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Atlas Financial Holdings, Inc.

Form 10-K

March 07, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended:

December 31, 2015

COMMISSION FILE NUMBER:

000-54627

ATLAS FINANCIAL HOLDINGS, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CAYMAN ISLANDS

(State or other jurisdiction of  
incorporation or organization)

27-5466079

(I.R.S. Employer  
Identification No.)

150 NW POINT BOULEVARD

Elk Grove Village, IL

(Address of principal executive offices)

60007

(Zip Code)

Registrant's telephone number, including area code: (847) 472-6700

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS:

Common, \$0.003 par value per  
share

NAME OF EACH EXCHANGE ON WHICH REGISTERED:

Nasdaq Stock Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large Accelerated Filer ☐ Accelerated Filer ☒  
Non-Accelerated Filer ☐ Smaller Reporting Company ☐

(do not check if a smaller reporting company)

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

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There were 12,023,295 shares of the Registrant's common stock outstanding as of March 4, 2016, of which 11,890,432 are ordinary common shares and 132,863 are restricted voting common shares. As of the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the Registrant's common equity held by non-affiliates of the Registrant was approximately \$211.7 million (based upon the closing sale price of the Registrant's common shares on June 30, 2015).

For purposes of the foregoing calculation only, which is required by Form 10-K, the Registrant has included in the shares owned by affiliates those shares owned by directors and officers of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

\* \* \*

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement for its 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

ATLAS FINANCIAL HOLDINGS, INC.  
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Part I.

Item 1. Business

Overview

Atlas Financial Holdings, Inc. ("Atlas" or "We" or "the Company") is a financial services holding company whose subsidiaries specialize in the underwriting of commercial automobile insurance policies, focusing on the "light" commercial automobile sector. This sector includes taxi cabs, non-emergency para-transit, limousine, livery and business auto. With roots dating back to 1925 selling insurance for taxi cabs, we are one of the oldest insurers of taxi and livery businesses in the United States. This experience serves as the foundation of our hyper-focused specialty insurance business that embraces continuous improvement, analytics and technology. Our goal is to be the preferred specialty commercial transportation insurer in any geographic area where our value proposition delivers benefit to all stakeholders.

We were originally formed as JJR VI, a Canadian capital pool company, on December 21, 2009 under the laws of Ontario, Canada. On December 31, 2010, we completed a reverse merger wherein American Service Insurance Company, Inc. ("American Service") and American Country Insurance Company ("American Country"), in exchange for the consideration set out below, were transferred to us by Kingsway America Inc. ("KAI"), a wholly owned subsidiary of Kingsway Financial Services Inc. ("KFSI"), a Canadian public company whose shares are traded on the Toronto and New York Stock Exchanges. Prior to the transaction, American Service and American Country were wholly owned subsidiaries of KAI. American Country commenced operations in 1979. In 1983, American Service began as a non-standard personal and commercial auto insurer writing business in the Chicago, Illinois area.

On December 31, 2010, following the reverse merger transaction described immediately hereafter, we filed a Certificate of Registration by Way of Continuation in the Cayman Islands to re-domesticate as a Cayman Islands company. In addition, on December 30, 2010 we filed a Certificate of Incorporation on Change of Name to change our name to Atlas Financial Holdings, Inc. Our current organization is a result of a reverse merger transaction involving the following companies:

- (a) JJR VI, sponsored by JJR Capital, a Toronto based merchant bank;
- (b) American Insurance Acquisition Inc., ("American Acquisition"), a corporation formed under the laws of Delaware as a wholly owned subsidiary of KAI; and
- (c) Atlas Acquisition Corp., a Delaware corporation wholly-owned by JJR VI and formed for the purpose of merging with and into American Acquisition.

In connection with the reverse merger transaction, KAI transferred 100% of the capital stock of each of American Service and American Country to American Acquisition (another wholly owned subsidiary of KAI) in exchange for C\$35.1 million of common shares and \$18.0 million of preferred shares of American Acquisition and promissory notes worth C\$7.7 million, aggregating C\$60.8 million. In addition, American Acquisition raised C\$8.0 million through a private placement offering of subscription receipts to qualified investors in both the United States and Canada at a price of C\$6.00 per subscription receipt.

KAI received 4,601,621 restricted voting common shares of our company, which we refer to as "restricted voting shares", then valued at \$27.8 million, along with 18,000,000 non-voting preferred shares of our company, then valued at \$18.0 million, and C\$8.0 million cash for total consideration of C\$60.8 million in exchange for 100% of the outstanding shares of American Acquisition and full payment of certain promissory notes. Investors in the American Acquisition private placement offering of subscription receipts received 1,327,834 of our ordinary common shares,

which we refer to as “ordinary shares”, plus warrants to purchase one ordinary share of our company for each subscription receipt at C\$6.00 at any time until December 31, 2013. Every 10 common shares of JJR VI held by the shareholders of JJR VI immediately prior to the reverse merger were, upon consummation of the merger, consolidated into one ordinary share of JJR VI. Upon re-domestication in the Cayman Islands, these consolidated shares were then exchanged on a one-for-one basis for our ordinary shares.

In connection with the acquisition of American Service and American Country, we streamlined the operations of the insurance subsidiaries to focus on the “light” commercial automobile lines of business we believe will produce favorable underwriting results. During 2011 and 2012, we disposed of non-core assets and placed into run-off certain non-core lines of business previously written by the insurance subsidiaries. Since disposing of these non-core assets and lines of business, our sole focus has been the underwriting of specialty commercial insurance for users of "light" vehicles in the United States.

On December 7, 2012, a shareholder meeting was held where a one-for-three reverse stock split was unanimously approved. When the reverse stock split took effect on January 29, 2013, it decreased the authorized and outstanding ordinary shares and restricted voting shares at a ratio of one-for-three. The primary objective of the reverse stock split was to increase the per share price of Atlas' ordinary shares to meet certain listing requirements of the NASDAQ Capital Market. Unless otherwise noted, all historical share and per share values in this Annual Report on Form 10-K reflect the one-for-three reverse stock split.

On January 2, 2013 we acquired Camelot Services, Inc. ("Camelot Services"), a privately owned insurance holding company, and its sole subsidiary, Gateway Insurance Company ("Gateway"), from an unaffiliated third party. This transaction was contractually deemed effective as of January 1, 2013. Gateway provides specialized commercial insurance products, including commercial automobile insurance to niche markets such as taxi, black car and sedan service owners and operators.

Gateway is a St. Louis, Missouri-based insurance company that was writing approximately \$10.0 million of annual taxi and limousine net written premium in states deemed favorable to Atlas at the time of our acquisition. Gateway is an admitted carrier in 46 states plus the District of Columbia.

Under the terms of the stock purchase agreement, the purchase price equaled the adjusted book value of Camelot Services at December 31, 2012, subject to certain pre and post-closing adjustments, including, among others, claim development between the signing of the stock purchase agreement and December 31, 2012. Additional consideration, principally in the form of preferred shares, may be paid to the seller, or returned to us by the seller, depending upon, among other things, the future development of Gateway's actual loss reserves for certain lines of business and the utilization of certain deferred tax assets over time. Gateway also wrote contractor's workers' compensation insurance, which we ceased writing as part of the transaction. An indemnity reinsurance agreement was entered into pursuant to which 100% of Gateway's workers' compensation business was ceded to a third party captive reinsurer funded by the seller as part of the transaction.

The total purchase price for all of Camelot Services' outstanding shares was \$14.3 million, consisting of a combination of cash and Atlas preferred shares. Consideration consisted of a \$6.0 million dividend paid by Gateway immediately prior to the closing, \$2.0 million of Atlas preferred shares (consisting of a total of 2,000,000 preferred shares) and \$6.3 million in cash. We have contractual protections to offset up to \$2.0 million of future adverse reserve development. We have also agreed to provide the sellers up to \$2.0 million in additional consideration in the event of favorable reserve development. During the first quarter of 2015, the Company issued an additional 940,500 preferred shares pursuant to the Gateway stock purchase agreement due to the favorable development of Gateway's actual loss reserves for certain lines of business.

On February 11, 2013, an aggregate of 4,125,000 Atlas ordinary shares were offered in Atlas' initial public offering in the United States. 1,500,000 ordinary shares were offered by Atlas and 2,625,000 ordinary shares were sold by KAI at a price of \$5.85 per share. Atlas also granted the underwriters an option to purchase up to an aggregate of 618,750 additional shares at the public offering price of \$5.85 per share to cover over-allotments, if any. On March 11, 2013, the underwriters exercised this option and purchased an additional 451,500 shares. After underwriting and other expenses, total proceeds of \$9.8 million were realized on the issuance of the shares. Since that time, Atlas' shares have traded on the NASDAQ under the symbol "AFH." The principal purposes of the initial offering in the United States were to create a public market in the United States for Atlas' ordinary shares and thereby enable future access to the public equity markets in the United States by Atlas and its shareholders, and to obtain additional capital.

On June 5, 2013, Atlas delisted from the Toronto Stock Exchange.

On August 1, 2013, Atlas used the net proceeds from the U.S. initial public offering to partially fund the repurchase of 18,000,000 of its outstanding preferred shares owned by KAI for \$16.2 million. These preferred shares had accrued

dividends on a cumulative basis at a rate of \$0.045 per share per year (4.5%) and were convertible into 2,286,000 common shares at the option of the holder after December 31, 2015.

On May 13, 2014, an aggregate of 2,000,000 Atlas ordinary shares were offered in a subsequent public offering in the United States at a price of \$12.50 per share. Atlas also granted the underwriters an option to purchase up to an aggregate of 300,000 additional shares at the public offering price of \$12.50 per share to cover over-allotments, if any. On May 27, 2014, the underwriters exercised this option and purchased an additional 161,000 shares. After underwriting and other expenses, total proceeds of \$25.0 million were realized on the issuance of the shares. A portion of the net proceeds from the offering was used to support the acquisition of Anchor Holdings Group, Inc. and its affiliated entities as described further below.

During the fourth quarter of 2014, Camelot Services was merged into American Acquisition.

On March 11, 2015, we acquired Anchor Holdings Group, Inc. ("Anchor Holdings"), a privately owned insurance holding company, and its wholly owned subsidiary, Global Liberty Insurance Company of New York ("Global Liberty"), along with its affiliated entities, Anchor Group Management ("Anchor Management"), Plainview Premium Finance Company, Inc. ("Plainview Delaware") and Plainview Delaware's wholly owned subsidiary, Plainview Premium Finance Company of California, Inc. ("Plainview California"), and together with Anchor Holdings, Global Liberty, Anchor Management, and Plainview Delaware, "Anchor," from an unaffiliated third party for a total purchase price of \$23.2 million, consisting of a combination of cash and Atlas preferred shares, and is estimated at approximately 1.3 times combined U.S. GAAP book value. Consideration consisted of approximately \$19.2 million in cash and \$4.0 million of Atlas preferred shares (consisting of a total of 4,000,000 preferred shares at \$1.00 per preferred share). Anchor provides specialized commercial insurance products, including commercial automobile insurance to niche markets such as taxi, black car and sedan service owners and operators primarily in the New York market. Global Liberty was writing approximately \$40.0 million of annual taxi and limousine net written premium in markets deemed favorable to Atlas at the time of our acquisition.

Our core business is the underwriting of commercial auto mobile insurance policies, focusing on the "light" commercial automobile sector, which is carried out through American Country, American Service, Gateway and Global Liberty (collectively, our "insurance subsidiaries.")

#### Competitive Strengths

Our value proposition is driven by our competitive strengths, which include the following:

Focus on niche commercial insurance business. We target niche markets that support adequate pricing. We believe that we are able to adapt to changing market needs well in advance of our competitors through our strategic commitment and operating scale. We develop and deliver superior specialty commercial automobile insurance products priced to meet our customers' needs and strive to generate consistent underwriting profit for our insurance subsidiaries. We have experienced a favorable trend in loss ratios attributable to the increased composition of commercial automobile written premium as a percentage of our insurance subsidiaries' total written premium coupled with our ability to increase pricing and manage claims effectively.

There are a limited number of competitors specializing in these lines of business. Management believes a strong value proposition is very important to attract new business and can result in desirable retention levels as policies renew on an annual basis.

Strong market presence with recognized brands and long-standing distribution relationships. Our insurance subsidiaries have a long heritage as insurers of taxi, livery and para-transit businesses. All of our insurance subsidiaries have strong brand recognition and long-standing distribution relationships in target markets. Through regular interaction with our independent retail agents, we strive to thoroughly understand each of the markets we serve in order to deliver strategically priced products to attractive market share at the right time. Our insurance subsidiaries are currently licensed in more states than those in which we have currently elected to do business, and we routinely re-evaluate all markets to assess future potential opportunities and risks. There are also a relatively limited number of agents who specialize in these lines of business. As a result, strategic relationships with independent retail agents are important to ensure efficient distribution.

Sophisticated underwriting and claims handling expertise. Atlas has extensive experience and expertise with respect to underwriting and claims management in our specialty area of insurance. Our well-developed underwriting and claims infrastructure includes an extensive data repository, proprietary technologies, deep market knowledge and established market relationships. Analysis of the substantial data available through our operating companies drives our product and pricing decisions. We believe our underwriting and claims handling expertise provides enhanced risk selection, high quality service to our customers and greater control over claims expenses. We are committed to maintaining this underwriting and claims handling expertise as a core competency as our volume of business increases.



Scalable operations positioned for growth. Significant progress has been made in aligning our organization's infrastructure cost base to our expected revenue going forward. The core functions of our insurance subsidiaries were integrated into a common operating platform. We believe that our insurance subsidiaries are well-positioned to continue approaching proportionate market share of approximately 20% in all of the markets in which we operate with better than industry level profitability from the efficient operating infrastructure established subsequent to Atlas' acquisition of the companies. We are committed to evaluating, and where beneficial, deploy new technologies and analytics to maximize efficiency and scalability.

Experienced management team. We have a talented and experienced management team who have decades of experience in the property and casualty insurance industry. Our senior management team has worked in the property and casualty industry for an average of more than 25 years and with the insurance subsidiaries, directly or indirectly, for an average of 15 years.

## Strategic Focus

### Vision

Our goal is to be the preferred specialty commercial transportation insurer in any geographic area where our value proposition delivers benefit to all stakeholders.

### Mission

We develop and deliver superior specialty insurance products priced to meet our customers' needs and generate consistent underwriting profit for our insurance subsidiaries. These products are distributed to the insured through independent retail agents utilizing our company's operating platform.

We seek to achieve our vision and mission through the design, sophisticated pricing and efficient delivery of specialty transportation insurance and risk management products. Through constant interaction with our retail producers, we strive to thoroughly understand each of the markets we serve in order to deliver strategically priced products to attractive markets at the right time. Analysis of the substantial data available through our operating companies drives our product and pricing decisions. We focus on our key strengths and seek to expand our geographic footprint and products only to the extent these activities support our vision and mission. We target niche markets that support adequate pricing and believe we are able to adapt to changing market needs ahead of our competitors through our strategic commitment and increasing scale.

### Outlook

Over the past five years, through infrastructure re-organization, dispositions and by placing certain lines of business into run-off, our insurance subsidiaries have streamlined operations to focus on the lines of business we believe will leverage our core competencies and produce favorable underwriting results. Significant progress has been made in aligning the organization's infrastructure cost base to our expected revenue stream going forward. The core functions of the insurance subsidiaries were integrated into a common, best practice based, operating platform. Management believes that our insurance subsidiaries are well-positioned to return to the volume of premium they wrote in the recent past and continue to grow to proportionate market share of approximately 20% in all of the markets in which we operate with better than industry level profitability. Our insurance subsidiaries have a long heritage with respect to their continuing lines of business and will benefit from the efficient operating infrastructure currently in place. Through its insurance subsidiaries, Atlas actively wrote business in 41 states and the District of Columbia during 2015 utilizing our well developed underwriting and claim methodology.

We believe that the most significant opportunities going forward are: (i) continually re-energizing our distribution channels with the objective of recapturing business generated prior to 2009, (ii) building business in previously untapped geographic markets to the extent that they meet our specific criteria where our insurance subsidiaries are licensed, but not active prior to Atlas' acquisition of these subsidiaries, and (iii) opportunistically acquiring books of business or similar insurance companies, provided market conditions support this activity. Primary potential risks related to these activities include: (i) insurance market conditions becoming or remaining "soft" for a sustained period of time, (ii) not being able to achieve the expected support from distribution partners, and (iii) the insurance subsidiaries not successfully maintaining appropriate ratings from A.M. Best.

We seek to deploy our capital to maximize the return for our shareholders, either by investing in growing our operations or by pursuing other capital initiatives, depending upon insurance and capital market conditions. We focus on our key strengths and seek to expand our geographic footprint and products only to the extent these activities support our vision and mission. We will identify and prioritize market expansion opportunities based on the comparative strength of our value proposition relative to competitors, the market opportunity and the legal and regulatory environment.

We intend to continue to grow profitably by undertaking the following:

Re-establish legacy distribution relationships. We continue to build upon relationships with independent retail agents that have been our insurance subsidiaries' distribution partners in the past. We seek to develop and maintain strategic distribution relationships with a relatively small number of independent retail agents with substantial market presence in each state in which we currently operate. We expect to continue to increase the distribution of our core products in the states where we are actively writing insurance and re-capture insurance premium historically written by the insurance subsidiaries.

Expand our market presence. We are committed to continuing to diversify by leveraging our experience, historical data and market research to expand our business in previously untapped markets to the extent incremental markets meet our criteria. Utilizing our established brands and market relationships, we have made significant inroads in new states where we had no active business in recent years. We will continue to expand into additional states or product lines where we are licensed, but not currently active, to the extent that our market expansion criteria is met in a given state.

Acquire complementary books of business and insurance companies. We plan to opportunistically pursue acquisitions of complementary books of business and insurance companies provided market conditions support this activity. We will evaluate each acquisition opportunity based on its expected economic contribution to our results and support of our market expansion initiatives. Our more recent acquisitions of Gateway and Anchor are consistent with this aspect of our strategy.

#### Market

The “light” commercial automobile policies we underwrite provide coverage for light weight commercial vehicles typically with the minimum limits prescribed by statute, municipal or other regulatory requirements. The majority of our policyholders are individual owners or small fleet operators.

Gross premium written from commercial automobile was \$207.8 million, \$119.5 million, and \$88.6 million for the years ended December 31, 2015, 2014, and 2013, respectively. As a percentage of the insurance subsidiaries’ overall book of business, commercial auto gross premium written represented 99.3%, 97.6%, and 95.2% of gross premium written in the years ended December 31, 2015, 2014, and 2013, respectively.

The “light” commercial automobile sector is a subset of the historically profitable commercial automobile insurance industry segment. In more recent years the commercial automobile insurance industry has seen profitability pressure within certain segments, however, it has outperformed the overall property and casualty (“P&C”) industry generally over the past fifteen years based on data compiled by A.M. Best Aggregates & Averages. Data compiled by SNL Financial also indicates that for 2014 the total market for commercial automobile liability insurance was approximately \$29.3 billion. The size of the commercial automobile insurance market can be affected significantly by many factors, such as the total number of vehicles insured, the underwriting capacity and underwriting criteria of automobile insurance carriers and general economic conditions. Historically, the commercial automobile insurance market has been characterized by periods of excess capacity and price competition followed by periods of reduced underwriting capacity and higher premium rates.

We believe that there is a positive correlation between the economy and commercial automobile insurance in general. However, operators of “light” commercial automobiles may be less likely than other business segments within the commercial automobile insurance market to take vehicles out of service as their businesses and business reputations rely heavily on availability. With respect to certain business lines such as the taxi line, there are also other factors such as the cost and limited supply of medallions which may discourage a policyholder from taking vehicles out of service in the face of reduced demand for the use of the vehicle.

Currently, we distribute our products only in the United States. Through our insurance subsidiaries, we are licensed to write P&C insurance in 49 states plus the District of Columbia in the United States. The following table reflects, in percentages, the principal geographic distribution of gross premiums written for the year ended December 31, 2015. No other jurisdiction accounted for more than 5%.

#### Distribution of Gross Premium Written by Jurisdiction

New York	29.3%
California	11.8%
Michigan	5.8%

Louisiana	5.7%
Illinois	5.6%
Minnesota	5.3%

The diagram below outlines the states where we are focused on actively writing new insurance policies and where we believe the comparative strength of our value proposition, the market opportunity, and the legal and regulatory environment are favorable (states darkened in the below diagram). Although we are writing business in Connecticut, Delaware and Florida through Global Liberty, the blue states are those where we believe the comparative strength of our value proposition, the market opportunity, and the legal and regulatory environment are favorable to our insurance subsidiaries.

#### Agency Relationships

Independent retail agents are recruited by us directly utilizing marketing efforts targeting the specialty niche upon which we focus. Interested agents are evaluated based on their experience, expertise and ethical dealing. Typically, our Company enters into distribution relationships with approximately one out of every ten agents seeking an agency contract. We do not provide exclusive territories to our independent retail agents, nor do we expect to be their only insurance market. We are generally interested in acting as one of a relatively small number of insurance partners with whom our independent retail agents place business and are also careful not to oversaturate the distribution channel in any given geographic market. This helps to ensure that we are able to receive the maximum number of submissions for underwriting evaluation without unnecessary downstream pressure from agents to write business that does not fit our underwriting model.

Agents receive commission as a percentage of premiums (generally 10%) as their primary compensation from us. Larger agents may also be eligible for profit sharing based on the growth and underwriting profitability related to their book of business with us. The quality of business presented and written by each independent retail agent is evaluated regularly by our underwriters and is also reviewed quarterly by senior management. Key metrics for evaluation include overall accuracy and adequacy of underwriting information, performance relative to agreed commitments, support with respect to claims presented by their customers (as applicable) and overall underwriting profitability of the agent's book of business. While we rely on our independent retail agents for distribution and customer support, underwriting and claim handling responsibilities are retained by us. Many of our agents have had direct relationships with our insurance subsidiaries for a number of years.

### Seasonality

Our P&C insurance business is seasonal in nature. Our ability to generate written premium is also impacted by the timing of policy effective periods in the states in which we operate while our net premiums earned generally follow a relatively smooth trend from quarter to quarter. Also, our gross premiums written are impacted by certain common renewal dates in larger metropolitan markets for the light commercial risks that represent our core lines of business. For example, January 1<sup>st</sup> and March 1<sup>st</sup> are common taxi cab renewal dates in Illinois and New York, respectively. Additionally, we implemented our New York “excess taxi program” in the third quarter of 2012, which has an annual renewal date in the third quarter. Net underwriting income is driven mainly by the timing and nature of claims, which can vary widely.

### Competition

The insurance industry is price competitive in all markets in which the insurance subsidiaries operate. Our Company strives to employ disciplined underwriting practices with the objective of rejecting underpriced risks.

Our Company competes on a number of factors such as brand and distribution strength, pricing, agency relationships, policy support, claim service, and market reputation. In our core commercial automobile lines, the primary offerings are policies at the minimum prescribed limits in each state, as established by statutory, municipal and other regulations. We believe our Company differentiates itself from many larger companies competing for this specialty business by exclusively focusing on these lines of insurance. We believe our exclusive focus results in the deployment of underwriting and claims professionals who are more familiar with issues common in specialty commercial automobile lines, and provides the customer better service.

Our competitors generally fall into two categories. The first is made up of large generalist insurers who often sell their products to our niche through intermediaries such as managing general agents or wholesalers. The second consists primarily of smaller local insurance companies. These smaller companies may focus primarily on one or more of our niche markets. Or, as is typical in the majority of geographic areas where we compete, they have a broader focus, often writing a significant amount of non-standard lines of business.

To compete successfully in the specialty commercial insurance industry, we rely on our ability to: identify markets that are most likely to produce an underwriting profit; operate with a disciplined underwriting approach; offer diversified products and geographic platforms; practice effective claims management; reserve appropriately for unpaid claims; strive for cost containment through economies of scale where deemed appropriate; and, provide services and competitive commissions to our independent agents.

### Regulation

We are subject to extensive regulation, particularly at the state level. The method, extent and substance of such regulation varies by state, but generally has its source in statutes and regulations which establish standards and requirements for conducting the business of insurance and that delegate regulatory authority to state insurance regulatory agencies. Insurance companies can also be subject to so-called “desk drawer rules” of state insurance regulators, which are regulatory rules or best practices that have not been codified or formally adopted through regulatory proceedings. In general, such regulation is intended for the protection of those who purchase or use insurance products issued by our insurance subsidiaries, not the holders of securities issued by us. These laws and regulations have a significant impact on our business and relate to a wide variety of matters including accounting methods, agent and company licensure, claims procedures, corporate governance, examinations, investing practices, policy forms, pricing, trade practices, reserve adequacy and underwriting standards.

In recent years, the state insurance regulatory framework has come under increased federal scrutiny. Most recently, pursuant to the Dodd-Frank Regulatory Reform Act of 2010, the Federal Insurance Office was formed for the purpose of, among other things, examining and evaluating the effectiveness of the current insurance and reinsurance regulatory framework. In addition, state legislators and insurance regulators continue to examine the appropriate nature and scope of state insurance regulation.

Many state laws require insurers to file insurance policy forms and/or insurance premium rates and underwriting rules with state insurance regulators. In some states, such rates, forms and/or rules must be approved prior to use. While these requirements vary from state to state, generally speaking, regulators review premium rates to ensure they are not excessive, inadequate or unfairly discriminatory.

As a result, the speed with which an insurer can change prices in response to competition or increased costs depends, in part, on whether the premium rate laws and regulations (i) require prior approval of the premium rates to be charged, (ii) permit the insurer to file and use the forms, rates and rules immediately, subject to further review, or (iii) permit the insurer to immediately use the



forms, rates and/or rules and to subsequently file them with the regulator. When state laws and regulations significantly restrict both underwriting and pricing, it can become more difficult for an insurer to make adjustments quickly in response to changes which could affect profitability.

Insurance companies are required to report their financial condition and results of operations in accordance with statutory accounting principles prescribed or permitted by state insurance laws and regulations and the National Association of Insurance Commissioners (the "NAIC"). As a result, industry data is available that enables comparisons between insurance companies, including competitors who are not subject to the requirement to prepare financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). We frequently use industry publications containing statutory financial information to assess our competitive position. State insurance laws and regulations also prescribe the form and content of statutory financial statements, require the performance of periodic financial examinations of insurers, establish standards for the types and amounts of investments insurers may hold and require minimum capital and surplus levels. Additional requirements include risk-based capital ("RBC") rules, thresholds intended to enable state insurance regulators to assess the level of risk inherent in an insurance company's business and consider items such as asset risk, credit risk, underwriting risk and other business risks relevant to its operations. In accordance with RBC formulas, a company's RBC requirements are calculated and compared to its total adjusted capital to determine whether regulatory intervention is warranted. At December 31, 2015, the total adjusted capital of each of our insurance subsidiaries exceeded the minimum levels required under RBC requirements.

It is difficult to predict what specific measures at the state or federal level will be adopted or what effect any such measures would have on us or our insurance subsidiaries.

#### Employees

As of December 31, 2015, we had 214 full-time employees, 130 of whom work at the corporate headquarters in Elk Grove Village, Illinois, 13 of whom work in St. Louis, 66 of whom work in New York and 5 of whom work remotely. The Corporate and Other category includes executive, information technology, data integrity, finance and human resources. The Claims category includes in-house legal.

#### Available Information about Atlas

The address of our registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our operating headquarters are located at 150 Northwest Point Boulevard, Elk Grove Village, Illinois 60007, USA. We maintain a website at <http://www.atlas-fin.com>. Information on our website or any other website does not constitute a part of this Annual Report on Form 10-K. Atlas files with the Securities and Exchange Commission (the "SEC") and makes available free of charge on its website the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act (15 U.S.C. 78m(a) or 78o(d)) as soon as reasonably practicable after those reports are electronically filed with, or furnished to, the SEC. To access these filings, go to the company website, using the "Investor Relations" heading. These reports are also available on the SEC's website at <http://www.sec.gov>.

#### Item 1A. Risk Factors

You should read the following risk factors carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. Any of the following risks could materially and adversely affect our business, operating results, financial condition and the actual outcome of matters as to which forward-looking statements are made in this Annual Report on Form 10-K. While we believe we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our business, operating results or financial condition in the future.

##### Reserve and Exposure Risks

The insurance subsidiaries' provisions for unpaid claims may be inadequate, which would result in a reduction in our net income and might adversely affect our financial condition.

Our success depends upon our ability to accurately assess and price the risks covered by the insurance policies that we write. We establish reserves to cover our estimated liability for the payment of losses and expenses related to the administration of claims incurred on the insurance policies we write. Establishing an appropriate level of reserves is an inherently uncertain process. Our provisions for unpaid claims do not represent an exact calculation of actual liability, but are estimates involving actuarial and statistical projections at a given point in time of what we expect to be the cost of the ultimate settlement and administration of known and unknown claims. The process for establishing the provision for unpaid claims reflects the uncertainties and significant judgmental factors inherent in estimating future results of both known and unknown claims, and as such, the process is inherently complex and imprecise. We utilize a third party actuarial firm to assist us in estimating the provision for unpaid claims. These estimates are based upon various factors, including:

- actuarial and statistical projections of the cost of settlement and administration of claims reflecting facts and circumstances then known;
- historical claims information;
- assessments of currently available data;
- estimates of future trends in claims severity and frequency;
- judicial theories of liability;
- economic factors such as inflation;
- estimates and assumptions regarding judicial and legislative trends, and actions such as class action lawsuits and judicial interpretation of coverages or policy exclusions; and
- the level of insurance fraud.

Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact our ability to accurately assess the risks of the policies that we write. In addition, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer and additional lags between the time of reporting and final settlement of claims. Unfavorable development in any of these factors could cause the level of reserves to be inadequate. The following factors may have a substantial impact on future claims incurred:

- the amounts of claims payments;
- the expenses that the insurance subsidiaries incur in resolving claims;
- legislative and judicial developments; and
- changes in economic conditions, including inflation.

As time passes and more information about the claims becomes known, the estimates are adjusted upward or downward to reflect this additional information. Because of the elements of uncertainty encompassed in this estimation process, and the extended time it can take to settle many of the more substantial claims, several years of experience may be required before a meaningful comparison can be made between actual losses and the original provision for unpaid claims. The development of the provision for unpaid claims is shown by the difference between estimates of claims as of the initial year end and the re-estimated liability at each subsequent year end. Favorable development (reserve redundancy) means that the original claims estimates were higher than subsequently determined or re-estimated. Unfavorable development (reserve deficiency) means that the original claims estimates were lower than subsequently determined or re-estimated.

Government regulators could require that we increase reserves if they determine that provisions for unpaid claims are understated. Increases to the provision for unpaid claims cause a reduction in our insurance subsidiaries' surplus which could cause a downgrading of our insurance subsidiaries' ratings. Any such downgrade could, in turn, adversely affect their ability to sell insurance policies.

For the companies that we acquired or will acquire, the provisions for unpaid claims may be inadequate at the time of purchase, which would result in a reduction in our net income and might adversely affect our financial condition.

We cannot guarantee that the provisions for unpaid claims of the companies that we acquired are or will be adequate. We became or will become responsible for the historical loss reserves established by the acquired company's management upon completion of acquisitions. While the stock purchase agreement provides for certain protections in this regard, there can be no assurances they will be sufficient to offset any adverse development to the acquired company's historical loss reserves. Any unfavorable development in an acquired company's reserves would reduce our net income and have an adverse effect on our financial position to the extent it exceeds the protections provided for in the stock purchase agreement related to each acquisition.

Our success depends on our ability to accurately price the risks we underwrite.

Our results of operations and financial condition depend on our ability to underwrite and set premium rates accurately for a wide variety of risks. Adequate rates are necessary to generate premiums sufficient to pay losses, loss settlement expenses and underwriting expenses and to earn a profit. To price our products accurately, we must collect and properly analyze a substantial amount of data; develop, test and apply appropriate pricing techniques; closely monitor and timely recognize changes in trends; and project both severity and frequency of losses with reasonable accuracy.

Our ability to undertake these efforts successfully, and as a result price our products accurately, is subject to a number of risks and uncertainties, some of which are outside our control, including:

- the availability of sufficient reliable data and our ability to properly analyze available data;
- the uncertainties that inherently characterize estimates and assumptions;
- underlying trends or changes affecting risk and loss costs;
- our selection and application of appropriate pricing techniques; and
- changes in applicable legal liability standards and in the civil litigation system generally.

Consequently, we could underprice risks, which would adversely affect our profit margins, or we could overprice risks, which could reduce our sales volume and competitiveness. In either case, our profitability could be materially and adversely affected.

Our insurance subsidiaries rely on independent agents and other producers to bind insurance policies on and to collect premiums from our policyholders, which exposes us to risks that our producers fail to meet their obligations to us.

Our insurance subsidiaries market and distribute automobile insurance products through a network of independent agents and other producers in the United States. We rely, and will continue to rely, heavily on these producers to attract new business. Independent producers generally have the ability to bind insurance policies and collect premiums on our behalf, actions over which we have a limited ability to exercise preventative control. In the event that an independent agent exceeds their authority by binding us on a risk that does not comply with our underwriting

guidelines, we may be at risk for that policy until we effect a cancellation. Any improper use of such authority may result in losses that could have a material adverse effect on our business, results of operations and financial condition. In addition, in accordance with industry practice, policyholders often pay the premiums for their policies to producers for payment to us. These premiums may be considered paid when received by the producer, and thereafter, the customer is no longer liable to us for those amounts, whether or not we have actually received these premium payments from the producer. Consequently, we assume a degree of risk associated with our reliance on independent agents in connection with the settlement of insurance premium balances.

Our insurance subsidiaries may be unable to mitigate their risk or increase their underwriting capacity through reinsurance arrangements, which could adversely affect our business, financial condition and results of operations. If reinsurance rates rise significantly or reinsurance becomes unavailable or reinsurers are unable to pay our claims, we may be adversely affected.

In order to reduce underwriting risk and increase underwriting capacity, our insurance subsidiaries transfer portions of our insurance risk to other insurers through reinsurance contracts. We generally purchase reinsurance from third parties in order to reduce our liability on individual risks. Reinsurance does not relieve us of our primary liability to our insurance subsidiaries' insureds. During the year ended December 31, 2015, we had ceded premium written of \$39.6 million to our reinsurers. The availability, cost and structure of reinsurance protection are subject to prevailing market conditions that are outside of our control and which may affect our level of business and profitability. Our ability to provide insurance at competitive premium rates and coverage limits on a continuing basis depends in part upon the extent to which we can obtain adequate reinsurance in amounts and at rates that will not adversely affect our competitive position. There are no assurances that we will be able to maintain our current reinsurance facilities, which generally are subject to annual renewal. If we are unable to renew any of these facilities upon their expiration or to obtain other reinsurance facilities in adequate amounts and at favorable rates, we may need to modify our underwriting practices or reduce our underwriting commitments, which could adversely affect our results of operations.

Our insurance subsidiaries are subject to credit risk with respect to the obligations of reinsurers and certain of our insureds. The inability of our risk sharing partners to meet their obligations could adversely affect our profitability.

Although the reinsurers are liable to us to the extent of risk ceded to them, we remain ultimately liable to policyholders on all risks, even those reinsured. As a result, ceded reinsurance arrangements do not limit our ultimate obligations to policyholders to pay claims. We are subject to credit risks with respect to the financial strength of our reinsurers. We are also subject to the risk that their reinsurers may dispute their obligations to pay our claims. As a result, we may not recover sufficient amounts for claims that we submit to reinsurers, if at all. As of December 31, 2015, we had an aggregate of \$32.7 million of reinsurance recoverables, of which \$24.1 million were unsecured. In addition, our reinsurance agreements are subject to specified limits and we would not have reinsurance coverage to the extent that those limits are exceeded.

Effective immediately after the close of the Gateway transaction, we entered into a reinsurance agreement with a third party reinsurer, that covers all in-force premium and loss reserves for Gateway's workers' compensation program. Along with the reserves, any go-forward premium written for the workers' compensation program will be ceded in its entirety to this third party reinsurer under the terms of this reinsurance agreement. While Gateway will remain liable to its insureds, we expect to have no net exposure to any losses related to this workers' compensation business subsequent to the effective date of the acquisition, provided the reinsurer continues to make payments to us and otherwise complies with the terms of this reinsurance agreement, although no assurances thereof can be given.

With respect to insurance programs, the insurance subsidiaries are subject to credit risk with respect to the payment of claims and on the portion of risk exposure either ceded to captives established by their clients or deductibles retained by their clients. No assurance can be given regarding the future ability of these entities to meet their obligations. The inability of our risk sharing partners to meet their obligations could adversely affect our profitability.

The exclusions and limitations in our policies may not be enforceable.

