-34**
>
> Reinsurance receivables shall be recognized in a manner consistent with the liabilities (including estimated amounts for claims incurred but not reported and future policy benefits) relating to the underlying reinsured contracts. Assumptions used in estimating reinsurance receivables shall be consistent with those used in estimating the related liabilities (emphasis added).

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[33] Amounts disclosed in AmTrust's 2013 Form 10-K (Balance Sheet) and Maiden's 2013 Form 10-K (Segment Information & Schedule III).
[34] AmTrust's "Response to Barron's."
[35] AmTrust's "Response to Barron's."
[36] Maiden's 2013 Form 10-K, page 65.
[37] AmTrust's 2013 Form 10-K, page 18: "…of which our IBNR reserves constituted 42.4%, 34.5%, and 40.3%, respectively."
[38] Using AmTrust's mix of gross reserves as a proxy, one can estimate AmTrust's reinsurance recoverables for case and IBNR are approximately $596.8 million and $439.3 million (42.4%*$1,036.2 million), respectively. Since Maiden uses the case reserves reported to it by the cedant, Maiden's case reserves for business assumed from AmTrust should also be approximately $596.8 million, leaving just $199.1 million for IBNR ($439.3 million is more than twice $199.1 million).

If instead Maiden is under-stating the amount it will have to pay AmTrust relative to the gross reserves AmTrust reports, then AmTrust faces substantial counterparty risk that could result in an incapacitated reinsurance partner and reduced recoveries.

Regardless of whether fault lies with AmTrust or Maiden, we believe that the magnitude of the discrepancy warrants close scrutiny in light of the importance of the quota share agreement to both companies, and the related party nature of the relationship – including the fact that AmTrust's CEO is also the Chairman of Maiden's Board of Directors – further heightens the risk.[39]

V. Consolidation of Luxembourg Reinsurance Captives ("LRCs")

Despite numerous questions about and criticisms of AmTrust's accounting for LRCs, the Company has not provided a viable explanation that reconciles the Net Loss and Loss Adjustment Expenses of its subsidiaries[40] with the Net Loss and Loss Adjustment Expenses the Company reports in its SEC filings. The difference appears to be related to Loss and Loss Adjustment Expenses assumed by LRCs, which seem to be *excluded* from AmTrust's reported results in SEC filings, even though the SEC filings seem to *include* the benefit AmTrust International Insurance, Ltd. ("AII") receives.

In response to inquiries, management has generally provided one of two rather different responses: (1) denial without substantiation and (2) "artificial" losses.

On the two public conference calls management discussed the issue,[41] executives merely denied the allegation, asserted that the LRCs were consolidated, and discussed Luxembourg captives in the abstract. However, there has been no discussion of losses being "artificially" or "synthetically" inflated (see below) publicly.

However, when *Barron's* questioned AmTrust about why the Company did not appear to reflect the losses of its wholly-owned LRCs in their SEC filings, management provided a troubling response (artificial losses).

> While the profit benefit appears in AmTrust's consolidated financials, losses it ceded to its Luxembourg units don't. AmTrust tells *Barron's* that <u>those losses are inflated "artificially" or "synthetically" and don't reflect the real world claims on its primary insurance subsidiaries</u>. "It's a way to draw down these reserves," says CEO Zyskind. "They are self-created losses within our organization, so they get completely eliminated in consolidation."
>
> AmTrust says the arrangement is proper under U.S. and Luxembourg rules. That's interesting, since the company is reporting loss numbers to auditors and insurance commissioners that it acknowledges aren't authentic. The statutory filings AmTrust subsidiaries submitted to their state regulators over that same 2010 to 2012 period show nearly a quarter of a billion dollars-worth of these inflated losses going to Luxembourg. The synthetic losses also appear on the

[39] Auditing Standard No. 18, *Related Parties*, which is effective for audits of and reviews of interim financial information for fiscal years beginning on or after December 15, 2014, is likely to result in increased scrutiny of related party transactions such as those between AmTrust and Maiden.
[40] As reported in statutory filings, subsidiary level financial statements and A.M. Best reports.
[41] Business Update Call (December 16, 2013) and 4q13 Earnings Call.

> financial statements of AmTrust's Bermuda captive, AmTrust International Insurance, which it says are done according to U.S. Generally Accepted Accounting Principles under the eyes of the audit firm BDO USA (emphasis added).

We believe Zyskind's response reveals a dissonance between AmTrust's accounting and U.S. GAAP in that there is no basis for "artificially" inflated losses in U.S. GAAP.[42] Furthermore, a comparison of the U.S. subsidiaries' statutory filings and AII's 2010 financial statements[43] raises serious doubt about the existence of any inflated losses (if such a construct was allowed under U.S. GAAP).[44]

Despite suggesting the idea that losses AII ceded to LRCs were artificial in response to Barron's inquiry, AmTrust's executives provided a different explanation to investors just days later on the 4q13 earnings call on which management indicated the losses were in fact real.

