Commonwealth of Pennsylvania

Insurance Department

REVIEW OF THE ALLOCATION OF SUBSCRIPTION RIGHTS AND CONVERSION APPRAISAL OF

ARI MUTUAL INSURANCE COMPANIES

As of August 20, 2015

REPORT DATE:

September 29, 2015

BOENNING & SCATTERGOOD

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Exhibits

I. INTRODUCTION AND OVERVIEW

SCOPE OF THE ASSIGNMENT

Boenning & Scattergood, Inc. ("**Boenning**") was engaged by the Pennsylvania Insurance Department (the "**Department**") to assist the Department in its review of the proposed Mutual-to-Stock Conversion (to be defined on page six) of ARI Mutual Insurance Company ("**ARI**" or the "**Company**").

The Conversion is undertaken pursuant to the Pennsylvania Insurance Company Mutual-to-Stock Conversion Act 40 P.S. §911-A, et seq. (the "**Act**"). The date of this report is September 29, 2015 with an "as of date" of August 20, 2015. Based upon our engagement letter with the Department dated June 30, 2015, Boenning was engaged to:

1. Assist in reviewing the plan of conversion, including, but not limited to, providing an opinion that the plan's method of allocating subscription rights is fair and equitable under 40 P.S. §914-A(a)(3)(ii) and (b);

2. Review and render advice within a report to the Department regarding the methodologies and assumptions utilized by ARI (or their advisors) in deriving the estimate of the pro forma market value of ARI in light of 40 P.S. §914-A(d);

3. Testify, if requested, regarding specific findings resulting from work conducted for the Department;

4. Provide written commentary within the body of Boenning's report addressing the Company's appraisal report (including updates as of the time of Boenning's initial draft report);

5. Participate in working group meetings as requested;

6. Review the Company's registration statement filed with the Securities and Exchange Commission and subsequent updates;

7. Review the final pricing of the proposed conversion; and

8. Provide a written report (the "**Report**") to the Department summarizing Boenning's analysis and conclusions.

This Report presents Boenning's findings and conclusions with respect to the above matters. It is based upon the materials available at the time of this Report and Boenning's due diligence. It should be read in its entirety and is subject to the limitations stated herein.

SUMMARY OF ARI'S PROPOSED CONVERSION

The Proposed Conversion

On April 9, 2015, ARI filed with the Department its "Mutual-to-Stock Form Conversion Pursuant to Pennsylvania Insurance Company Mutual-to-Stock Conversion Act" application (the "**Application**"). The Application contains ARI's "Plan of Conversion From Mutual Insurance Company to Stock Form" (the "**Plan**"). The Plan was adopted by ARI's Board of Directors on March 17, 2015. The Application also includes the other following documents:

- As part of the Plan, the independent evaluation of pro forma market value required by 40 P.S. §914-A(d), performed by Feldman Financial Advisors, Inc. ("**Feldman**") valued as of March 31, 2015 (the "**Appraisal**");
- As part of the Plan, the Stock Purchase Agreement dated March 17, 2015;
- The form of notice required by subsection (f) of Section 913-A of the Pennsylvania Conversion Act;
- The form of proxy to be solicited from eligible members pursuant to subsection (g) of Section §913-A of the Pennsylvania Conversion Act;
- The form of notice required by Section 919-A of the Pennsylvania Conversion Act to persons whose policies are issued after adoption of the Plan, but before its effective date;
- The form of notice required by subsection (b)(7) of Section 913-A of the Pennsylvania Conversion Act; and
- The proposed amended and restated articles of incorporation of ARI as converted to stock form, and the proposed and restated bylaws of ARI as converted to stock form.