Many of the policies we issue include exclusions or other conditions that define and limit coverage, which exclusions and conditions are designed to manage our exposure to certain types of risks and expanding theories of legal liability. In addition, many of our policies limit the period during which a policyholder may bring a claim under the policy, which period in many cases is shorter than the statutory period under which these claims can be brought by our

policyholders. While these exclusions and limitations help us assess and control our loss exposure, it is possible that a court or regulatory authority could nullify or void an exclusion or limitation, or legislation could be enacted modifying or barring the use of these exclusions and limitations. This could result in higher than anticipated losses and claims handling expenses by extending coverage beyond our underwriting intent or increasing the number or size of claims, which could have a material adverse effect on our operating results. In some instances, these changes may not become apparent until some time after we have issued the insurance policies that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a policy is issued.

The occurrence of severe catastrophic events may have a material adverse effect on our financial results and financial condition.

Although our business strategy generally precludes us from writing significant amounts of catastrophe exposed business, most property and casualty insurance contains some exposure to catastrophic loss. We have only limited exposure to natural and man-made disasters, such as hurricane, typhoon, windstorm, flood, earthquake, acts of war, acts of terrorism and political instability. While we carefully manage our aggregate exposure to catastrophes, modeling errors and the incidence and severity of catastrophes,

such as hurricanes, windstorms and large-scale terrorist attacks are inherently unpredictable, and our losses from catastrophes could be substantial. In addition, it is possible that we may experience an unusual frequency of smaller losses in a particular period. In either case, the consequences could be substantial volatility in our financial condition or results of operations for any fiscal quarter or year, which could have a material adverse effect on our ability to write new business. These losses could deplete our shareholders' equity. Increases in the values and geographic concentrations of insured property and the effects of inflation have resulted in increased severity of industry losses from catastrophic events in recent years, and we expect that those factors will increase the severity of catastrophe losses in the future. It is also possible that catastrophic losses could have an impact on our investment portfolio.

The risk models we use to quantify catastrophe exposures and risk accumulations may prove inadequate in predicting all outcomes from potential catastrophe events.

We rely on widely accepted and industry-recognized catastrophe risk modeling, primarily in conjunction with our reinsurance partners, to help us quantify our aggregate exposure to any one event. As with any model of physical systems, particularly those with low frequencies of occurrence and potentially high severity of outcomes, the accuracy of the model's predictions is largely dependent on the accuracy and quality of the data provided in the underwriting process and the judgments of our employees and other industry professionals. These models do not anticipate all potential perils or events that could result in a catastrophic loss to us. Furthermore, it is often difficult for models to anticipate and incorporate events that have not been experienced during or as a result of prior catastrophes. Accordingly, it is possible for us to be subject to events or contingencies that have not been anticipated by our catastrophe risk models and which could have a material adverse effect on our reserves and results of operations.

#### Financial Risks

We are a holding company dependent on the results of operations of our subsidiaries and their ability to pay dividends and other distributions to us.

Atlas is a holding company with no significant operations of its own and a legal entity separate and distinct from our insurance subsidiaries. As a result, our only sources of income are dividends and other distributions from our insurance subsidiaries. We will be limited by the earnings of those subsidiaries, and the distribution or other payment of such earnings to them in the form of dividends, loans, advances or the reimbursement of expenses. The payment of dividends, the making of loans and advances or the reimbursement of expenses by our insurance subsidiaries is contingent upon the earnings of those subsidiaries and is subject to various business considerations and various statutory and regulatory restrictions imposed by the insurance laws of the domiciliary jurisdiction of such subsidiaries. In the states of domicile of American Service, American Country, Gateway and Global Liberty, dividends may only be paid out of earned surplus and cannot be paid when the surplus of the company fails to meet minimum requirements or when payment of the dividend or distribution would reduce its surplus to less than the minimum amount. The state insurance regulator must be notified in advance of the payment of an extraordinary dividend and be given the opportunity to disapprove any such dividend. Prior to entering into any loan or certain other agreements between one or more of our insurance subsidiaries and Atlas or our other affiliates, advance notice must be provided to the state insurance regulator and the insurance regulator has the opportunity to disapprove such loan or agreement. Additionally, insurance regulators have broad powers to prevent reduction of statutory capital and surplus to inadequate levels and could refuse to permit the payment of dividends calculated under any applicable formula. As a result, we may not be able to receive dividends or other distributions from our insurance subsidiaries at times and in amounts necessary to meet our operating needs, to pay dividends to shareholders or to pay corporate expenses. The inability of our insurance subsidiaries to pay dividends or make other distributions could have a material adverse effect on our business and financial condition.

Our insurance subsidiaries are subject to minimum capital and surplus requirements. Failure to meet these requirements may subject us to regulatory action.



Atlas' insurance subsidiaries are subject to minimum capital and surplus requirements imposed under laws of the states in which the companies are domiciled as well as in the states where we conduct business. Any failure by one of our insurance subsidiaries to meet minimum capital and surplus requirements imposed by applicable state law may subject it to corrective action, which may include requiring adoption of a comprehensive financial plan, revocation of its license to sell insurance products or placing the subsidiary under state regulatory control. Any new minimum capital and surplus requirements adopted in the future may require us to increase the capital and surplus of our insurance company subsidiaries, which we may not be able to do.

We are subject to assessments and other surcharges from state guaranty funds and mandatory state insurance facilities, which may reduce our profitability.

Virtually all states require insurers licensed to do business therein to bear a portion of contingent and incurred claim handling expenses and the unfunded amount of “covered” claim and unearned premium obligations of impaired or insolvent insurance companies, either up to the policy's limit, the applicable guaranty fund covered claim obligation cap, or 100% of statutorily defined workers' compensation benefits, subject to applicable deductibles. These obligations are funded by assessments, made on a retrospective, prospective or pre-funded basis, which are levied by guaranty associations within the state, up to prescribed limits (typically 2% of “net direct written premium”), on all member insurers in the state on the basis of the proportionate share of the premiums written by member insurers in certain covered lines of business in which the impaired, insolvent or failed insurer was engaged. Accordingly, the total amount of assessments levied on us by the states in which we are licensed to write insurance may increase as we increase our premiums written. In addition, as a condition to the ability to conduct business in certain states (and within the jurisdiction of some local governments), insurance companies are subject to or required to participate in various premium or loss based insurance-related assessments, including mandatory (a/k/a “involuntary”) insurance pools, underwriting associations, workers' compensation second-injury funds, reinsurance funds and other state insurance facilities. Although we may be entitled to take premium tax credit (or offsets), recover policy surcharges or include assessments in future premium rate structures for payments we make under these facilities, the effect of these assessments and insurance-related arrangements, or changes in them, could reduce our profitability in any given period or limit our ability to grow our business.

Market fluctuations, changes in interest rates or a need to generate liquidity could have significant and negative effects on our investment portfolio. We may not be able to realize our investment objectives, which could significantly reduce our net income.

We depend on income from our securities portfolio for a substantial portion of our earnings. Investment returns are an important part of our overall profitability. A significant decline in investment yields in the securities portfolio or an impairment of securities owned could have a material adverse effect on our business, results of operations and financial condition. We currently maintain and intend to continue to maintain a securities portfolio comprised primarily of fixed income securities. As of December 31, 2015, our investment portfolio was primarily invested in fixed income securities. We cannot predict which industry sectors in which we maintain investments may suffer losses as a result of potential declines in commercial and economic activity, or how any such decline might impact the ability of companies within the affected industry sectors to pay interest or principal on their securities and cannot predict how or to what extent the value of any underlying collateral might be affected. Accordingly, adverse fluctuations in the fixed income or equity markets could adversely impact profitability, financial condition or cash flows. If we are forced to sell portfolio securities that have unrealized losses for liquidity purposes rather than holding them to maturity or recovery, we would realize investment losses on those securities when that determination was made. We could also experience a loss of principal in fixed and non-fixed income investments.

Our ability to achieve our investment objectives is affected by general economic conditions that are beyond our control. General economic conditions can adversely affect the markets for interest rate sensitive securities, including the extent and timing of investor participation in such markets, the level and volatility of interest rates and, consequently, the value of fixed maturity securities. U.S. and global markets have been experiencing volatility since mid-2007. Initiatives taken by the U.S. and foreign governments have helped to stabilize the financial markets and restore liquidity to the banking system and credit markets. In addition, markets in the United States and around the world experienced volatility in 2011 due, in part, to sovereign debt downgrades. Although economic conditions and financial markets have somewhat stabilized, if market conditions were to deteriorate, our investment portfolio could be adversely affected.

Difficult conditions in the economy generally may materially and adversely affect our business, results of operations and statement of financial position, and these conditions may not improve in the near future.

Current market conditions and the instability in the global financial markets present additional risks and uncertainties for our business. In particular, deterioration in the public debt markets could lead to additional investment losses and an erosion of capital as a result of a reduction in the fair value of investment securities. The severe downturn in the public debt and equity markets, reflecting uncertainties associated with the mortgage crisis, worsening economic conditions, widening of credit spreads, bankruptcies and government intervention in large financial institutions, created significant unrealized losses in our securities portfolio at certain stages in 2009.

Economic uncertainty has in the past been exacerbated by the increased potential for default by one or more European sovereign debt issuers, the potential partial or complete dissolution of the Eurozone and its common currency and the negative impact of such events on global financial institutions and capital markets generally. Actions or inactions of European governments may impact these actual or perceived risks. In the U.S. during 2011, one rating agency downgraded the U.S.'s long-term debt credit rating from AAA. Future actions or inactions of the United States government, including a shutdown of the federal government,

could increase the actual or perceived risk that the U.S. may not ultimately pay its obligations when due and may disrupt financial markets.

Atlas' portfolio is managed by an SEC registered investment advisor specializing in the management of insurance company portfolios. We and our investment manager consider these issues in connection with current asset allocation decisions with the object of avoiding them going forward. However, depending on market conditions going forward, we could again incur substantial realized and additional unrealized losses in future periods, which could have an adverse impact on the results of operations and financial condition. There can be no assurance that the current market conditions will improve in the near future. We could also experience a reduction in capital in the insurance subsidiaries below levels required by the regulators in the jurisdictions in which we operate. Certain trust accounts for the benefit of unaffiliated third parties have been established with collateral on deposit under the terms and conditions of the relevant trust agreements. The value of collateral could fall below the levels required under these agreements, putting the subsidiary or subsidiaries in breach of the agreement.

We may not have access to capital in the future.

We may need new or additional financing in the future to conduct our operations or expand our business. However, we may be unable to raise capital on favorable terms, or at all, including as a result of disruptions, uncertainty and volatility in the global credit markets, or due to any sustained weakness in the general economic conditions and/or financial markets in the United States or globally. From time to time, we may rely on access to financial markets as a source of liquidity for operations, acquisitions and general corporate purposes.

The limited public float and trading volume for our shares may have an adverse impact on the share price or make it difficult to liquidate.

Our securities are held by a relatively small number of shareholders. Future sales of substantial amounts of our shares in the public market, or the perception that these sales could occur, may adversely impact the market price of our shares, and our shares could be difficult to liquidate.

Our business depends upon key employees, and if we are unable to retain the services of these key employees or to attract and retain additional qualified personnel, our business may suffer.

Our operations depend, to a great extent, upon the ability of executive management and other key employees to implement our business strategy and our ability to attract and retain additional qualified personnel in the future. The loss of the services of any of our key employees, or the inability to identify, hire and retain other highly qualified personnel in the future could adversely affect the quality and profitability of our business operations. In addition, we must forecast volume and other factors in changing business environments with reasonable accuracy and adjust our hiring and employment levels accordingly. Our failure to recognize the need for such adjustments, or our failure or inability to react appropriately on a timely basis, could lead to over-staffing (which could adversely affect our cost structure) or under-staffing (which could impair our ability to service current product lines and new lines of business). In either event, our financial results and customer relationships could be adversely affected.

#### Compliance Risks

We are subject to comprehensive regulation, and our results may be unfavorably impacted by these regulations.

As a holding company that owns insurance companies domiciled in the United States, we and our insurance subsidiaries are subject to comprehensive laws, regulations and rules. These laws, regulations and rules generally delegate regulatory, supervisory and administrative powers to state insurance regulators. Insurance regulations are generally designed to protect policyholders rather than shareholders, and are related to matters including but not limited to:

- rate setting;
- RBC ratio and solvency requirements;
- restrictions on the amount, type, nature, quality and quantity of securities and other investments in which insurers may invest;
- the maintenance of adequate reserves for unearned premiums and unpaid, and incurred but not reported, claims;
- restrictions on the types of terms that can be included in insurance policies;
- standards for accounting;
- marketing practices;
- claims settlement practices;

- the examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations;
- requirements to comply with medical privacy laws as a result of our administration of Gateway's run-off and American Country's transportation workers' compensation business;
- underwriting requirements related to Global Liberty's runoff property insurance program;
- the licensing of insurers and their agents;
- limitations on dividends and transactions with affiliates;
- approval of certain reinsurance transactions;
- insolvency proceedings;
- ability to enter and exit certain insurance markets, cancel policies or non-renew policies; and
- data privacy.

Such laws, regulations and rules increase our legal and financial compliance costs and make some activities more time-consuming and costly. Any failure to monitor and address any internal control issues could adversely impact operating results. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

State insurance departments conduct periodic examinations of the affairs of insurance companies and require filing of annual and other reports relating to the financial condition of insurance companies, holding company issues and other matters. Our business depends on compliance with applicable laws, regulations and rules and our ability to maintain valid licenses and approvals for our operations. Regulatory authorities may deny or revoke licenses for various reasons, including violations of laws, regulations and rules. Changes in the level of regulation of the insurance industry or changes in laws, regulations and rules themselves or interpretations thereof by regulatory authorities could have a material adverse effect on our operations. Because we are subject to insurance laws, regulations and rules of many jurisdictions that are administered by different regulatory and governmental authorities, there is also a risk that one authority's interpretation of a legal or regulatory issue may conflict with another authority's interpretation of the same issue. Insurance companies are also subject to "desk drawer rules" of state insurance regulators, which are regulatory rules that have not been codified or formally adopted through regulatory proceedings. In addition, we could face individual, group and class-action lawsuits by our policyholders and others for alleged violations of certain state laws, regulations and rules. Each of these regulatory risks could have an adverse effect on our profitability.

As a result of our administration of Gateway's run-off and American Country's transportation workers' compensation business, we are required to comply with state and federal laws governing the collection, transmission, security and privacy of health information that require significant compliance costs, and any failure to comply with these laws could result in material criminal and civil penalties. These laws and rules are subject to administrative interpretation and many are derived from the privacy provisions in the Federal Gramm-Leach-Bliley Act of 2002. The Gramm-Leach-Bliley Act, which, among other things, protects consumers from the unauthorized dissemination of certain personal information, and various state laws and regulations addressing privacy issues, require us to maintain appropriate procedures for managing and protecting certain personal information of our customers and to fully disclose our privacy practices to our customers. Given the complexity of these privacy regulations, the possibility that the regulations may change, and the fact that the regulations are subject to changing and potentially conflicting interpretation, our ability to maintain compliance with the privacy requirements of state and federal law is uncertain and the costs of compliance are significant.

Most states have adopted either statutes or regulations or have issued bulletins or informal rules that regulate the anticipated withdrawal of a product, line or sub-line of insurance business from the insurance marketplace in their state. While what constitutes a “withdrawal” or its equivalent under each state's statutory or regulatory scheme varies, our insurance subsidiaries can be subjected to regulatory requirements in connection with any withdrawal, including, but not limited to, making notice and/or plan filings with the applicable insurance regulator in certain states and possibly requiring the prior approval of the applicable state regulator. A failure by our insurance subsidiaries to comply with and satisfy these regulatory requirements in connection with any withdrawals could lead to regulatory fines, cause a distraction for management requiring us to continue to administer to withdrawn business for longer than anticipated and could result in our insurance subsidiaries continuing to write undesirable business, which could have an adverse impact on our reserves, results of operations and financial condition.

It is not possible to predict the future impact of changing federal and state regulation on our operations, and there can be no assurance that laws enacted in the future will not be more restrictive than existing laws, regulations and rules. New or more

restrictive laws, regulations and rules, including changes in current tax or other regulatory interpretations could make it more expensive for us to conduct our businesses, restrict or reduce the premiums our insurance subsidiaries are able to charge or otherwise change the way we do business. In addition, economic and financial market turmoil or other conditions, circumstances or events may result in U.S. federal oversight of the insurance industry in general.

Our business is subject to risks related to litigation and regulatory actions.

We may, from time to time, be subject to a variety of legal and regulatory actions relating to our current and past business operations, including, but not limited to:

- disputes over coverage or claims adjudication, including claims alleging that we or our insurance subsidiaries have acted in bad faith in the administration of claims by our policyholders;
- disputes regarding sales practices, disclosure, policy issuance and cancellation, premium refunds, licensing, regulatory compliance and compensation arrangements;
- limitations on the conduct of our business;
- disputes with our agents, producers or network providers over compensation or the termination of our contracts with such agents, producers or network providers, including any alleged claim that they may make against us in connection with a dispute whether in the scope of their agreements or otherwise;
- disputes with taxing authorities regarding tax liabilities; and
- disputes relating to certain businesses acquired or disposed of by us.

As insurance industry practices and regulatory, judicial and industry conditions change, unexpected and unintended issues related to pricing, claims, coverage and business practices may emerge. Plaintiffs often target P&C insurers in purported class action litigation relating to claims handling and insurance sales practices. The resolution and implications of new underwriting, claims and coverage issues could have a negative effect on our business by extending coverage beyond our underwriting intent, increasing the size of claims or otherwise requiring us to change our practices. The effects of unforeseen emerging claim and coverage issues could negatively impact revenues, results of operations and reputation. Current and future court decisions and legislative activity may increase our exposure to these or other types of claims. Multi-party or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. An unfavorable result with respect to even one of these claims, if it resulted in a significant damage award or a judicial ruling that was otherwise detrimental, could create a precedent that could have a material adverse effect on our results of operations and financial condition. This risk of potential liability may make reasonable settlements of claims more difficult to obtain. We cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on our business.

We have been and may be subject to governmental or administrative investigations and proceedings. Our insurance subsidiaries have been subject to numerous inquiries related to the substantial ownership interest in us held by KAI in the past. As of this document's filing date, KAI's ownership is below 10%, and they are no longer considered an ultimate controlling party from a statutory perspective. We remain subject to regulatory action, restrictions or heightened compliance or reporting requirements in certain states, including Connecticut and Texas. Texas accounted for 5.0%, 6.0% and 5.1% of our net premiums earned for the years ended December 31, 2015, 2014, and 2013, respectively. Prior to Atlas' acquisition of American Country, the Connecticut insurance commissioner issued an order prohibiting American Country from writing new policies, limiting it to only renewing existing policies in that state. Currently, Global Liberty is our only insurance subsidiary that can write any business in Connecticut, but we may seek approval for our other insurance subsidiaries to write business in this state at some point in the future. In 2009, the Texas Department of Insurance indicated to American Country and American Service that it was considering revoking their certificates of authority to write insurance business in Texas. Following discussions with management of the subsidiaries' former owner, KFSI, the insurance subsidiaries were allowed to retain their licenses, in part, in anticipation of a planned spin-off of the insurance subsidiaries outside of KFSI and subject to their maintenance of a



statutory deposit in Texas. If we are not able to successfully comply with or lift the heightened compliance or disclosure requirements applicable in one or more of these states or any new requirements that a state may impose in the future, we may not be able to expand our operations in such state in accordance with our growth strategy or we could be subject to additional regulatory requirements that could impose a material burden on our expansion strategy or limit or prohibit our ability to write new and renewal insurance policies in such state. Any such limitation or prohibition could have a material adverse effect on our results of operations and financial conditions and on our ability to execute our strategy in the future. The result of these inquiries could lead to additional requirements, restrictions or limitations being placed on us or our insurance subsidiaries, any of which could increase our costs of regulatory compliance and could have an adverse effect on our ability to operate our business. As a general matter, we cannot predict the outcome of regulatory investigations, proceedings and reviews, and cannot guarantee that such investigations, proceedings or reviews or related litigation or changes in operating policies and practices would not materially and adversely affect our results of operations and financial condition. In addition, we have experienced difficulties with our relationships with regulatory bodies in various jurisdictions, and if such difficulties arise in the future, they could have a material adverse effect on our ability to do business in that jurisdiction.

Our business could be adversely affected as a result of changing political, regulatory, economic or other influences.

The insurance industry is subject to changing political, economic and regulatory influences. These influences affect the practices and operation of insurance and reinsurance organizations. Legislatures in the United States and other jurisdictions have periodically considered programs to reform or amend their respective insurance and reinsurance regulatory systems. Recently, the insurance and reinsurance regulatory framework has been subject to increased scrutiny in many jurisdictions. Changes in current insurance laws, regulations and rules may result in increased governmental involvement in or supervision of the insurance industry or may otherwise change the business and economic environment in which insurance industry participants operate. Historically, the automobile insurance industry has been under pressure from time to time from regulators, legislators or special interest groups to reduce, freeze or set rates at levels that are not necessarily related to underlying costs or risks, including initiatives to reduce automobile and other commercial line insurance rates. These changes may limit the ability of our insurance subsidiaries to price automobile insurance adequately and could require us to discontinue unprofitable product lines, make unplanned modifications of our products and services, or result in delays or cancellations of sales of our products and services.

Failure to maintain the security of personal data and the availability of critical systems may result in lost business, reputational damage, and legal costs and regulatory fines.

Our insurance subsidiaries obtain and store vast amounts of personal data that can present significant risks to the Company and its customers and employees. Various laws and regulations govern the use and storage of such data, including, but not limited to, social security numbers, credit card and banking data. The Company's data systems are vulnerable to security breaches due to the sophistication of cyber-attacks, viruses, malware, hackers and other external hazards, as well as inadvertent errors, equipment and system failures, and employee misconduct. The Company also relies on the ability of its business partners to maintain secure systems and processes that comply with legal requirements and protect personal data. These risks and regulatory requirements related to personal data security expose the Company to potential data loss, damage to our reputation and cause us to incur compliance and litigation costs. In the event of non-compliance with the Payment Card Industry Data Security Standard, an information security standard for organizations that handle cardholder information for the major debit, credit, prepaid, e-purse, ATM and point-of-sale cards, such organizations could prevent our subsidiaries from collecting premium payments from customers by way of such cards and impose significant fines on our subsidiaries.

The Company's business operations rely on the continuous availability of its computer systems. In addition to disruptions caused by cyber-attacks or other data breaches, such systems may be adversely affected by natural and man-made catastrophes. The Company's failure to maintain business continuity in the wake of such events may prevent the timely completion of critical processes across its operations, including, but not limited to, insurance policy administration, claims processing, billing and payroll. These failures could result in significant loss of business, fines and litigation.

#### Strategic and Operational Risks

Our geographic concentration ties our performance to the business, economic, regulatory and other conditions of certain states.

Some jurisdictions (including, most notably New York, California, Michigan, Louisiana, Illinois and Minnesota) generate a more significant percentage of our total premiums than others. Our revenues and profitability are subject to the prevailing regulatory, legal, economic, political, demographic, competitive, weather and other conditions in the principal states in which we do business. Changes in any of these conditions could make it less attractive for us to do business in such states and would have a more pronounced effect on us compared to companies that are more geographically diversified. In addition, our exposure to severe losses from localized perils, such as earthquakes, hurricanes, tropical storms, tornadoes, wind, ice storms, hail, fires, terrorism, riots and explosions, is increased in

those areas where we have written significant numbers of P&C insurance policies. Given our geographic concentration, negative publicity regarding our products and services could have a material adverse effect on our business and operations, as could other regional factors impacting the local economies in that market.

In order to operate in a profitable manner, we need to maintain or increase our current level of earned premiums. We may experience difficulty in managing historic and future growth, which could adversely affect our results of operations and financial condition.

We believe that, given our fixed costs associated with underwriting and administering our insurance operations, our insurance subsidiaries must generate annual net earned premiums in excess of approximately \$150 million in order to achieve our targeted levels of profitability. In order to maintain and increase this level of earned premiums, we intend to leverage geographic expansion and increase our market share via our expanded distribution network. Continued growth could impose significant demands on

management, including the need to identify, recruit, maintain and integrate additional employees. Growth may also place a strain on management systems and operational and financial resources, and such systems, procedures and internal controls may not be adequate to support operations as they expand. Incremental merger and acquisition activities could affect our minimum efficient scale.

The integration and management of acquired books of business, acquired businesses and other growth initiatives involve numerous risks that could adversely affect our profitability, and are contingent on many factors, including:

- expanding our financial, operational and management information systems;
- managing our relationships with independent agents, brokers, and legacy program managers, including maintaining adequate controls;
- expanding our executive management and the infrastructure required to effectively control our growth;
- maintaining ratings for certain of our insurance subsidiaries;
  - increasing the statutory capital of our insurance subsidiaries to support growth in written premiums;
- accurately setting claims provisions for new business where historical underwriting experience may not be available;
- obtaining regulatory approval for appropriate premium rates where applicable; and
- obtaining the required regulatory approvals to offer additional insurance products or to expand into additional states or other jurisdictions.

Our failure to grow our earned premiums or to manage our growth effectively could have a material adverse effect on our business, financial condition or results of operations.

A significant portion of our products in the New York City market are distributed by a single agent, and any decrease in the amount of our products distributed by this agent, or underperformance of the book of business controlled by this agent, could adversely impact our business.

In the third quarter of 2012, we implemented our New York “excess taxi program” with a single agent writing business in the New York City market, which is a business arrangement to provide excess coverage above the levels of risk retained by the insured. This excess taxi program has an annual renewal date in the third quarter with a twelve month term and was renewed in the third quarters of 2015, 2014 and 2013. This agent was responsible for approximately 5.9% of our gross premium written for the year ended December 31, 2015. We do not have an exclusive relationship with this agent, and there can be no assurance that this relationship will continue in the future. If this agent reduces its marketing of our products or moves some or all of its business to another carrier, then our business, financial condition and results of operations would be adversely affected. In addition, due in part to our limited experience with this program, and with the New York City market in general, it is uncertain whether policies issued pursuant to this program will be profitable. For example, if risks associated with these clients differ from those reflected in our underwriting policies, then our business, financial condition and results of operations would be adversely affected. Engaging in acquisitions involves risks, and if we are unable to effectively manage these risks, our business may be materially harmed.

Acquisitions of similar insurance providers, such as Gateway and Global Liberty, are expected to be a material component of our growth strategy, subject to availability of suitable opportunities and market conditions. From time to time, we may engage in discussions concerning acquisition opportunities and, as a result of such discussions, may enter into acquisition transactions. Upon the announcement of an acquisition, our share price may fall depending on numerous factors, including but not limited to, the intended target, the size of the acquisition, the purchase price and the potential dilution to existing shareholders. It is also possible that an acquisition could dilute earnings per share. Acquisitions entail numerous risks, including the following:

- difficulties in the integration of the acquired business;
- assumption of unknown material liabilities, including deficient provisions for unpaid claims;

- diversion of management's attention from other business concerns;
- failure to achieve financial or operating objectives; and
- potential loss of policyholders or key employees of acquired companies.

We may be unable to integrate or profitably operate any business, operations, personnel, services or products we may acquire in the future, which may result in our inability to realize expected revenue increases, cost savings, increases in geographic or product presence, and other projected benefits from the acquisition. Integration may result in the loss of key employees, disruption to our existing businesses or the business of the acquired company, or otherwise harm our ability to retain customers and employees or achieve the anticipated benefits of the acquisition. Time and resources spent on integration may also impair our ability to grow

our existing businesses. Also, the negative effect of any financial commitments required by regulatory authorities or rating agencies in acquisitions or business combinations may be greater than expected.

Provisions in our organizational documents, corporate laws and the insurance laws of Illinois, Missouri, New York and other states could impede an attempt to replace or remove management or directors or prevent or delay a merger or sale, which could diminish the value of our shares.

Our Memorandum of Association, Articles of Association and Code of Regulations and the corporate laws and the insurance laws of various states contain provisions that could impede an attempt to replace or remove management or directors or prevent the sale of the insurance subsidiaries that shareholders might consider to be in their best interests. These provisions include, among others:

- requiring a vote of holders of 5% of the ordinary shares to call a special meeting of shareholders;
- requiring a two-thirds vote to amend the Articles of Association;
- requiring the affirmative vote of a majority of the voting power of shares represented at a special meeting of shareholders; and
- statutory requirements prohibiting a merger, consolidation, combination or majority share acquisition between insurance subsidiaries and an interested shareholder or an affiliate of an interested shareholder without regulatory approval.

These provisions may prevent shareholders from receiving the benefit of any premium over the market price of our shares offered by a bidder in a potential takeover and may adversely affect the prevailing market price of our shares if they are viewed as discouraging takeover attempts.

In addition, insurance regulatory provisions may delay, defer or prevent a takeover attempt that shareholders may consider in their best interest. For example, under applicable state statutes, subject to limited exceptions, no person or entity may, directly or indirectly, acquire control of a domestic insurer without the prior approval of the state insurance regulator. Under the insurance laws, “control” (including the terms “controlling,” “controlled by” and “under common control with”) is generally defined to include acquisition of a certain percentage or more of an insurer’s voting securities (such as 10% or more under Illinois and Missouri law). These requirements would require a potential bidder to obtain prior approval from the insurance departments of the states in which the insurance subsidiaries are domiciled and commercially domiciled and may require pre-acquisition notification in other states. Obtaining these approvals could result in material delays or deter any such transaction. Regulatory requirements could make a potential acquisition of our company more difficult and may prevent shareholders from receiving the benefit from any premium over the market price of our shares offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our shares if they are viewed as discouraging takeover attempts in the future.

## Market and Competition Risks

Because the insurance subsidiaries are commercial automobile insurers, conditions in that industry could adversely affect their business.

The majority of the gross premiums written by our insurance subsidiaries are generated from commercial automobile insurance policies. Adverse developments in the market for commercial automobile insurance, including those which could result from potential declines in commercial and economic activity, could cause our results of operations to suffer. The commercial automobile insurance industry is cyclical. Historically, the industry has been characterized by periods of price competition and excess capacity followed by periods of higher premium rates and shortages of underwriting capacity. These fluctuations in the business cycle have negatively impacted and could continue to negatively impact the revenues of our company. The results of the insurance subsidiaries, and in turn, us, may also be affected by risks, to the extent they are covered by the insurance policies we issue, that impact the commercial automobile industry related to severe weather conditions, floods, hurricanes, tornadoes, earthquakes and tsunamis, as well as explosions, terrorist attacks and riots. The insurance subsidiaries’ commercial automobile insurance business

may also be affected by cost trends that negatively impact profitability, such as a continuing economic downturn, inflation in vehicle repair costs, vehicle replacement parts costs, used vehicle prices, fuel costs and medical care costs. Increased costs related to the handling and litigation of claims may also negatively impact profitability. Legacy business previously written by us also includes private passenger auto, surety and other P&C insurance business. Adverse developments relative to previously written or current business could have a negative impact on our results.

The insurance and related businesses in which we operate may be subject to periodic negative publicity, which may negatively impact our financial results.

The products and services of the insurance subsidiaries are ultimately distributed to individual and business customers. From time to time, consumer advocacy groups or the media may focus attention on insurance products and services, thereby subjecting the industry to periodic negative publicity. We also may be negatively impacted if participants in one or more of our markets engage in practices resulting in increased public attention to our business. Negative publicity may also result in increased regulation and legislative scrutiny of practices in the P&C insurance industry as well as increased litigation. These factors may further increase our costs of doing business and adversely affect our profitability by impeding our ability to market our products and services, requiring us to change our products or services or by increasing the regulatory burdens under which we operate.

The highly competitive environment in which we operate could have an adverse effect on our business, results of operations and financial condition.

The commercial automobile insurance business is highly competitive, and, except for regulatory considerations, there are relatively few barriers to entry. Many of our competitors are substantially larger and may enjoy better name recognition, substantially greater financial resources, higher ratings by rating agencies, broader and more diversified product lines and more widespread agency relationships than we have. Our underwriting profits could be adversely impacted if new entrants or existing competitors try to compete with our products, services and programs or offer similar or better products at or below our prices. Insurers in our markets generally compete on the basis of price, consumer recognition, coverages offered, claims handling, financial stability, customer service and geographic coverage. Although pricing is influenced to some degree by that of our competitors, it is not in our best interest to compete solely on price, and we may from time to time experience a loss of market share during periods of intense price competition. Our business could be adversely impacted by the loss of business to competitors offering competitive insurance products at lower prices. This competition could affect our ability to attract and retain profitable business. Pricing sophistication and related underwriting and marketing programs use a number of risk evaluation factors. For auto insurance, these factors can include but are not limited to vehicle make, model and year; driver age; territory; years licensed; loss history; years insured with prior carrier; prior liability limits; prior lapse in coverage; and insurance scoring based on credit report information. We believe our pricing model will generate future underwriting profits, however past performance is not a perfect indicator of future driver performance.

Changes in the nature of the markets we serve could impact the size of our market and/or the market share available to us.

The industry we serve is being impacted by the introduction of mobile applications (including but not limited to Transportation Network Companies, or "TNCs"), on-line dispatch and tracking, in-vehicle technologies and other technology-related changes. These technologies could change the size of the overall addressable market we serve and may also impact the nature of the risks we insure.

If we are not able to attract and retain independent agents and brokers, our revenues could be negatively affected.

We market and distribute our insurance programs exclusively through independent insurance agents and specialty insurance brokers. As a result, our business depends in large part on the marketing efforts of these agents and brokers and on our ability to offer insurance products and services that meet the requirements of the agents, the brokers and their customers. However, these agents and brokers are not obligated to sell or promote our products and many sell or promote competitors' insurance products in addition to our products. Some of our competitors have higher financial strength ratings, offer a larger variety of products, set lower prices for insurance coverage and/or offer higher commissions than we do. Therefore, we may not be able to continue to attract and retain independent agents and brokers to sell our insurance products. The failure or inability of independent agents and brokers to market our



insurance products successfully could have a material adverse impact on our business, financial condition and results of operations.

If we are unable to maintain our claims-paying ratings, our ability to write insurance and to compete with other insurance companies may be adversely impacted. A decline in rating could adversely affect our position in the insurance market, make it more difficult to market our insurance products and cause our premiums and earnings to decrease.

Financial ratings are an important factor influencing the competitive position of insurance companies. Third party rating agencies assess and rate the claims-paying ability of insurers and reinsurers based upon criteria that they have established. Periodically these rating agencies evaluate the business to confirm that it continues to meet the criteria of the ratings previously assigned. Financial strength ratings are an important factor in establishing the competitive position of insurance companies and may be expected to have an effect on an insurance company's premiums. The insurance subsidiaries are rated by A.M. Best, which issues independent opinions of an insurer's financial strength and its ability to meet policyholder obligations. A.M. Best ratings range

from “A++” (Superior) to “F” (In Liquidation), with a total of 16 separate rating categories. The objective of A.M. Best’s rating system is to provide potential policyholders and other interested parties an opinion of an insurer’s financial strength and ability to meet ongoing obligations, including paying claims.

On September 3, 2015, A.M. Best affirmed the current financial strength ratings of “B” “Stable” for American Country, American Service and Gateway. Also, on September 16, 2015, A.M. Best affirmed the current financial strength rating of Global Liberty of “B+” “Stable.” There is a risk that A.M. Best will not maintain these ratings in the future. If the insurance subsidiaries’ ratings are reduced by A.M. Best, their competitive position in the insurance industry could suffer, and it could be more difficult to market their insurance products. A downgrade could result in a significant reduction in the number of insurance contracts written by the subsidiaries and in a substantial loss of business to other competitors with higher ratings, causing premiums and earnings to decrease. Rating agencies evaluate insurance companies based on financial strength and the ability to pay claims, factors that may be more relevant to policyholders than to investors. Financial strength ratings by rating agencies are not ratings of securities or recommendations to buy, hold or sell any security and should not be relied upon as such.

Our ability to generate written premiums is impacted by seasonality, which may cause fluctuations in our operating results and to our stock price.

The P&C insurance business is seasonal in nature. Our ability to generate written premium is also impacted by the timing of policy effective periods in the states in which we operate, while our net premiums earned generally follow a relatively smooth trend from quarter to quarter. Also, our gross premiums written are impacted by certain common renewal dates in larger metropolitan markets for the light commercial risks that represent our core lines of business. For example, January 1<sup>st</sup> and March 1<sup>st</sup> are common taxi cab renewal dates in Illinois and New York, respectively. Additionally, we implemented our New York “excess taxi program” in the third quarter of 2012, which has an annual renewal date in the third quarter. Net underwriting income is driven mainly by the timing and nature of claims, which can vary widely. As a result of this seasonality, investors may not be able to predict our annual operating results based on a quarter-to-quarter comparison of our operating results. Additionally, this seasonality may cause fluctuations in our stock price. We believe seasonality will have an ongoing impact on our business.

#### U.S. Tax Risks

If our company were not to be treated as a U.S. corporation for U.S. federal income tax purposes, certain tax inefficiencies would result and certain adverse tax rules would apply.