> **Robert Farnam**
> *Keefe, Bruyette, & Woods, Inc., Research Division*
> A couple of questions. It sounds like a lot of the people that had -- with the [indiscernible] were -- had -- you had issues with Schedule Y. So can you -- I don't know, Barry or Ron, can you just kind of go over again how Schedule Y does work or doesn't work as it relates to your relationships with Luxembourg?
>
> **Ronald Pipoly**
> … Schedule Y, in a particular column that people like to reference, that is a net number of premiums less than they lost it. It's not like Schedule F in the sense of a recast of reinsurance activity, it's just a recast among affiliated companies with a holding company. And again, as Barry said in his comments, Schedule Y represents the net ceded losses to our Luxembourg captives based on our internal reinsurance structure (emphasis added).

In our opinion, conflicting disclosures such as these indicate AmTrust's financial statements are not reliable, and we suspect the problem relates to either a failure to fully eliminate intercompany items, in violation of Reg. S-X 210.3A, or a failure to recast the financials of its subsidiaries in accordance with U.S. GAAP before consolidating them.

VI. Accounting for Loss & LAE Reserves Assumed in Acquisitions

AmTrust's accounting for loss and loss adjustment reserves assumed in conjunction with acquisitions appears to be another area of problematic accounting for AmTrust.

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[42] ASC 944-40-30 & ASC 944-40-35.
[43] The only year for which GAAP financial statements are publicly available.
[44] The sum of the U.S. subsidiaries' loss and loss adjustment expenses ceded to AII (per Schedule F) total $552.2 million which is approximately $4.8 million higher than the amount AII's 2010 financial statements show as assumed from U.S. subsidiaries indicating there was nothing artificial about the losses ceded to AII. In addition, the combined unpaid loss and loss adjustment expenses ceded by AmTrust Europe, Ltd. and AmTrust International Underwriters' Ltd. to AII, as reported by AII, were less than the supposed "artificial" loss ceded to LRCs.

For instance, a comparison of AmTrust's Balance Sheet and Cash Flow Statement[45] indicates Net Loss & LAE Reserves assumed in conjunction with acquisitions were approximately $700.4 million, as set forth in the table below.

Loss & LAE Reserves Assumed in Conjunction with Acquisitions	Gross Loss & LAE Reserves	Reinsurance Recoverable (Paid & Unpaid)	Net Loss & LAE Reserves	*Source:*
2013 Balance Sheet Amount	$ 4,368.2	$ 1,929.8	$ 2,438.4	*2013 Form 10-K, Balance Sheet*
2012 Balance Sheet Amount	$ 2,426.4	$ 1,318.4	$ 1,108.0	*2013 Form 10-K, Balance Sheet*
Change in Balance Sheet Amount	**$ 1,941.8**	**$ 611.4**	**$ 1,330.4**	***Calculation***
CF Statement (organic change only)	$ 1,177.6	$ 547.6	$ 630.0	*2013 Form 10-K, Cash Flow Statement*
Implied Inorganic (Acquired) Change	**$ 764.2**	**$ 63.8**	**$ 700.4**	***Calculation***

As one would expect, AmTrust's purchase price allocation disclosures approximately confirm ($705.3 million) the estimate of Net Loss & LAE Reserves assumed in conjunction with acquisitions derived from a comparison of the Balance Sheet and Cash Flow Statement (above):

Loss & LAE Reserves Assumed in Conjunction with Acquisitions	Gross Loss & LAE Reserves	Reinsurance Recoverable (Paid & Unpaid)	Net Loss & LAE Reserves	*Source:*
Car Care Plan Holdings	$ 9.7	$ 12.2	$ (2.5)	*2013 Form 10-K, Footnote 5*
Sequoia	$ 165.5	$ 43.8	$ 121.7	*2013 Form 10-K, Footnote 5*
MIHC	$ 89.3	$ -	$ 89.3	*2013 Form 10-K, Footnote 5*
Sagicor	$ 496.8	$ -	$ 496.8	*1q14 Form 10-Q, Footnote 12*
Inorganic (Acquired) Change	**$ 761.3**	**$ 56.0**	**$ 705.3**	***Calculation***

However, AmTrust's reserve reconciliation[46] disclosure uses an entirely different amount ($807.6 million),[47] which is irreconcilable with the amounts implied by AmTrust's financial statements and the amounts the Company provides in its purchase price allocation disclosures.