The Act provides flexibility to the converting insurance company in structuring its conversion. According to 40 P.S. §917-A:

> "The board of directors may adopt a plan of conversion that does not rely in whole or in part upon issuing nontransferable subscription rights to members to purchase stock of the converted stock company if the commissioner finds that the plan does not prejudice the interests of the members, is fair and equitable and is not inconsistent with the purpose and intent of this act.
> An alternative plan may:
>
> (1) Include the merger of a domestic mutual insurer into a domestic or foreign stock insurer.
> (2) Provide for issuing stock, cash or other consideration to policyholders instead of subscription rights.
> (3) Provide for partial conversion of the mutual company and formation of a mutual holding company.
> (4) Set forth another plan containing any other provision approved by the commissioner."

Based upon the Application and our discussions with ARI management, ARI's Board of Directors utilized the flexibility of the Act noted above to consider several alternatives, including:

- Remaining in the current mutual form of organization
- Reinsurance transactions
- Mergers or affiliations with other mutual insurance companies
- Converting through a subscription rights demutualization, either on a standalone basis, with a standby investor, or by means of a sponsored demutualization.

As stated in the Plan and confirmed with management, ARI's Board of Directors determined through its strategic alternatives analysis that the Company's future success and its ability to continue to serve its policyholders and other stakeholders would be enhanced if it expands geographically, augments its capital position, and achieves an "A-" or better rating from A.M. Best Company, Inc. ("**A.M. Best**"). Further, financial results in the fourth quarter of 2014 included items that reduced capital by ~$7.0 million and included: adverse commercial auto loss reserve development in connection with a change to a more conservative actuarial position ($2 million), losses from a 1985 workers compensation claim that exceeded reinsurance retention ($1.5 million), and 100% valuation allowance against ARI's deferred tax assets ($3.3 million).

Diminished capital severely restricted the Company's alternatives, and accelerated ARI's support for a sponsored demutualization.

Based on its strategic analysis, ARI ultimately concluded that the subscription rights method of demutualization, in a transaction sponsored by AmTrust Financial Services, Inc. ("**AmTrust**") would be in the best interest of its policyholders and other stakeholders. Specifically, ARI's Board of Directors considered that a sponsored demutualization with AmTrust would, among other things:

(i) provide ARI with access to a significant amount of additional capital;

(ii) permit ARI to gain access to AmTrust's "A" A.M. Best rating and larger size category;

(iii) provide Eligible Members with an opportunity to acquire AmTrust stock at a discount with price protection by AmTrust for 60 days following the Effective Date;

(iv) permit ARI to operate as a subsidiary of AmTrust and serve as a platform for AmTrust's specialty commercial auto insurance business;

(v) permit ARI to continue to serve its specialty commercial auto insurance customers;

(vi) permit ARI to maintain its name, headquarters, culture, values, and management team; and

(vii) provide ARI employees with opportunities for career development.

Further as stated under Reasons for the Conversion in the Registration Statement, AmTrust would provide the ARI policyholders and creditors:

I. improved profitability;

II. broader geographic footprint, which benefits policyholders by diversifying risk;

III. ability to leverage fixed costs over a wider revenue base; and

IV. improved credit ratings and financial strength ratings.

ARI's conversion (the "**Conversion**") consists of the following actions as cited in the Plan, first under Section I Background and Reasons for the Conversion:

> "…. [ARI] convert[ing] from a Pennsylvania mutual insurance company to a Pennsylvania stock insurance company pursuant to the [Act], …simultaneously issue[ing] and sell[ing] all of its authorized shares to ARI HoldCo, a Delaware business corporation ("**HoldCo**"), thereby becoming a wholly owned subsidiary of HoldCo. …in connection with the Conversion, Holdco…issue[ing] and sell[ing] to AmTrust all of its authorized shares."

Further, the definition of Conversion shall include AmTrust offering and selling its common stock ("**Common Stock**") in the subscription offering (defined below) (the "**Offering**") as cited as part of the formally defined term in Section 2.14 of the Plan:

The Plan's subscription rights ("**Subscription Rights**") provides for participants to purchase shares of Common Stock of AmTrust in the Offering at a uniform price per share and will be distributed by AmTrust only to Eligible Members and Non-Employee Directors (collectively (the "**Participants**") and individually defined below) (the "**Subscription Offering**"). The total dollar amount of subscriptions for shares of Common Stock tendered by Participants in the Offering (the "**Aggregate Subscription Amount**") cannot exceed the Maximum of the Valuation Range (defined below).