Pursuant to certain “expatriation” provisions of the U.S. Internal Revenue Code of 1986, as amended, the reverse merger agreement relating to the reverse merger transaction described below provides that the parties intend to treat our company as a U.S. corporation for U.S. federal income tax purposes. The expatriation provisions are complex, are largely unsettled and subject to differing interpretations, and are subject to change, perhaps retroactively. If our company was not to be treated as a U.S. corporation for U.S. federal income tax purposes, certain tax inefficiencies and adverse tax consequences and reporting requirements would result for both our company and the recipients and holders of stock in our company, including that dividend distributions from our insurance subsidiaries to us would be subject to 30% U.S. withholding tax, with no available reduction and that members of the consolidated group may not be permitted to file a consolidated U.S. tax return resulting in the acceleration of cash tax outflow and potential permanent loss of tax benefits associated with net operating loss carryforwards (“NOLs”) that could have otherwise been utilized.

Our use of losses may be subject to limitations, and the tax liability of our company may be increased.

Our ability to utilize the NOLs is subject to the rules of Section 382 of the Internal Revenue Code (“IRC”). Section 382 generally restricts the use of NOLs after an “ownership change.” An ownership change occurs if, among other things, the stockholders (or specified groups of stockholders) who own or have owned, directly or indirectly, five percent (5%) or more of our common stock or are otherwise treated as five percent (5%) stockholders under Section 382 and the regulations promulgated thereunder increase their aggregate percentage ownership of our stock by more

than 50 percentage points over the lowest percentage of the stock owned by these stockholders over a three-year rolling period. In the event of an ownership change, Section 382 imposes an annual limitation on the amount of taxable income a corporation may offset with NOLs. This annual limitation is generally equal to the product of the value of our stock on the date of the ownership change, multiplied by the long-term tax-exempt rate published monthly by the Internal Revenue Service. Any unused annual limitation may be carried over to later years until the applicable expiration date for the respective NOL carryforwards.

The rules of Section 382 are complex and subject to varying interpretations. Because of our numerous equity issuances, which have included the issuance of various classes of convertible securities and warrants, uncertainty existed as to whether we may have undergone an ownership change in the past or will undergo one as a result of our 2013 U.S. public offering. Based upon

management's assessment, it was determined that at the date of the U.S. public offering there was not an "ownership change" as defined by Section 382. However, on July 22, 2013, as a result of shareholder activity, a "triggering event" as determined under IRC Section 382 was reached. As a result, under IRC Section 382, the use of the Company's NOLs and other carryforwards will be limited as a result of this "ownership change" for tax purposes, which is defined as a cumulative change of more than 50% during any three-year period by shareholders of the Company's shares. Following this triggering event, the Company estimates that it will retain total tax effected federal NOLs of approximately \$12.7 million as of December 31, 2015. Book value per common share was unaffected by this event, as the amount of lost net deferred tax assets were offset by a corresponding decrease in the valuation allowance that was already held against the majority of these assets.

Atlas has the following total NOLs at December 31, 2015:

Net Operating Loss Carryforward by Expiry (in '000s)

Year of Occurrence	Year of Expiration	Amount
2001	2021	\$5,481
2002	2022	4,317
2006	2026	7,825
2007	2027	5,131
2008	2028	1,949
2009	2029	1,949
2010	2030	1,949
2011	2031	4,669
2012	2032	2,890
Total		\$36,160

Further limitations on the utilization of losses may apply because of the "dual consolidated loss" rules, which will also require our company to recapture into income the amount of any such utilized losses in certain circumstances. As a result of the application of these rules, the future tax liability of our company and our insurance subsidiaries could be significantly increased. In addition, taxable income may also be recognized by our company or our insurance subsidiaries in connection with the 2010 reverse merger transaction.

We do not anticipate paying any cash dividends for the foreseeable future.

We currently intend to retain our future earnings, if any, for the foreseeable future, for working capital and other general corporate purposes. We do not intend to pay any dividends to holders of our ordinary shares. As a result, capital appreciation in the price of our ordinary shares, if any, will be the only source of gain on an investment in our ordinary shares. We have never declared or paid cash dividends on our common stock since Atlas' inception in 2010. Any future determination to pay dividends on our common stock will be at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions, and other factors that our board of directors considers relevant. In addition, the insurance laws and regulations governing our insurance subsidiaries contain restrictions on the ability to pay dividends, or to make other distributions to Atlas, which may limit Atlas' ability to pay dividends to its common shareholders.

Holders of our preferred shares are entitled to dividends on a cumulative basis whether or not declared by our board of directors, at a rate of \$0.045 per preferred share per year, which must be paid or declared and set apart before any dividend may be paid on our ordinary shares. We declared and paid \$2.1 million of preferred dividends during 2013 on the preferred shares held by KAI. All of the preferred shares held by KAI were repurchased on August 1, 2013, and therefore, no additional dividends will accrue on the KAI preferred shares, however, dividends on the remaining 6,940,500 outstanding preferred shares will continue to accrue dividends at the rate indicated above.

#### Risks Related to Our 2013 Initial Public Offering in the United States

The requirements of being a United States public company may strain our resources and divert management's attention.

As a United States public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (which we refer to herein as the Exchange Act), the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the NASDAQ Stock Market and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, makes some activities more difficult, time-consuming or costly and increases demand on our systems and resources, which may increase after we are no longer an “emerging growth company.” The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and

internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. We may need to hire more employees in the future or engage outside consultants to comply with these requirements, which will increase our costs and expenses.

In addition, changing laws, regulations and standards in the United States relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business and operating results may be adversely affected.

For as long as we remain an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (which we refer to herein as the JOBS Act), we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies." We will remain an "emerging growth company" for up to five years from our U.S. initial public offering, although we will cease to be an "emerging growth company" before that time if we meet certain criteria.

Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of an extended transition period for complying with new or revised accounting standards. However, we are choosing to "opt out" of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

As a result of disclosure of information in this Annual Report on Form 10-K and in filings required of a public company in the United States, our business, results of operations, cash flows and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results.

#### Item 1B. Unresolved Staff Comments

None.

#### Item 2. Properties

Our corporate headquarters is located at 150 Northwest Point Boulevard, Elk Grove Village, Illinois 60007, USA. The facility consists of one office building totaling 176,844 net rentable square feet of office space on 7.2 acres. We are leasing approximately 30,600 square feet for a term of 60 months that began May 22, 2012, unless terminated or extended pursuant to the lease agreement. We are paying an annual rent equal to approximately \$768,000, or approximately \$64,000 per month, with a nominal annual escalation beginning on the first anniversary date of the lease agreement. We believe the facility is suitable and adequate for our current business needs. Prior to the expiration of the aforementioned lease, we will explore alternatives to meet our future needs.

We are leasing three additional office spaces. The St. Louis, Missouri lease is 4,375 square feet of office space and effective through June 2021. We currently pay a monthly rent equal to approximately \$10,000. The Manhattan, New York lease is 1,796 square feet of office space and effective through February 2018. We currently pay a monthly rent equal to approximately \$6,000. Upon completion of the Anchor acquisition, we assumed a lease for 25,396 square feet of office space in Melville, New York, which is effective through March 2022. We currently pay a monthly rent equal

to approximately \$60,000.

We own one property in Alabama, which comprises approximately 13.6 acres of land and is currently held for sale.

Item 3. Legal Proceedings

In connection with our operations, we are, from time to time, named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal damages or expense in excess of amounts provided, and our company does not believe that it will incur any significant additional loss or expense in connection with such actions. The Company does not believe there is any litigation pending or threatened against it that, individually or in aggregate, may reasonably be expected to have a material adverse effect on the Company.

Item 4. Mine Safety Disclosures

Not applicable.



## Part II.

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As of December 31, 2015, there were approximately 2,160 shareholders of record of our ordinary shares and one shareholder of record of our restricted voting shares (all of which convert to ordinary shares upon the sale of such shares by the sole shareholder, KAI, or its subsidiaries). Our ordinary shares have been listed on the NASDAQ under the symbol "AFH" since February 12, 2013 and were previously listed on the Toronto Stock Exchange - Venture ("TSXV") under the same symbol beginning January 6, 2011. On June 5, 2013, the Company delisted from the TSXV. As of March 4, 2016, there were 11,890,432 ordinary common shares and 132,863 restricted voting shares outstanding.

Set forth below are the high and low listing prices of the ordinary shares during 2014 and 2015:

## Summary of Share Prices

	High	Low
2015		
Fourth Quarter	\$20.97	\$18.22
Third Quarter	\$19.83	\$16.00
Second Quarter	\$20.31	\$17.79
First Quarter	\$18.10	\$15.87
2014		
Fourth Quarter	\$17.56	\$13.55
Third Quarter	\$15.25	\$13.19
Second Quarter	\$15.99	\$12.67
First Quarter	\$14.73	\$11.84

During 2013, we declared and paid \$2.1 million of dividends related to the KAI preferred shares. Also during 2013, we repurchased 18,000,000 of preferred shares from KAI at 90% of face value and paid all accrued dividends on these shares prior to the repurchase date of August 1, 2013. The cumulative amount of dividends to which the remaining preferred shareholders are entitled upon liquidation (or sooner, if we declare dividends) was \$460,000 as of December 31, 2015.

Due to insurance regulations there are restrictions on our insurance subsidiaries that currently materially limit the Company's ability to pay dividends. We did not pay any dividends to our common shareholders during 2014, 2015 or to date in 2016 and have no current plans to pay dividends to our common shareholders.

During the quarter ended December 31, 2013, Atlas issued 1,191,409 ordinary shares pursuant to the exchange of warrants and options for aggregate cash consideration of \$6.4 million. These ordinary shares were issued in reliance on exemptions from registration under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations promulgated thereunder, and Regulation S promulgated under the Securities Act. In light of the manner of the sale and information obtained by the Company from the investors in connection with these transactions, Atlas believes it may rely on these exemptions.

On May 13, 2014, an aggregate of 2,000,000 Atlas ordinary shares were offered in a subsequent public offering in the United States at a price of \$12.50 per share. Atlas also granted the underwriters an option to purchase up to an aggregate of 300,000 additional shares at the public offering price of \$12.50 per share to cover over-allotments, if any. On May 27, 2014, the underwriters exercised this option and purchased an additional 161,000 shares. After underwriting and other expenses, total proceeds of \$25.0 million were realized on the issuance of the shares. A portion of the net proceeds from the offering was used to support the acquisition of Anchor Holdings Group, Inc. and its affiliated entities.

### Performance Graph

The following stock performance graph shows a comparison of cumulative total shareholder return of Atlas' ordinary common voting shares for a three year period beginning with the first day Atlas traded on the NASDAQ exchange, with the cumulative total return of the Russell 2000 Index and the SNL U.S. Insurance P&C Index. The graph assumes a \$100 investment on February 12, 2013, the first day Atlas traded on the NASDAQ exchange, in Atlas common stock and for each index listed, and all dividends are assumed to be reinvested.

Company/Index	2/12/2013	6/30/2013	12/31/2013	6/30/2014	12/31/2014	6/30/2015	12/31/2015
Atlas Financial Holdings	100	150.42	247.39	254.79	274.29	333.28	334.45
Russel 2000 Index	100	107.17	128.42	132.51	134.7	141.11	128.76
SNL U.S. Insurance P&C Insurance Index	100	108.38	120.14	124.16	137.98	136.58	142.74

### Equity Compensation Plan Information

The following table provides information regarding the number of shares of ordinary common voting shares to be issued upon exercise of outstanding options, warrants and rights under the Company's equity compensation plans and the weighted average exercise price and number of shares of common stock remaining available for issuance under those plans as of December 31, 2015.

	Number of securities to be issued upon exercise of outstanding options, warrants & rights (a) <sup>2</sup>	Weighted average exercise price of outstanding options, warrants and rights (b) <sup>3</sup>	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) <sup>4</sup>
Equity compensation plans approved by security holders <sup>1</sup>	562,728	*	625,575

<sup>1</sup> The Company has no equity compensation plans that were not approved by its security holders.

<sup>2</sup> Summation of 562,728 shares outstanding under the March 18, 2010, January 18, 2011, January 11, 2013, March 6, 2014 and the March 12, 2015 equity compensation plans

<sup>3</sup> Average price not computed due to currency differences

<sup>4</sup> Equal to the remainder allowable according to the 2013 Equity Incentive Plan (10% of issued and outstanding ordinary shares)

### Purchases of Equity Securities

No unregistered securities were sold during the three month period ended December 31, 2015. No repurchases of equity securities were made during the three month period ended December 31, 2015.

## Item 6. Selected Financial Data

The following table has selected financial information for the periods ended and as of the dates indicated. These historical results are not necessarily indicative of the results to be expected from any future period and should be read in conjunction with our consolidated financial statements and the related notes and the section of this Annual Report on Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	2015	2014	2013	2012	2011	
	(in '000s of US dollars, except for share and per share data)					
Net premiums earned	\$152,064	\$98,124	\$71,344	\$38,709	\$35,747	
Total revenue	156,851	101,618	74,027	42,791	43,352	
Net income (loss) attributable to common shareholders	14,154	17,608	7,361	2,356	(3,280)	)
Earnings (loss) per common share, basic	\$1.18	\$1.61	\$0.92	\$0.38	\$(0.54)	)
Earnings (loss) per common share, diluted	\$1.13	\$1.56	\$0.74	\$0.38	\$(0.54)	)
Combined ratio <sup>1</sup>	87.0	% 90.7	% 94.2	% 102.4	% 131.4	%
Cash and invested assets	\$233,304	\$179,994	\$139,888	\$120,824	\$127,881	
Total assets	411,573	283,911	219,278	163,067	172,173	
Notes payable	17,500	—	—	—	—	
Total liabilities	281,951	174,512	155,580	103,203	115,919	
Total shareholders' equity	129,622	109,399	63,698	59,864	56,254	
Common shares	12,015,888	11,771,586	9,424,734	6,144,392	6,143,463	
Book value per participative share outstanding	\$10.15	\$9.08	\$6.54	\$6.55	\$6.09	

<sup>1</sup> - We reclassified our presentation for interest expense from other underwriting expenses to non-operating expenses. The reclassification reduced the combined ratio by .2% for the year ended December 31, 2013.

These results include the acquisitions of Gateway on January 2, 2013 and Anchor on March 11, 2015 which will affect the comparability of the data. See Note 3, "Acquisitions," to the Consolidated Financial Statements for further discussion of the impact of these acquisitions.

Common shares for 2012 and 2011 have been restated for the one-for-three stock split on January 29, 2013, and per share data has been restated to reflect the common share restatement.

Item 7. Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All amounts in US dollars, except for amounts preceded by "C" as Canadian dollars, share and per share amounts)

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes that appear elsewhere in this document. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that may include, but are not limited to, statements with respect to estimates of future expenses, revenue and profitability; trends affecting financial condition, cash flows and results of operations; the availability and terms of additional capital; dependence on key suppliers and other strategic partners; industry trends and the competitive and regulatory environment; the successful integration of future acquisitions; the impact of losing one or more senior executives or failing to attract additional key personnel; and other factors referenced in this document. Our actual results could differ materially from those discussed in the forward-looking statements. Forward-looking statements contained herein are made as of the date of this filing and we disclaim any obligation to update any forward-looking statements, whether as a result of new information, future events or results, or otherwise. Factors that could cause or contribute to these differences include those discussed below and elsewhere, particularly in "Risk Factors."

In this discussion and analysis, the term "common share" refers to the summation of restricted voting common shares and ordinary voting common shares when used to describe earnings (loss) or book value per common share.

### Forward-looking statements

This report contains "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, which may include, but are not limited to, statements with respect to estimates of future expenses, revenue and profitability; trends affecting financial condition, cash flows and results of operations; the availability and terms of additional capital; dependence on key suppliers and other strategic partners; industry trends; the competitive and regulatory environment; the successful integration of acquisitions; the impact of losing one or more senior executives or failing to attract additional key personnel; and other factors referenced in this report.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Atlas to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political, regulatory and social uncertainties.

Although Atlas has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this report and Atlas disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results, or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty in them.

### Use of Non-U.S. GAAP Financial Measurements

These statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). However, some of the measurements we use are "non-U.S. GAAP financial measurements" under SEC rules and regulations. We use these non-U.S. GAAP financial measurements in order to present our financial condition and results of operations in the way we believe will be most meaningful and representative of our business results. When we use these measures, reconciliations to the most comparable GAAP measure are provided in the Results of Operations section of this MD&A on a consolidated basis. The non-GAAP financial measurements that we present may not be comparable to similarly-named measures reported by other companies.

Statutory income tax is the rate that is imposed on taxable income of corporations.

Income from operating activities, before tax includes both underwriting income and loss and net investment income, but excludes net realized capital gains and losses, legal and professional expense incurred related to business combinations, net impairment charges recognized in earnings and other items. Underwriting income is derived by reducing net premiums earned by losses and loss adjustment expenses incurred, policy acquisition costs and general operating expenses.

After-tax return on average common equity ("ROCE") is derived by subtracting preferred share dividends accrued from net income and dividing by average common equity. Common equity is total shareholders' equity less preferred shares and cumulative preferred share dividends accrued. Average common equity is the average of common equity at the beginning and the ending of the reporting period.

Return on average common equity from operating activities ("Operating ROCE") is the sum of the underwriting income ratio, operating leverage ratio and investment income ratio. The underwriting income ratio is derived by dividing underwriting income (net of statutory income tax expense) by net earned premiums. The operating leverage ratio is derived by dividing net premiums earned by average common equity. The investment income ratio is the product of the annualized investment return ratio multiplied by the investment leverage ratio. The investment return ratio is derived by dividing investment income before realized gains (net of statutory income tax expense) by average cash and invested assets. The investment leverage ratio is derived by dividing average cash and invested assets by average common equity.

#### Presentation Changes

We reclassified our presentation for interest expense from other underwriting expenses to non-operating expenses for the year ended December 31, 2013. The reclassification increased income from operating activities, before tax, but had no effect on GAAP net income.

### I. OVERVIEW

We are a financial services holding company incorporated under the laws of the Cayman Islands. Our core business is the underwriting of commercial automobile insurance policies, focusing on the "light" commercial automobile sector, which is carried out through our insurance subsidiaries. This sector includes taxi cabs, non-emergency para-transit, limousine, livery and business auto. Our goal is to always be the preferred specialty commercial transportation insurer in any geographic areas where our value proposition delivers benefit to all stakeholders. We are licensed to write property and casualty ("P&C") insurance in 49 states and the District of Columbia in the United States. The insurance subsidiaries distribute their products through a network of independent retail agents, and actively wrote insurance in 41 states and the District of Columbia during 2015. We embrace continuous improvement, analytics and technology as a means of building on the strong heritage our subsidiary companies cultivated in the niche markets we serve. Over the past five years, we have disposed of non-core assets, consolidated infrastructure and placed into run-off certain non-core lines of business previously written by the insurance subsidiaries. Our focus going forward is the underwriting of commercial automobile insurance in the U.S. Substantially all of our new premiums written are in "light" commercial automobile lines of business.

#### Commercial Automobile

Our primary target market is made up of small to mid-size taxi, limousine, other livery and non-emergency para-transit operators. The "light" commercial automobile policies we underwrite provide coverage for lightweight commercial vehicles typically with the minimum limits prescribed by statute, municipal or other regulatory requirements. The majority of our policyholders are individual owners or small fleet operators. In certain jurisdictions like Illinois, Louisiana, Nevada and New York, we have also been successful working with larger operators who retain a meaningful amount of their own risk of loss through higher retentions, self-insurance or self-funded captive insurance entity arrangements. In these cases, we provide support in the areas of day to day policy administration and claims handling consistent with the value proposition we offer to all of our insureds, generally on a fee for service basis. We may also provide excess coverage above the levels of risk retained by the insureds where a better than average loss ratio is expected. Through these arrangements, we are able to effectively utilize the significant specialized operating infrastructure we maintain to generate revenue from business segments that may otherwise be more price sensitive in the current market environment.

The "light" commercial automobile sector is a subset of the historically profitable commercial automobile insurance industry segment. In more recent years the commercial automobile insurance industry has seen profitability pressure within certain segments, however, it has outperformed the overall property and casualty ("P&C") industry generally over the past fifteen years based on data compiled by A.M. Best Aggregates & Averages. Data compiled by SNL Financial also indicates that for 2014 the total market for commercial automobile liability insurance was approximately \$29.3 billion. The size of the commercial automobile insurance market can be affected significantly by many factors, such as the underwriting capacity and underwriting criteria of automobile insurance carriers and general



economic conditions. Historically, the commercial automobile insurance market has been characterized by periods of excess underwriting capacity and increased price competition followed by periods of reduced capacity and higher premium rates.

We believe that there is a positive correlation between the economy and commercial automobile insurance in general. Operators of “light” commercial automobiles may be less likely than other business segments within the commercial automobile insurance market to take vehicles out of service, as their businesses and business reputations rely heavily on availability. With respect to certain business lines such as the taxi line, there are also other factors such as the cost and limited supply of medallions, which may discourage a policyholder from taking vehicles out of service in the face of reduced demand for the use of the vehicle.

#### Surety

Our surety program primarily consists of U.S. Customs bonds (currently in run off). We engage a former affiliate, Avalon Risk Management, to help coordinate customer service and claim handling for the surety bonds written. This non-core program is 100% reinsured to an unrelated third party and is being transitioned to another carrier. No new business was written in connection with this program in 2015, however, there was a small amount of renewals recorded in 2015.

#### Other

The other line of business is comprised of Gateway's truck and workers' compensation programs (currently in run off), American Services' non-standard personal lines business (currently in run off), Atlas' workers' compensation related to taxi, other liability, Global Liberty's homeowners program (currently in run off) and assigned risk pool business. The Gateway truck and workers' compensation programs were put into run-off during 2012. The truck program had little earned premium during 2012, and the workers' compensation program is 100% reinsured retrospectively and prospectively to an unrelated third party.

Non-standard automobile insurance is principally provided to individuals who do not qualify for standard automobile insurance coverage because of their payment history, driving record, place of residence, age, vehicle type or other factors. Such drivers typically represent higher than normal risks and pay higher insurance rates for comparable coverage.

Consistent with Atlas' focus on commercial automobile insurance, Atlas has transitioned away from the non-standard auto line. Our insurance subsidiaries ceased writing new and renewal policies of this type in 2011, and earned premium discontinued in 2012, allowing surplus and resources to be devoted to the expected growth of the commercial automobile business.

The non-renewal process for Global Liberty's homeowners program began prior to Atlas' acquisition and remains underway. This book of business is relatively small and substantially reinsured.

Assigned risk pools are established by state governments to cover high-risk insureds who cannot purchase insurance through conventional means.

#### Revenues

We derive our revenues primarily from premiums from our insurance policies and income from our investment portfolio. Our underwriting approach is to price our products to generate consistent underwriting profit for the insurance companies we own. As with all P&C insurance companies, the impact of price changes is reflected in our financial results over time. Price changes on our in-force policies occur as they are renewed. This cycle generally takes twelve months for our entire book of business and up to an additional twelve months to earn a full year of premium at the renewal rate.

We approach investment and capital management with the intention of supporting insurance operations by providing a stable source of income to supplement underwriting income. The goals of our investment policy are to protect capital while optimizing investment income and capital appreciation and maintaining appropriate liquidity. We follow a formal investment policy and the Board of Directors reviews the portfolio performance at least quarterly for compliance with the established guidelines. The Investment Committee of the Board of Directors provides interim guidance and analysis with respect to asset allocation, as deemed appropriate.

#### Expenses

Net claims incurred expenses are a function of the amount and type of insurance contracts we write and of the loss experience of the underlying risks. We record net claims incurred based on an actuarial analysis of the estimated losses we expect to be reported on contracts written. We seek to establish case reserves at the maximum probable exposure based on our historical claims experience. Our ability to estimate net claims incurred accurately at the time of pricing our contracts is a critical factor in determining our profitability. The amount reported under net claims incurred in any period includes payments in the period net of the change in the value of the reserves for net claims incurred between the beginning and the end of the period.

Commissions and other underwriting expenses consist principally of brokerage and agent commissions and to a lesser extent premium taxes. The brokerage and agent commissions are reduced by ceding commissions received from assuming reinsurers that represent a percentage of the premiums on insurance policies and reinsurance contracts written and vary depending upon the amount and types of contracts written.

Other operating and general expenses consist primarily of personnel expenses (including salaries, benefits and certain costs associated with awards under our equity compensation plans, such as stock compensation expense) and other general operating expenses. Because a portion of our personnel expenses are relatively fixed in nature, increased writings could improve our operating scale and could lead to reduced operating expense ratios.

## II. CONSOLIDATED PERFORMANCE

2015 Full Year Financial Performance Summary (comparisons to 2014 unless otherwise noted):

• Gross premium written increased by 70.9% to \$209.3 million, which included an increase of 73.8% in our core commercial auto business

• In-force premium at December 31, 2015 was \$210.6 million

• Income from operating activities, before tax was \$23.8 million, or \$1.88 per diluted share, compared to \$12.2 million, or \$1.08 per diluted share

• After-tax income from operating activities was \$15.5 million, or \$1.22 per diluted share, compared to \$8.1 million, or \$0.71 per diluted share

• Combined ratio improved by 3.7 percentage points to 87.0%

• Underwriting income improved to \$19.8 million as compared to \$9.1 million

• Net income was \$14.4 million, compared to net income of \$17.7 million which included \$9.4 million of tax benefit resulting from the Company's treatment of DTAs in 2014

• Net earnings per diluted common share were \$1.13, compared to \$1.56 which included \$0.87 per diluted share of tax benefit resulting from the Company's treatment of DTAs in 2014

• Book value per common share at December 31, 2015 was \$10.15, compared to \$9.08 at December 31, 2014

• Annualized after-tax ROCE was 12.3% for the year ended December 31, 2015<sup>1</sup>

The following financial data is derived from Atlas' consolidated financial statements for the years ended December 31, 2015, December 31, 2014, and December 31, 2013.

Selected Financial Information (\$ in '000s except per share amounts)

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
Gross premium written	\$209,286	\$122,432	\$93,060
Net premium earned	152,064	98,124	71,344
Losses on claims	89,994	61,078	45,612
Acquisition costs	18,592	14,048	10,373
Other underwriting expenses	23,640	13,863	10,918
Underwriting expenses related to the integration of acquisitions	—	—	337
Underwriting income	19,838	9,135	4,104
Net investment income	3,976	3,110	2,141
Income from operating activities, before tax	23,814	12,245	6,245
Less: Legal/professional fees incurred related to acquisitions	1,941	694	406
Less: Interest expense	638	—	129
Add: Realized gains and other income	811	384	542
Income before tax	22,046	11,935	6,252
Tax benefit from release of valuation allowance	—	(9,446)	—
Income tax expense	7,616	3,679	72
Net income	\$14,430	\$17,702	\$6,180

#### Key Financial Ratios:

Loss ratio	59.2	% 62.3	% 63.9	%
Acquisition cost ratio	12.2	% 14.3	% 14.5	%
Other underwriting expense ratio	15.6	% 14.1	% 15.8	%
Combined ratio	87.0	% 90.7	% 94.2	%
Income from operating activities, net of income tax, per common share, diluted	\$1.22	\$0.71	\$0.39	
Earnings per common share, diluted	\$1.13	\$1.56	\$0.74	
Book value per common share	\$10.15	\$9.08	\$6.54	
Return on equity	12.1	% 20.5	% 10.0	%
Return on average common equity <sup>1</sup>	12.3	% 20.9	% 10.9	%
Return on average common equity from operating activities <sup>1</sup>	13.6	% 9.6	% 8.1	%

<sup>1</sup> - See 'Use of Non-U.S. GAAP Financial Measurements' section above for definitions of these measurements 2015 compared to 2014:

Atlas' combined ratio for the year ended December 31, 2015 was 87.0%, compared to 90.7% for the year ended December 31, 2014.

There was an increase in gross premium written related to core commercial lines of 73.8% for the year ended December 31, 2015 as compared to the year ended December 31, 2014. When excluding our excess taxi program, which experienced a modest decrease in gross premium written, for the year ended December 31, 2015, gross premium written on our traditional core lines increased by 83.4% as compared to the prior year. There was a 73.8% and a 52.0% increase in gross and net premium written, respectively, related to core commercial lines for the year ended December 31, 2015 compared to the year ended December 31, 2014. Net premium earned increased by 55.0% for the year ended December 31, 2015 to \$152.1 million compared to \$98.1 million for the year ended December 31, 2014. Global Liberty accounted for \$26.4 million or 45.8% of this increase. Excluding the impact of



Global Liberty, the remaining increase in net earned premiums resulted from organic growth primarily in the states of California, Louisiana, Nevada, New York, Oregon and Washington and favorable rate increases in other states.

The overall loss ratio for the year ended December 31, 2015 improved to 59.2% as compared to 62.3% for the year ended December 31, 2014. The loss ratio improvement in 2015 resulted primarily from pricing activity related to our core lines and the results from our commercial auto program. We saw opportunities to positively impact pricing during 2015.

Atlas generated net investment income of \$4.0 million and \$3.1 million for the years ended December 31, 2015 and 2014, respectively, as well as \$455,000 and \$382,000 of realized gains, respectively. This resulted in an overall annualized investment yield of 2.2% for the years ended December 31, 2015 and 2014.

Overall, Atlas generated net income of \$14.4 million for the year ended December 31, 2015. After taking the dilutive impact of the convertible preferred shares and stock options, diluted earnings per common share for the year ended December 31, 2015 was \$1.13. This compares to net income of \$17.7 million or diluted earnings per common share of \$1.56 for the year ended December 31, 2014.

The decrease in Atlas' net income and the impact on earnings per diluted common share for the years ended December 31, 2015 and 2014 are summarized in the table below:

Net Income (\$ in '000s, except per share values) -- 2015 compared to 2014

	December 31, 2015		December 31, 2014	
After Tax Effects				
Net income	\$ 14,430	\$ 1.13	\$ 17,702	\$ 1.56
Less: other income	231	0.02	2	—
Less: net investment gains	296	0.02	252	0.02
Add: expenses incurred related to acquisition of subsidiaries	649	0.05	458	0.04
Add: expense incurred pursuant to Gateway stock purchase agreement	942	0.07	—	—
Add: interest expense	415	0.03	—	—
Add: deferred income taxes	(430)	(0.02)	(9,825)	(0.87)
Income from operating activities	\$ 15,479	\$ 1.22	\$ 8,081	\$ 0.71

For the year ended December 31, 2015, pre-tax and after-tax income from operating activities increased \$0.80 and \$0.51 per diluted common share, respectively, primarily due to premium growth, rate increases and the results of Atlas' commercial auto program. The Company had no valuation allowance on its deferred tax asset to offset tax expense in calendar year 2015 as was the case during 2014 and as a result earnings per diluted common share for the year ended December 31, 2015 decreased by \$0.43.

2014 compared to 2013:

Atlas' combined ratio for the year ended December 31, 2014 was 90.7%, compared to 94.2% for the year ended December 31, 2013.

We achieved substantial premium growth primarily through organic expansion of core lines of business written in our target markets. There was an increase in gross premium written related to core commercial lines of 35.0% for the year ended December 31, 2014 as compared to the year ended December 31, 2013. When excluding our excess taxi program, which experienced a modest increase in gross premium written, for the year ended December 31, 2014, gross premium written on our traditional core lines increased by 40.6% as compared to the prior year. The overall loss ratio for the year ended December 31, 2014 improved to 62.3% as compared to 63.9% for the year ended December 31, 2013. The pricing activity and claims initiatives were the primary drivers for loss ratio improvement in 2014.

Atlas generated net investment income of \$3.1 million and \$2.1 million for the years ended December 31, 2014 and 2013, as well as \$382,000 and \$529,000 of realized gains, respectively. This resulted in an overall annualized investment yield of 2.2% for the year ended December 31, 2014, an improvement of 0.1% over 2013.

Overall, Atlas generated net income of \$17.7 million for the year ended December 31, 2014. After taking the dilutive impact of the convertible preferred shares and stock options, diluted earnings per common share for the year ended December 31, 2014 was \$1.56. This compares to net income of \$6.2 million or diluted earnings per common share of \$0.74 for the year ended December 31, 2013.

As part of our on-going analysis of deferred tax assets, management has assessed both positive and negative evidence according to guidance provided by the Financial Accounting Standards Board ("FASB"). Based on this guidance we

have determined that it is more likely than not that the Company will be able to fully utilize its deferred tax assets ("DTAs"). As such, it has evaluated its valuation allowance and determined that all DTAs net of deferred tax liabilities ("DTLs") are available to offset income in all future periods. This conclusion is based upon management's evaluation of the new information it has analyzed and not from



management's new evaluation or new interpretation of information that was available in a previous financial reporting period. Accordingly, the Company reduced its valuation allowance during its 2014 year-end closing process commensurate with this conclusion. This resulted in a book value increase of \$9.4 million or \$0.81 per diluted common share.

The increase in Atlas' net income and the impact on earnings per diluted common share for the years ended December 31, 2014 and 2013 are summarized in the table below:

Net Income (\$ in '000s, except per share values) -- 2014 compared to 2013

	December 31, 2014		December 31, 2013	
After Tax Effects				
Net income	\$ 17,702	\$ 1.56	\$ 6,180	\$ 0.57
Less: other income	2	—	8	—
Less: net investment gains	252	0.02	349	0.03
Add: expenses incurred related to acquisition of subsidiaries	458	0.04	268	0.02
Add: interest expense	—	—	85	0.01
Add: deferred income taxes	(9,825)	(0.87)	(2,054)	(0.18)
Income from operating activities	\$ 8,081	\$ 0.71	\$ 4,122	\$ 0.39

For the year ended December 31, 2014, pre-tax and after-tax income from operating activities increased \$0.50 (includes \$0.17 related to the discount on the preferred share buyback) and \$0.32 per diluted common share, respectively, primarily due to premium growth, rate increases and higher than expected returns on certain investments.

### III. APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements.

The most critical estimates include those used in determining:

Fair value and impairment of financial assets;

Deferred policy acquisition costs recoverability;

Business combination;

Reserve for property-liability insurance claims and claims expense estimation; and

Deferred tax asset valuation.

In making these determinations, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our businesses and operations. It is reasonably likely that changes in these items could occur from period to period and result in a material impact on our consolidated financial statements.

A brief summary of each of these critical accounting estimates follows. For a more detailed discussion of the effect of these estimates on our consolidated financial statements, and the judgments and assumptions related to these estimates, see the referenced sections of this document. For a complete summary of our significant accounting policies, see the notes to the consolidated financial statements.

Fair values of financial instruments - Atlas has used the following methods and assumptions in estimating fair value:

Fair values for bonds and equity securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services.

Atlas' fixed income portfolio is managed by a SEC registered investment advisor specializing in the management of insurance company portfolios. Management works directly with them to ensure that Atlas benefits from their expertise and also evaluates investments as well as specific positions independently using internal resources. Atlas' investment advisor has a team of credit analysts for all investment grade fixed income sectors. The investment process begins with an independent analyst review of each security's credit worthiness using both quantitative tools and qualitative review. At the issuer level, this includes reviews of past financial data, trends in financial stability, projections for the future, reliability of the management team in place, market data (credit spread, equity prices, trends in this data for the issuer and the issuer's industry). Reviews also consider industry trends and the macro-economic environment. This analysis is continuous, integrating new information as it becomes available. As of December 31, 2015, this process did

not generate any significant difference in the rating assessment between Atlas' review and the rating agencies.

Atlas employs specific control processes to determine the reasonableness of the fair value of its financial assets. These processes are designed to supplement those performed by our external portfolio manager to ensure that the values received from them are accurately recorded and that the data inputs and the valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. For example, on a continuing basis, Atlas assesses the reasonableness of individual security values which have stale prices or whose changes exceed certain thresholds as compared to previous values received from our external portfolio manager or to expected prices. The portfolio is reviewed routinely for transaction volumes, new issuances, any changes in spreads, as well as the overall movement of interest rates along the yield curve to determine if sufficient activity and liquidity exists to provide a credible source for market valuations. When fair value determinations are expected to be more variable, they are validated through reviews by members of management or the Board of Directors who have relevant expertise and who are independent of those charged with executing investment transactions.

Changes in inflation can influence the interest rates which can impact the fair value of our available-for-sale fixed income portfolio and yields on new investments. The Investment Committee of the Board of Directors considers inflation when providing guidance and analyzing the investment portfolio to provide a stable source of income to supplement underwriting income.

Impairment of financial assets - Atlas assesses, on a quarterly basis, whether there is objective evidence that a financial asset or group of financial assets is impaired. An investment is considered impaired when the fair value of the investment is less than its cost or amortized cost. When an investment is impaired, the Company must make a determination as to whether the impairment is other-than-temporary.

The analysis includes some or all of the following procedures as deemed appropriate by management:

- identifying all security holdings in unrealized loss positions that have existed for at least six months or other circumstances that management believes may impact the recoverability of the security;
- obtaining a valuation analysis from third party investment managers regarding these holdings based on their knowledge, experience and other market based valuation techniques;
- reviewing the trading range of certain securities over the preceding calendar period;
- assessing whether declines in market value are other than temporary for debt security holdings based on credit ratings from third party security rating agencies; and
- determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed.