Loss & LAE Reserves Assumed in Conjunction with Acquisitions	Gross Loss & LAE Reserves	Reinsurance Recoverable (Paid & Unpaid)	Net Loss & LAE Reserves	*Source:*
Purchase Price Allocation ("PPA")	$ 761.3	$ 56.0	$ 705.3	*From Above*
Financial Stmt Comparison	$ 764.2	$ 63.8	$ 700.4	*From Above*
Inorganic (Acquired) per Reserve Reconciliation	*	**	**$ 807.6**	***2013 Form 10-K, Footnote 9***
Minimum Difference in Acquired Reserves	*	**	**$ 102.3**	***Calculation***

**While the Reserve Reconciliation does not provide an amount for Gross Loss & LAE Reserves acquired, there should be no difference across methodologies.*

***Because the Reserve Reconciliation referenes unpaid losses only, it could slightly understate reinsurance recoverables. With that said, even if one were to assume that all Reinsurance Recoverables acquired (max: $63.8 million) related to losses already paid by AmTrust, one still would not be able to bridge the $104.8 million minimum difference in Net Loss & LAE calculated above.*

The inconsistency among disclosures raises troubling questions about whether ASC 944-805[48] was applied correctly throughout the financial statements. In addition, one has to wonder about the origin of the over $100 million of additional Net Loss & LAE Reserves and whether the additional Net Loss & LAE Reserves should have been recognized as income statement expenses. Because the other two methodologies line up with one another, it appears likely that AmTrust may have simply mischaracterized over $100 million of Net Loss & LAE Reserves – overstating earnings by a substantial amount in the process.

[45] To verify AmTrust's purchase price allocation disclosures, one can compare the change in the balance sheet (total change) to the cash flow statement (organic change). The difference between these two amounts represents the inorganic growth in reserves (i.e.: assumed in conjunction with acquisitions).
[46] AmTrust's 2013 Form 10-K, page F-40.
[47] The same exercise resulted in acquired reserves aligning across the three methodologies in prior years, thus validating the approach.
[48] Financial Services – Insurance, *Business Combinations*.

Concluding Comments

For the reasons discussed throughout this letter, we believe that AmTrust has material weaknesses in internal controls over financial reporting and that such an environment has allowed the Company to issue materially unreliable financial statements. For the sake of your stakeholders, we urge you to investigate these matters pursuant to Rule 10A-3(b)(4), as discussed above.

Sincerely,

Casey H. Nelson
President
Alistair Capital Management, L.L.C.

cc: Michael Occhuizzo, Senior Counsel, Public Company Accounting Oversight Board
Richard Bertuglia, Partner, BDO USA, L.L.P.

Exhibit A:

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NYSCEF DOC. NO. 1 RECEIVED NYSCEF: 12/11/2014

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

AMTRUST FINANCIAL SERVICES, INC.,	Index No. _____
Plaintiff,	Date Filed: December 11, 2014
- against -	**SUMMONS WITH NOTICE**
ALISTAIR CAPITAL MANAGEMENT, LLC, CASEY H. NELSON, GEOINVESTING LLC, AND JOHN DOES NOS. 1-10,	Plaintiff designates New York County as the place of trial.
Defendants.	Venue is proper pursuant to CPLR §§ 503(a) and (c).
	Plaintiff's principal office is located at: 59 Maiden Lane, New York, New York 10038

TO THE ABOVE-NAMED DEFENDANTS:

YOU ARE HEREBY SUMMONED and required to appear in this action by serving a copy of your notice of appearance upon the undersigned within twenty (20) days after the service of this summons, exclusive of the day of service, or within thirty (30) days after service is complete, if this summons is not personally delivered to you within the state of New York. In case of your failure to appear or answer, judgment will be taken against you by default for the relief demanded in the notice set forth below.

NOTICE:

The nature of this action is for damages and injunctive relief based upon claims for defamation, trade libel, civil conspiracy, tortious interference with contract, tortious interference with prospective economic relations, violations of federal securities law and New York banking and insurance law including, but not limited to, New York Insurance Law § 2604, and other claims arising out of defendants' attempt to damage plaintiff's reputation and business and manipulate its stock price through the dissemination of actionable false and misleading

statements concerning plaintiff's business, as well as other conduct, as part of an organized scheme to harm that business.

The relief sought includes, but is not limited to, reputational damages, monetary damages, special damages, punitive damages, costs, and fees, injunctive relief, and such other relief as is just and proper.

Upon your failure to appear, judgment will be taken against you by default for the amount of plaintiff's damages, plus statutory interest thereon, and fees, as the Court may award.

Dated: New York, New York
December 11, 2014

KASOWITZ, BENSON, TORRES
& FRIEDMAN LLP

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