Participant Eligibility

According to 40 P.S. §912-A, "eligible member" is defined as:

> "A member of a mutual company whose policy is in force on the date the mutual company's board of directors adopts a plan of conversion. A person insured under a group policy is not an eligible member. A person whose policy becomes effective after the board of directors adopts the plan but before the plan's effective date is not an eligible member but shall have those rights established under section §809-A."

ARI's Plan, under Section 2.20 defines an eligible member ("**Eligible Member**") as a person who is a member of ARI ("**Member**") whose ARI insurance policy is in force as of the close of business on March 17, 2015 (the "**Eligibility Record Date**"), other than a person who is insured under a group policy. Further, a person whose ARI policy of insurance becomes effective after the board of directors adopts the Plan but before the Plan's effective date is not an Eligible Member, but shall have those rights established under Section §919-A.

Boenning views this definition of Eligible Member as consistent with the relevant section of the Act as cited above.

Section 5 of the Plan summarizes that Subscription Rights to purchase shares of Common Stock in the Offering will be granted by AmTrust in the following priorities:

> "(1) Eligible Members (First Priority). Each Eligible Member shall receive, without payment, Subscription Rights to purchase in the Offering up to the Maximum Subscription Amount; provided, however, that the maximum dollar amount of subscriptions that will be accepted shall be equal to the Maximum of the Valuation Range, and the maximum number of shares of Common Stock that may be purchased by Eligible Members in the aggregate shall be equal to the Maximum Shares Issuable. The number of Qualifying Policies or other policies owned by an Eligible Member shall not increase or otherwise affect such Eligible Member's Subscription Rights.
>
> (2) Non-Employee Directors (Second Priority). Defined from Section 2.33 of the Plan as any person who is a director of the Company or any of its subsidiaries ("**Director**") who is not an employee listed on Schedule 4.19 of the Company Disclosure Letter delivered pursuant to the Agreement. Subject to the rights of Eligible Members to subscribe for and purchase 100% of the shares offered in the Offering, each Non-Employee Director shall receive, without payment, Subscription Rights to purchase in the Offering up to the Maximum Subscription Amount. These Subscription Rights shall be subordinated to the Subscription Rights of the Eligible Members, and may be exercised only to the extent that there are shares of Common Stock that could have been purchased by Eligible Members, but which remain unsold after satisfying the subscriptions of all Eligible Members; *provided, however*, in accordance with the Act, that the aggregate number of shares purchased by all of the Non-Employee Directors shall not exceed the lesser of (i) the total number of shares to be issued at the Minimum of the Valuation Range in the Offering *minus* the number of shares subscribed for by Eligible Members, and (ii) 33.27% of the total number of shares of Common Stock as would be issued at the Minimum of the Valuation Range."

In the event of an oversubscription of shares, the Plan outlines the following as it relates to Eligible Members and Non-Employee Directors:

> "In the event that the total Subscription Amounts of all Eligible Members exceeds the Maximum of the Valuation Range, the available shares of Common Stock shall be allocated among subscribing Eligible Members so as to permit each such Eligible Members, to the extent possible, to purchase a number of shares which will make such member's allocation equal to the lesser of (i) the quotient of the Subscription Amount of such Eligible Member divided by the Purchase Price or (ii) 1,000 shares. Any shares of Common Stock remaining after such initial allocation will be allocated among the subscribing Eligible Members whose subscriptions remain unsatisfied in the proportion in which (i) the Subscription Amount as to which each such Eligible Member's subscription remains unsatisfied bears to (ii) the Aggregate Subscription Amount as to which all such Eligible Members' subscriptions remain unsatisfied; provided, however, that no fractional shares of Common Stock shall be issued. If, because of the magnitude of the oversubscription, shares of Common Stock cannot be allocated among subscribing Eligible Members so as to permit each such Eligible Member to purchase the lesser of 1,000 shares or the number of shares subscribed for, then shares of Common Stock will be allocated among the subscribing Eligible Members in the proportion in which: (i) the Subscription Amount by each such Eligible Member bears to (ii) the Aggregate Subscription Amount by all Eligible Members; provided, however, that no fractional shares of Common Stock shall be issued."