The risks and uncertainties inherent in the assessment methodology utilized to determine declines in market value that are other than temporary include, but may not be limited to, the following:

- the opinion of professional investment managers could prove to be incorrect;
- the past trading patterns of individual securities may not reflect future valuation trends;
- the credit ratings assigned by independent credit rating agencies may prove to be incorrect due to unforeseen or unknown facts related to a company's financial situation; and
- the debt service pattern of non-investment grade securities may not reflect future debt service capabilities and may not reflect a company's unknown underlying financial problems.

Under U.S. GAAP, with respect to an investment in an impaired debt security, other-than temporary impairment ("OTTI") occurs if (a) there is intent to sell the debt security, (b) it is more likely than not it will be required to sell the debt security before its anticipated recovery, or (c) it is probable that all amounts due will be unable to be collected such that the entire cost basis of the security will not be recovered. If Atlas intends to sell the debt security, or will more likely than not be required to sell the debt security before the anticipated recovery, a loss in the entire amount of the impairment is reflected in net realized gains (losses) on investments in the consolidated statements of income and comprehensive income. If Atlas determines that it is probable it will be unable to collect all amounts and Atlas has no intent to sell the debt security, a credit loss is recognized in net realized gains (losses) on investments in the consolidated statements of income and comprehensive income to the extent that the fair value is less than the amortized cost basis; any difference between fair value and the new amortized cost basis (net of the credit loss) is reflected in accumulated other comprehensive income (losses), net of applicable income taxes.

For equity securities, the Company evaluates its ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Evidence considered to determine anticipated recovery are analysts' reports on the near-term prospects of the issuer and the financial condition of the issuer or the industry, in addition to the length and extent of the market value decline. If OTTI is identified, the equity security is adjusted to fair value through a charge to earnings. See Note 5 to the Consolidated Financial Statements for further discussion of the other-than-temporary impairment on equity securities.

Deferred policy acquisition costs - Atlas defers brokers' commissions, premium taxes and other underwriting and marketing costs directly relating to the successful acquisition of premiums written to the extent they are considered recoverable. These costs are

then expensed as the related premiums are earned. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to estimated future claims and expenses to be incurred as premiums are earned. Changes in estimates, if any, are recorded in the accounting period in which they are determined. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs. Atlas' deferred policy acquisition costs are reported net of deferred ceding commissions.

**Claims liabilities** - The provision for unpaid claims represent the estimated liabilities for reported claims, plus those incurred but not yet reported and the related estimated loss adjustment expenses. Unpaid claims expenses are determined using case-basis evaluations and statistical analyses, including insurance industry loss data, and represent estimates of the ultimate cost of all claims incurred. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims is adequate. The estimates are continually reviewed and adjusted as necessary; such adjustments are included in current operations and are accounted for as changes in estimates.

Atlas considers the impact of inflation when establishing adequate rates and estimating the provision for unpaid claims. We establish reserves to cover our estimated liability for the payment of losses and expenses related to the administration of claims incurred on the insurance policies we write. Inflation has a larger impact the longer the time between the issuance of the policy and the final settlement of claims. Greater than expected claims costs above the established reserves will require an increase in claims reserves and reduce the earnings in the period the deficiency was established. We consider the impact of inflation on these reserves to establish policy rates that maintain adequate underwriting income.

**Valuation of deferred tax assets** - Deferred taxes are recognized using the asset and liability method of accounting. Under this method the future tax consequences attributable to temporary differences in the tax basis of assets, liabilities and items recognized directly in equity and the financial reporting basis of such items are recognized in the financial statements by recording deferred tax liabilities or deferred tax assets.

Deferred tax assets related to the carry-forward of unused tax losses and credits and those arising from temporary differences are recognized only to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

In assessing the need for a valuation allowance, Atlas considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets. If, based on the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, a valuation allowance is recorded.

As of December 31, 2015, there was no valuation allowance recorded against the Company's DTA.

**Business combinations** - The value of certain assets and liabilities acquired are subject to adjustment from the initial purchase price allocation as additional information is obtained, including, but not limited to, valuation of separately identifiable intangibles, the preferred stock issued to the seller, and deferred taxes.

The valuations are finalized within 12 months of the close of the acquisition. The changes upon finalization to the initial purchase price allocation and valuation of assets and liabilities may result in an adjustment to identifiable intangible assets and goodwill. Adjustments to the provisional amounts identified during the measurement period are recognized in the reporting period in which the adjustment amounts are determined. The effect of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date, are recorded in the financial statements and presented separately on the income statement in the reporting period in which the adjustment amounts are determined.

**Revenue recognition** - Premium income is recognized on a pro rata basis over the terms of the respective insurance contracts. Unearned premiums represent the portion of premiums written that are related to the unexpired terms of the policies in force.

**Reinsurance** - As part of Atlas' insurance risk management policies, portions of its insurance risk is ceded to reinsurers. Reinsurance premiums and claims expenses 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 and claims ceded to other companies have been reported as a reduction of premium revenue and claims incurred expense. Commissions

paid to Atlas by reinsurers on business ceded have been accounted for as a reduction of the related policy acquisition costs. Reinsurance receivables are recorded for that portion of paid and unpaid losses and loss adjustment expenses that are ceded to other companies. Prepaid reinsurance premiums are recorded for unearned premiums that have been ceded to other companies.

## IV. OPERATING RESULTS

Year ended December 31, 2015 compared to year ended December 31, 2014:

## Gross Premium Written

The following table summarizes gross premium written by line of business.

Gross Premium Written by Line of Business (\$ in '000s)

Year Ended December 31,	2015	2014	% Change	
Commercial automobile	\$207,767	\$119,539	73.8	%
Surety	177	2,959	(94.0)	)%
Other	1,342	(66)	(2133.3)	)%
Total	\$209,286	\$122,432	70.9	%

For the year ended December 31, 2015, gross premium written was \$209.3 million compared to \$122.4 million for the year ended December 31, 2014, representing a 70.9% increase. Global Liberty accounted for \$39.8 million or 45.6% of this increase of gross premium written. During 2012, we implemented a new business arrangement in New York to provide excess coverage above the levels of risk retained by the insured. Total gross premium written related to this program, which renews in the third quarter, was \$12.4 million and \$13.0 million for the years ended December 31, 2015 and 2014, respectively, and is included in the "commercial automobile" line of business. Below we will refer to the arrangement as the "excess taxi program" where it is relevant to explain certain distinctions.

For the year ended December 31, 2015, gross premium written from commercial automobile was \$207.8 million, representing a 73.8% increase relative to the year ended December 31, 2014. This substantial increase is primarily the result of the planned expansion of the commercial auto business. Excluding Global Liberty, we wrote \$66.2 million and \$44.8 million of new gross premium written business for the years ended December 31, 2015 and 2014, respectively. Our traditional commercial automobile, which excludes excess taxi, gross premium written was \$195.4 million, an increase of 83.4% versus the year ended December 31, 2014. As a percentage of the insurance subsidiaries' overall book of business, commercial auto gross premium written represented 99.3% of gross, and 99.4% of net, premium written in the year ended December 31, 2015 compared to 97.6% and 99.6%, respectively, during the year ended December 31, 2014.

## Geographic Concentration

Gross Premium Written by State (\$ in '000s)

Year Ended December 31,	2015		2014	
New York	\$61,331	29.3 %	\$28,977	23.7 %
California	24,592	11.8 %	9,417	7.7 %
Michigan	12,178	5.8 %	10,104	8.3 %
Louisiana	11,884	5.7 %	6,053	4.9 %
Illinois	11,741	5.6 %	12,947	10.6 %
Minnesota	11,178	5.3 %	6,770	5.5 %
Texas	9,462	4.5 %	4,702	3.8 %
Virginia	7,134	3.4 %	3,865	3.2 %
Ohio	6,124	2.9 %	4,995	4.1 %
Nevada	4,536	2.2 %	1,543	1.3 %
Other	49,126	23.5 %	33,059	26.9 %
Total	\$209,286	100.0 %	\$122,432	100.0 %

As illustrated by the table above, 29.3% of Atlas' gross premium written year ended December 31, 2015 came from New York and 58.2% came from the five states currently producing the most premium volume, as compared to 55.8% for the year ended December 31, 2014. Our commitment to expanding geographically resulted in 29 states with more than \$1 million in written premium in 2015 compared to 23 in 2014.

## Ceded Premium Written

Ceded premium written is equal to premium ceded under the terms of Atlas' inforce reinsurance treaties. The percentage of premium ceded is driven by the business mix within our total premium base. Effective July 1, 2014, Atlas entered into a quota share reinsurance contract ("Quota Share") with Swiss Reinsurance America Corporation ("Swiss Re") for the commercial auto and general liability lines of business written by American Country, American

Service and Gateway. Our initial quota share percentage was 5% of subject written premiums. We increased this percentage to 15% effective April 1, 2015. As a result of the Quota Share, the acquisition of Global Liberty and overall gross premium growth, we saw our ceded premium written increase



259.7% to \$39.6 million for the year ended December 31, 2015 compared with \$11.0 million for the year ended December 31, 2014.

#### Net Premium Written

Net premium written is equal to gross premium written less the ceded premium written under the terms of Atlas' inforce reinsurance treaties. Net premium written increased 52.3% to \$169.7 million for the year ended December 31, 2015 compared with \$111.4 million for the year ended December 31, 2014. These changes are attributed to the combined effects of the issues cited in the 'Gross Premium Written' and 'Ceded Premium Written' sections above.

#### Net Premium Earned

Premiums are earned ratably over the term of the underlying policy. Net premium earned was \$152.1 million for the year ended December 31, 2015, a 55.0% increase compared with \$98.1 million for the year ended December 31, 2014. The increase in net premiums earned is attributable to the combined effects of the issues cited in the 'Gross Premium Written' and 'Ceded Premium Written' sections above.

#### Claims Incurred

The loss ratio relating to the claims incurred for the year ended December 31, 2015 was 59.2% compared to 62.3% for the year ended December 31, 2014. The loss ratio improvement was primarily the result of Atlas' core commercial auto program, creating a 1.2% decrease in loss ratio for the year ended December 31, 2015. In both years, the excess taxi program contributed significantly to favorable loss results. We expect the loss ratio for this program to remain within the range of 45% to 50% of net earned premiums. We believe that our extensive experience and expertise with respect to underwriting and claims management in all our commercial lines will allow us to maintain or improve loss ratios going forward. The Company is committed to retain this claim handling expertise as a core competency as the volume of business increases.

#### Acquisition Costs

Acquisition costs represent commissions and taxes incurred on net premium earned offset by ceding commission on business reinsured by the Quota Share as was disclosed in the current year. Before the impact of the Quota Share reinsurance, acquisition costs were 14.7% for the year ended December 31, 2015, as compared to 14.6% for the year ended December 31, 2014. After the impact of Quota Share reinsurance, acquisition costs were \$18.6 million for the year ended December 31, 2015 or 12.2% of net premium earned, as compared to 14.3% for the year ended December 31, 2014. The decrease in the ratio is related to the Quota Share's ceding commissions. The impacts of the Quota Share on acquisition costs are cited in the below 'Combined Ratio' section.

#### Other Underwriting Expenses

The total reported other underwriting expense ratio (including share based compensation expenses and intangible amortization) was 15.6% for the year ended December 31, 2015 compared to 14.1% for the year ended December 31, 2014. Changes in our Quota Share reinsurance during 2015 had an impact on the reported other underwriting expense ratio when comparing year to year. Before the impact of the Quota Share reinsurance, the total other underwriting expense ratio was 13.8% for the year ended December 31, 2015 compared to 14.0% for the year ended December 31, 2014. The growth of our core lines and our increasing operational scale has had positive impact on this ratio. The total other underwriting expense ratio in 2015 excludes \$999,000 in transaction costs incurred in conjunction with the acquisition of Anchor and \$942,000 in expenses incurred pursuant to the Gateway stock purchase agreement. The total other underwriting expense ratio in 2014 excludes \$694,000 in transaction costs incurred in conjunction with the acquisition of Anchor. See Note 3 to the Consolidated Financial Statements for further details regarding these costs. Also, while the Quota Share provides a ceding commission to offset underwriting expense, this commission reduces acquisition costs rather than other underwriting expenses on the income statement. With this in mind, acquisition costs and other underwriting expenses should be examined collectively as total underwriting expenses to understand operating efficiency.

### Net Investment Income

Net investment income consists of the interest income and net realized gains or losses that are created by the Company's invested assets net of expenses associated with managing the portfolio. The table below compares the net investment results for the years ended December 31, 2015 and 2014.

#### Investment Results (\$ in '000s)

Year Ended December 31,	2015		2014	
Average securities at amortized cost	\$202,214		\$160,964	
Net investment income	3,976		3,110	
Percent earned on average investments	2.0	%	1.9	%
Net realized gains	455		382	
Total investment income	4,431		3,492	
Total realized yield	2.2	%	2.2	%

Investment income (excluding net realized gains) net of investment expenses increased by 27.8% to \$4.0 million for the year ended December 31, 2015, compared to \$3.1 million for the year ended December 31, 2014. These amounts are primarily comprised of interest income. This increase is primarily due to higher return on certain securities in our investment portfolio.

Net realized investment gains for the year ended December 31, 2015 were \$455,000 compared to \$382,000 for the year ended December 31, 2014. This increase resulted primarily from gains on the sale of fixed income securities under favorable market conditions offset by losses on common stock and real estate sold in Alabama.

The annualized realized yield on invested assets (including net realized gains of \$455,000 and \$382,000) was 2.2% for the years ended December 31, 2015 and 2014, respectively.

#### Other Income

Atlas recorded other income for the year ended December 31, 2015 of \$356,000 compared to other income of \$2,000 for the year ended December 31, 2014. The increase in other income was mostly fee income generated by our premium finance companies.

### Combined Ratio

Underwriting profitability, as opposed to overall profitability or net earnings, is measured by the combined ratio. The combined ratio is the sum of the loss and loss adjustment expense (LAE) ratio, the acquisition cost ratio and the underwriting expense ratio. The table below indicates the impact of quota share reinsurance, amortization of intangible assets and share based compensation on the combined ratio for the years ended December 31, 2015 and 2014:

(in '000s, percentages to net earned premiums)

Year Ended December 31,	2015		2014		
Gross of Quota Share:	Amount	%	Amount	%	
Net premiums earned	\$170,737	100.0	%\$99,223	100.0	%
Net claims incurred	99,394	58.2	%61,629	62.1	%
Acquisition costs	25,093	14.7	%14,447	14.6	%
Other underwriting expenses excluding amortization of intangible assets and share based compensation expenses	21,712	12.7	%12,393	12.5	%
Amortization of intangible assets	315	0.2	%—	—	%
Share based compensation expense, gross of income taxes <sup>1</sup>	1,613	0.9	%1,470	1.5	%
Total underwriting profit and combined ratio	\$22,610	86.7	%\$9,284	90.7	%

### Net of Quota Share:

Net premiums earned	\$152,064	100.0	%\$98,124	100.0	%
Net claims incurred	89,994	59.2	%61,078	62.3	%
Acquisition costs	18,592	12.2	%14,048	14.3	%
Other underwriting expenses excluding amortization of intangible assets and share based compensation expenses	21,712	14.3	%12,393	12.6	%
Amortization of intangible assets	315	0.2	%—	—	%
Share based compensation expense, gross of income taxes <sup>1</sup>	1,613	1.1	%1,470	1.5	%
Total underwriting profit and combined ratio	\$19,838	87.0	%\$9,135	90.7	%

<sup>1</sup> - Excludes income tax expense of \$204,000 for the year ended December 31, 2015.

The change in underwriting income is attributable to the factors described in the 'Net Premium Earned', 'Claims Incurred', 'Acquisition Costs', and 'Other Underwriting Expenses' sections above.

### Income before Income Taxes

Atlas generated pre-tax income of \$22.0 million for the year ended December 31, 2015, compared to pre-tax income of \$11.9 million for year ended December 31, 2014. The causes of these changes are attributed to the combined effects of the issues cited in the 'Net Premium Earned', 'Claims Incurred', 'Acquisition Costs', 'Other Underwriting Expenses', 'Net Investment Income', 'Net Realized Investment Gains', and 'Other Income' sections above.

## Income Tax Expense (Benefit)

Atlas recognized \$7.6 million of tax expense for the year ended December 31, 2015, and recognized \$5.8 million of tax benefit for the year ended December 31, 2014. The Company was able to reverse its deferred tax asset valuation allowance to offset substantially all current income tax expense for the year ended December 31, 2014. The following table reconciles the statutory U.S. Federal tax rate of 35.0% and 34.0% to the actual effective tax rate for the years ended December 31, 2015 and 2014, respectively:

## Tax Rate Reconciliation (\$ in '000s)

Year Ended December 31,	2015		2014		
	Amount	%	Amount	%	%
Provision for taxes at U.S. statutory marginal income tax rate	\$7,716	35.0	% \$4,058	34.0	%
Provision for deferred tax assets deemed unrealizable (valuation allowance)	—	—	% (9,446 )	(79.1 )	)%
Nondeductible expenses	124	0.6	% 136	1.1	%
Tax-exempt income	(89 )	(0.4 )	)% —	—	%
State tax (net of federal benefit)	118	0.5	% 11	0.1	%
Tax net operating loss limitation write-down (excluding valuation allowance)	—	—	% (519 )	(4.3 )	)%
Nondeductible purchase accounting adjustment	329	1.5	% —	—	%
Change in statutory tax rate	(471 )	(2.1 )	)% —	—	%
Other	(111 )	(0.6 )	)% (7 )	(0.1 )	)%
Provision for income taxes for continuing operations	\$7,616	34.5	% \$(5,767 )	(48.3 )	)%

Upon the transaction forming Atlas on December 31, 2010, a yearly limitation as required by IRC Section 382 that applies to changes in ownership on the future utilization of Atlas' net operating loss carryforwards was calculated. The insurance subsidiaries' prior parent retained those tax assets previously attributed to the insurance subsidiaries which could not be utilized by Atlas as a result of this limitation. As a result, Atlas' ability to recognize future tax benefits associated with a portion of its deferred tax assets generated during prior years have been permanently limited to the amount determined under IRC Section 382. The result is a maximum expected net deferred tax asset, which Atlas has available after the merger and believed more-likely-than-not to be utilized in the future, after consideration of valuation allowance.

As part of our on-going analysis of deferred tax assets, management has assessed both positive and negative evidence according to guidance provided by the FASB. Based on this guidance we have determined that it is more likely than not that the Company will be able to fully utilize its DTAs as a result of the overwhelming positive evidence and the lack of negative evidence. As such, it has evaluated its valuation allowance and determined that all DTAs net of DTLs are available to offset income in all future periods. This conclusion is based upon management's evaluation of the new information it has analyzed and not from management's new evaluation or new interpretation of information that was available in a previous financial reporting period. Accordingly, the Company recorded a reversal of its deferred tax asset valuation allowance of \$9.4 million for the year ended December 31, 2014 commensurate with this conclusion.

## Net Income and Earnings per Common Share

Atlas' net income was \$14.4 million for the year ended December 31, 2015 versus net income of \$17.7 million for the year ended December 31, 2014. After taking the impact of the liquidation preference of the preferred shares into consideration, the diluted earnings per common share for the year ended December 31, 2015 was \$1.13 versus diluted earnings per common share of \$1.56 for the year ended December 31, 2014.

For the year ended December 31, 2015, there were 11,975,579 weighted average common shares outstanding used to compute basic earnings per common share, and 12,735,679 were used for the diluted earnings per common share computation. For the year ended December 31, 2014, there were 10,937,181 weighted average common shares outstanding used to compute basic earnings per common share, and 11,341,588 used for the diluted earnings per common share computation.

Year ended December 31, 2014 compared to year ended December 31, 2013:

#### Gross Premium Written

The following table summarizes gross premium written by line of business.

#### Gross Premium Written by Line of Business (\$ in '000s)

Year Ended December 31,	2014	2013	% Change	
Commercial automobile	\$119,539	\$88,567	35.0	%
Surety	2,959	4,142	(28.6)	)%
Other	(66)	351	(118.8)	)%
Total	\$122,432	\$93,060	31.6	%

For the year ended December 31, 2014, gross premium written was \$122.4 million compared to \$93.1 million for the year ended December 31, 2013, representing a 31.6% increase. The increase relative to the year ended December 31, 2013 is due primarily to the substantial growth of the core commercial auto business. Total gross premium written related to excess taxi program, was \$13.0 million and \$12.8 million for the years ended December 31, 2014 and 2013, respectively, and is included in the "commercial automobile" line of business.

For the year ended December 31, 2014, gross premium written from commercial automobile was \$119.5 million, representing a 35.0% increase relative to the year ended December 31, 2013. This substantial increase is primarily the result of the planned expansion of the commercial auto business. Excluding the excess taxi program, our traditional commercial automobile gross premium written was \$106.5 million, an increase of 40.6% versus the year ended December 31, 2013. Gross premium written attributable to the Gateway acquisition and subsequent organic growth related to that subsidiary in 2014, was approximately \$17.3 million and \$12.6 million for the years ended December 31, 2014 and 2013, respectively. As a percentage of the insurance subsidiaries' overall book of business, commercial auto gross premium written represented 97.6% of gross, and 99.6% of net, premium written for the year ended December 31, 2014 compared to 95.2% and 105.9%, respectively, during the year ended December 31, 2013.

#### Geographic Concentration

#### Gross Premium Written by State (\$ in '000s)

Year Ended December 31,	2014		2013	
New York	\$28,977	23.7 %	\$20,602	22.1 %
Illinois	12,947	10.6 %	11,244	12.1 %
Michigan	10,104	8.3 %	8,401	9.0 %
California	9,417	7.7 %	3,655	3.9 %
Minnesota	6,770	5.5 %	4,649	5.0 %
Louisiana	6,053	4.9 %	5,523	5.9 %
Ohio	4,995	4.1 %	3,334	3.6 %
Texas	4,702	3.8 %	7,507	8.1 %
Virginia	3,865	3.2 %	2,516	2.7 %
South Carolina	3,758	3.1 %	2,034	2.2 %
Other	30,844	25.1 %	23,595	25.4 %
Total	\$122,432	100.0 %	\$93,060	100.0 %

As illustrated by the table above, 23.7% of Atlas' gross premium written for the year ended December 31, 2014 came from New York and 55.8% came from the five states currently producing the most premium volume, as compared to 57.2% for the year ended December 31, 2013. Our commitment to expanding geographically resulted in 23 states with more than \$1 million in written premium in 2014 compared to 19 in 2013.

#### Ceded Premium Written

Ceded premium written is equal to premium ceded under the terms of Atlas' inforce reinsurance treaties. Ceded premium written decreased 12.5% to \$11.0 million for the year ended December 31, 2014 compared with \$12.6 million for the year ended December 31, 2013. The primary driver of the decrease in ceded premium written relates to the run off of non-core lines of business that are heavily reinsured. The percentage of premium ceded is driven by the business mix within our total premium base. As of July 1, 2014, Atlas implemented the Quota Share for its commercial auto and general liability lines of business, which provides the Company with financial flexibility to manage expected growth and the timing of potential future capital raising activities. With the exception of this quota

share reinsurance agreement, all of our reinsurance partners have remained consistent since 2013.

**Net Premium Written**

Net premium written is equal to gross premium written less the ceded premium written under the terms of Atlas' inforce reinsurance treaties. Net premium written increased 38.4% to \$111.4 million for the year ended December 31, 2014 compared with \$80.5 million for the year ended December 31, 2013. These changes are attributed to the combined effects of the issues cited in the 'Gross Premium Written' and 'Ceded Premium Written' sections above.

**Net Premium Earned**

Premiums are earned ratably over the term of the underlying policy. Net premium earned was \$98.1 million for the year ended December 31, 2014, a 37.5% increase compared with \$71.3 million for the year ended December 31, 2013. The increase in net premiums earned is attributable to the combined effects of the issues cited in the 'Gross Premium Written' and 'Ceded Premium Written' sections above.

**Claims Incurred**

The loss ratio relating to the claims incurred for the year ended December 31, 2014 was 62.3% compared to 63.9% for the year ended December 31, 2013. Loss ratios improved for the year ended December 31, 2014 relative to prior periods primarily due to the increased percentage of commercial auto, which has historically had a better overall underwriting result, relative to total written premium. In both years, the excess taxi program contributed significantly to favorable loss results in the year as we expect better than average claim experience from this program. We believe that our extensive experience and expertise with respect to underwriting and claims management in all our commercial lines will allow us to continue this decreasing trend since we expect 100% of net premium earned to be related to core lines of business moving forward. The Company is committed to retain this claim handling expertise as a core competency as the volume of business increases.

**Acquisition Costs**

Acquisition costs represent commissions and taxes incurred on net premium earned. Acquisition costs were \$14.0 million for the year ended December 31, 2014 or 14.3% of net premium earned, as compared to 14.5% for the year ended December 31, 2013.

**Other Underwriting Expenses**

The other underwriting expense ratio was 14.1% for the year ended December 31, 2014 compared to 15.8% for the year ended December 31, 2013. The decrease in ratio resulted from increased premium volume. Actual other underwriting expenses increased \$2.6 million over prior year. This increase was mostly related to incentive compensation. Approximately 1.0% of the full year 2013 other underwriting expense ratio was attributed to Gateway integration costs. There were no Gateway related integration costs in 2014.

The other underwriting expense ratio in 2014 excludes \$694,000 in transaction costs incurred in conjunction with the acquisition of Global Liberty. The other underwriting expense ratio in 2013 excludes \$406,000 in transaction costs incurred in conjunction with the acquisition of Gateway. See Note 3 to the Consolidated Financial Statements for further details regarding these costs.

**Net Investment Income**

Net investment income consists of the interest income and net realized gains or losses that are created by the Company's invested assets net of expenses associated with managing the portfolio. The table below compares the net investment results for the years ended December 31, 2014 and 2013.

**Investment Results (\$ in '000s)**

Year Ended December 31,	2014	2013		
Average securities at amortized cost	\$160,964	\$130,107		
Net investment income	3,110	2,141		
Percent earned on average investments	1.9	% 1.7		%
Net realized gains	382	529		
Total investment income	3,492	2,670		
Total realized yield	2.2	% 2.1		%

Investment income (excluding net realized gains) net of investment expenses increased by 45.3% to \$3.1 million for the year ended December 31, 2014, compared to \$2.1 million for the year ended December 31, 2013. These amounts are primarily comprised of interest income. This increase is primarily due to higher return on certain securities in our investment portfolio.

Net realized investment gains for the year ended December 31, 2014 were \$382,000 compared to \$529,000 for the year ended December 31, 2013. The difference is the result of management's decision not to sell fixed income securities due to unfavorable market conditions.



The annualized realized yield on invested assets (including net realized gains of \$382,000) for the year ended December 31, 2014 increased to 2.2% as compared with 2.1% for the year ended December 31, 2013. This increase is attributable to interest rates and the mix of securities on hand.

#### Other Income

Atlas recorded other income for the year ended December 31, 2014 of \$2,000 compared to other income of \$13,000 for the year ended December 31, 2013. Other income was primarily comprised of miscellaneous balances recovered.

#### Combined Ratio

Underwriting profitability, as opposed to overall profitability or net earnings, is measured by the combined ratio. The table below indicates the impact of quota share reinsurance, amortization of intangible assets and share based compensation on the combined ratio for the years ended December 31, 2014 and 2013:

(in '000s, percentages to net earned premiums)

Year Ended December 31,	2014		2013		
Gross of Quota Share:	Amount	%	Amount	%	
Net premiums earned	\$99,223	100.0	%\$71,344	100.0	%
Net claims incurred	61,629	62.1	%45,612	63.9	%
Acquisition costs	14,447	14.6	%10,373	14.5	%
Other underwriting expenses excluding amortization of intangible assets and share based compensation expenses <sup>1</sup>	12,393	12.5	%11,008	15.4	%
Amortization of intangible assets	—	—	%—	—	%
Share based compensation expense	1,470	1.5	%247	0.4	%
Total underwriting profit and combined ratio <sup>1</sup>	\$9,284	90.7	%\$4,104	94.2	%

#### Net of Quota Share:

Net premiums earned	\$98,124	100.0	%\$71,344	100.0	%
Net claims incurred	61,078	62.3	%45,612	63.9	%
Acquisition costs	14,048	14.3	%10,373	14.5	%
Other underwriting expenses excluding amortization of intangible assets and share based compensation expenses <sup>1</sup>	12,393	12.6	%11,008	15.4	%
Amortization of intangible assets	—	—	%—	—	%
Share based compensation expense	1,470	1.5	%247	0.4	%
Total underwriting profit and combined ratio <sup>1</sup>	\$9,135	90.7	%\$4,104	94.2	%

<sup>1</sup> - We reclassified our presentation for interest expense from other underwriting expenses to non-operating expenses. The reclassification reduced the other underwriting expense ratio and the combined ratio by .2% for the year ended December 31, 2013.

Our combined ratio improvement in 2014 is attributable to the combined effects of the issues described in the 'Claims Incurred', 'Acquisition Costs', 'Other Underwriting Expenses' and 'Net Premium Earned' sections above.

#### Income before Income Taxes

Atlas generated pre-tax income of \$11.9 million for the year ended December 31, 2014, compared to pre-tax income of \$6.3 million for year ended December 31, 2013. The causes of these changes are attributed to the combined effects of the issues cited in the 'Net Premium Earned', 'Claims Incurred', 'Acquisition Costs', 'Other Underwriting Expenses', 'Net Investment Income', 'Net Realized Investment Gains', and 'Other Income' sections above.

# Income Tax Benefit (Expense)

Atlas recognized \$5.8 million of tax benefit for the year ended December 31, 2014, and recognized \$72,000 of tax expense for the year ended December 31, 2013. The following table reconciles the statutory U.S. Federal tax rate of 34.0% to the actual effective tax rate for the years ended December 31, 2014 and 2013:

## Tax Rate Reconciliation (\$ in '000s)

Year Ended December 31,	2014		2013	
	Amount	%	Amount	%
Expected income tax expense at statutory rate	\$4,058	34.0	\$2,126	34.0
Change in valuation allowance	(9,446)	(79.1)	(2,802)	(44.8)
Nondeductible expenses	136	1.1	100	1.6
State tax (net of federal benefit)	11	0.1	47	0.8
Tax net operating loss limitation write-down (excluding valuation allowance)	(519)	(4.3)	626	10.0
Other	(7)	(0.1)	(25)	(0.4)
Total	\$(5,767)	(48.3)	\$72	1.2

As mentioned in the 'Operating Results, Year Ended December 31, 2015 Compared to Year Ended December 31, 2014' section above, the Company recorded a tax benefit associated with the reversal of its deferred tax assets valuation allowance for the year ended December 31, 2014. This resulted in a book value increase of \$9.4 million or \$0.81 per diluted common share for the year ended December 31, 2014.

## Net Income and Earnings per Common Share

Atlas' net income was \$17.7 million for the year ended December 31, 2014 versus net income of \$6.2 million for the year ended December 31, 2013. After taking the impact of the liquidation preference of the preferred shares into consideration and the discount generated as a result of the repurchase of 18,000,000 preferred shares, the diluted earnings per common share for the year ended December 31, 2014 was \$1.56 versus diluted earnings per common share of \$0.74 for the year ended December 31, 2013.

For the year ended December 31, 2014, there were 10,937,181 weighted average common shares outstanding used to compute basic earnings per common share, and 11,341,588 were used for the diluted earnings per common share computation. For the year ended December 31, 2013, there were 8,007,458 weighted average common shares outstanding used to compute basic earnings per common share, and 10,840,868 used for the diluted earnings per common share computation.

## V. FINANCIAL CONDITION

## Consolidated Statements of Financial Condition

(\$ in '000s, except for share and per share data)	December 31, 2015	December 31, 2014
<b>Assets</b>		
Investments, available for sale		
Fixed income securities, at fair value (amortized cost \$185,455 and \$126,701)	\$183,773	\$126,949
Equity securities, at fair value (cost \$4,147 and \$2,220)	4,240	2,093
Other investments	22,937	14,366
Total Investments	210,950	143,408
Cash and cash equivalents	22,354	36,586
Accrued investment income	1,036	660
Premiums receivable (net of allowance of \$846 and \$560)	82,529	47,385
Reinsurance recoverables on amounts paid	3,277	2,230
Reinsurance recoverables on amounts unpaid	29,399	18,421
Prepaid reinsurance premiums	17,412	3,628
Deferred policy acquisition costs	10,235	8,166
Deferred tax asset, net	17,166	17,317
Goodwill	2,726	—
Intangible assets	4,925	740
Software and office equipment, net	2,589	2,819
Other assets	6,941	2,385
Assets held for sale	34	166
<b>Total Assets</b>	<b>\$411,573</b>	<b>\$283,911</b>
<b>Liabilities</b>		
Claims liabilities	\$127,011	\$102,430
Unearned premiums	108,202	58,950
Due to reinsurers and other insurers	10,781	2,456
Note payable	17,500	—
Other liabilities and accrued expenses	18,457	10,676
<b>Total Liabilities</b>	<b>\$281,951</b>	<b>\$174,512</b>
<b>Shareholders' Equity</b>		
Preferred shares, \$0.001 par value, 100,000,000 shares authorized, shares issued and outstanding: 2015 - 6,940,500 and 2014 - 2,000,000. Liquidation value \$1.00 per share	\$6,941	\$2,000
Ordinary voting common shares, \$0.003 par value, 266,666,667 shares authorized, shares issued and outstanding: 2015 - 11,883,025 and 2014 - 11,638,723	36	34
Restricted voting common shares, \$0.003 par value, 33,333,334 shares authorized, shares issued and outstanding: 2015 and 2014 - 132,863	—	—
Additional paid-in capital	198,041	196,079
Retained deficit	(74,364)	(88,794)
Accumulated other comprehensive (loss) income, net of tax	(1,032)	80
<b>Total Shareholders' Equity</b>	<b>\$129,622</b>	<b>\$109,399</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$411,573</b>	<b>\$283,911</b>



## Investments

## Investments Overview and Strategy

Atlas aligns its securities portfolio to support the liabilities and operating cash needs of the insurance subsidiaries, to preserve capital and to generate investment returns. Atlas invests predominantly in corporate and government bonds with a portion of the portfolio in relatively short durations that correlate with the payout patterns of Atlas' claims liabilities. Atlas also invests opportunistically in selective direct investments with favorable return attributes. A third-party investment management firm manages Atlas' investment portfolio pursuant to the Company's investment policies and guidelines as approved by its Board of Directors. Atlas monitors the third-party investment manager's performance and its compliance with both its mandate and Atlas' investment policies and guidelines. In 2013, the Board of Directors established an Investment Committee to provide further analysis and guidance in connection with the company's investment activities.

Atlas' investment guidelines stress the preservation of capital, market liquidity to support payment of liabilities and the diversification of risk. With respect to fixed income securities, Atlas generally purchases securities with the expectation of holding them to their maturities; however, the securities are available for sale if liquidity needs arise.

## Portfolio Composition

Atlas held securities with a fair value of \$188.0 million at December 31, 2015, which was primarily comprised of fixed income securities. The securities held by the insurance subsidiaries must comply with applicable regulations that prescribe the type, quality and concentration of securities. These regulations in the various jurisdictions in which the insurance subsidiaries are domiciled permit investments in government, state, municipal and corporate bonds, preferred and common equities, and other high quality investments, within specified limits and subject to certain qualifications.

The amortized cost, gross unrealized gains and losses and fair value for Atlas' investments in fixed maturities and equity by type and sector are as follows (all amounts in '000s):

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Income:				
U.S. Government	\$45,529	\$ 244	\$ (136)	) \$45,637
Corporate				
Banking/financial services	21,963	117	(166)	) 21,914
Consumer goods	7,813	43	(121)	) 7,735
Capital goods	15,524	127	(556)	) 15,095
Energy	4,807	—	(401)	) 4,406
Telecommunications/utilities	12,298	27	(450)	) 11,875
Health care	3,038	—	(17)	) 3,021
Total Corporate	65,443	314	(1,711)	) 64,046
Mortgage backed - agency	34,874	112	(313)	) 34,673
Mortgage backed - commercial	19,961	158	(244)	) 19,875
Total Mortgage Backed	54,835	270	(557)	) 54,548
Other asset backed	19,648	14	(120)	) 19,542
Total Fixed Income	\$185,455	\$ 842	\$ (2,524)	) \$183,773
Equities	4,147	139	(46)	) 4,240
Totals	\$189,602	\$ 981	\$ (2,570)	) \$188,013

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Income:				
U.S. Government	\$ 20,506	\$ 32	\$ (159)	) \$ 20,379
Corporate				
Banking/financial services	15,551	215	(31)	) 15,735
Consumer goods	3,478	50	(13)	) 3,515
Capital goods	14,285	354	(52)	) 14,587
Energy	2,829	—	(84)	) 2,745
Telecommunications/utilities	5,297	67	(8)	) 5,356
Health care	1,948	—	(16)	) 1,932
Total Corporate	43,388	686	(204)	) 43,870
Mortgage backed - agency	30,772	250	(160)	) 30,862
Mortgage backed - commercial	16,774	79	(269)	) 16,584
Total Mortgage Backed	47,546	329	(429)	) 47,446
Other asset backed	15,261	20	(27)	) 15,254
Total Fixed Income	\$ 126,701	\$ 1,067	\$ (819)	) \$ 126,949
Equities	2,220	12	(139)	) 2,093
Totals	\$ 128,921	\$ 1,079	\$ (958)	) \$ 129,042

#### Equity Method Investments:

The following table summarizes investments in equity method investments by investment type at December 31, 2015 and December 31, 2014 (all amounts in '000s):

	Unfunded Commitments	Carrying Value	
As of December 31,	2015	2015	2014
Real estate	\$ 1,775	\$ 10,300	\$ 2,754
Insurance linked securities	—	8,747	8,266
Activist hedge funds	—	3,685	3,346
Venture capital	700	205	—
Total Equity Method Investments	\$ 2,475	\$ 22,937	\$ 14,366

Atlas' other investments are comprised of various limited partnerships that invest in income-producing real estate, equities, or catastrophe bonds. Atlas' interest is not deemed minor, and the investments are accounted for under the equity method of accounting. At December 31, 2015, the carrying value was approximately \$22.9 million versus approximately \$14.4 million at December 31, 2014. The carrying value of these investments is Atlas' share of the net book value for each limited partnership, an amount that approximates fair value. Atlas receives dividends on a routine basis, which approximate the income earned on some of the limited partnerships that invest in income-producing real estate. For the year ended December 31, 2015, investment income generated by equity method investments was \$1.3 million, compared to \$693,000 for the year ended December 31, 2014. The increase in investment income related to these investments was primarily the result of higher than anticipated yields.

### Liquidity and Cash Flow Risk

The following table summarizes the amortized cost and fair value by contractual maturities of the fixed income securities portfolio, excluding cash and cash equivalents, at the dates indicated.

#### Amortized Cost and Fair Value of Fixed Income Securities by Contractual Maturity Date (\$ in '000s)

At December 31,	2015				2014			
	Amortized Cost	Fair Value	%		Amortized Cost	Fair Value	%	
Due in less than one year	\$12,504	\$12,527	6.8	%	\$1,786	\$1,875	1.5	%
Due in one through five years	69,082	68,412	37.2	%	54,315	54,349	42.8	%
Due after five through ten years	42,631	42,285	23.0	%	23,432	23,166	18.2	%
Due after ten years	61,238	60,549	33.0	%	47,168	47,559	37.5	%
Total	\$185,455	\$183,773	100.0	%	\$126,701	\$126,949	100.0	%

At December 31, 2015, 44.0% of the fixed income securities, including treasury bills, bankers' acceptances, government bonds and corporate bonds had contractual maturities of five years or less. Actual maturities may differ from contractual maturities, because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties. Atlas holds cash and high grade short-term assets, which, along with fixed income security maturities, management believes are sufficient for the payment of claims on a timely basis. In the event that additional cash is required to meet obligations to policyholders, Atlas believes that a high quality securities portfolio provides us with sufficient liquidity. With a weighted contractual duration of 4.1 years, changes in interest rates will have a modest market value impact on the Atlas portfolio relative to longer duration portfolios. Atlas can and typically does hold bonds to maturity by matching duration with the anticipated liquidity needs.

### Credit Risk

Credit risk is defined as the risk of financial loss due to failure of the other party to a financial instrument to discharge an obligation. Atlas is exposed to credit risk principally through its investments and balances receivable from policyholders and reinsurers. It monitors concentration and credit quality risk through policies designed to limit and monitor its exposure to individual issuers or related groups (with the exception of U.S. government bonds) as well as through ongoing review of the credit ratings of issuers in the securities portfolio. Credit exposure to any one individual policyholder is not material. The Company's policies, however, are distributed by agents who may manage cash collection on its behalf pursuant to the terms of their agency agreement. Atlas has policies to evaluate the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvency.

As of December 31, 2015, Atlas' allowance for bad debt was \$846,000. Atlas' allowance for bad debt increased by \$286,000 compared to \$560,000 as of December 31, 2014. This increase in the allowance for bad debt is due to the increase in the level of written premium.

The following table summarizes the composition of the fair value of the fixed income securities portfolio, excluding cash and cash equivalents, as of the dates indicated, by ratings assigned by Fitch, S&P or Moody's Investors Service. The fixed income securities portfolio consists of predominantly very high quality securities in corporate and government bonds with 84.9% rated 'A' or better at December 31, 2015 compared to 87.4% at December 31, 2014.

#### Credit Ratings of Fixed Income Securities Portfolio (\$ in '000s)

At December 31,	2015				2014			
	Amount	% of Total			Amount	% of Total		
AAA/Aaa	\$106,878	58.1	%		\$77,856	61.3	%	
AA/Aa	20,348	11.1	%		10,897	8.6	%	
A/A	28,765	15.7	%		22,206	17.5	%	
BBB/Baa	26,512	14.4	%		15,990	12.6	%	
BB	1,270	0.7	%		—	—	%	
Total Securities	\$183,773	100.0	%		\$126,949	100.0	%	
Other-than-temporary impairment								

Atlas recognizes losses on securities for which a decline in market value was deemed to be other-than-temporary. Management performs a quarterly analysis of the securities holdings to determine if declines in market value are other-than-temporary. Atlas did not recognize any charges that were considered other-than-temporary for the years ended December 31, 2015 and 2014 and recognized charges of \$311,000 for securities impairments for the year ended December 31, 2013.



The length of time securities may be held in an unrealized loss position may vary based on the opinion of the appointed investment manager and their respective analyses related to valuation and to the various credit risks that may prevent us from recapturing the principal investment. In cases of securities with a maturity date where the appointed investment manager determines that there is little or no risk of default prior to the maturity of a holding, Atlas would elect to hold the security in an unrealized loss position until the price recovers or the security matures. In situations where facts emerge that might increase the risk associated with recapture of principal, Atlas may elect to sell securities at a loss. Atlas had no material gross unrealized losses in its portfolio at December 31, 2015 or at December 31, 2014.

#### Due from Reinsurers and Other Insurers

Atlas purchases reinsurance from third parties in order to reduce its liability on individual risks and its exposure to large losses. Reinsurance is coverage purchased by one insurance company from another for part of the risk originally underwritten by the purchasing (ceding) insurance company. The practice of ceding insurance to reinsurers allows an insurance company to reduce its exposure to loss by size, geographic area, and type of risk or on a particular policy. An effect of ceding insurance is to permit an insurance company to write additional insurance for risks in greater number or in larger amounts than it would otherwise insure independently, based on its statutory capital, risk tolerance and other factors.

Atlas generally purchases reinsurance to limit net exposure to a maximum amount on any one loss of \$500,000 with respect to commercial automobile liability claims. Atlas also purchases reinsurance to protect against awards in excess of its policy limits. Atlas continually evaluates and adjusts its reinsurance needs based on business volume, mix, and supply levels. As a result, the Company has entered into the Quota Share with Swiss Re for the companies in our ASI Pool (American Country, American Service and Gateway). Our initial cession was 5% of subject written premiums, which was increased to 15% effective April 1, 2015. Under this contract, cessions can be increased at our election should we want to utilize it as a means of deleveraging. This facility gives us flexibility in terms of the timing and approach to potential future capital raising activities in light of anticipated increased operating leverage. Global Liberty historically maintained lower reinsurance retention limits. For 2015, we have left the reinsurance program for this subsidiary unchanged.

Reinsurance ceded does not relieve Atlas of its ultimate liability to its insured in the event that any reinsurer is unable to meet their obligations under its reinsurance contracts. Therefore, Atlas enters into reinsurance contracts with only those reinsurers deemed to have sufficient financial resources to provide the requested coverage. Reinsurance treaties are generally subject to cancellation by the reinsurers or Atlas on the anniversary date and are subject to renegotiation annually. Atlas regularly evaluates the financial condition of its reinsurers and monitors the concentrations of credit risk to minimize its exposure to significant losses as a result of the insolvency of a reinsurer. Atlas believes that the amounts it has recorded as reinsurance recoverables are appropriately established. Estimating amounts of reinsurance recoverables, however, is subject to various uncertainties, and the amounts ultimately recoverable may vary from amounts currently recorded. Atlas had \$32.7 million recoverable from third party reinsurers (exclusive of amounts prepaid) and other insurers at December 31, 2015 as compared to \$20.7 million at December 31, 2014. The increase is attributable primarily to the Global Liberty acquisition with some impact from the increase in the Quota Share cession rate effective April 1, 2015.

Estimating amounts of reinsurance recoverables is also impacted by the uncertainties involved in the establishment of provisions for unpaid claims. As underlying reserves potentially develop, the amounts ultimately recoverable may vary from amounts currently recorded. Atlas' reinsurance recoverables are generally unsecured. Atlas regularly evaluates its reinsurers, and the respective amounts recoverable, and an allowance for uncollectible reinsurance is provided for, if needed.

Atlas' largest reinsurance partners are Great American Insurance Company ("Great American"), a subsidiary of American Financial Group, Inc., General Reinsurance Corporation ("Gen Re"), a subsidiary of Berkshire Hathaway, Inc., SCOR Re, a subsidiary of SCOR U.S. Corporation, Swiss Re and White Rock Insurance (SAC) Ltd. ("White Rock"). Great American has a financial strength rating of A+ from Standard & Poor's, Gen Re has a financial strength rating of AA from Standard & Poor's, SCOR Re has a financial strength rating of A1 from Moody's, Swiss Re has a financial strength rating of Aa3 from Moody's, and White Rock is unrated. The White Rock balances are specifically related to the Gateway workers' compensation program that was exited during 2013 and are fully secured by a

letter-of-credit.

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# Deferred Tax Asset

## Components of Deferred Tax (in '000s)

At December 31,	2015	2014
Deferred tax assets:		
Losses carried forward	\$12,656	\$14,212
Unpaid claims and unearned premiums	8,122	5,560
Tax credits	662	662
Investments	36	—
Commissions	1,306	319
All other	1,457	476
Total gross deferred tax assets	24,239	21,229

## Deferred tax liabilities:

Deferred policy acquisition costs	3,582	2,776
Investments	—	740
Fixed assets	401	396
Intangible assets	1,465	—
All other	1,625	—
Total gross deferred tax liabilities	7,073	3,912
Net deferred tax assets	\$17,166	\$17,317

Based on Atlas' expectations of future taxable income, its ability to change its investment strategy, as well as reversing gross future tax liabilities, management believes it is more likely than not that Atlas will fully realize the net future tax assets. The Company, therefore, released its remaining valuation allowance at December 31, 2014.

On July 22, 2013, as a result of shareholder activity, a "triggering event" as determined under IRC Section 382 was reached. As a result, under IRC Section 382, the use of the Company's net operating loss and other carry-forwards will be limited as a result of this "ownership change" for tax purposes, which is defined as a cumulative change of more than 50% during any three-year period by shareholders of the Company's shares.

Following this triggering event, the Company estimates that it will retain total tax effected federal net operating loss carryforwards of approximately \$12.7 million at December 31, 2015.

Atlas has the following total net operating loss carryforwards at December 31, 2015:

## Net Operating Loss Carryforward by Expiry (\$ in '000s)

Year of Occurrence	Year of Expiration	Amount
2001	2021	\$5,481
2002	2022	4,317
2006	2026	7,825
2007	2027	5,131
2008	2028	1,949
2009	2029	1,949
2010	2030	1,949
2011	2031	4,669
2012	2032	2,890
Total		\$36,160

## Assets Held for Sale

On May 22, 2012, Atlas closed the sale of the headquarters building to 150 Northwest Point, LLC, a Delaware limited liability company. Atlas recognized a gain on the sale of this property of \$213,000, which will be deferred and recognized over the 5 year lease term. Atlas recognized \$43,000 as an offset to rent expense for the years ended December 31, 2015, 2014, and 2013. Total rental expense recognized on the headquarters building was \$704,000, \$707,000 and \$699,000 for the years ended December 31, 2015, 2014, and 2013, respectively. The decrease in rental expense on the headquarters building for the year ended December 31, 2015 was due to lower utility costs.



On November 13, 2015, Atlas sold one of its two properties located in Alabama and recognized a loss of \$20,000. The remaining property is listed for sale for an amount greater than its carried value.

#### Claims Liabilities

The table below shows the amounts of total case reserves and incurred but not reported (“IBNR”) claims provision at December 31, 2015 and at December 31, 2014. The provision for unpaid claims increased by 24.0% to \$127.0 million at December 31, 2015 compared to \$102.4 million at December 31, 2014. During the year ended December 31, 2015, case reserves decreased by 19.7% compared to December 31, 2014, while IBNR reserves increased by 89.9%. The decrease in case reserves resulted from management's review of outstanding unpaid claims based on the findings of its predictive analytics software offset by the reserves acquired from Global Liberty. Predictive analytics software observes patterns in past data and uses mathematics and statistics to predict future data consistently without human subjectivity. The continuing pay down of non-core programs in runoff also decreased loss reserves on a year over year basis. The increase in IBNR related primarily to premium growth offset by the favorable development on Gateway's commercial auto program. The Global Liberty acquisition increased case reserves by 19.4% and IBNR by 41.5%. Excluding the Global Liberty acquisition, gross case reserves on Atlas' core lines decreased by 31.8% during the year ended December 31, 2015 due to updates in the estimated costs on outstanding unpaid claims.

#### Provision for Unpaid Claims by Type - Gross of Reinsurance (\$ in '000s)

At December 31,	2015	2014	YTD% Change
Case reserves	\$49,441	\$61,588	(19.7)%
IBNR	77,570	40,842	89.9%
Total	\$127,011	\$102,430	24.0%

#### Provision for Unpaid Claims by Line of Business – Gross of Reinsurance (\$ in '000s)

At December 31,	2015	2014	YTD% Change
Commercial automobile	\$116,377	\$87,123	33.6%
Other	10,634	15,307	(30.5)%
Total	\$127,011	\$102,430	24.0%

#### Provision for Unpaid Claims by Line of Business - Net of Reinsurance Recoverables (\$ in '000s)

At December 31,	2015	2014	YTD% Change
Commercial automobile	\$95,043	\$82,164	15.7%
Other	2,569	1,845	39.2%
Total	\$97,612	\$84,009	16.2%

The Other line of business is comprised of run-off and non-core lines, namely, Atlas' surety business, Gateway's truck and workers' compensation programs, Atlas' non-standard personal lines business, Global Liberty's homeowners, and other liability and assigned risk pools.

Our surety program primarily consists of U.S. Customs bonds. We engage a former affiliate, Avalon Risk Management, to help coordinate customer service and claim handling for the surety bonds written. This non-core program is 100% reinsured to an unrelated third party and is being transitioned to another carrier. No new premium was written in connection with this program in 2015, however, there was a small amount of renewals recorded in 2015.

The Gateway truck and workers' compensation programs were put into run-off during 2012. The workers' compensation program is 100% reinsured retrospectively and prospectively to an unrelated third party.

Our non-standard personal lines business was fully transitioned from the Company during 2012.

The non-renewal process for Global Liberty's homeowners program began prior to Atlas' acquisition and remains underway. This book of business is relatively small and substantially reinsured.

Other liability and assigned risk pools are established by state governments to cover high-risk insureds who cannot purchase insurance through conventional means.

Claims liabilities - The changes in the provision for unpaid claims, net of amounts recoverable from reinsurers, for the years ended December 31, 2015, 2014, and 2013 were as follows (\$ in '000s):

For the year ended December 31,	2015	2014	2013
Unpaid claims, beginning of period	\$102,430	\$101,385	\$70,067
Less: reinsurance recoverable	18,421	18,144	5,680
Net beginning unpaid claims reserves	84,009	83,241	64,387
Net reserves acquired	19,396	—	29,923
Change in retroactive reinsurance ceded	2,037	2,415	(5,919 )
Incurred related to:			
Current year	89,828	61,680	45,604
Prior years	166	(602 )	8
	89,994	61,078	45,612
Paid related to:			
Current year	32,402	19,427	12,874
Prior years	65,422	43,298	37,888
	97,824	62,725	50,762
Net unpaid claims, end of period	\$97,612	\$84,009	\$83,241
Add: reinsurance recoverable	29,399	18,421	18,144
Unpaid claims, end of period	\$127,011	\$102,430	\$101,385

The process of establishing the estimated provision for unpaid claims is complex and imprecise, as it relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made. The change to the provision for unpaid claims is consistent with the changes in written premium. However, because the establishment of reserves is an inherently uncertain process involving estimates, current provisions may not be sufficient. Adjustments to reserves, both positive and negative, are reflected quarterly in the statement of income as estimates are updated.

The financial statements are presented on a calendar year basis for all data. Claims payments and changes in reserves, however, may be made on accidents that occurred in prior years, not solely on business that is currently insured. Calendar year losses consist of payments and reserve changes that have been recorded in the financial statements during the applicable reporting period, without regard to the period in which the accident occurred. Calendar year results do not change after the end of the applicable reporting period, even as new claim information develops. Accident year losses consist of payments and reserve changes that are assigned to the period in which the accident occurred. Accident year results will change over time as the estimates of losses change due to payments and reserve changes for all accidents that occurred during that period.

The table below summarizes the changes over time in the provision for unpaid loss and loss adjustment expenses. The first section of the table shows the provision for unpaid loss and loss adjustment expenses recorded at the balance sheet date for each of the indicated years. The original provision for each year is presented on a gross basis as well as net of estimated reinsurance recoverable on unpaid loss and loss adjustment expenses. The second section displays the cumulative amount of payments made through the end of each subsequent year with respect to each original provision. The third section presents the re-estimation over subsequent years of each year's original net liability for unpaid loss and loss adjustment expenses as more information becomes known and trends become more apparent. The final section compares the latest re-estimation to the original estimate for each year presented in the table on both a gross and net basis.



The development of the provision for unpaid loss and loss adjustment expenses is shown by the difference between the original estimates and the re-estimated liabilities at each subsequent year-end. The re-estimated liabilities at each year-end are based on actual payments in full or partial settlement of claims plus re-estimates of the payments required for claims still open or IBNR claims. Favorable development (redundancy) means that the original estimated provision was higher than subsequently re-estimated. Unfavorable development (deficiency) means that the original estimated provision was lower than subsequently re-estimated. The cumulative development represents the aggregate change in the estimates over all prior years.



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Provision for Unpaid Claims, Net of Recoveries from Reinsurers as of December 31, 2015

(\$ in '000s)

2015	2014 <sup>(1)</sup>	2013	2012 <sup>(2)</sup>	2011	2010	2009	2008 <sup>(3)</sup>	2007	2006	2005
Gross reserves for unpaid claims and claims expenses										
\$127,011	\$133,161	\$101,385	\$106,276	\$91,643	\$132,578	\$179,054	\$173,652	\$183,649	\$191,171	\$202,677
Less: Reinsurance recoverable on unpaid claims and claims expenses										
29,399	29,756	18,144	11,965	7,824	6,477	5,196	103,612	107,837	111,911	95,215
Reserve for unpaid claims and claims expenses, net										
97,612	103,405	83,241	94,311	83,819	126,101	173,858	70,040	75,812	79,260	107,462
Cumulative paid on originally established reserve as of:										
One year later	\$65,422	\$43,298	\$37,888	\$37,052	\$58,562	\$76,835	\$(38,449)	\$29,811	\$29,917	\$30,637
Two years later		76,619	65,533	57,047	87,803	125,455	13,573	2,812	49,804	52,182
Three years later			84,780	69,840	103,939	149,800	43,671	38,650	33,742	66,806
Four years later				77,817	114,428	162,221	59,181	59,370	57,853	60,877
Five years later					121,085	170,892	66,934	70,075	69,428	75,935
Six years later						176,834	71,982	74,843	73,803	81,347
Seven years later							75,465	78,400	76,485	83,175
Eight years later								80,030	78,330	84,916
Nine years later									79,436	86,416
Ten years later										87,421
Unpaid claims as of:										
One year later	\$40,186	\$41,756	\$56,431	\$46,983	\$69,230	\$102,173	\$114,284	\$46,338	\$50,772	\$76,344
Two years later		19,579	27,966	25,913	35,206	56,268	65,101	75,258	31,322	56,428
Three years later			11,898	10,771	21,124	29,375	35,500	43,336	46,116	43,015
Four years later				4,839	8,966	18,229	17,139	21,859	25,534	26,714
Five years later					4,061	7,892	10,489	9,910	11,061	15,329
Six years later						3,353	5,043	6,063	5,523	6,712
Seven years later							2,444	2,919	3,046	3,948
Eight years later								1,552	1,805	2,622
Nine years later									861	1,704
Ten years later										800
Re-estimated net liability as of:										
One year later	\$105,608	\$85,054	\$94,319	\$84,035	\$127,792	\$179,008	\$75,835	\$76,149	\$80,689	\$106,981
Two years later		96,198	93,499	82,960	123,009	181,723	78,674	78,070	81,126	108,610
Three years later			96,678	80,611	125,063	179,175	79,171	81,986	79,858	109,821
Four years later				82,656	123,394	180,450	76,320	81,229	83,387	87,591
Five years later					125,146	178,784	77,423	79,985	80,489	91,264
Six years later						180,187	77,025	80,906	79,326	88,059
Seven years later							77,909	81,319	79,531	87,123
Eight years later								81,582	80,135	87,538
Nine years later									80,297	88,120
Ten years later										88,221
Change in retroactive reinsurance ceded:										
	\$2,037	\$2,415	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—

As of December 31, 2015:

Cumulative (redundancy) deficiency - net

\$166	\$10,542	\$2,367	\$(1,163)	\$(955)	\$6,329	\$7,869	\$5,770	\$1,037	\$(19,241)
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Cumulative (redundancy) deficiency as a % of reserves originally established- net

0.2	% 12.7	% 2.5	%(1.4)	%(0.8)	% 3.6	% 11.2	% 7.6	% 1.3	%(17.9)
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Re-estimated liability- gross

\$138,875	\$116,646	\$114,213	\$96,350	\$136,116	\$188,057	\$194,538	\$198,559	\$201,765	\$214,280
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Less: Re-established reinsurance recoverable

33,267	20,448	17,535	13,694	10,970	7,870	116,629	116,977	121,468	126,059
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Re-estimated provision- net

105,608	96,198	96,678	82,656	125,146	180,187	77,909	81,582	80,297	88,221
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Cumulative (redundancy) deficiency- gross

5,714	15,261	7,937	4,707	3,538	9,003	20,886	14,910	10,594	11,603
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(1) Includes Global Liberty reserves acquired as of March 11, 2015

(2) Includes Gateway reserves acquired as of January 1, 2013

(3) Negative payment as of one year later results from the commutation of reinsured reserves by Kingsway Re.

**Contractual Obligations**

The table below summarizes future payments under contractual obligations and estimated claims settlements for the year ended December 31, 2015:

(in '000s)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Notes payable	\$17,500	\$—	\$—	\$17,500	\$—
Operating lease	6,832	1,731	2,159	1,884	1,058
Estimated claims liability, net of reinsurance	97,612	35,751	42,439	17,445	1,977
Total	\$121,944	\$37,482	\$44,598	\$36,829	\$3,035

Notes Payable does not include the interest payments and non-utilization fees related to the balance outstanding at December 31, 2015. The interest on the notes payable is variable and cannot be reasonably estimated. See the "Liquidity and Capital Resources" section below for further details regarding notes payable and the non-utilization fees. The note payable is due after five years with interest only payments until the principal is due.

Estimated claims liability are calculated based on actuarial assumptions and will differ from actual future claim settlements. The amounts in the table above have been presented net of reinsurance.

The Company has entered into subscription agreements to commit up to \$6.8 million of capital to allow for participation by the Company in limited liability investments that invest in income-producing real estate, small business loans and equity securities.

At December 31, 2015, we had contractual obligations to provide additional funds for investments in limited liability investments included in other investments for up to \$2.5 million not included in the table above. There is no certainty of when these amounts will be required to be provided.

**Off-Balance Sheet Arrangements**

At December 31, 2015, we did not have any material off-balance sheet arrangements as defined by SEC rules.

## Shareholders' Equity

The table below identifies changes in shareholders' equity for the years ended years ended December 31, 2015, 2014, and 2013:

## Changes in Shareholders' Equity

(in '000s)	Preferred Shares	Ordinary Voting Common Shares	Restricted Voting Common Shares	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balance December 31, 2012	\$18,000	\$4	\$14	\$152,768	\$(112,675)	\$1,753	\$ 59,864
Net income	—	—	—	—	6,180	—	6,180
U.S. initial public offering, net of offering costs	—	16	(10)	9,750	—	—	9,756
Issuance of preferred shares	2,000	—	—	—	—	—	2,000
Warrants exercised	—	5	—	7,176	—	—	7,181
Other comprehensive loss	—	—	—	—	—	(3,181)	(3,181)
Repurchase of preferred shares	(18,000)	—	—	1,800	—	—	(16,200)
Share-based compensation	—	—	—	247	—	—	247
Preferred dividends declared and paid	—	—	—	(2,145)	—	—	(2,145)
Other	—	3	(4)	(1)	(1)	(1)	(4)
Balance December 31, 2013	\$2,000	\$28	\$—	\$169,595	\$(106,496)	\$(1,429)	\$ 63,698
Net income	—	—	—	—	17,702	—	17,702
Proceeds from U.S. public offering, net of offering costs	—	6	—	25,015	—	—	25,021
Other comprehensive income	—	—	—	—	—	1,509	1,509
Share-based compensation	—	—	—	1,469	—	—	1,469
Balance December 31, 2014	\$2,000	\$34	\$—	\$196,079	\$(88,794)	\$80	\$ 109,399
Net income	—	—	—	—	14,430	—	14,430
Issuance of preferred shares	4,941	—	—	—	—	—	4,941
Other comprehensive loss	—	—	—	—	—	(1,112)	(1,112)
Options exercised	—	—	—	145	—	—	145
Share-based compensation	—	2	—	1,817	—	—	1,819
Balance December 31, 2015	\$6,941	\$36	\$—	\$198,041	\$(74,364)	\$(1,032)	\$ 129,622

As of March 4, 2016, there were 11,890,432 ordinary voting common shares outstanding, 132,863 restricted voting common shares outstanding, and 6,940,500 preferred shares issued and outstanding.

The holders of restricted voting common shares are entitled to vote at all meetings of shareholders, except at meetings of holders of a specific class that are entitled to vote separately as a class. The restricted voting common shares as a class shall not carry more than 30% of the aggregate votes eligible to be voted at a general meeting of common shareholders.

All of the issued and outstanding restricted voting common shares are beneficially owned or controlled by Kingsway, or its affiliated entities. The restricted voting common shares will convert to ordinary voting common shares in the event that these Kingsway owned shares are sold to non-affiliates of Kingsway.

On February 11, 2013, an aggregate of 4,125,000 Atlas ordinary voting shares were offered in Atlas' initial public offering in the United States. 1,500,000 ordinary shares were offered by Atlas, and 2,625,000 ordinary shares were sold by KAI, a wholly-owned subsidiary of Kingsway Financial Services Inc., or other Kingsway subsidiaries (collectively, "Kingsway") at a price of \$5.85 per share, less underwriting discounts and expenses. Atlas also granted the underwriters an option to purchase up to an aggregate of 618,750 additional shares at the public offering price of \$5.85 per share to cover over-allotments, if any. On March 11, 2013, the underwriters exercised this option and purchased an additional 451,500 shares. After underwriting and other expenses, Atlas realized combined proceeds of \$9.8 million.

On August 1, 2013, Atlas repurchased 18,000,000 preferred shares owned by Kingsway pursuant to the Share Repurchase Agreement. Atlas recorded a \$1.8 million benefit related to the discount on the repurchase of these shares from Kingsway.

The remaining preferred shares are beneficially owned or controlled by the former owners of Gateway and Anchor. Preferred shareholders are entitled to dividends on a cumulative basis, whether or not declared by the Board of Directors, at the rate of

\$0.045 per share per year (4.5%) and may be paid in cash or in additional preferred shares at the option of Atlas. In liquidation, dissolution or winding-up of Atlas, preferred shareholders receive the greater of \$1.00 per share plus all declared and unpaid dividends or the amount they would receive in liquidation if the preferred shares had been converted to restricted voting common shares or ordinary voting common shares immediately prior to liquidation. The preferred shares are redeemable at the option of Atlas at a price of \$1.00 per share plus accrued and unpaid dividends, subject to certain conditions, prior to the conversion date. Preferred shareholders are not entitled to vote. Preferred shares are convertible into ordinary voting common shares at the option of the former owners of Gateway and Anchor at any date after the fifth year of issuance at the rate of 0.1270 and 0.0500, respectively, ordinary voting common shares for each preferred share. The conversion rate is subject to change if the number of ordinary voting common shares or restricted voting common shares changes by way of an anti-dilution event.

During the years ended December 31, 2015 and 2014, Atlas did not declare or pay dividends earned through the preferred shares. During the year ended December 31, 2013, Atlas declared and paid \$2.1 million in dividends earned through the preferred shares to Kingsway, the cumulative amount to which they were entitled through the end of July 2013. The cumulative amount of dividends to which the preferred shareholders are entitled upon liquidation or sooner, if Atlas declares dividends, is \$460,000 as of the year ended December 31, 2015, or \$0.04 per common share.

On October 18, 2013 and on November 13, 2013, Kingsway notified the Company that it had sold 529,608 and 600,000 of its restricted voting common shares, respectively, bringing its restricted voting common share count to 132,863 or 1.4% of the outstanding common shares as of December 31, 2013.

During the year ended December 31, 2013, 1,327,840 warrants and 1,000 options were exercised, which resulted in the issuance of 1,328,840 common shares.

On May 27, 2014, Atlas announced the closing and settlement of its underwritten public offering of 2,000,000 ordinary voting common shares of the Company at a price to the public of \$12.50 per share for gross proceeds of \$25.0 million. Underwriters exercised their right to purchase an additional 161,000 ordinary voting common shares, increasing gross proceeds to \$27.0 million. The net proceeds from the sale of the shares, after deducting the underwriters' discounts and other estimated offering expenses payable by the Company, were approximately \$25.0 million.

#### Book Value per Ordinary Share

Book value per ordinary share was as follows:

(\$ in '000s, except for shares and per share data)	December 31, 2015	December 31, 2014
Shareholders' equity	\$129,622	\$109,399
Less: Preferred stock in equity	6,941	2,000
Less: Accumulated dividends on preferred stock	460	184
Common equity	\$122,221	\$107,215
Participative shares:		
Common shares outstanding	12,015,888	11,771,586
Restricted stock units (RSUs)	29,631	37,038
Total participative shares	12,045,519	11,808,624
Book value per participative share outstanding	\$10.15	\$9.08

#### Liquidity and Capital Resources

**Liquidity Management** - The purpose of liquidity management is to ensure there is sufficient cash to meet all financial commitments and obligations as they become due. The liquidity requirements of Atlas' business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities.

Cash provided from these sources is used primarily for payment of claims and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

As a holding company, Atlas may derive cash from its subsidiaries generally in the form of dividends and in the future may charge management fees to the extent allowed by statute or other regulatory approval requirements to meet its obligations. The insurance subsidiaries fund their obligations primarily through premium and investment income and maturities in their securities portfolio. Refer also to the discussion "Investments Overview and Strategy." The insurance subsidiaries require regulatory approval for the return of capital and, in certain circumstances, payment of dividends.

In the event that dividends and management fees available to the holding company are inadequate to service its

obligations, the holding company would need to raise capital, sell assets or incur debt obligations.

On May 7, 2014, American Insurance Acquisition, Inc. ("American Acquisition"), a subsidiary of Atlas, entered into a loan and security agreement ("Former Loan Agreement") for a \$10.0 million revolving loan facility with Fifth Third Bank. Under the Former Loan Agreement, funds could be borrowed and re-borrowed on a revolving basis by American Acquisition, from the closing date until (but not including) May 7, 2015, the loan maturity date. The interest rate on the advances under the revolving loan facility was generally LIBOR plus 2.75%, provided that, during a default, interest would accrue at a rate equal to LIBOR plus 5%. In addition, there was a non-utilization fee equal to 0.25% per annum of an amount equal to \$10.0 million less the daily average of the aggregate principal amount of the revolving loans outstanding plus the aggregate amount of the letter of credit obligations outstanding.

On March 9, 2015, American Acquisition entered into a loan and security agreement ("Loan Agreement") for a \$35.0 million loan facility with Fifth Third Bank. The Loan Agreement includes a \$30.0 million line of credit ("Draw Amount"), which can be drawn in increments at any time during the first twelve months of the agreement effective date of March 9, 2015. The \$30.0 million line of credit has a five year term and bears interest at one-month LIBOR plus 4.5%. The Loan Agreement also includes a \$5.0 million revolving line of credit ("Revolver") that bears interest at one month LIBOR plus 2.75%. This \$5.0 million revolving line of credit replaces the \$10.0 million revolving line of credit American Acquisition previously had in place with Fifth Third Bank under the Former Loan Agreement.

The Loan Agreement also provides for the issuance of letters of credit in an amount up to \$2.0 million outstanding at any time. In addition, there is a non-utilization fee for each of the \$30.0 million line of credit and \$5.0 million revolving line of credit equal to 0.50% per annum of an amount equal to \$30.0 million and \$5.0 million, respectively, less the daily average of the aggregate principal amount outstanding under such credit lines (plus, in the case of the \$30.0 million line of credit, the aggregate amount of the letter of credit obligations outstanding).

The Loan Agreement requires American Acquisition to comply with customary affirmative and negative covenants, including those governing indebtedness, liens, investments, sales of assets, issuance of securities, and distributions.

The Loan Agreement also requires American Acquisition to make mandatory prepayments under certain conditions and to comply with certain financial covenants, including the ASI Pool Subsidiaries (defined below) maintaining a combined statutory net worth in an amount not less than \$60 million (subject to adjustment) and maintaining a minimum funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization ratio. The Loan Agreement is secured by substantially all of the property of American Acquisition, including all of the outstanding shares of American Country, American Service and Gateway, which are wholly-owned direct subsidiaries of American Acquisition (the "ASI Pool Subsidiaries"). As of December 31, 2015, American Acquisition was in compliance with the covenants of the Loan Agreement.

As of December 31, 2015, \$2.0 million in funds were accessed from the Revolver and used for the Anchor acquisition. \$15.5 million in funds were accessed against the Draw Amount as of December 31, 2015. The draw was contributed to the ASI Pool Subsidiaries in exchange for surplus notes that carry a variable interest rate of prime plus 2% with a maturity date of April 30, 2020. No letters of credit were issued under the terms of this Loan Agreement as of December 31, 2015. As of December 31, 2015, the unused funds for the Revolver and the Draw Amount were \$3.0 million and \$14.5 million, respectively.

The following table summarizes consolidated cash flow activities:

Summary of Cash Flows (in '000s)

For the years ended December 31,	2015	2014	2013
Net cash flows provided by (used in) operating activities	\$8,477	\$13,716	\$(5,920 )
Net cash flows provided by (used in) financing activities	17,645	25,022	(1,405 )
Net cash flows used in investing activities	(40,354 )	(11,963 )	(2,776 )
Net (decrease) increase in cash	\$(14,232 )	\$26,775	\$(10,101 )

Cash provided by operations during the years ended December 31, 2015 and 2014 was primarily as a result of net income. Cash used by operating activities during the year ended December 31, 2013 was due to an increase in premiums receivable that was billed on an installment basis and the timing of the reinsurance recoverable collections. Cash provided by financing activities during the year ended December 31, 2015 resulted from proceeds from the Revolver and Draw Amount and the exercise of options. Cash provided by financing activities during the year ended December 31, 2014 was the result of the capital raise in the second quarter of 2014. Cash used by financing activities during the year ended December 31, 2013 was for the redemption of preferred shares offset by proceeds from our



initial U.S. public offering and the exercise of warrants. Cash used by investing activities during the years ended December 31, 2015, 2014, and 2013 was due to the net purchase of invested assets and purchases of subsidiaries. For the year ended December 31, 2015, investing activities included \$11.0 million in cash used in the Anchor acquisition net of the cash received. For the year ended December 31, 2013, investing activities included \$11.1 million in cash provided by the Gateway acquisition. Net cash received in this acquisition was greater than the cash paid in the acquisition.

Capital resources - The Company manages capital using both regulatory capital measures and internal metrics. The Company's capital is primarily derived from common shareholders' equity, retained deficit and accumulated other comprehensive income (loss).

As a holding company, Atlas could derive cash from its insurance subsidiaries generally in the form of dividends to meet its obligations, which will primarily consist of operating expense payments and debt payments. Atlas' insurance subsidiaries fund their obligations primarily through premium and investment income and maturities in the securities portfolio. The insurance subsidiaries require regulatory approval for the return of capital and, in certain circumstances, prior to the payment of dividends. In the event that dividends available to the holding company are inadequate to cover its operating expenses and debt payments, the holding company would need to raise capital, sell assets or incur future debt.