> "In the event of an oversubscription among the Non-Employee Directors, then the shares of Common Stock available to satisfy the subscriptions of such Non-Employee Directors will be allocated among them in the proportion in which: (i) the Subscription Amount by each such Non-Employee Director bears to (ii) the aggregate Subscription Amounts by all such Non-Employee Directors; provided, however, that no fractional shares of Common Stock shall be issued."

As stated in the Plan, the maximum an Eligible Member can purchase in the Subscription Offering is $100,000 with a minimum of the lesser of 25 shares or $500.00. The maximum a Non-Employee Director can purchase in the Subscription Offering is $50,000 with a minimum of the lesser of 25 shares or $500.00.

The Plan provides that Subscription Rights granted under the Plan by AmTrust will be non-transferable subscription rights, and be granted without charge, to purchase shares of Common Stock of AmTrust in the Offering.

The total value of ARI has been determined by Feldman in the Appraisal and updated in the appraisal update as of August 20, 2015 (the "**Appraisal Update**"). Feldman's Appraisal as of March 31, 2015 (using financial information for ARI through December 31, 2014) and Appraisal Update as of August 20, 2015 (using financial information for ARI through March 31, 2015) have been filed with the Department.

No preferences will be given to any Eligible Members or Non-Employee Directors based upon type or size of the policy, premium volume, longevity as a Member or Director or any other factor.

The Plan restricts directors and officers of the Company from acquiring any capital stock in either converted ARI or AmTrust for three years after the effective date of the Plan, except through a broker-dealer, without the permission of the Commissioner.

The Company and AmTrust have, in their sole discretion, the authority to determine which proposed participants in the Offering meet the criteria for eligibility to purchase stock in the Offering.

The Registered Offering

The Conversion is part of the Offering that AmTrust is undertaking via a prospectus filing. AmTrust filed a registration statement on May 20, 2015 (the "**Registration Statement**") with the Securities and Exchange Commission (the "**SEC**") related to the Offering. The number of shares of Common Stock required to be offered by AmTrust in the Offering is determined by the subscription level of the Participants and the range of pro forma market values (the "**Valuation Range**") as determined by Feldman, the independent appraiser in accordance with 914-A(d) of the Act. The Valuation Range described in the Appraisal consists of a midpoint ("**Midpoint**") valuation of the range of estimated consolidated pro forma market value of converted ARI, a valuation fifteen percent (15%) above such midpoint (the "**Maximum of the Valuation Range**") and a valuation fifteen percent (15%) below such midpoint (the "**Minimum**

of the Valuation Range"). Accordingly, AmTrust will offer up to $32,200,000 (equal to the Maximum of the Valuation Range) of shares of its Common Stock to Eligible Members and Non-Employee Directors in the Offering. Thus the number of shares of Common Stock to be offered and sold by AmTrust shall not exceed the quotient of the Maximum of the Valuation Range divided by the Purchase Price (the "**Maximum Shares Issuable**"). As provided in Section 2 of the Plan, the uniform purchase price (the "**Purchase Price**") available to all subscribers is determined in the following manner:

> "The Purchase Price shall be determined after the close of trading on the NASDAQ Stock Market on the Business Day prior to the date of the Special Meeting, based on the following formula:
>
> > PP = AmTrust 10-day VWAP multiplied by (100% - Stock Discount Percentage)
>
> where:
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> > "PP" means the Purchase Price payable per share of Common Stock in the Offering.
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> "AmTrust 10-day VWAP" means the volume-weighted average trading price for the Common Stock on the NASDAQ Stock Market for the 10 Trading Day period ending on the Business Day prior to the date of the Special Meeting as reported by Bloomberg through its "VWAP" function.
>
> "Stock Discount Percentage" means the percentage discount to the AmTrust 10-day VWAP determined as follows:
>
> > If the gross proceeds raised from the sale of Common Stock in the Offering are equal to or less than 12.5% of the Maximum of the Valuation Range, then the Stock Discount Percentage shall be equal to 20.00%; and
> >
> > If the gross proceeds raised from the sale of Common Stock in the Offering are greater than 12.5% of the Maximum of the Valuation Range, then the Stock Discount Percentage shall decrease from 20.00% as the Aggregate Subscription Amount received increases in the manner illustrated in Exhibit B [of the Plan] so that the Aggregate Discount Value does not exceed $3,750,000."

Section 3 of the Plan describes in conjunction with the Purchase Price how the number of Common Shares to be offered is determined. It is reproduced below for completeness sake:

"(c) Number of Shares of Common Stock to be Offered and Sold. The Aggregate Subscription Amount that will be accepted in the Offering cannot exceed the Maximum of the Valuation Range, and the maximum number of shares of Common Stock to be sold in the Offering shall not exceed the quotient of the Maximum of the Valuation Range *divided by* the Purchase Price (the "Maximum Shares Issuable"). At a minimum, the Aggregate Subscription Amount, together with the cash contributed by AmTrust to the Cash Contribution Fund (if applicable), must equal the Minimum of the Valuation Range. There is no minimum number of shares of Common Stock that must be sold in the Offering; *provided* that if the Aggregate Subscription Amount is less than the Minimum of the Valuation Range, AmTrust shall contribute sufficient cash to the Cash Contribution Fund such that the condition in the preceding sentence is satisfied.

(d) Offering Proceeds Within the Valuation Range. If the aggregate value of the Aggregate Subscription Amount together with the Cash Contribution Fund falls within the Valuation Range, the following steps will be taken:

(i) *Offering Meets or Exceeds Maximum.* If the Aggregate Subscription Amount is equal to or greater than the Maximum of the Valuation Range, then AmTrust on the Effective Date shall issue shares of Common Stock to the subscribing Participants; *provided, however,* that the number of shares of Common Stock issued shall not exceed the Maximum Shares Issuable. In the event of an oversubscription in the Offering, shares of Common Stock shall be allocated among the subscribing Participants as provided in Section 5 below; *provided, however,* that no fractional shares of Common Stock shall be issued.

(ii) *Offering Meets or Exceeds Minimum but not the Maximum.* If the Aggregate Subscription Amount is equal to or greater than the Minimum of the Valuation Range, but less than the Maximum of the Valuation Range, then AmTrust on the Effective Date shall issue shares of Common Stock to the subscribing Participants in an amount sufficient to satisfy the subscriptions of such Participants in full.

(iii) *Offering Does Not Meet Minimum.* If the Aggregate Subscription Amount is less than the Minimum of the Valuation Range, then in such event AmTrust shall establish and fund the Cash Contribution Fund. On the Effective Date, AmTrust shall, subject to the terms and conditions of the Agreement: (A) issue shares of Common Stock to subscribing Participants in an amount sufficient to satisfy the subscriptions of such Participants in full, and (B) use the gross proceeds of the Offering and the amount deposited in the Cash Contribution Fund (which total amount shall not be less than the Minimum of the Valuation Range) to purchase the authorized stock of HoldCo in accordance with the Act and consummate the Acquisition."

LIMITATIONS OF BOENNING'S REPORT

Boenning has produced this Report in its capacity as advisor to the Department in its review of the Plan and the Appraisal including the Appraisal Update, as prepared by Feldman. This Report may not be relied upon by anyone other than the Department. However, the Department, as its option, may make this report available to the public and may distribute copies, in its entirety, as requested. Boenning's report may not be referred to or quoted in any way in a Registration, prospectus or proxy statement of ARI, or any other party without Boenning's expressed written consent (see Exhibit I – Statement of Contingent and Limiting Conditions).