The insurance subsidiaries must each maintain a minimum statutory capital and surplus of \$1.5 million, \$2.4 million, and \$3.5 million under the provisions of the Illinois Insurance Code, the Missouri Insurance Code, and New York Insurance Code, respectively. Dividends may only be paid from statutory unassigned surplus, and payments may not be made if such surplus is less than a stipulated amount. The dividend restriction is the greater of statutory net income or 10% of total statutory capital and surplus.

Net income computed under statutory-basis accounting was \$3.4 million, \$6.1 million, \$2.0 million and \$1.2 million for American Country, American Service, Gateway and Global Liberty, respectively, for the year ended December 31, 2015. Net income for the year ended December 31, 2014 was \$2.0 million, \$4.0 million and \$1.7 million for American Country, American Service and Gateway, respectively. The combined statutory capital and surplus of the insurance subsidiaries was \$118.5 million and \$63.0 million as of December 31, 2015 and December 31, 2014, respectively. Atlas did not declare or pay any dividends to its common shareholders during the years ended December 31, 2015 and 2014.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

### Market Risk

Market risk is the risk that Atlas will incur losses due to adverse changes in interest rates, currency exchange rates or equity prices. Having increased our mortgage and asset backed securities holdings, our primary market risk exposures in the fixed income securities portfolio are to changes in interest rates, inflation and the uncertainty of prepayment assumptions. Because Atlas' securities portfolio is comprised of primarily fixed income securities, periodic changes in interest rate levels generally impact its financial results to the extent that the securities in its available-for-sale portfolio are recorded at market value. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease, and realized gains on fixed income securities will likely be reduced. The reverse is true during periods of declining interest rates. Changes in inflation can influence the interest rates, which can impact the fair value of our available-for-sale fixed income portfolio and yields on new investments.

Although mortgages can have a contractual term of a certain number of years, quite often mortgages are paid off much sooner. Because of these unscheduled prepayments, predicting the maturity of mortgage backed securities can be problematic. In addition, mortgage backed securities are marketable and can trade at premiums, discounts or par value, depending upon changes in current market rates. A current-coupon pass through trades at par value, while high-coupon pass throughs trade at premiums and low-coupon securities trade at discounts. Prepayment speed can affect premium and discount pass-throughs adversely. Prepayments at par value result in cash flows that can only be reinvested at the lower, current rate. Consequently, faster-than-anticipated prepayments deny the investor the high cash flows that justified the premium price in the first place. On the other hand, slower prepayments offer the investor more time to earn the higher coupon rate. For mortgage backed securities trading at a discount pass-through, faster-than-expected prepayments can allow the investor to reinvest in securities with higher coupon rates. The reverse happens when prepayments are slower than expected. The investor can be forced to hold on to the lower coupons for a longer period of time, thereby reducing realized yield.

With a weighted contractual duration of 4.1 years, changes in interest rates will have a modest market value impact on the Atlas fixed income portfolio relative to longer duration portfolios. Atlas can, and typically does, hold bonds to maturity by matching duration with the anticipated liquidity needs.

Atlas' available-for-sale equity securities are primarily subject to equity price risk. Equity price risk is the risk of loss in the fair value of equity securities due to the adverse changes in equity prices. The available-for-sale equity securities portfolio is approximately 2% of Atlas' total investment portfolio, and any adverse impact from equity price risk would not be material to Atlas' investment portfolio.

### Interest Rate Risk

Sensitivity analysis expresses the potential loss in future earnings, fair values, or cash flows of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates, foreign currency exchange rates, commodity prices, and other relevant market rates or prices over a select period of time. The actual results may differ from the hypothetical results below, since the analysis does not include any action that would be taken by the company to reduce the negative impact of changes in the interest rate.

Atlas' available-for-sale fixed income securities held at December 31, 2015 were \$183.8 million. A 100 basis point increase in interest rates on such held fixed income securities would have increased net investment income and income before taxes by approximately \$163,000. Conversely, a 100 basis point decrease in interest rates on such held fixed income securities would decrease net investment income and income before taxes by \$181,000. Atlas uses a 1 year time period with a 100 basis point increase and decrease to determine the impact on the fixed income security portfolio.

A 100 basis point increase would have also decreased other comprehensive income by approximately \$6.4 million due to "mark-to-market" requirements; however, holding investments to maturity would mitigate this impact. Conversely, a 100 basis point decrease would increase other comprehensive income by the same amount. The impacts described here are approximately linear to the change in interest rates. Atlas uses the duration of the portfolio to determine the impact on other comprehensive income from 100 basis point changes in the interest rate.

Atlas' notes payable have variable interest components subject to interest rate risk. As of December 31, 2015, Atlas has a \$15.5 million line of credit outstanding with interest at one-month LIBOR plus 4.5% and a \$2 million revolving line of credit outstanding that bears interest at one-month LIBOR plus 2.75%. Total notes payable subject to interest

rate risk at December 31, 2015 was \$17.5 million. For the sensitivity analysis, an instantaneous 100 basis point increase and decrease are assumed on the outstanding balance at December 31, 2015. An instantaneous 100 basis point increase in the one-month LIBOR rate would increase interest payments on notes payable by \$175,000. Conversely, an instantaneous 100 basis point decrease would decrease interest payments on notes payable by \$175,000.

#### Credit Risk

Atlas is exposed to credit risk principally through its fixed income securities and balances receivable from policyholders and reinsurers. Atlas controls and monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups (with the exception of U.S. Government bonds) as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. Atlas' credit exposure to any one individual policyholder is not material. Atlas has policies requiring evaluation of the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

#### Equity price risk

This is the risk of loss due to adverse movements in equity prices. Atlas' investment in equity securities comprises a small percentage of its total portfolio, and as a result, the exposure to this type of risk is minimal.

#### Foreign currency risk

Atlas is not currently exposed to material changes in the U.S. dollar currency exchange rates with any other foreign currency.

#### Liquidity and Cash Flow Risk

Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations without raising funds at unfavorable rates or selling assets on a forced basis. Liquidity risk arises from general business activities and in the course of managing the assets and liabilities of Atlas. There is the risk of loss to the extent that the sale of a security prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows. Cash flow risk arises from risk that future inflation of policyholder cash flow exceeds returns on long-term investment securities. The purpose of liquidity and cash flow management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity and cash flow requirements of Atlas' business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

#### Underwriting Risk

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, catastrophic loss risk, reinsurance coverage risk and the risk that loss and loss adjustment expense reserves are not sufficient.

Item 8. Financial Statements and Supplemental Schedules  
Report of Independent Registered Public Accounting Firm  
on Internal Controls over Financial Reporting

Board of Directors and Shareholders  
Atlas Financial Holdings, Inc.

We have audited Atlas Financial Holdings, Inc.'s internal control over financial reporting as of December 31, 2015 based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Atlas Financial Holdings, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Atlas Financial Holdings, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Atlas Financial Holdings, Inc. as of December 31, 2015 and December 31, 2014, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years ended December 31, 2015 and December 31, 2014, and our report dated March 7, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP  
Grand Rapids, Michigan

March 7, 2016

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
Atlas Financial Holdings, Inc.

We have audited the accompanying consolidated statements of financial position of Atlas Financial Holdings, Inc. as of December 31, 2015 and 2014 and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years ended December 31, 2015 and 2014. In connection with our audits of the consolidated financial statements, we have also audited the financial statements schedules listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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 presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlas Financial Holdings, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years ended December 31, 2015 and 2014, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Atlas Financial Holdings, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 7, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP  
Grand Rapids, Michigan  
March 7, 2016



Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Atlas Financial Holdings, Inc.

We have audited the accompanying consolidated statements of income and comprehensive income, shareholders' equity and cash flows of Atlas Financial Holdings, Inc. ("the Company") for the year ended December 31, 2013. Our audit also included the financial statement schedules for the year ended December 31, 2013 listed in Item 15 of the Company's Form 10-K. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. As of December 31, 2013, the Company was not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included 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. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of Atlas Financial Holdings, Inc.'s consolidated operations and its cash flows for the year ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Johnson Lambert LLP  
Arlington Heights, Illinois  
March 10, 2014

ATLAS FINANCIAL HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(in '000s of US dollars, except for share and per share data)

	December 31, 2015	December 31, 2014
Assets		
Investments, available for sale		
Fixed income securities, at fair value (amortized cost \$185,455 and \$126,701)	\$183,773	\$126,949
Equity securities, at fair value (cost \$4,147 and \$2,220)	4,240	2,093
Other investments	22,937	14,366
Total Investments	210,950	143,408
Cash and cash equivalents	22,354	36,586
Accrued investment income	1,036	660
Premiums receivable (net of allowance of \$846 and \$560)	82,529	47,385
Reinsurance recoverables on amounts paid	3,277	2,230
Reinsurance recoverables on amounts unpaid	29,399	18,421
Prepaid reinsurance premiums	17,412	3,628
Deferred policy acquisition costs	10,235	8,166
Deferred tax asset, net	17,166	17,317
Goodwill	2,726	—
Intangible assets	4,925	740
Software and office equipment, net	2,589	2,819
Other assets	6,941	2,385
Assets held for sale	34	166
Total Assets	\$411,573	\$283,911
Liabilities		
Claims liabilities	\$127,011	\$102,430
Unearned premiums	108,202	58,950
Due to reinsurers and other insurers	10,781	2,456
Note payable	17,500	—
Other liabilities and accrued expenses	18,457	10,676
Total Liabilities	\$281,951	\$174,512
Commitments and contingencies (see Note 18)		
Shareholders' Equity		
Preferred shares, \$0.001 par value, 100,000,000 shares authorized, shares issued and outstanding: 2015 - 6,940,500 and 2014 - 2,000,000. Liquidation value \$1.00 per share	\$6,941	\$2,000
Ordinary voting common shares, \$0.003 par value, 266,666,667 shares authorized, shares issued and outstanding: 2015 - 11,883,025 and 2014 - 11,638,723	36	34
Restricted voting common shares, \$0.003 par value, 33,333,334 shares authorized, shares issued and outstanding: 2015 and 2014 - 132,863	—	—
Additional paid-in capital	198,041	196,079
Retained deficit	(74,364)	(88,794)
Accumulated other comprehensive (loss) income, net of tax	(1,032)	80
Total Shareholders' Equity	\$129,622	\$109,399
Total Liabilities and Shareholders' Equity	\$411,573	\$283,911
See accompanying Notes to Consolidated Financial Statements.		



## ATLAS FINANCIAL HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in '000s of US dollars, except for share and per share data)

Consolidated Statements of Income	Year Ended December 31,		
	2015	2014	2013
Net premiums earned	\$152,064	\$98,124	\$71,344
Net investment income	3,976	3,110	2,141
Net realized investment gains	455	382	529
Other income	356	2	13
Total revenue	156,851	101,618	74,027
Net claims incurred	89,994	61,078	45,612
Acquisition costs	18,592	14,048	10,373
Other underwriting expenses	23,325	13,863	11,255
Amortization of intangible assets	315	—	—
Interest expense	638	—	129
Expenses incurred pursuant to Gateway stock purchase agreement	942	—	—
Expenses incurred related to acquisition of subsidiaries	999	694	406
Total expenses	134,805	89,683	67,775
Income from operations before income tax expense	22,046	11,935	6,252
Income tax expense (benefit)	7,616	(5,767)	) 72
Net income	14,430	17,702	6,180
Add: Discount realized on preferred share buyback	—	—	1,800
Less: Preferred share dividends	276	94	619
Net income attributable to common shareholders	\$14,154	\$17,608	\$7,361
Basic weighted average common shares outstanding	11,975,579	10,937,181	8,007,458
Earnings per common share, basic	\$1.18	\$1.61	\$0.92
Diluted weighted average common shares outstanding	12,735,679	11,341,588	10,840,868
Earnings per common share, diluted	\$1.13	\$1.56	\$0.74
Consolidated Statements of Comprehensive Income			
Net income	\$14,430	\$17,702	\$6,180
Other comprehensive (loss) income:			
Changes in net unrealized investment (losses) gains	(1,912)	) 2,029	(4,354)
Reclassification to income of net realized investment gains (losses)	203	257	(469)
Effect of income tax	597	(777)	) 1,642
Other comprehensive (loss) income	(1,112)	) 1,509	(3,181)
Total comprehensive income	\$13,318	\$19,211	\$2,999

See accompanying Notes to Consolidated Financial Statements.

## ATLAS FINANCIAL HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in '000s of US dollars, except for share and per share data)

	Preferred Shares	Ordinary Voting Common Shares	Restricted Voting Common Shares	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balance December 31, 2012	\$ 18,000	\$ 4	\$ 14	\$ 152,768	\$(112,675 )	\$ 1,753	\$ 59,864
Net income	—	—	—	—	6,180	—	6,180
U.S. initial public offering, net of offering costs	—	16	(10	) 9,750	—	—	9,756
Issuance of preferred shares	2,000	—	—	—	—	—	2,000
Warrants exercised	—	5	—	7,176	—	—	7,181
Other comprehensive loss	—	—	—	—	—	(3,181	) (3,181 )
Repurchase of preferred shares	(18,000	) —	—	1,800	—	—	(16,200 )
Share-based compensation	—	—	—	247	—	—	247
Preferred dividends declared and paid	—	—	—	(2,145	) —	—	(2,145 )
Other	—	3	(4	) (1	) (1	) (1	) (4 )
Balance December 31, 2013	\$ 2,000	\$ 28	\$ —	\$ 169,595	\$(106,496 )	\$ (1,429	) \$ 63,698
Net income	—	—	—	—	17,702	—	17,702
Proceeds from U.S. public offering, net of offering costs	—	6	—	25,015	—	—	25,021
Other comprehensive income	—	—	—	—	—	1,509	1,509
Share-based compensation	—	—	—	1,469	—	—	1,469
Balance December 31, 2014	\$ 2,000	\$ 34	\$ —	\$ 196,079	\$(88,794 )	\$ 80	\$ 109,399
Net income	—	—	—	—	14,430	—	14,430
Issuance of preferred shares	4,941	—	—	—	—	—	4,941
Other comprehensive loss	—	—	—	—	—	(1,112	) (1,112 )
Options exercised	—	—	—	145	—	—	145
Share-based compensation	—	2	—	1,817	—	—	1,819
Balance December 31, 2015	\$ 6,941	\$ 36	\$ —	\$ 198,041	\$(74,364 )	\$ (1,032	) \$ 129,622

See accompanying Notes to Consolidated Financial Statements.

## ATLAS FINANCIAL HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in '000s of US dollars, except for share and per share data)

	Year Ended December 31,		
	2015	2014	2013
Operating activities:			
Net income	\$14,430	\$17,702	\$6,180
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization of fixed assets	966	856	795
Share-based compensation expense	1,819	1,469	247
Amortization of deferred gain on sale of headquarters building	(43)	(43)	(43)
Amortization of intangible assets	315	—	—
Deferred income taxes	(174)	(8,776)	(1,072)
Net realized gains	(455)	(382)	(433)
(Gain) loss in equity of investees	(1,238)	(632)	28
Amortization of bond premiums and discounts	1,525	756	1,092
Expenses incurred pursuant to Gateway stock purchase agreement	941	—	—
Net changes in operating assets and liabilities (net of acquisition):			
Premiums receivable and other assets, net	(26,469)	(11,826)	(7,490)
Due from reinsurers and other insurers	(7,931)	(2,925)	(6,872)
Deferred policy acquisition costs	(240)	(1,492)	(1,676)
Accrued investment income	(13)	34	(14)
Claims liabilities	(6,150)	1,045	(4,891)
Unearned premiums	26,276	14,718	9,174
Due to reinsurers and other insurers	3,542	(157)	(1,476)
Accounts payable and accrued liabilities	1,376	3,369	531
Net cash flows provided by (used in) operating activities	8,477	13,716	(5,920)
Investing activities:			
Purchase of subsidiary (net of cash acquired)	(10,956)	—	11,081
Purchases of:			
Fixed income securities	(78,921)	(31,671)	(69,328)
Equity securities	(3,340)	(1,969)	—
Other investments	(7,332)	(12,500)	—
Property, equipment and other	(713)	(1,167)	(1,245)
Proceeds from sale and maturity of:			
Fixed income securities	59,395	35,332	55,328
Equity securities	1,402	12	1,388
Assets held for sale	111	—	—
Net cash flows used in investing activities	(40,354)	(11,963)	(2,776)
Financing activities:			
Preferred share buyback	—	—	(16,200)
Proceeds from U.S. public offering, net of offering costs	—	25,021	9,756
Warrants exercised	—	—	7,181
Proceeds from notes payable	18,000	—	—
Repayment of note	(500)	—	—
Dividends paid	—	—	(2,145)
Options exercised	145	1	3

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Net cash flows provided by (used in) financing activities	17,645	25,022	(1,405 )
Net change in cash and cash equivalents	(14,232 )	26,775	(10,101 )
Cash and cash equivalents, beginning of period	36,586	9,811	19,912
Cash and cash equivalents, end of period	\$22,354	\$36,586	\$9,811

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Supplemental disclosure of cash information (in '000s):	Year Ended December 31,		
	2015	2014	2013
Cash paid for:			
Income taxes	\$8,636	\$3,308	\$1,430
Interest	567	—	129

Supplemental disclosure of noncash investing and financing activities (in '000s):

Issuance of preferred shares related to purchase of subsidiary	\$4,000	\$—	\$2,000
Issuance of preferred shares related to Gateway stock purchase agreement	941	—	—
See accompanying Notes to Consolidated Financial Statements.			



ATLAS FINANCIAL HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Atlas Financial Holdings, Inc. ("Atlas" or "We" or the "Company") commenced operations on December 31, 2010. The primary business of Atlas is underwriting commercial automobile insurance in the United States, with a niche market orientation and focus on insurance for the "light" commercial automobile sector. This sector includes taxi cabs, non-emergency para-transit, limousine, livery and business autos. Automobile insurance products provide insurance coverage in three major areas: liability, accident benefits and physical damage. Liability insurance provides coverage subject to policy terms and conditions where the insured is determined to be responsible and/or liable for an automobile accident, for the payment for injuries and property damage to third parties. Accident benefit policies or personal injury protection policies provide coverage for loss of income, medical and rehabilitation expenses for insured persons who are injured in an automobile accident, regardless of fault. Physical damage coverage subject to policy terms and conditions provides for the payment of damages to an insured automobile arising from a collision with another object or from other risks such as fire or theft. In the short run, automobile physical damage and liability coverage generally provides more predictable results than automobile accident benefit or personal injury insurance. Atlas' business is carried out through its insurance subsidiaries: American Country Insurance Company ("American Country"), American Service Insurance Company, Inc. ("American Service"), Gateway Insurance Company ("Gateway"), and as of March 11, 2015, Global Liberty Insurance Company of New York ("Global Liberty"), Anchor Group Management, Inc. ("Anchor Management"), Plainview Premium Finance Company, Inc. ("Plainview Delaware") and Plainview Delaware's wholly-owned subsidiary, Plainview Premium Finance Company of California, Inc. ("Plainview California" and together with Plainview Delaware, "Plainview").

The insurance subsidiaries distribute their insurance products through a network of retail independent agents. Together, the insurance subsidiaries are licensed to write property and casualty insurance in 49 states and the District of Columbia in the United States. Atlas' core products are actively distributed in 41 of those states plus Washington, D.C. The insurance subsidiaries share common management and operating infrastructure.

Atlas' ordinary voting common shares were previously listed on the TSX Venture Exchange ("TSXV") under the symbol "AFH" from January 6, 2011 to June 4, 2013, when Atlas' application for the voluntary delisting of its ordinary voting common shares from the TSXV was approved.

Atlas' ordinary voting common shares became listed on the NASDAQ stock exchange on February 11, 2013, under the same symbol, "AFH."

On December 7, 2012, a shareholder meeting was held where a one-for-three reverse stock split was unanimously approved. When the reverse stock split took effect on January 29, 2013, it decreased the authorized and outstanding ordinary voting common shares and restricted voting common shares at a ratio of one-for-three. The primary objective of the reverse stock split was to increase the per share price of Atlas' common shares to meet certain listing requirements of the NASDAQ Capital Market. Unless otherwise noted, all historical share and per share values in this Annual Report on Form 10-K reflect the one-for-three reverse stock split.

**Basis of presentation** - These statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant intercompany accounts and transactions have been eliminated.

**Seasonality** - The property and casualty ("P&C") insurance business is seasonal in nature. While Atlas' net premiums earned are generally stable from quarter to quarter, Atlas' gross premiums written follow the common renewal dates for the "light" commercial risks that represent its core lines of business. For example, January 1 and March 1 are common taxi cab renewal dates in Illinois and New York, respectively. Additionally, we implemented our New York "excess taxi program" in the third quarter of 2012, which has an annual renewal date in the third quarter. Net underwriting income is driven mainly by the timing and nature of claims, which can vary widely.

**Summary of Significant Accounting Policies**

**Principles of consolidation** - The consolidated financial statements include the accounts of Atlas and the entities it controls. Subsidiaries are entities over which Atlas, directly or indirectly, has the power to govern the financial and operating policies in order to obtain the benefits from their activities, generally accompanying an equity shareholding

of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to Atlas and would be de-consolidated from the date that control ceases. The operating results of subsidiaries acquired or disposed of during the year will be included in the consolidated statements of income and comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances are eliminated in consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Atlas.

The following are Atlas' subsidiaries, all of which are 100% owned, either directly or indirectly, together with the jurisdiction of incorporation that are included in consolidated financial statements:

American Insurance Acquisition Inc. (Delaware)

American Country Insurance Company (Illinois)

American Service Insurance Company, Inc. (Illinois)

Camelot Services, Inc. (Missouri) - merged into American Insurance Acquisition Inc. during the fourth quarter of 2014

Gateway Insurance Company (Missouri)

Anchor Holdings Group, Inc. (New York)

Global Liberty Insurance Company of New York (New York)

Plainview Premium Finance Company, Inc. (Delaware)

Plainview Premium Finance Company of California, Inc. (California)

Anchor Group Management, Inc. (New York)

We filed our Quarterly Report on Form 10-Q for the period ended September 30, 2015, under the assumption that certain variable interest entities ("VIEs"), were controlled by Atlas. Based on new information obtained after the filing of our Quarterly Report on Form 10-Q for the period ended September 30, 2015, we have determined that these VIEs are not controlled by Atlas. As a result, the Company no longer consolidates these VIEs. The amounts included within the September 30, 2015 Quarterly Report on Form 10-Q were not material.

**Estimates and assumptions** - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The liability for unpaid loss and loss adjustment expenses and related amounts recoverable from reinsurers represents the most significant estimate in the accompanying financial statements.

Significant estimates in the accompanying financial statements also include the fair values of investments, deferred tax asset valuation, premium receivable bad debt allowance and deferred policy acquisition cost recoverability.

**Financial instruments** - Financial instruments are recognized and derecognized using trade date accounting, since that is the date Atlas contractually commits to the purchase or sale with the counterparty.

**Effective interest method** - For securities other than mortgage backed and asset backed, Atlas utilizes the effective interest method to calculate the amortized cost of the financial asset and to amortize or accrete the discount or premium over the remaining life. The effective interest rate is the rate that discounts the estimated future cash flows through the expected life of the financial instrument. Mortgage backed and asset backed securities are valued using the retrospective adjustment method which uses the effective interest method and includes anticipated prepayments.

Interest income is reported net of amortization of premium and accretion of discount. Realized gains and losses on disposition of available-for-sale securities are based on the net proceeds and the adjusted cost of the securities sold using the specific identification method.

**Financial assets** - Atlas classifies financial assets as described below. Management determines the classification at initial recognition based on the purpose of the financial asset.

**Cash and cash equivalents** - Cash and cash equivalents include cash and highly liquid securities with original maturities of 90 days or less.

**Available for sale** - Investments in fixed income and equity securities are classified as available for sale. Securities are classified as available-for-sale when Atlas may decide to sell those securities due to changes in market interest rates, liquidity needs, changes in yields or alternative investments, and for other reasons. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of income tax, included as a separate component of accumulated other comprehensive income (loss) in shareholders' equity.

**Impairment of financial assets** - Atlas assesses, on a quarterly basis, whether there is evidence that a financial asset or group of financial assets is impaired. An investment is considered impaired when the fair value of the investment is less than its cost or amortized cost. When an investment is impaired, the Company must make a determination as to whether the impairment is other-than-temporary.

The analysis includes some or all of the following procedures as deemed appropriate by management:

identifying all security holdings in unrealized loss positions that have existed for at least six months or other circumstances that management believes may impact the recoverability of the security;  
obtaining a valuation analysis from third party investment managers regarding these holdings based on their knowledge, experience and other market based valuation techniques;

reviewing the trading range of certain securities over the preceding calendar period;  
assessing whether declines in market value are other than temporary for debt security holdings based on credit ratings from third party security rating agencies; and  
determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed.

The risks and uncertainties inherent in the assessment methodology utilized to determine declines in market value that are other than temporary include, but may not be limited to, the following:

- the opinion of professional investment managers could prove to be incorrect;
- the past trading patterns of individual securities may not reflect future valuation trends;
- the credit ratings assigned by independent credit rating agencies may prove to be incorrect due to unforeseen or unknown facts related to a company's financial situation; and
- the debt service pattern of non-investment grade securities may not reflect future debt service capabilities and may not reflect a company's unknown underlying financial problems.

Under Accounting Standards Codification ("ASC"), with respect to an investment in an impaired debt security, other-than temporary impairment ("OTTI") occurs if (a) there is intent to sell the debt security, (b) it is more likely than not it will be required to sell the debt security before its anticipated recovery, or (c) it is probable that all amounts due will be unable to be collected such that the entire cost basis of the security will not be recovered. If Atlas intends to sell the debt security, or will more likely than not be required to sell the debt security before the anticipated recovery, a loss in the entire amount of the impairment is reflected in net investment gains (losses) on investments in the consolidated statements of income. If Atlas determines that it is probable it will be unable to collect all amounts and Atlas has no intent to sell the debt security, a credit loss is recognized in net investment gains (losses) on investments in the consolidated statements of income to the extent that the present value of expected cash flows is less than the amortized cost basis; any difference between fair value and the new amortized cost basis (net of the credit loss) is reflected in other comprehensive income (losses), net of applicable income taxes.

For equity securities, the Company evaluates its ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Evidence considered to determine anticipated recovery are analysts' reports on the near-term prospects of the issuer and the financial condition of the issuer or the industry, in addition to the length and extent of the market value decline. If OTTI is identified, the equity security is adjusted to fair value through a charge to earnings.

Fair values of financial instruments - Atlas has used the following methods and assumptions in estimating its fair value disclosures:

Fair values for investments are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services.

Atlas' fixed income portfolio is managed by a SEC registered investment advisor specializing in the management of insurance company portfolios. Management works directly with them to ensure that Atlas benefits from their expertise and also evaluates investments as well as specific positions independently using internal resources. Atlas' investment advisor has a team of credit analysts for all investment grade fixed income sectors. The investment process begins with an independent analyst review of each security's credit worthiness using both quantitative tools and qualitative review. At the issuer level, this includes reviews of past financial data, trends in financial stability, projections for the future, reliability of the management team in place, market data (credit spread, equity prices, trends in this data for the issuer and the issuer's industry). Reviews also consider industry trends and the macro-economic environment. This analysis is continuous, integrating new information as it becomes available. As of December 31, 2015, this process did not generate any significant difference in the rating assessment between Atlas' review and the rating agencies.

Atlas employs specific control processes to determine the reasonableness of the fair value of its financial assets. These processes are designed to supplement those performed by Atlas' investment advisor to ensure that the values received from them are accurately recorded and that the data inputs and the valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. For example, on a continuing basis, Atlas assesses the reasonableness of individual security values that have stale prices or whose changes exceed certain thresholds as compared to previous values received from Atlas'

investment advisor or to expected prices. The portfolio is reviewed routinely for transaction volumes, new issuances, any changes in spreads, as well as the overall movement of interest rates along the yield curve to determine if sufficient activity and liquidity exists to provide a credible source for market valuations. When fair value determinations are expected to be more variable, they are validated through reviews by members of management or the Board of Directors who have relevant expertise and who are independent of those charged with executing investment transactions.

Atlas employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The hierarchy is comprised of quoted prices in active markets (Level 1), third party pricing models using available trade, bid and market information (Level 2) and internal models without observable market information (Level 3). The Company recognizes transfers

between levels of the fair value hierarchy at the end of the period in which events occur impacting the availability of inputs to the fair value methodology.

**Premiums receivable** - Premiums receivable include premium balances due and uncollected and installment premiums not yet due from agents and insureds.

Atlas evaluates the collectibility of accounts receivable based on a combination of factors. When aware of a specific customer's inability to meet its financial obligations, such as in the case of bankruptcy or deterioration in the customer's operating results or financial position, Atlas records a specific reserve for bad debt to reduce the related receivable to the amount Atlas reasonably believes is collectible. Atlas also records reserves for bad debt for all other customers based on a variety of factors, including the length of time the receivables are past due and historical collection experience. Accounts are reviewed for potential write-off on a case-by-case basis. Accounts deemed uncollectible are written off, net of expected recoveries. If circumstances related to specific customers change, estimates of the recoverability of receivables could be further adjusted.

**Deferred policy acquisition costs ("DPAC")** - Atlas defers producers' commissions, premium taxes and other underwriting costs directly relating to the successful acquisition of premiums written to the extent they are considered recoverable. These costs are then expensed as the related premiums are earned. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to estimated future claims and expenses to be incurred as premiums are earned. Changes in estimates, if any, are recorded in the accounting period in which they are determined. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs. Atlas' deferred policy acquisition costs are reported net of deferred ceding commissions.

When anticipated losses, loss adjustment expenses, commissions and other acquisition costs exceed recorded unearned premium and any future installment premiums on existing policies, a premium deficiency reserve is recognized by recording a reduction to DPAC with a corresponding charge to operations. Atlas utilizes anticipated investment income as a factor in its premium deficiency calculation. Atlas concluded that no premium deficiency adjustments were necessary in either of the years ended December 31, 2015, December 31, 2014, and December 31, 2013.

**Income taxes** - Income taxes expense (benefit) includes all taxes based on taxable income (loss) of Atlas and its subsidiaries, and are recognized in the statement of income and comprehensive income except to the extent that they relate to items recognized directly in other comprehensive income, in which case the income tax effect is also recognized in other comprehensive income.

Deferred taxes are recognized based on the differences in the tax basis of assets, liabilities and items recognized directly in equity and the financial reporting basis of such items.

Deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period of enactment.

When considering the extent of the valuation allowance on Atlas' deferred tax asset, weight is given by management to both positive and negative evidence. U.S. GAAP states that a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets. However, the strength and trend of earnings, as well as other relevant factors are considered.

Atlas accounts for uncertain tax positions in accordance with the income taxes accounting guidance. Atlas analyzes filing positions in the federal and state jurisdiction where it is required to file tax returns, as well as the open tax years in these jurisdictions. Atlas would recognize interest and penalties related to unrecognized tax benefits as a component of the provision for federal income taxes.

**Goodwill** - Atlas recognized goodwill as part of the acquisition of Anchor Holdings Group, Inc. The amounts recognized represent the cost of the acquisition above the fair value of the net assets acquired. Atlas reviews goodwill at least annually for impairment. Atlas concluded that there was no goodwill impairment in the year ended December 31, 2015.

**Intangible assets** - Atlas recognized intangible assets as part of the acquisition of Gateway and Anchor Holdings Group, Inc. The intangible assets are classified as either indefinite or definite lived depending on whether the useful lives can be identified. Atlas indefinite-lived intangible assets consist of state insurance licenses, and these intangible

assets are reviewed for impairment at least annually. Atlas concluded that there was no indefinite-lived intangible asset impairment in either of the years ended December 31, 2015 and December 31, 2014. Definite-lived intangible assets are amortized over their useful lives on a straight-line basis except for customer related intangibles, which are on an accelerated basis. Atlas definite-lived intangible assets consist of trade names and trademarks with useful lives of 15 years and customer relationships with useful lives of 10 years. Atlas recorded \$315,000 of intangible asset amortization for the year ended December 31, 2015.

Business combinations - The value of certain assets and liabilities acquired are subject to adjustment from the initial purchase price allocation as additional information is obtained, including, but not limited to, valuation of separately identifiable intangibles, the preferred stock issued to the seller, and deferred taxes.



The valuations are finalized within 12 months of the close of the acquisition (not including loss reserve development consideration, if applicable). The changes upon finalization to the initial purchase price allocation and valuation of assets and liabilities may result in an adjustment to identifiable intangible assets and goodwill. Adjustments to the provisional amounts identified during the measurement period are recognized in the reporting period in which the adjustment amounts are determined. The effect of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date, are recorded in the financial statements and presented separately on the income statement in the reporting period in which the adjustment amounts are determined.

Office equipment and software – Office equipment is stated at historical cost less depreciation. Subsequent costs are included in the asset's carrying amount or capitalized as a separate asset only when it is probable that future economic benefits will be realized. Repairs and maintenance are recognized as an expense during the period incurred.

Depreciation on equipment is provided on a straight-line basis over the estimated useful lives which range from 5 years for vehicles, 5 years for furniture, 5 years for enterprise software and 3 years for all other software and computer equipment and the term of the lease for leased equipment.

Rent expense for the lease on Atlas' headquarters is recognized on a straight-line basis over the life of the lease.

Insurance contracts – Contracts under which Atlas' insurance subsidiaries accept risk at the inception of the contract from another party (the insured holder of the policy) by agreeing to compensate the policyholder or other insured beneficiary if a specified future event (the insured event) adversely affects the holder of the policy are classified as insurance contracts. All policies are short-duration contracts.

Revenue recognition - Premium income is recognized on a pro rata basis over the terms of the respective insurance contracts. Unearned premiums represent the portion of premiums written that are related to the unexpired terms of the policies in force.

Claims liabilities - The provision for unpaid claims represent the estimated liabilities for reported claims, plus those incurred but not yet reported and the related estimated loss adjustment expenses, such as legal fees. Unpaid claims expenses are determined using case-basis evaluations and statistical analyses, including insurance industry loss data, and represent estimates of the ultimate cost of all claims incurred. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims is adequate. The estimates are continually reviewed and adjusted as necessary; such adjustments are included in current operations and are accounted for as changes in estimates.

Reinsurance - As part of Atlas' insurance risk management policies, portions of its insurance risk is ceded to reinsurers. Reinsurance premiums and claims expenses 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 and claims ceded to other companies have been reported as a reduction of premium revenue and claims incurred expense. Commissions paid to Atlas by reinsurers on business ceded have been accounted for as a reduction of the related policy acquisition costs. Reinsurance receivables are recorded for that portion of paid and unpaid losses and loss adjustment expenses that are ceded to other companies. Prepaid reinsurance premiums are recorded for unearned premiums that have been ceded to other companies.

Share-based payments - Atlas has a stock-based compensation plan which is described fully in Note 12 to the Consolidated Financial Statements. Atlas uses the fair-value method of accounting to determine and account for equity settled transactions and to determine stock-based compensation for awards granted to employees and non-employees. For stock-based compensation for awards granted to employees and non-employees that include a performance provision, the Monte-Carlo simulation model is utilized to determine fair value. Stock-based compensation prior to 2015 was valued using the Black-Scholes option pricing model. Compensation expense is recognized over the period that the stock options vest, with a corresponding increase to additional paid in capital. For option awards with graded vesting, expense is recognized on a straight line basis over the service period for the entire award.

Operating segments - Atlas operates in one business segment, the property and casualty insurance business.

Reclassifications - Certain accounts in the prior years' consolidated financial statement have been reclassified for comparative purposes to conform to the current year's presentation.

## 2. NEW ACCOUNTING STANDARDS

Pertinent accounting and disclosure pronouncements issued from time to time by the Financial Accounting Standards Board ("FASB") are adopted by the Company as they become effective. All recently issued accounting pronouncements with effective dates prior to January 1, 2016 have been adopted by the Company.

In February 2016, the FASB issued updated guidance on leases. For public entities, this guidance is effective for years beginning after December 15, 2018, including interim periods within those years. The Company is currently evaluating the guidance to determine the potential impact of its adoption on its consolidated financial statements.

In January 2016, the FASB issued updated guidance on recognition and measurement of financial assets and liabilities. One provision of this update requires equity investments, except those accounted for under the equity method, to be measured at fair

value and changes in fair value are recognized in net income. For public entities, this guidance is effective for years beginning after December 15, 2017, including interim periods within those years. The Company is currently evaluating the guidance to determine the potential impact of its adoption on its consolidated financial statements. In May 2015, the FASB issued guidance requiring additional disclosures about short-duration insurance contracts. The new disclosures, which are required for annual periods beginning after December 31, 2015 and for interim periods beginning after December 31, 2016, are intended to provide additional information about insurance liabilities including the nature, amount, timing, and uncertainty of future cash flows related to those liabilities. Except for the retrospective application of additional disclosure requirements, the new guidance will not impact the Company's consolidated financial statements.

In September 2015, the FASB issued updated business combination guidance requiring an acquirer to recognize and disclose adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This update eliminates the requirement to retrospectively account for those adjustments. For public entities, this guidance is effective for years beginning after December 15, 2015, including interim periods within those years. The Company adopted this guidance for the reporting period ending December 31, 2015.

In May 2014, the FASB issued a comprehensive revenue recognition standard which applies to all entities that have contracts with customers, except for those that fall within the scope of other standards, such as insurance contracts. The Company is currently evaluating the guidance, which will be effective in 2018, to determine the potential impact, if any, of its adoption on its consolidated financial statements.

All other recently issued accounting pronouncements with effective dates after December 31, 2015 are not expected to have a material impact on the Consolidated Financial Statements.

### 3. ACQUISITIONS

Acquisition of Anchor Holdings Group, Inc. et. al.

On March 11, 2015, Atlas acquired Anchor Holdings Group, Inc., a privately owned insurance holding company, and its wholly owned subsidiary, Global Liberty, along with its affiliated entities, Anchor Management, and Plainview (collectively, "Anchor"), from an unaffiliated third party. Anchor provides specialized commercial insurance products, including commercial automobile insurance to niche markets such as taxi, black car and sedan service owners and operators primarily in the New York market.

Global Liberty is a New York-based insurance company that was writing approximately \$40.0 million of annual taxi and limousine net written premium in states deemed favorable to Atlas at the time of our acquisition. Global Liberty is an admitted carrier in 13 states plus the District of Columbia. Atlas' acquisition of Anchor expands our distribution channel for core commercial automobile lines and provides incremental licensure as well as important infrastructure in the large New York market.

Under the terms of the stock purchase agreement, the purchase price was based on the combined U.S. GAAP book value of Anchor at December 31, 2014. Additional consideration, principally in the form of preferred shares, may be paid to the seller, or returned to us by the seller, depending upon the future development of Global Liberty's actual loss reserves for certain lines of business over time.

The total purchase price for the combined entities of Anchor was \$23.2 million, consisting of a combination of cash and Atlas preferred shares, and is estimated at approximately 1.3 times combined U.S. GAAP book value.

Consideration consisted of approximately \$19.2 million in cash and \$4.0 million of Atlas preferred shares (consisting of a total of 4,000,000 preferred shares at \$1.00 per preferred share), subject to future price adjustments, as noted above. We have contractual protections to offset up to \$4.0 million of future adverse reserve development during the five year period after the acquisition.

Global Liberty also wrote homeowners insurance in the northeast, which was non-renewed prior to the transaction.

The Anchor acquisition was accounted for using the acquisition method. Atlas began consolidating Anchor on March 11, 2015. The following unaudited pro forma summary presents Atlas' consolidated financial information for the years ended December 31, 2015 and 2014 as if Anchor had been acquired on January 1, 2014. These amounts have been calculated after applying the Company's accounting policies had the acquisition been completed on January 1, 2014. These results were prepared for comparative purposes only and do not purport to be indicative of the results of operations that may have actually resulted had the acquisition occurred on the indicated dates, nor are they indicative of potential future operating results of the Company.

(in '000s, except per share information)

	Years Ended	
	December 31, 2015	December 31, 2014
Revenue	\$162,311	\$134,883
Income from operations before income tax expense <sup>1</sup>	23,601	16,212
Net income <sup>1</sup>	15,420	20,370
Basic earnings per share <sup>1</sup>	\$1.26	\$1.84
Diluted earnings per share <sup>1</sup>	\$1.21	\$1.77

<sup>1</sup> - Excludes expenses incurred in the connection with the Anchor acquisition

From the date of acquisition through December 31, 2015, Anchor earned revenue of \$27.5 million and net income of \$2.4 million.

The value of certain assets and liabilities acquired are subject to adjustment as additional information is obtained, including, but not limited to, valuation of separately identifiable intangibles, the preferred stock issued to the seller, and deferred taxes. The valuations were finalized during the year ended December 31, 2015 (not including loss reserve development consideration). The changes upon finalization to the preliminary valuation of assets and liabilities resulted in an adjustment to identifiable intangible assets, goodwill, deferred tax and other liabilities. The following table presents the adjusted values of assets acquired and liabilities assumed for the Anchor acquisition based on its estimated fair value on March 11, 2015.

(in \$ '000s)

Purchase Consideration	
Cash	\$19,199
Preferred stock	4,000
Total	\$23,199

#### Allocation of Purchase Price

Cash and investments	\$48,508
Other current assets	33,303
Property and equipment	22
Goodwill	2,726
Intangible assets	4,500
Total Assets	\$89,059

Claims liabilities	\$30,731
Unearned premiums	22,976
Accounts payable and other liabilities	11,231
Deferred tax liabilities	922
Total Liabilities	\$65,860

Net assets acquired	\$23,199
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The acquisition of Anchor resulted in the recognition of intangible assets and goodwill valued at \$4.5 million and \$2.7 million, respectively. The Company recorded an adjustment to the purchase price allocation and amortization related to the identified intangible assets during the fourth quarter of 2015. Atlas recognized amortization expense of

\$315,000 during the year ended December 31, 2015 related to intangible assets acquired in the Anchor transaction. Atlas incurred \$999,000 in transaction expenses related to the Anchor acquisition for the year ended December 31, 2015 and \$694,000 for the year ended December 31, 2014.

The following table presents a summary of definite-lived intangible assets by major asset class at December 31, 2015:

(in \$ '000s)	Economic Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade name and trademark	15 years	\$1,800	\$97	\$1,703
Customer relationship	10 years	2,700	218	2,482
		\$4,500	\$315	\$4,185

Estimated future amortization expense for definite-lived intangible assets is \$390,000 for each of the next five years.

#### Acquisition of Gateway Insurance Company

On January 2, 2013 we acquired Camelot Services, Inc. ("Camelot Services"), a privately owned insurance holding company, and its sole subsidiary, Gateway from an unaffiliated third party. Gateway provides specialized commercial insurance products, including commercial automobile insurance to niche markets such as taxi, black car and sedan service owners and operators.

Under the terms of the stock purchase agreement, the purchase price equaled the tangible GAAP book value of Camelot Services at December 31, 2012, subject to certain pre and post-closing adjustments, including, among others, claim development between the signing of the stock purchase agreement and December 31, 2012. Additional consideration may be paid to the seller, or returned to us by the seller, depending upon, among other things, the future development of Gateway's actual loss reserves for certain lines of business and the utilization of certain deferred tax assets over time. Gateway also writes workers' compensation insurance. However, an indemnity reinsurance agreement was entered into pursuant to which 100% of Gateway's workers' compensation business was ceded to a third party captive reinsurer funded by the seller as part of the transaction.

The total purchase price for all of Camelot Services' outstanding shares was \$14.3 million, consisting of a combination of cash and Atlas preferred shares. Consideration consisted of a \$6.0 million dividend paid by Gateway immediately prior to the closing, \$2.0 million of Atlas preferred shares (consisting of a total of 2,000,000 preferred shares at \$1.00 per preferred share) and \$6.3 million in cash. The agreement includes contractual protections to offset up to \$2.0 million of future reserve development. We have also agreed to provide the sellers up to \$2.0 million in additional consideration in the event of favorable reserve development during the five year period after the acquisition.

The following table presents assets acquired and liabilities assumed from the Gateway acquisition based on the Company's assessment of fair value as of January 1, 2013:

(in '000s)

Purchase Consideration	
Cash	\$12,282
Preferred stock	2,000
Total	\$14,282

#### Allocation of Purchase Price

Cash and investments	\$45,421
Accounts receivable and other assets	9,249
Reinsurance recoverables	6,007
Intangible assets	740
Property and equipment	923
Deferred policy acquisition costs	1,234
Total Assets	\$63,574
Claims liabilities	\$36,209

Unearned premiums	9,601
Accounts payable and other liabilities	3,482
Total Liabilities	\$49,292
Net assets acquired	\$14,282

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The acquisition of Gateway resulted in the recognition of intangible assets, comprised entirely of state insurance licenses valued at \$740,000. The state insurance licenses are considered to have an indefinite life and will not be amortized, but will be evaluated for impairment at least annually. Thus, Atlas recognized no amortization expense during the years ended December 31, 2015, 2014, and 2013 related to intangible assets acquired in the Gateway transaction.

Atlas incurred \$406,000 in legal and professional fee expenses related to the transaction during the year ended December 31, 2013. Atlas incurred \$337,000 in one-time employee termination costs during the year ended December 31, 2013, plans for which were formulated in the same period, and also incurred \$372,000 of additional interim transition/integration costs. These termination and transition/integration costs are included in "Other Underwriting Expenses" on the Consolidated Statements of Income and Comprehensive Income.

During the first quarter of 2015, the Company issued an additional 940,500 preferred shares pursuant to the Gateway stock purchase agreement due to the favorable development of Gateway's actual loss reserves for certain lines of business. The Gateway preferred shares issued during the first quarter of 2015 have been recorded as additional acquisition expense and not as an adjustment to goodwill because the fair value of the contingent consideration was determined to be zero at the date of the Gateway acquisition. In accordance with U.S. GAAP, such adjustments are reflected in the income statement in the period that the contingency is re-estimated. The estimate of this contingency could change in the future until all remaining claims are settled.

#### 4. EARNINGS PER SHARE

Earnings per ordinary voting common shares, restricted voting common shares, and participative restricted stock units ("RSUs") (collectively, the "common shares") for the years ended December 31, 2015, December 31, 2014, and December 31, 2013 are as follows (\$ in '000s except for share and per share amounts):

Year Ended December 31,	2015	2014	2013
Basic:			
Income from operations before income tax expense	\$22,046	\$11,935	\$6,252
Income tax expense (benefit)	7,616	(5,767)	)72
Net income	14,430	17,702	6,180
Add: Discount from preferred share buyback	—	—	1,800
Less: Preferred share dividends	276	94	619
Net income attributable to common shareholders for basic earnings per common share	\$14,154	\$17,608	\$7,361
Weighted average common shares outstanding	11,975,579	10,937,181	8,007,458
Basic earnings per common share	\$1.18	\$1.61	\$0.92
Diluted:			
Income from operations before income tax expense	\$22,046	\$11,935	\$6,252
Income tax expense (benefit)	7,616	(5,767)	)72
Net income	14,430	17,702	6,180
Add: Discount from preferred share buyback	—	—	1,800
Net income attributable to common shareholders for dilutive earnings per common share	\$14,430	\$17,702	\$7,980
Weighted average common shares outstanding	11,975,579	10,937,181	8,007,458
Dilutive potential ordinary shares:			
Dilutive stock options outstanding	186,656	150,407	87,825
Dilutive warrants	—	—	1,158,085
Dilutive shares upon preferred share conversion	573,444	254,000	1,587,500
Dilutive average common shares outstanding	12,735,679	11,341,588	10,840,868
Dilutive earnings per common share	\$1.13	\$1.56	\$0.74

Diluted earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding for each period plus the incremental number of shares added as a result of converting dilutive potential ordinary voting common shares, calculated using the treasury stock method (or, in the case of the convertible



preferred shares, using the "if-converted" method).

As of December 31, 2015 and December 31, 2014, there were no outstanding warrants. On August 1, 2013, 18,000,000 preferred shares were repurchased. Atlas' dilutive potential ordinary voting common shares consist of outstanding stock options to purchase ordinary voting common shares and preferred shares potentially convertible to ordinary voting common shares at the option of the holder at any date after December 31, 2018 (2,940,500 at the rate of 0.1270 ordinary voting common shares for each preferred share) and after March 11, 2020 (4,000,000 preferred shares at the rate of 0.05 ordinary voting common shares for each preferred

share). The effects of these convertible instruments are excluded from the computation of diluted earnings per share in periods in which the effect would be anti-dilutive. Convertible preferred shares are anti-dilutive when the amount of dividend declared or accumulated in the current period per common share obtainable upon conversion exceeds basic earnings per share. For the years ended December 31, 2015, 2014, and 2013, convertible preferred shares and stock options were deemed to be dilutive.

In computing the diluted earnings per share on a year to date basis, the Company included the dilutive impact of the convertible preferred shares that were redeemed during the third quarter of 2013 on a pro-rata basis for the period during which those convertible preferred shares were outstanding. This dilutive impact increased the denominator in the full year 2013 diluted EPS computation by 1,333,500 shares; however, this has no impact on the actual earnings used for the numerator in the EPS computation. The preferred shares redeemed decreased diluted earnings per share for the year by \$0.10. Future diluted earnings per share computations will not be impacted by the preferred shares redeemed.

## 5. INVESTMENTS

The amortized cost, gross unrealized gains and losses and fair value for Atlas' investments in fixed maturities and equities are as follows (all amounts in '000s):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
Fixed Income:				
U.S. Government	\$45,529	\$244	\$(136)	)\$45,637
Corporate				
Banking/financial services	21,963	117	(166)	)21,914
Consumer goods	7,813	43	(121)	)7,735
Capital goods	15,524	127	(556)	)15,095
Energy	4,807	—	(401)	)4,406
Telecommunications/utilities	12,298	27	(450)	)11,875
Health care	3,038	—	(17)	)3,021
Total Corporate	65,443	314	(1,711)	)64,046
Mortgage backed - agency	34,874	112	(313)	)34,673
Mortgage backed - commercial	19,961	158	(244)	)19,875
Total Mortgage Backed	54,835	270	(557)	)54,548
Other asset backed	19,648	14	(120)	)19,542
Total Fixed Income	185,455	842	(2,524)	)183,773
Equities	4,147	139	(46)	)4,240
Totals	\$189,602	\$981	\$(2,570)	)\$188,013
December 31, 2014				
Fixed Income:				
U.S. Government	\$20,506	\$32	\$(159)	)\$20,379
Corporate				
Banking/financial services	15,551	215	(31)	)15,735
Consumer goods	3,478	50	(13)	)3,515
Capital goods	14,285	354	(52)	)14,587
Energy	2,829	—	(84)	)2,745
Telecommunications/utilities	5,297	67	(8)	)5,356
Health care	1,948	—	(16)	)1,932
Total Corporate	43,388	686	(204)	)43,870
Mortgage backed - agency	30,772	250	(160)	)30,862
Mortgage backed - commercial	16,774	79	(269)	)16,584

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Total Mortgage Backed	47,546	329	(429	) 47,446
Other asset backed	15,261	20	(27	) 15,254
Total Fixed Income	126,701	1,067	(819	) 126,949
Equities	2,220	12	(139	) 2,093
Totals	\$128,921	\$1,079	\$(958	) \$129,042

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The following tables summarize carrying amounts of fixed income securities by contractual maturity (all amounts in '000s). As certain securities and debentures have the right to call or prepay obligations, the actual settlement dates may differ from contractual maturity.

At December 31, 2015	One year or less	One to five years	Five to ten years	More than ten years	Total	
Amortized Cost	\$12,504	\$69,082	\$42,631	\$61,238	\$185,455	
Fair Value	\$12,527	\$68,412	\$42,285	\$60,549	\$183,773	
Percentage of total	6.8	%37.2	%23.0	%33.0	%100.0	%
At December 31, 2014	One year or less	One to five years	Five to ten years	More than ten years	Total	
Amortized Cost	\$1,786	\$54,315	\$23,432	\$47,168	\$126,701	
Fair Value	\$1,875	\$54,349	\$23,166	\$47,559	\$126,949	
Percentage of total	1.5	%42.8	%18.2	%37.5	%100.0	%

Management performs a quarterly analysis of Atlas' investment holdings to determine if declines in fair value are other than temporary (equities may require more timely review in some cases). The analysis includes some or all of the following procedures as deemed appropriate by management:

- identifying all security holdings in unrealized loss positions that have existed for at least six months or other circumstances that management believes may impact the recoverability of the security;
- obtaining a valuation analysis from third party investment managers regarding these holdings based on their knowledge, experience and other market based valuation techniques;
- reviewing the trading range of certain securities over the preceding calendar period;
- assessing whether declines in market value are other than temporary for debt security holdings based on credit ratings from third party security rating agencies; and
- determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed.

The risks and uncertainties inherent in the assessment methodology utilized to determine declines in market value that are other than temporary include, but may not be limited to, the following:

- the opinion of professional investment managers could prove to be incorrect;
- the past trading patterns of individual securities may not reflect future valuation trends;
- the credit ratings assigned by independent credit rating agencies may prove to be incorrect due to unforeseen or unknown facts related to a company's financial situation; and
- the debt service pattern of non-investment grade securities may not reflect future debt service capabilities and may not reflect a company's unknown underlying financial problems.

As a result of the above analysis performed by management to determine declines in fair value that may be other than temporary, there was an impairment related to an equity position that was recorded in 2013. The Company reduced the fair value of its equity position by \$311,000 and recorded an adjustment through the Consolidated Statements of Income and Comprehensive Income to account for this other than temporary impairment.

The total fair value of the securities currently in an unrealized loss position was \$123.6 million at December 31, 2015 with a total temporary impairment relating to unrealized losses of \$2.6 million. Atlas has the ability and intent to hold these securities until their fair value is recovered. Therefore, Atlas does not expect the near term change in market value of these securities to be realized.

The aging of unrealized losses on the Company's investments in fixed income and equity securities is presented as follows (all amounts in '000s):

As of December 31, 2015	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Income Securities:						
U.S. Government	\$15,582	\$(95)	\$3,809	\$(41)	\$19,391	\$(136)
Corporate						
Banking/financial services	12,216	(161)	595	(5)	12,811	(166)
Consumer goods	6,044	(121)	—	—	6,044	(121)
Capital goods	9,425	(428)	755	(128)	10,180	(556)
Energy	3,862	(337)	544	(64)	4,406	(401)
Telecommunications/utilities	8,811	(450)	—	—	8,811	(450)
Health care	3,021	(17)	—	—	3,021	(17)
Total Corporate	43,379	(1,514)	1,894	(197)	45,273	(1,711)
Mortgage backed - agency	25,168	(255)	1,921	(58)	27,089	(313)
Mortgage backed - commercial	10,022	(129)	3,445	(115)	13,467	(244)
Total Mortgage Backed	35,190	(384)	5,366	(173)	40,556	(557)
Other asset backed	16,203	(113)	1,084	(7)	17,287	(120)
Total Fixed Income Securities	110,354	(2,106)	12,153	(418)	122,507	(2,524)
Equities	1,062	(46)	—	—	1,062	(46)
Totals	\$111,416	\$(2,152)	\$12,153	\$(418)	\$123,569	\$(2,570)
As of December 31, 2014	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Income Securities:						
U.S. Government	\$2,228	\$(3)	\$9,395	\$(156)	\$11,623	\$(159)
Corporate						
Banking/financial services	3,298	(14)	1,523	(17)	4,821	(31)
Consumer goods	269	—	714	(13)	983	(13)
Capital goods	2,599	(19)	1,543	(33)	4,142	(52)
Energy	2,583	(82)	86	(2)	2,669	(84)
Telecommunications/utilities	1,371	(7)	168	(1)	1,539	(8)
Health care	1,443	(10)	488	(6)	1,931	(16)
Total Corporate	11,563	(132)	4,522	(72)	16,085	(204)
Mortgage backed - agency	4,196	(28)	9,202	(132)	13,398	(160)
Mortgage backed - commercial	1,409	(5)	9,781	(264)	11,190	(269)
Total Mortgage Backed	5,605	(33)	18,983	(396)	24,588	(429)
Other asset backed	10,021	(27)	—	—	10,021	(27)
Total Fixed Income Securities	29,417	(195)	32,900	(624)	62,317	(819)
Equities	1,230	(139)	—	—	1,230	(139)
Totals	\$30,647	\$(334)	\$32,900	\$(624)	\$63,547	\$(958)

As of December 31, 2015, we held 435 and 1 individual fixed income and equity securities, respectively, that were in an unrealized loss position, of which 35 individual fixed income securities were in a continuous loss position for longer than 12 months. As of December 31, 2014, we held 153 and 3 individual fixed income and equity securities, respectively, that were in an unrealized loss position, of which 49 individual fixed income securities were in a continuous loss position for longer than 12 months. We did not recognize the unrealized losses in earnings on these fixed income securities for the years ended December 31, 2015 and 2014,



because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized costs.

The following table summarizes the components of net investment income for the years ended December 31, 2015, 2014, and 2013 (all amounts in '000s):

Year Ended December 31,	2015	2014	2013
Total investment income			
Interest income	\$3,371	\$2,848	\$2,716
Dividends	43	20	9
Income (loss) from other investments	1,344	693	(84 )
Investment expenses	(782 )	(451 )	(500 )
Net investment income	\$3,976	\$3,110	\$2,141

The following table presents the gross realized gains and gross realized losses from sales of fixed income and equity securities for the years ended December 31, 2015, 2014, and 2013 (all amounts in '000s):

	2015		2014		2013	
	Gross Realized	Gross Realized	Gross Realized	Gross Realized	Gross Realized	Gross Realized
	Gains	Losses	Gains	Losses	Gains	Losses
Fixed income securities	\$574	\$(86 )	\$425	\$(59 )	\$1,587	\$(1,225 )
Equities	69	(81 )	6	—	394	—
Total	\$643	\$(167 )	\$431	\$(59 )	\$1,981	\$(1,225 )

The aggregate fair value from sales of fixed income and equity securities included in the table above for the years ended December 31, 2015, 2014, and 2013 are \$39.8 million, \$25.0 million, and \$86.7 million, respectively.

The following table summarizes the components of net investment realized gains (losses) for the years ended December 31, 2015, 2014, and 2013 (all amounts in '000s):

Year Ended December 31,	2015	2014	2013
Fixed income securities	\$487	\$366	\$362
Equities	(12 )	6	394
Other	(20 )	10	84
Net investment realized gains before OTTI	455	382	840
OTTI	—	—	(311 )
Net investment realized gains	\$455	\$382	\$529

Equity Method Investments:

The following table summarizes investments in equity method investments by investment type at December 31, 2015 and December 31, 2014 (all amounts in '000s):

	Unfunded Commitments	Carrying Value
As of December 31,	2015	2015
Real estate	\$1,775	\$10,300
Insurance linked securities	—	8,747
Activist hedge funds	—	3,685
Venture capital	700	205
Total Equity Method Investments	\$2,475	\$22,937
Collateral pledged:		
	2015	2014
Real estate	\$1,775	\$2,754
Insurance linked securities	—	8,266
Activist hedge funds	—	3,346
Venture capital	700	—
Total Equity Method Investments	\$2,475	\$14,366

At December 31, 2015 and 2014, bonds and term deposits with a fair value of \$15.8 million and \$14.5 million, respectively, were on deposit with state and provincial regulatory authorities. Also, from time to time, the Company pledges securities to and deposits cash with third parties to collateralize liabilities incurred under its policies of reinsurance assumed and other commitments made by the Company. At December 31, 2015, the amount of such pledged securities was \$3.6 million versus \$6.8 million at December 31,

2014. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to the Company's standard risk management controls. These assets and investment income related thereto remain the property of the Company while pledged. Neither the state and/or provincial regulatory authorities nor any other third party has the right to re-pledge or sell said securities held on deposit.

#### 6. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

Atlas records the available for sale securities held in its securities portfolio at their fair value. Atlas primarily uses the services of external securities pricing vendors to obtain these values. The securities are valued using quoted market prices or prices established using observable market inputs. In volatile market conditions, these quoted market prices or observable market inputs can change rapidly, causing a significant impact on fair value and financial results recorded.

The following table summarizes Atlas' investments at fair value as of December 31, 2015 and December 31, 2014 (all amounts in '000s):

December 31, 2015	Level 1	Level 2	Level 3	Total
Fixed income securities	\$23,483	\$160,290	\$—	\$183,773
Equities	4,240	—	—	4,240
Totals	\$27,723	\$160,290	\$—	\$188,013
December 31, 2014	Level 1	Level 2	Level 3	Total
Fixed income securities	\$12,608	\$114,341	\$—	\$126,949
Equities	2,093	—	—	2,093
Totals	\$14,701	\$114,341	\$—	\$129,042

The Company's investments in fixed income securities that are classified as Level 1 in the two preceding tables consist only of U.S. Treasury Securities. The Company's investments in equity securities that are classified as Level 1 in the two preceding tables consist of investments in publicly-traded common stocks.

The Company's investments in fixed income securities that are classified as Level 2 in the two preceding tables consist of investments in corporate bonds, states and political subdivisions bonds and mortgage-backed securities of U.S. government agencies and other asset-backed bonds.

The Company had no fair value investments classified as Level 3 as of December 31, 2015 and December 31, 2014.

Though Atlas believes its valuation methods are appropriate, the use of different methodologies or assumptions to determine its fair value could result in a different fair value as of December 31, 2015. Management does not believe that reasonable changes to the inputs to its valuation methodology would result in a significantly higher or lower fair value measurement.

There were no transfers in or out of Level 2 or Level 3 during the years ended December 31, 2015 and 2014.

Information by security type pertaining to the changes in fair value of the Company's investments classified as Level 3 for the years ended December 31, 2015 and 2014 are presented below (all amounts in '000s):

Year Ended December 31,	2015	2014
Balance at beginning of year	\$—	\$617
Total gains included in:		
Consolidated statement of income	—	383
Settlements	—	(1,000 )
Balance at end of year	\$—	\$—

Capital management - The Company manages capital using both regulatory capital measures and internal metrics. The Company's capital is primarily derived from common shareholders' equity, retained deficit and accumulated other comprehensive income (loss).

As a holding company, Atlas could derive cash from its insurance subsidiaries generally in the form of dividends to meet its obligations, which will primarily consist of operating expense payments and debt payments. Atlas' insurance subsidiaries fund their obligations primarily through premium and investment income and maturities in the securities portfolio. The insurance subsidiaries require regulatory approval for the return of capital and, in certain circumstances, prior to the payment of dividends. In the event that dividends available to the holding company are inadequate to cover its operating expenses and debt payments, the holding company would need to raise capital, sell assets or incur future debt.





The insurance subsidiaries must each maintain a minimum statutory capital and surplus of \$1.5 million, \$2.4 million, and \$3.5 million under the provisions of the Illinois Insurance Code, the Missouri Insurance Code, and New York Insurance Code, respectively. Dividends may only be paid from statutory unassigned surplus, and payments may not be made if such surplus is less than a stipulated amount. The dividend restriction is the greater of statutory net income or 10% of total statutory capital and surplus.

Net income computed under statutory-basis accounting was \$3.4 million, \$6.1 million, \$2.0 million, and \$1.2 million for American Country, American Service, Gateway and Global Liberty, respectively, for the year ended December 31, 2015. Net income for the year ended December 31, 2014 was \$2.0 million, \$4.0 million, and \$1.7 million for American Country, American Service and Gateway, respectively. The combined statutory capital and surplus of the insurance subsidiaries was \$118.5 million and \$63.0 million as of December 31, 2015 and December 31, 2014, respectively.

Atlas did not declare or pay any dividends to its common shareholders during the years ended December 31, 2015 and 2014.

## 7. INCOME TAXES

The effective tax rate was 34.5%, (48.3)%, and 1.2% for the years ended December 31, 2015, 2014, and 2013, respectively. The table below reconciles the U.S. statutory income tax rate to the effective tax rate (\$ in '000s):

Year Ended December 31,	2015		2014		2013	
	Amount	%	Amount	%	Amount	%
Provision for taxes at U.S. statutory marginal income tax rate	\$7,716	35.0	% \$4,058	34.0	% \$2,126	34.0
Provision for deferred tax assets deemed unrealizable (valuation allowance)	—	—	% (9,446 )	(79.1 )%	(2,802 )	(44.8 )%
Nondeductible expenses	124	0.6	% 136	1.1	% 100	1.6
Tax-exempt income	(89 )	(0.4 )%	—	—	% —	—
State tax (net of federal benefit)	118	0.5	% 11	0.1	% 47	0.8
Tax net operating loss limitation write-down (excluding valuation allowance)	—	—	% (519 )	(4.3 )%	626	10.0
Nondeductible purchase accounting adjustment	329	1.5	% —	—	% —	—
Change in statutory tax rate	(471 )	(2.1 )%	—	—	% —	—
Other	(111 )	(0.6 )%	(7 )	(0.1 )%	(25 )	(0.4 )%
Provision for income taxes for continuing operations	\$7,616	34.5	% \$(5,767 )	(48.3 )%	\$72	1.2

Income tax expense (benefit) consists of the following for the years ended December 31, 2015, 2014, and 2013 (all amounts in '000s):

Year Ended December 31,	2015	2014	2013
Current tax expense	\$7,790	\$3,009	\$1,144
Deferred tax benefit, net of change in valuation allowance	(174 )	(8,776 )	(1,072 )
Total	\$7,616	\$(5,767 )	\$72

Upon the transaction forming Atlas on December 31, 2010, a yearly limitation as required by U.S. Internal Revenue Code of 1986 (as amended, "IRC") Section 382 that applies to changes in ownership on the future utilization of Atlas' net operating loss carryforwards was calculated. The insurance subsidiaries' prior parent retained those tax assets previously attributed to the insurance subsidiaries, which could not be utilized by Atlas as a result of this limitation. As a result, Atlas' ability to recognize future tax benefits associated with a portion of its deferred tax assets generated during prior years has been permanently limited to the amount determined under IRC Section 382. The result is a maximum expected net deferred tax asset that Atlas has available after the merger, which is believed more-likely-than-not to be utilized in the future, after consideration of valuation allowance.

On July 22, 2013, as a result of shareholder activity, a "triggering event" as determined under IRC Section 382 occurred. As a result, under IRC Section 382, the use of the Company's net operating loss and other carryforwards will be limited due to this "ownership change" for tax purposes, which is defined as a cumulative change of more than 50%

during any three-year period by shareholders owning 5% or greater portions of the Company's shares. Due to this triggering event, the Company estimates that it will retain total tax effected federal net operating loss carryforwards of approximately \$12.7 million as of December 31, 2015.

The components of deferred income tax assets and liabilities as of December 31, 2015 and December 31, 2014 are as follows (all amounts in '000s):

	December 31, 2015	December 31, 2014
Deferred tax assets:		
Losses carried forward	\$12,656	\$14,212
Unpaid claims and unearned premiums	8,122	5,560
Tax credits	662	662
Investments	36	—
Commissions	1,306	319
All other	1,457	476
Total gross deferred tax assets	24,239	21,229
Deferred tax liabilities:		
Deferred policy acquisition costs	3,582	2,776
Investments	—	740
Fixed assets	401	396
Intangible assets	1,465	—
All other	1,625	—
Total gross deferred tax liabilities	7,073	3,912
Net deferred tax assets	\$17,166	\$17,317

Amounts and expiration dates of the operating loss carryforwards as of December 31, 2015 are as follows (all amounts in '000s):

Year of Occurrence	Year of Expiration	Amount
2001	2021	\$5,481
2002	2022	4,317
2006	2026	7,825
2007	2027	5,131
2008	2028	1,949
2009	2029	1,949
2010	2030	1,949
2011	2031	4,669
2012	2032	2,890
Total		\$36,160

Atlas has not established a valuation allowance for its gross future deferred tax assets as of December 31, 2015 or as of December 31, 2014. Based on Atlas' expectations of future taxable income, its ability to change its investment strategy, as well as reversing gross future tax liabilities, management believes it is more likely than not that Atlas will fully realize the net future tax assets. The Company, therefore, released its remaining valuation allowance at December 31, 2014.

Atlas accounts for uncertain tax positions in accordance with the income taxes accounting guidance. Atlas has analyzed filing positions in the federal and state jurisdiction where it is required to file tax returns, as well as the open tax years in these jurisdictions. Atlas believes that its federal and state income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain federal and state income tax positions have been recorded. Atlas would recognize interest and penalties related to unrecognized tax benefits as a component of the provision for federal income taxes. Atlas did not incur any federal income tax related interest income, interest expense or penalties for the years ended December 31, 2015, 2014, and 2013. Tax years 2009 through 2015 are subject to examination by the Internal Revenue Service ("IRS"). The Company's 2012 tax year is currently under examination by the IRS.

#### 8. ASSETS HELD FOR SALE

During the year ended December 31, 2015, Atlas sold one of its two properties located in Alabama and recognized a loss of \$20,000 to an unaffiliated third party. The remaining property is listed for sale for an amount greater than its carried value.

## 9. INTERNAL USE SOFTWARE AND CAPITAL ASSETS

Atlas held the following internal-use software and capital assets at December 31, 2015 and December 31, 2014 (excluding assets held for sale) (all amounts in '000s):

As of December 31,	2015	2014
Leasehold improvements	\$507	\$501
Internal use software	7,611	7,372
Computer equipment	2,225	1,844
Furniture and other office equipment	593	397
Total	10,936	10,114
Accumulated depreciation	(8,347 )	(7,295 )
Balance, end of period	\$2,589	\$2,819

Depreciation expense and amortization was \$966,000, \$856,000, and \$795,000 for the years ended December 31, 2015, 2014, and 2013, respectively.

Effective July 1, 2015, the Company implemented a new policy management software and began amortizing the cost of the software. Total capitalized cost of the software was approximately \$2.0 million. Amortization expense for the new software for the year ended December 31, 2015 was \$186,000.

## 10. REINSURANCE CEDED

As is customary in the insurance industry, Atlas reinsures portions of certain insurance policies it writes, thereby providing a greater diversification of risk and minimizing exposure on larger risks. Atlas remains contingently at risk with respect to any reinsurance ceded and would incur an additional loss if an assuming company were unable to meet its obligation under the reinsurance treaty.

Atlas monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Letters of credit are maintained for any unauthorized reinsurer to cover ceded unearned premium, ceded loss reserve balances and ceded paid losses. These policies mitigate the risk of credit quality or dispute from becoming a danger to financial strength. To date, the Company has not experienced any material difficulties in collecting reinsurance recoverables.

Gross premiums written and ceded premiums, losses and commissions as of and for the years ended December 31, 2015, 2014, and 2013 are as follows (all amounts in '000s):

	2015	2014	2013
Direct premiums written	\$208,570	\$122,339	\$92,487
Assumed premiums written	716	93	573
Ceded premiums written	(39,609 )	(11,011 )	(12,580 )
Net premiums written	\$169,677	\$111,421	\$80,480
Direct premiums earned	\$182,376	\$107,587	\$83,358
Assumed premiums earned	634	126	528
Ceded premiums earned	(30,946 )	(9,589 )	(12,542 )
Net premiums earned	\$152,064	\$98,124	\$71,344
Ceded losses and loss adjustment expenses	19,113	8,783	4,883
Ceding commissions	7,798	2,374	2,241
Ceded unpaid losses and loss adjustment expenses	29,399	18,421	18,144
Prepaid reinsurance premiums	17,412	3,628	2,207
Other amounts due from reinsurers	3,277	2,230	1,002



## 11. UNPAID CLAIMS

Claims liabilities - The changes in the provision for unpaid claims, net of amounts recoverable from reinsurers, for the years ended December 31, 2015, 2014, and 2013 were as follows (all amounts in '000s):

As of the year ended December 31,	2015	2014	2013
Unpaid claims, beginning of period	\$102,430	\$101,385	\$70,067
Less: reinsurance recoverable	18,421	18,144	5,680
Net beginning unpaid claims reserves	84,009	83,241	64,387
Net reserves acquired	19,396	—	29,923
Change in retroactive reinsurance ceded	2,037	2,415	(5,919 )
Incurred related to:			
Current year	89,828	61,680	45,604
Prior years	166	(602 )	8
	89,994	61,078	45,612
Paid related to:			
Current year	32,402	19,427	12,874
Prior years	65,422	43,298	37,888
	97,824	62,725	50,762
Net unpaid claims, end of period	97,612	84,009	83,241
Add: reinsurance recoverable	29,399	18,421	18,144
Unpaid claims, end of period	\$127,011	\$102,430	\$101,385

The process of establishing the estimated provision for unpaid claims is complex and imprecise, as it relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

The establishment of reserves is an inherently uncertain process involving estimates; and current provisions may not be sufficient. Adjustments to reserves, both positive and negative, are reflected in the statement of income and comprehensive income as estimates are updated.

Atlas experienced \$166,000 in unfavorable prior year development for the year ended December 31, 2015 as reflected as incurred related to prior years in the table above. Prior year development on non-core lines, assigned risk and pre-acquisition Global Liberty reserves was \$641,000 for the year ended December 31, 2015. This increase was offset by \$475,000 of favorable prior year development on our core lines. Atlas experienced favorable prior year development during the year ended December 31, 2014 of \$352,000 on its core lines and \$250,000 on its non-core lines as reflected as incurred related to prior years in the table above. Atlas experienced minimal unfavorable prior year development for the year ended December 31, 2013, reflected as incurred related to prior years in the table above, on its non-core lines.