With respect to the requirement of an appraisal, Boenning conducted a review of the Feldman Appraisal and Appraisal Update. Boenning did not perform an independent evaluation of the pro forma market value of ARI, ARI HoldCo, or AmTrust. Boenning did not attempt to ascertain the value that would be necessary to achieve a full subscription pursuant to the Act. Accordingly, this Report does not express an opinion on the pro forma market value at which ARI may sell its Common Stock (in the context of the provision of the Act, not as contemplated in reality in the Registration Statement) to Eligible Members or Non-Employee Directors. Additionally, this Report does not express any opinion on the prices at which shares of AmTrust may trade at any time in the future.

The as of date of this Report is August 20, 2015 and considers information available to Boenning as of that date. It is our understanding that Feldman may update its Appraisal at the conclusion of the subscription offering or at any time Feldman believes is warranted in its capacity as an independent appraiser. The Department has requested that Boenning review each Appraisal update performed by Feldman and report our findings.

Boenning does not express any opinion on how Eligible Members should vote on the Plan. This Report is not a recommendation and should not be construed as a recommendation on whether to purchase shares of AmTrust in the Conversion or Offering or sell them at any time thereafter. This Report is not a fairness opinion to the policyholders, board of directors, or the Eligible Members of ARI or any other individual that may purchase shares in the Conversion or

Offering. Individuals purchasing stock in the Conversion or Offering should make their own independent judgment regarding the market value and the advisability of purchasing such shares.

Boenning was retained to assist the Department in its review of the Plan. Specifically, Boenning was requested to review the allocation of the Subscription Rights pursuant to Section 914-A(a)(3)(ii) and (b) of the Act. Boenning considered the requirements of the Act with respect to the Plan. Boenning also considered whether the allocation of the Subscription Rights to Participants and the allocation in the event of an oversubscription to Participants is fair and equitable. We undertook a business review of the Plan in reaching our conclusions. Boenning is not a law firm and does not express any legal opinion regarding the Plan, the allocation of Subscription Rights, or any other documents, issues or items in the Conversion or Offering.

BACKGROUND AND INDEPENDENCE OF BOENNING

Boenning, as part of its investment banking business, is regularly involved in the valuation of assets, securities and companies in connection with various types of asset and security transactions, including mergers, acquisitions, private placements, public offerings and valuations for various other purposes, and in the determination of adequate consideration in such transactions. Exhibit III presents Boenning's background and experience of the professional staff participating in this report. We believe that Boenning and its principals, officers, directors, employees, and related interests are independent of the Company.

MATERIALS REVIEWED AND PROCEDURES UNDERTAKEN

In preparing this Report to the Department, Boenning visited ARI's headquarters on July 30, 2015 and interviewed in person or by phone:

- Karen Fulton, President & CEO
- David Gerth, Senior VP, Treasurer & CFO
- Patrick Cusack, Senior VP of Claims
- Tucker Ericson, Senior VP of Underwriting and Marketing

On August 4, 2015, Boenning interviewed Trent Feldman and Peter Williams of Feldman. On subsequent dates Boenning also communicated with Ms. Fulton and Mr. Feldman to clarify certain issues. The scope of Boenning's analysis included, but was not limited to:

- Conducted discussions with ARI management concerning:
    - The strategic alternatives and factors considered in determining the subscription rights method was the best alternative available to ARI. The alternatives and factors are listed above in "The Conversion" section of this Report.
    - Current and historical operations of the Company including:
        - Management discussion and analysis for the period ended December 31, 2013 and 2014;
        - Management prepared statements of income comparing 2014 actual results with 2015 budget;
        - EisnerAmper LLP prepared audited GAAP and statutory consolidated financial statements for the year ended December 31, 2014;
        - Interim financial results for the periods ended March 31, 2015 and 2014;
    - Existing business plan and strategies for growth including any assumptions underlying the business plan and risk factors that could affect the financial performance of the Company;
    - Current operating budget for 2015, and pro forma assumptions for 2016 and 2017;
- Reviewed the minutes of the Board of Directors meetings for 2013, 2014 and year-to-date through May 2015;
- Reviewed the Application and attachments thereto, including the Plan;
- Reviewed the comments in the letters provided by the Department to ARI regarding the Plan;
- Reviewed the responses of ARI to comments prepared by the Department regarding the Plan;
- Obtained and reviewed certain financial and other information regarding the business of ARI (see attached data request in Exhibit III);

- Reviewed and discussed the Plan with ARI management;
- Reviewed ARI's audited statutory financial statements as of December 31, 2010 through December 31, 2014;
- Reviewed ARI's audited GAAP financial statements as of December 31, 2014 (only year available);
- Reviewed and discussed the Feldman Appraisal as of March 31, 2015 and Appraisal Update as of August 20, 2015 with ARI management and Feldman;
- Reviewed the Registration Statement on Form S-4 as filed with the SEC on May 20, 2015;
- Analyzed the business, economic and competitive environment, including the industry in which ARI operates, to provide context for current and anticipated industry trends;
- Reviewed the financial performance and market valuation of other property and casualty insurance companies that are publicly traded; and
- Considered such other information regarding ARI, the insurance industry, and the market for insurance company common stock that Boenning believed appropriate.

Boenning reviewed various documents, both public and private, including certain regulatory reports with respect to ARI. This information was represented by ARI management to be truthful, accurate and complete. In our review and analysis, we have assumed and relied upon the accuracy and completeness of all of the financial and other information provided to us (including information furnished to us verbally or otherwise discussed with us by the Company's management and its appraiser as well as information provided by recognized independent sources) or publicly available and have neither attempted to verify, nor assumed responsibility for verifying any such information. We have relied upon the assurances of the Company's management that they are not aware of any facts that would make such information inaccurate or misleading. Furthermore, we did not obtain or make, or assume any responsibility for obtaining or making, any independent evaluation or appraisal of any individual asset or liability (contingent or otherwise) of the Company, nor were we furnished with an appraisal of individual assets or liabilities. We did not make any independent evaluation of the adequacy of the loss reserves and assume they reflect the best available estimates and judgments of the Company's management.

SUMMARY OF BOENNING'S CONCLUSIONS

In Boenning's review of the Plan and its opinion regarding the allocation of the Subscription Rights among Participants, Boenning compared the Plan with the requirements of the Act.

As part of its review of the Plan, in accordance with its engagement by the Department, Boenning considered whether the allocation of the Subscription Rights to Participants is fair and equitable. In order to reach conclusions, Boenning reviewed the allocation of Subscription Rights and the allocation of Common Stock in the event of an oversubscription as indicated by 40 P.S. §914-A(a)(3)(ii) and (b). It is our opinion that the allocation of the Subscription Rights among the Participants is fair and equitable. Moreover, it is our opinion that the means for allocation of shares of Common Stock in the event of an oversubscription is fair and equitable. A detailed review of our analysis of the allocation of Subscription Right is provided in Section II of this Report.

We were also requested to review the reasonableness of the methodologies and assumptions utilized by ARI (or their advisors) in deriving the estimate of the pro forma market value of ARI in light of 40 P.S. §914-A(d). As discussed more fully in Section III of this Report, we believe the Appraisal and Appraisal Update conclusion is reasonable given the factors considered, methods used, and assumptions made by Feldman.

II. REVIEW OF THE PLAN AND ALLOCATION OF SUBSCRIPTION RIGHTS

THE PLAN

Boenning was engaged by the Department to assist in reviewing the Plan, including, but not limited to, providing an opinion that the Plan's method of allocating subscription rights is fair and equitable under 40 P.S. §914-A(a)(3)(ii) and (b). Boenning also reviewed the comments provided by the Department on the Plan, which were incorporated in the Department's comment letter(s) to ARI regarding the Plan on July 24, 2015 and August 19, 2015. We subsequently also reviewed the ARI responses provided to the Department.