## 12. SHARE BASED COMPENSATION

On January 6, 2011, Atlas adopted a stock option plan (the "Stock Option Plan") in order to advance the interests of Atlas by providing incentives to eligible persons defined in the plan. In the second quarter of 2013, a new equity incentive plan (the "Equity Incentive Plan") was approved by the Company's common shareholders at the Annual General Meeting, and Atlas ceased to grant new stock options under the preceding Stock Option Plan. The Equity Incentive Plan is a securities based compensation plan, pursuant to which Atlas may issue restricted stock grants for ordinary voting common shares, restricted units, stock grants for ordinary voting common shares, stock options and other forms of equity incentives to eligible persons as part of their compensation. The Equity Incentive Plan is considered an amendment and restatement of the Stock Option Plan, although outstanding stock options issued pursuant to the Stock Option Plan will continue to be governed by the terms of the Stock Option Plan.





Stock options - Stock option activity for the years ended December 31, 2015 and 2014 follows (prices in Canadian dollars designated with "C\$" and United States dollars designated with "US\$"):

	2015		2014	
C\$ Denominated:	Number	Avg. Price	Number	Avg. Price
Outstanding, beginning of period	224,623	C\$6.05	224,623	C\$6.05
Granted	—	—	—	—
Exercised	(36,895)	) 5.21	—	—
Outstanding, end of period	187,728	C\$6.22	224,623	C\$6.05

	2015		2014	
US\$ Denominated:	Number	Avg. Price	Number	Avg. Price
Outstanding, beginning of period	175,000	US\$13.26	—	—
Granted	200,000	US\$20.29	175,000	US\$13.26
Exercised	—	—	—	—
Outstanding, end of period	375,000	US\$17.01	175,000	US\$13.26

Information about options outstanding at December 31, 2015 is as follows:

Grant Date	Expiration Date	Number Outstanding	Number Exercisable
March 18, 2010	March 15, 2020	—	—
January 18, 2011	January 18, 2021	96,060	96,060
January 11, 2013	January 11, 2023	91,668	61,112
March 6, 2014	March 6, 2024	175,000	58,333
March 12, 2015	March 12, 2025	200,000	—
Total		562,728	215,505

There are 215,505 stock options that are exercisable as of December 31, 2015. The stock option grants outstanding have a weighted average remaining life of 7.83 years and have an intrinsic value of \$3.9 million as of December 31, 2015. On March 12, 2015, the Board of Directors of Atlas granted equity awards of (i) 200,000 restricted voting common shares of the Company and (ii) 200,000 options to acquire ordinary voting common shares to the executive officers of the Company as part of the Company's annual compensation process. The awards were made under the Company's Equity Incentive Plan.

The awards vest in 5 equal annual installments of 20%, provided that an installment shall not vest unless an annual performance target based on specific return on average equity growth rates is met. In the event the performance target is not met in any year, the 20% installment for such year shall not vest, but such non-vested installment shall carry forward and can become vested in future years (up to the fifth year from the date of grant), subject to achievement in a future year of the applicable performance target for such year.

The Monte-Carlo simulation model was used, for both the options and restricted share grants, to estimate the fair value of compensation expense as a result of the performance based component of these grants. Utilizing the Monte-Carlo simulation model, the fair values were \$1.5 million and \$1.9 million for the options and restricted share grants, respectively. This expense will be amortized over the anticipated vesting period.

Restricted shares - The activity for the restricted shares and restricted share units for the years ended December 31, 2015 and 2014 are as follows:

	2015		2014	
	Number of Shares	Weighted Average Fair Value at Grant Date	Number of Shares	Weighted Average Fair Value at Grant Date
Non-vested, beginning of period	185,190	\$ 12.20	—	\$—
Granted	200,000	17.99	185,190	12.20
Vested	(37,035)	) 12.20	—	—
Non-vested, end of period	348,155	\$ 15.53	185,190	\$ 12.20



In accordance with ASC 718 (Stock-Based Compensation), Atlas has recognized stock compensation expense on a straight-line basis over the requisite service period of the last separately vesting portion of the award. Atlas recognized \$1.8 million, \$1.5 million and \$247,000 in stock compensation expense for the years ended December 31, 2015, 2014, and 2013, respectively, which is a component of other underwriting expenses on the income statement. Total unrecognized stock compensation expense related to all stock and restricted share option grants is \$1.7 million and \$3.0 million, respectively as of December 31, 2015, which will be recognized over the next 50 months.

### 13. OTHER EMPLOYEE BENEFIT PLANS

**Defined Contribution Plan** - In the first quarter of 2011, Atlas formed a defined contribution 401(k) plan covering all qualified employees of Atlas and its subsidiaries. Employees can choose to contribute up to 60% of their annual earnings, but not more than \$18,000 for 2015, to the plan. Qualifying employees age 50 and older can contribute an additional \$6,000 during 2015. Effective April 2014, Atlas matches 100% of the employee contribution up to 2.5% of annual earnings, plus 50% of additional contributions up to 2.5% of annual earnings, for a total maximum expense of 3.75% of annual earnings per participant. Atlas' matching contributions are discretionary. Employees are 100% vested in their own contributions and vest in Atlas contributions based on years of service equally over 5 years with 100% vested after 5 years. Company contributions were \$300,000, \$204,000, and \$118,000 for the years ended December 31, 2015, December 31, 2014, and December 31, 2013, respectively.

**Employee Stock Purchase Plan** - In the second quarter of 2011, Atlas initiated the Atlas Employee Stock Purchase Plan (the "ESPP") to encourage continued employee interest in the operation, growth and development of Atlas and to provide an additional investment opportunity to employees. Beginning in June 2011, full time and permanent part time employees working more than 30 hours per week were allowed to invest up to 5% of adjusted salary in Atlas ordinary voting common shares. Effective April 2014, Atlas matches 100% of the employee contribution up to 2.5% of annual earnings, plus 50% of additional contributions up to 5% of annual earnings, for a total maximum expense of 5% of annual earnings per participant. Atlas' matching contributions are discretionary. Atlas also pays all administrative costs related to this plan. During the years ended December 31, 2015, December 31, 2014, and December 31, 2013, Atlas' costs incurred related to the matching portion of the ESPP were \$151,000, \$113,000, and \$58,000, respectively. Share purchases pursuant to this plan are made in the open market.

### 14. SHARE CAPITAL

The share capital is as follows:

At December 31,	Shares Authorized	2015		2014	
		Shares Issued and Outstanding	Amount (in '000s)	Shares Issued and Outstanding	Amount (in '000s)
Preferred Shares	100,000,000	6,940,500	\$6,941	2,000,000	\$2,000
Ordinary voting common shares	266,666,667	11,883,025	\$36	11,638,723	\$34
Restricted voting common shares	33,333,334	132,863	—	132,863	—
Total common shares	300,000,001	12,015,888	\$36	11,771,586	\$34

All of the issued and outstanding restricted voting common shares are beneficially owned or controlled by Kingsway Financial Services, Inc. (including its subsidiaries and affiliated companies, "Kingsway"). The restricted voting common shares are entitled to vote at all meetings of shareholders, except at meetings of holders of a specific class that are entitled to vote separately as a class. The restricted voting common shares as a class shall not carry more than 30% of the aggregate votes eligible to be voted at a general meeting of common shareholders. The restricted voting common shares will convert to ordinary voting common shares in the event that these Kingsway-owned shares are sold to non-affiliates of Kingsway.

There were 29,631 and 37,038 non-vested restricted stock units ("RSUs") as of December 31, 2015 and December 31, 2014, respectively. These RSUs are participative and are included in the computations of earnings per share and book value per share for these periods.

During the year ended December 31, 2015, the Company issued 7,407 ordinary voting common shares as a result of the vesting of RSUs and 200,000 non-vested restricted shares to a director and the officers, respectively. During the year ended December 31, 2015, the Company issued 36,895 ordinary voting common shares to a director as a result of exercising options. These shares were granted and issued under the Company's Equity Incentive Plan.

During the first quarter of 2015, the Company issued 4,000,000 preferred shares as a portion of the consideration related to the Anchor acquisition and an additional 940,500 preferred shares pursuant to the Gateway stock purchase agreement. At December 31, 2015, there were 6,940,500 preferred shares outstanding. These preferred shares are beneficially owned or controlled by the former

owners of Gateway (2,940,500 preferred shares) and Anchor (4,000,000 preferred shares). The Gateway preferred shares issued during the first quarter of 2015 have been recorded as additional acquisition expense and not as an adjustment to goodwill because the fair value of the contingent consideration was determined to be zero at the date of the Gateway acquisition. In accordance with U.S. GAAP, such adjustments are reflected in the income statement in the period that the contingency is re-estimated. The estimate of this contingency could change in the future until all remaining claims are settled.

Preferred shareholders are entitled to dividends on a cumulative basis, whether or not declared by the Board of Directors, at the rate of \$0.045 per share per year (4.5%) and may be paid in cash or in additional preferred shares at the option of Atlas. In liquidation, dissolution or winding-up of Atlas, preferred shareholders receive the greater of \$1.00 per share plus all declared and unpaid dividends or the amount they would receive in liquidation if the preferred shares had been converted to restricted voting common shares or ordinary voting common shares immediately prior to liquidation. The preferred shares are redeemable at the option of Atlas at a price of \$1.00 per share plus accrued and unpaid dividends, subject to certain conditions, prior to the conversion date. Preferred shareholders are not entitled to vote. Preferred shares are convertible into ordinary voting common shares at the option of the former owners of Gateway and Anchor at any date after the fifth year of issuance at the rate of 0.1270 and 0.0500, respectively, ordinary voting common shares for each preferred share. The conversion rate is subject to change if the number of ordinary voting common shares or restricted voting common shares changes by way of an anti-dilution event.

During the year ended December 31, 2015, Atlas did not declare or pay dividends earned through the preferred shares. The former owners of Gateway and Anchor earned \$130,000 and \$146,000, respectively, in dividends during the year ended December 31, 2015. As of December 31, 2015, Atlas has accrued \$314,000 and \$146,000 in dividends for the former owners of Gateway and Anchor, respectively, which remain unpaid.

On February 11, 2013, an aggregate of 4,125,000 Atlas ordinary common shares were offered in Atlas' initial public offering in the United States. 1,500,000 ordinary common shares were offered by Atlas and 2,625,000 ordinary common shares were sold by Kingsway at a price of \$5.85 per share, less underwriting discounts and expenses. Atlas also granted the underwriters an option to purchase up to an aggregate of 618,750 additional ordinary common shares at the public offering price of \$5.85 per share to cover over-allotments, if any. On March 11, 2013, the underwriters exercised this option and purchased an additional 451,500 ordinary common shares. After underwriting and other expenses, Atlas realized combined proceeds of \$9.8 million.

During 2013, Atlas declared and paid \$2.1 million in dividends earned through the preferred shares to Kingsway, the cumulative amount to which they were entitled through the end of July 2013.

On August 1, 2013, Atlas repurchased 18,000,000 preferred shares owned by Kingsway pursuant to the Share Repurchase Agreement. Atlas recorded a \$1.8 million benefit related to the discount on the repurchase of these shares from Kingsway.

On October 18, 2013 and on November 13, 2013, Kingsway notified the Company that it had sold 529,608 and 600,000 of its restricted voting common shares, respectively, bringing its restricted common share count to 132,863 or 1.4% of the outstanding common shares as of December 31, 2013.

During 2013, 1,327,840 warrants and 1,000 options were exercised which resulted in the issuance of 1,328,840 common shares.

On May 13, 2014, an aggregate of 2,000,000 Atlas ordinary shares were offered in a subsequent public offering in the United States at a price of \$12.50 per share. Atlas also granted the underwriters an option to purchase up to an aggregate of 300,000 additional shares at the public offering price of \$12.50 per share to cover over-allotments, if any. On May 27, 2014, the underwriters exercised this option and purchased an additional 161,000 shares. After underwriting and other expenses, total proceeds of \$25.0 million were realized on the issuance of the shares. A portion of the net proceeds from the offering was used to support the acquisition of Anchor Holdings Group, Inc. and its affiliated entities.

#### 15. DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs represent those costs that are incremental and directly related to the successful acquisition of new or renewal written premium. Such deferred policy acquisition costs generally include agent commissions, premium taxes and a portion of employee compensation and benefits directly related to time spent performing specific acquisition or renewal activities. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to estimated future claims and expenses to be incurred as premiums are earned. Changes in estimates, if any, are recorded in the accounting period in which they are determined. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs. Atlas' deferred policy acquisition costs are reported net of deferred ceding commissions.

Policy acquisition costs are deferred and amortized over the period in which the related premiums written are earned, typically 12 months. Deferred policy acquisition costs for the years ended December 31, 2015, December 31, 2014, and December 31, 2013 (all amounts in '000s):

Year Ended December 31,	2015	2014	2013
Balance, beginning of period	\$8,166	\$6,674	\$3,764
Acquisition costs deferred	20,661	15,540	13,283
Amortization charged to income	18,592	14,048	10,373
Balance, end of period	\$10,235	\$8,166	\$6,674

#### 16. RELATED PARTY TRANSACTIONS

During 2015 and 2014, a small percentage of the Company's investment portfolio was allocated to investment vehicles, primarily focused on income generating real estate, that are considered related-party transactions. In these cases, one or more of the Company's directors may be deemed to control unrelated entities that may invest in these vehicles and may also manage these vehicles.

#### 17. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(in '000s, except per share data)

	2015			
	Q4	Q3	Q2	Q1
Gross premium written	\$52,423	\$65,315	\$46,575	\$44,973
Net premium earned	41,927	41,666	38,304	30,167
Underwriting income <sup>1</sup>	4,954	4,946	5,175	4,763
Net income	4,333	4,024	3,936	2,137
Net income attributable to common shareholders	4,253	3,943	3,856	2,102
Basic earnings per common share	\$0.35	\$0.33	\$0.32	\$0.18
Diluted earnings per common share	\$0.34	\$0.32	\$0.31	\$0.17

(in '000s, except per share data)

	2014			
	Q4	Q3	Q2	Q1
Gross premium written	\$26,361	\$42,046	\$22,801	\$31,224
Net premium earned	27,289	25,575	23,306	21,954
Underwriting income	3,164	2,666	1,883	1,422
Net income	9,458	3,493	2,559	2,192
Net income attributable to common shareholders	9,434	3,469	2,536	2,169
Basic earnings per common share	\$0.80	\$0.29	\$0.24	\$0.23
Diluted earnings per common share	\$0.77	\$0.29	\$0.23	\$0.22

<sup>1</sup> - We reclassified interest expense from underwriting expense to non-operating expense during the fourth quarter. As a result, underwriting income was restated and increased by \$139,000 and \$269,000 for the three months ended June 30, 2015 and September 30, 2015, respectively.

#### 18. COMMITMENTS AND CONTINGENCIES

On May 22, 2012, Atlas closed the sale and leaseback of the headquarters building to 150 Northwest Point, LLC, a Delaware limited liability company. Atlas recognized a gain on the sale of this property of \$213,000, which will be deferred and recognized over the five year lease term. Atlas recognized \$43,000 as an offset to rent expense for the years ended December 31, 2015, 2014, and 2013. Total rental expense recognized on the headquarters building was \$704,000, \$707,000 and \$699,000 for the years ended



December 31, 2015, 2014, and 2013, respectively. The decrease in rental expense on the headquarters building for the year ended December 31, 2015 was due to lower utility costs.

Atlas has the following future minimum rentals, related principally to office space, required under operating leases having initial or remaining noncancelable lease terms in excess of one year as of December 31, 2015 (all amounts in '000s):

Year	2016	2017	2018	2019	2020	2021 & Beyond	Total
Amount	\$1,731	\$1,240	\$919	\$929	\$955	\$1,058	\$6,832

The Company has entered into subscription agreements to commit up to \$6.8 million of capital to allow for participation by the Company in limited liability investments, which invest in income-producing real estate, small business loans and equity securities. As of December 31, 2015, the unfunded commitment was \$2.5 million.

In the ordinary course of its business, Atlas is involved in legal proceedings, including lawsuits, regulatory examinations and inquiries. Based on currently available information, the Company does not believe that it is reasonably possible that any of its pending legal proceedings will have a material effect on the Company's Consolidated Financial Statements.

Atlas is exposed to credit risk on balances receivable from policyholders, agents and reinsurers. Credit exposure to any one individual policyholder is not material. The Company's policies, however, are distributed by agents who may manage cash collection on its behalf pursuant to the terms of their agency agreement. Atlas has procedures to monitor and minimize its exposure to delinquent agent balances, including, but not limited to, reviewing account current statements, processing policy cancellations for non-payment and other collection efforts deemed appropriate. Atlas also has procedures to evaluate the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvency.

Virtually all states require insurers licensed to do business therein to bear a portion of contingent and incurred claim handling expenses and the unfunded amount of "covered" claim and unearned premium obligations of impaired or insolvent insurance companies, either up to the policy's limit, the applicable guaranty fund covered claim obligation cap, or 100% of statutorily defined workers' compensation benefits, subject to applicable deductibles. These obligations are funded by assessments, made on a retrospective, prospective or pre-funded basis, which are levied by guaranty associations within the state, up to prescribed limits (typically 2% of "net direct written premium"), on all member insurers in the state on the basis of the proportionate share of the premiums written by member insurers in certain covered lines of business in which the impaired, insolvent or failed insurer was engaged.

In addition, as a condition to the ability to conduct business in certain states (and within the jurisdiction of some local governments), insurance companies are subject to or required to participate in various premium or loss based insurance-related assessments, including mandatory (a/k/a "involuntary") insurance pools, underwriting associations, workers' compensation second-injury funds, reinsurance funds and other state insurance facilities.

#### 19. LINE OF CREDIT

On May 7, 2014, American Insurance Acquisition, Inc. ("American Acquisition"), a subsidiary of Atlas, entered into a loan and security agreement ("Former Loan Agreement") for a \$10.0 million revolving loan facility with Fifth Third Bank. Under the Former Loan Agreement, funds could be borrowed and re-borrowed on a revolving basis by American Acquisition, from the closing date until (but not including) May 7, 2015, the loan maturity date. The interest rate on the advances under the revolving loan facility was generally LIBOR plus 2.75%, provided that, during a default, interest would accrue at a rate equal to LIBOR plus 5%. In addition, there was a non-utilization fee equal to 0.25% per annum of an amount equal to \$10.0 million less the daily average of the aggregate principal amount of the revolving loans outstanding plus the aggregate amount of the letter of credit obligations outstanding.

On March 9, 2015, American Acquisition entered into a loan and security agreement ("Loan Agreement") for a \$35.0 million loan facility with Fifth Third Bank. The Loan Agreement includes a \$30.0 million line of credit ("Draw Amount"), which can be drawn in increments at any time during the first twelve months of the agreement effective date of March 9, 2015. The \$30.0 million line of credit has a five year term and bears interest at one-month LIBOR plus 4.5%, effectively 4.92% at December 31, 2015. The Loan Agreement also includes a \$5.0 million revolving line of credit ("Revolver") that bears interest at one month LIBOR plus 2.75%, effectively 3.18% at December 31, 2015.

This \$5.0 million revolving line of credit replaces the \$10.0 million revolving line of credit American Acquisition previously had in place with Fifth Third Bank under the Former Loan Agreement.

The Loan Agreement also provides for the issuance of letters of credit in an amount up to \$2.0 million outstanding at any time. In addition, there is a non-utilization fee for each of the \$30.0 million line of credit and \$5.0 million revolving line of credit equal to 0.50% per annum of an amount equal to \$30.0 million and \$5.0 million, respectively, less the daily average of the aggregate

principal amount outstanding under such credit lines (plus, in the case of the \$30.0 million line of credit, the aggregate amount of the letter of credit obligations outstanding).

The Loan Agreement requires American Acquisition to comply with customary affirmative and negative covenants, including those governing indebtedness, liens, investments, sales of assets, issuance of securities, and distributions. The Loan Agreement also requires American Acquisition to make mandatory prepayments under certain conditions and to comply with certain financial covenants, including the ASI Pool Subsidiaries (defined below) maintaining a combined statutory net worth in an amount not less than \$60 million (subject to adjustment) and maintaining a minimum funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization ratio. The Loan Agreement is secured by substantially all of the property of American Acquisition, including all of the outstanding shares of American Country, American Service and Gateway, which are wholly-owned direct subsidiaries of American Acquisition (the “ASI Pool Subsidiaries”). As of December 31, 2015, American Acquisition was in compliance with the covenants of the Loan Agreement.

As of December 31, 2015, \$2.0 million in funds were accessed from the Revolver and used for the Anchor acquisition. \$15.5 million in funds were accessed against the Draw Amount as of December 31, 2015. The draw was contributed to the ASI Pool Subsidiaries in exchange for surplus notes that carry a variable interest rate of prime plus 2% with a maturity date of April 30, 2020. No letters of credit were issued under the terms of this Loan Agreement as of December 31, 2015. As of December 31, 2015, the unused funds for the Revolver and the Draw Amount were \$3.0 million and \$14.5 million, respectively.

For the year ended December 31, 2015, American Acquisition incurred interest expense, including non-utilization fees, of \$638,000 and bank fees of \$56,000 in connection with the Loan Agreement. As of December 31, 2015, unamortized bank fees associated with the Loan Agreement were \$281,000. These bank fees will be amortized over the next 50 months.

The following table provides the rollforward of Atlas' total debt outstanding for the year ended December 31, 2015 (all amounts in '000s):

Year Ended Ended December 31, 2015	Balance at December 31, 2014	Issuances	Maturities and Repayments	Balance at December 31, 2015
Revolver	\$—	\$2,500	\$(500	) \$2,000
Draw Amount	—	15,500	—	15,500
Total Borrowings	\$—	\$18,000	\$(500	) \$17,500

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure  
None.

Item 9A. Controls and Procedures  
Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to the members of senior management and the Board of Directors.

Based on management's evaluation as of December 31, 2015, our president and chief executive officer and our vice president, chief financial officer and treasurer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that the information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and is accumulated and communicated to our management, including our president and chief executive officer and our vice president, chief financial officer and treasurer to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There were no changes to our internal controls over financial reporting during the fiscal quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that the Company's internal control over financial reporting is effective as of December 31, 2015.

Our management does not expect that the Company's controls and procedures over financial reporting will prevent all errors and frauds. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, a control system's design must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple mistake or error.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of control. The design of any system of controls also is based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will successfully achieve its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

The independent registered public accounting firm of BDO USA, LLP, as auditors of the consolidated financial statements of Atlas and its subsidiaries, has issued an attestation report on the effectiveness of management's internal control over financial reporting based on criteria established in Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. The attestation report is included in Item 8 under the heading "Report of Independent Registered Public Accounting Firm on Internal Controls over Financial Reporting," and is incorporated herein by reference.

Item 9B. Other Information

None.

Part III.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be included in our proxy statement relating to our 2016 annual general meeting of shareholders ("Proxy Statement"), which information is incorporated by reference in this Annual Report on Form 10-K.

Item 11. Executive Compensation

The information required by this Item will be included in the Proxy Statement, which information is incorporated by reference in this Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be included in the Proxy Statement, which information is incorporated by reference in this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be included in the Proxy Statement, which information is incorporated by reference in this Annual Report on Form 10-K.

Item 14. Principal Accounting Fees and Services

The information required by this Item will be included in the Proxy Statement, which information is incorporated by reference in this Annual Report on Form 10-K.

Part IV.

Item 15. Exhibits and Financial Statement Schedules

(a) (1) The following consolidated financial statements, notes thereto and related information of Atlas Financial Holdings, Inc. are included in Item 8.

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Financial Position

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm on Internal Controls over Financial Reporting

Reports of Independent Registered Public Accounting Firms

(a) (2) The following additional financial statement schedules and independent auditors' report are furnished herewith pursuant to the requirements of Form 10-K:

Schedules required to be filed under the provisions of Regulation S-X Article 7:

Schedule II - Condensed Financial Information of Registrant

Schedule IV - Reinsurance

Schedule V - Valuation and qualifying accounts

Schedule VI - Supplemental information concerning property - casualty insurance operations

All other schedules pursuant to Article 7 of Regulation S-X are omitted because they are not applicable, or because the required information is included in the consolidated financial statements or in the notes thereto.

(a) (3) The following is a list of the exhibits filed as part of this Form 10-K. The exhibit numbers followed by an asterisk (\*) indicate exhibits that are management contracts or compensatory plans or arrangements.

Exhibit	Description
3.1	Memorandum of Association of Atlas Financial Holdings, Inc. dated December 24, 2010 (incorporated by reference from our general form for registration of securities on Form 10 filed March 26, 2012)
3.2	Special Resolution amending Article Six of the Amended and Restated Memorandum of Association, filed with the Registrar of Companies in the Cayman Islands on January 29, 2013 (incorporated by reference from our current report on Form 8-K filed January 30, 2013)
4.1 <sup>(1)</sup>	Specimen Ordinary Share Certificate
4.2 <sup>(1)</sup>	Specimen Warrant Agreement
4.3	Articles of Association of Atlas Financial Holdings, Inc., dated December 24, 2010 (included in Exhibit 3.1 hereto)
4.4	Form of Senior Indenture (incorporated by reference from our registration statement on Form S-3 filed April 25, 2014)
4.5	Form of Subordinated Indenture (incorporated by reference from our registration statement on Form S-3 filed April 25, 2014)
10.1 <sup>(1)</sup>	Atlas Financial Holdings, Inc. Stock Option Plan dated January 6, 2011 *
10.2 <sup>(1)</sup>	Form of Atlas Employment Agreement for Executive Management, updated January 1, 2012 *
10.3 <sup>(1)</sup>	Employee Share Purchase Plan Agreement, as adopted June 1, 2011 *
10.4 <sup>(1)</sup>	Defined Contribution Plan Document dated August 11, 2011 *
10.5	Transition Services Agreement between Kingsway Financial Services, Inc. and American Insurance Acquisition, Inc., dated December 31, 2010 (incorporated by reference from our annual report on Form 10-K/A for the year ended December 31, 2011 (amendment no. 1), filed on May 5, 2012)
10.6 <sup>(2)</sup>	150 Northwest Point - Sale Agreement
10.7 <sup>(2)</sup>	150 Northwest Point - Sale Agreement, Amendment 1
10.8 <sup>(2)</sup>	150 Northwest Point - Sale Agreement, Amendment 2
10.9 <sup>(2)</sup>	150 Northwest Point - Lease Agreement
10.10	Stock Purchase Agreement among Atlas Financial Holdings, Inc., and Hendricks Holding Company, Inc. dated as of October 24, 2012 (incorporated by reference from our current report on Form 8-K filed October 31, 2012)
10.11	Atlas Financial Holdings, Inc. 2013 Equity Incentive Plan (incorporated by reference from our proxy statement relating to our 2013 annual meeting of shareholders, filed May 7, 2013) ("Equity Incentive Plan")*
10.12	First amendment to Equity Incentive Plan (incorporated by reference from our annual report on Form 10-K for the year ended December 31, 2013, filed on March 10, 2014)*
10.13	Share Sale Agreement between Atlas Financial Holdings, Inc. and Kingsway America, Inc. dated August 1, 2013 (incorporated by reference from our current report on Form 8-K filed August 1, 2013)
10.14	Director Compensation and Stock Ownership Guidelines (incorporated by reference from our current report on Form 8-K filed June 20, 2013) *
10.15	Amendment to Director Compensation and Stock Ownership Guidelines (incorporated by reference from our registration statement filed on Form S-1 filed September 19, 2013) *
10.16	Amended and Restated Option Agreement, dated November 26, 2013, between Atlas Financial Holdings, Inc. and Jordon Kupinsky (incorporated by reference from our registration statement filed on Form S-8 filed November 27, 2013) *
10.17	Executed Underwriting Agreement, dated February 11, 2013 (incorporated by reference from our current report on Form 8-K filed February 15, 2013)
10.18	Executed Underwriting Agreement, dated May 20, 2014 (incorporated by reference from our current report on Form 8-K filed May 22, 2014)
10.19	Loan and Security Agreement between American Insurance Acquisition Inc. and Fifth Third Bank dated as of May 7, 2014 (incorporated by reference from our quarterly report on Form 10-Q for the quarter ended June 30, 2014, filed August 5, 2014)
10.20	First Amendment to Loan and Security Agreement between American Insurance Acquisition Inc. and Fifth Third Bank dated as of July 3, 2014 (incorporated by reference from our quarterly report on Form 10-Q for



- the quarter ended June 30, 2014, filed August 5, 2014)
- 10.21 Stock Purchase Agreement, dated as of October 17, 2014, between Mr. Hossni Elhelbawi, Atlas Financial Holdings, Inc. and the other parties thereto (incorporated by reference from our current report on Form 8-K filed October 21, 2014)
- 10.22 Loan and Security Agreement, dated as of March 9, 2015, by and between American Insurance Acquisition, Inc. and Fifth Third Bank (incorporated by reference from our quarterly report on Form 10-Q for the quarter ended March 31, 2015, filed May 11, 2015)
- 21 List of Subsidiaries
- 23.1 Consent of BDO USA, LLP
- 23.2 Consent of Johnson Lambert LLP
- Item 31 – Rule 13a-14(a)/15d-14(a) Certifications
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Item 32 – Section 1350 Certifications
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Item 101 - Interactive Data Files

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference from our annual report on Form 10-K for the year ended December 31, 2011, filed on March 26, 2012.

(2) Incorporated by reference from our quarterly report on Form 10-Q for the quarter ended September 30, 2012, filed on November 4, 2012.

(\*) Management contracts and compensatory plans or agreements.

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## SIGNATURES

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

ATLAS FINANCIAL HOLDINGS, INC.  
(Registrant)

/s/ Paul A. Romano

By: Paul A. Romano  
(Vice President and Chief Financial Officer)  
March 7, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Scott D. Wollney	President, Chief Executive Officer	March 7, 2016
Scott D. Wollney	and Director	
/s/ Paul A. Romano	Vice President, Chief Financial Officer	March 7, 2016
Paul A. Romano	and Principal Accounting Officer	
/s/ Gordon G. Pratt	Director, Chairman of the Board	March 7, 2016
Gordon G. Pratt		
/s/ Jordan M. Kupinsky	Director	March 7, 2016
Jordan M. Kupinsky		
/s/ Larry G. Swets, Jr.	Director	March 7, 2016
Larry G. Swets, Jr.		
/s/ John T. Fitzgerald	Director	March 7, 2016
John T. Fitzgerald		

## Schedule II – Condensed Financial Information of Registrant

## Statements of Income and Comprehensive Income

(\$ in '000s)

	Year ended December 31,		
	2015	2014	2013
Net investment gain	\$7	\$16	\$96
Other underwriting expense	2,566	1,825	542
Loss from operations before income tax benefit	(2,559)	(1,809)	(446)
Income tax benefit	(577)	(498)	(67)
Loss before equity in net income of subsidiaries	\$(1,982)	\$(1,311)	\$(379)
Equity in net income of subsidiaries	16,412	19,013	6,559
Net income	\$14,430	\$17,702	\$6,180
Other comprehensive (loss) income:			
Changes in net unrealized (losses) gains	(1,912)	) 2,029	(4,354)
Reclassification to income of net realized gains (losses)	203	257	(469)
Effect of income tax	597	(777)	) 1,642
Other comprehensive (loss) income for the period	(1,112)	) 1,509	(3,181)
Total comprehensive income	\$13,318	\$19,211	\$2,999

See accompanying Notes to Condensed Financial Information of Registrant

## Schedule II – Condensed Financial Information of Registrant (continued)

## Statements of Financial Position

(\$ in '000s, except for share and per share data)

	December 31,	
	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$162	\$23,428
Accrued investment income	—	3
Accounts receivable and other assets	479	—
Deferred tax asset, net	766	515
Investment in subsidiaries	128,215	85,486
<b>Total Assets</b>	<b>\$129,622</b>	<b>\$109,432</b>
<b>Liabilities</b>		
Other liabilities and accrued expenses	\$—	\$33
<b>Total Liabilities</b>	<b>\$—</b>	<b>\$33</b>
<b>Shareholders' Equity</b>		
Preferred shares, \$0.001 par value, 100,000,000 shares authorized, shares issued and outstanding: 2015 - 6,940,500 and 2014 - 2,000,000. Liquidation value \$1.00 per share	\$6,941	\$2,000
Ordinary voting common shares, \$0.003 par value, 266,666,667 shares authorized, shares issued and outstanding: 2015 - 11,883,025 and 2014 - 11,638,723	36	34
Restricted voting common shares, \$0.003 par value, 33,333,334 shares authorized, shares issued and outstanding: 2015 and 2014 - 132,863	—	—
Additional paid-in capital	198,041	196,079
Retained deficit	(74,364)	(88,794)
Accumulated other comprehensive (loss) income, net of tax	(1,032)	80
<b>Total Shareholders' Equity</b>	<b>129,622</b>	<b>109,399</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$129,622</b>	<b>\$109,432</b>

See accompanying notes to Condensed Financial Information of Registrant

## Schedule II – Condensed Financial Information of Registrant (continued)

## Statements of Cash Flow

(\$ in '000s)

	Year Ended December 31,		
	2015	2014	2013
Operating Activities:			
Net income	\$ 14,430	\$ 17,702	\$ 6,180
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in net income of subsidiaries	(16,412)	(19,013)	(6,559)
Share-based compensation expense	1,819	1,469	247
Deferred income taxes	(251)	(301)	(112)
Expenses incurred pursuant to Gateway stock purchase agreement	941	—	—
Net changes in operating assets and liabilities:			
Other assets and accrued investment income	(476)	22	(25)
Accounts payable and accrued liabilities	(34)	(112)	144
Net cash flows provided by (used in) operating activities	17	(233)	(125)
Investing activities:			
Capital contributions made to subsidiaries	(23,428)	(1,650)	—
Net cash flows used in investing activities	(23,428)	(1,650)	—
Financing activities:			
Preferred share buyback	—	—	(16,200)
Proceeds from initial public offering	—	—	9,756
Issuance of common shares	—	25,021	—
Warrants exercised	—	—	7,181
Dividends paid	—	—	(2,145)
Dividends received	—	—	1,752
Options exercised	145	1	3
Net cash flows provided by financing activities	145	25,022	347
Net change in cash and cash equivalents	(23,266)	23,139	222
Cash and cash equivalents, beginning of year	23,428	289	67
Cash and cash equivalents, end of year	\$ 162	\$ 23,428	\$ 289
Supplemental disclosure of cash information (in '000s):			
	Year Ended December 31,		
	2015	2014	2013
Cash paid (recovered) for:			
Interest	\$ —	\$ —	\$ 129
Income taxes	85	(210)	25
Supplemental disclosure of noncash investing and financing activities (in '000s):			
Issuance of preferred shares related to acquisition of subsidiary	\$ 4,000	\$ —	\$ 2,000
Issuance of preferred shares related to Gateway stock purchase agreement	941	—	—

See accompanying notes to Condensed Financial Information of Registrant

## Schedule II – Condensed Financial Information of Registrant (continued)

### Notes to Condensed Financial Information

The financial statements of the Registrant should be read in conjunction with the Consolidated Financial Statements and notes thereto included in Item 8.

Atlas has no material contingencies, long-term debt obligations or guarantees.

Atlas has not received cash dividends from its subsidiaries since its inception on December 31, 2010.

### Schedule IV – Reinsurance

(in '000s)	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	% of Amount Assumed to Net	
December 31, 2015						
Premiums earned	\$182,376	\$ (30,946 )	\$ 634	\$152,064	0.4	%
December 31, 2014						
Premiums earned	\$107,587	\$ (9,589 )	\$ 126	\$98,124	0.1	%
December 31, 2013						
Premiums earned	\$83,358	\$ (12,542 )	\$ 528	\$71,344	0.7	%

### Schedule V – Valuation and qualifying accounts

(in '000s)	Balance at Beginning of Period	Charged to Expenses	Other Additions	Deductions	Balance at End of Period
December 31, 2015					
Allowance for uncollectible receivables	\$560	\$566	\$8	\$ (288 )	\$846
Valuation allowance for deferred tax assets	—	—	—	—	—
December 31, 2014					
Allowance for uncollectible receivables	\$776	\$505	\$172	\$ (893 )	\$560
Valuation allowance for deferred tax assets	9,446	(9,446 )	—	—	—
December 31, 2013					
Allowance for uncollectible receivables	\$484	\$764	\$281	\$ (753 )	\$776
Valuation allowance for deferred tax assets	11,242	—	1,006	(2,802 )	9,446

Schedule VI - Supplemental information concerning property-casualty insurance operations  
(in '000s)

	Year Ended December 31,		
	2015	2014	2013
Deferred policy acquisition costs	\$ 10,235	\$ 8,166	\$ 6,674
Reserves for insurance claims and claims expense	127,011	102,430	101,385
Unearned premiums	108,202	58,950	44,232
Earned premiums	152,064	98,124	71,344
Net investment income	3,976	3,110	2,141
Claims and claims adjustment expense incurred			
Current year	89,828	61,680	45,604
Prior year	166	(602)	) 8
Amortization of deferred policy acquisition costs	18,592	14,048	10,373
Paid claims and claim adjustment expense	97,824	62,725	50,762
Gross premium written	209,286	122,432	93,060