According to 40 P.S. §913-A, requirements of the Act relating to notification and voting rights by members, policyholders and participants in the Plan include paragraphs (f), (g), and (h) as follows:

> "(f) All eligible members shall be sent notice of the members' meeting to vote upon the plan. The notice shall briefly but fairly describe the proposed conversion plan, shall inform the member of his right to vote upon the plan and shall be sent to each member's last known address, as shown on the mutual company's records, at least thirty (30) days before the time fixed for the meeting. If the meeting to vote upon the plan is held during the mutual company's annual meeting of policyholders, only a combined notice of meeting is required.
>
> (g) The plan shall be voted upon by eligible members and shall be adopted upon receiving the affirmative vote of at least two-thirds of the votes cast by eligible members. Members entitled to vote upon the proposed plan may vote in person or by proxy. The number of votes each eligible member may cast shall be determined by the mutual company's bylaws. If the bylaws are silent, each eligible member may cast one vote.
>
> (h) The amended articles shall be considered at the meeting of the policyholders called for the purpose of adopting the plan of conversion and shall require for adoption the affirmative vote of at least two-thirds of the votes cast by eligible members."

The Plan addresses these requirements as follows.

The Plan indicates that ARI shall send a notice to Eligible Members that advises Eligible Members of the adoption and filing of the Plan and their ability to provide the Insurance Commissioner ("**Commissioner**") and ARI with comments on the Plan within 30 days of the date of the notice. The notice was sent on or about April 24, 2015 to all eligible policyholders. The Company direct bills 100% of its policyholders and the nature of auto policies dictates that the policy address is the same as the billing address. Management indicated that this gives them a high degree of confidence that policyholders will receive Company mailings and will receive the policyholder communications regarding the Conversion.

On March 18, 2015, ARI ran a list of all policyholders in force as of March 17, 2015 (eligible policyholders). This list was run daily from this date through April 17, 2015 in order to identify any policies issued or reinstated after March 17, 2015 which were effective March 17, 2015 or prior, which would be additional eligible policyholders and any policies cancelled subsequent to March 18, 2015 where the cancellation was effective prior to March 17, 2015 (ineligible policyholders).

According to the Plan, following the approval of the Plan by the Commissioner and filing of a prospectus with the SEC, ARI will hold a meeting (the "**ARI Special Meeting**") to vote on the Plan. The ARI Special Meeting shall be held by ARI in accordance with the bylaws of ARI and applicable law. The Plan indicates that a notice ("**Notice of the ARI Special Meeting**") will be mailed by ARI to the address of Eligible Members and will include the following items:

(i) a notice of special meeting;
(ii) a proxy statement which will be accompanied by the offering prospectus and order form;
(iii) a form of proxy authorized for use by the Department under which an Eligible Member may vote in favor of the Conversion; and
(iv) a copy of the Plan as approved by the Department.

The proxy statement mailing shall be made not less than twenty (20) days prior to the date of the ARI Special Meeting. The proxy statement mailing will notify Eligible Members that they may subscribe for the purchase of AmTrust Common Stock pursuant to the Plan and the Prospectus. AmTrust may commence the Subscription Offering concurrently with, or at any time after the date on which the proxy statement mailing is made. The Offering may not be closed until the expiration of at least twenty (20) days after the date the proxy statement is mailed.

Pursuant to the Act, the Plan must be approved by the affirmative vote of at least two-thirds of the votes cast at the ARI Special Meeting. The Plan notes that voting may be in person or by proxy.

Notification Process of Eligible Members

As stated earlier, ARI's policy addresses match the policyholder's billing address. As the Company has 100% direct billing to its policyholders, ARI has a very high degree of confidence that its mailed communications reach its policyholders. Based on payment receipt experiences, the Company would expect that any mailing made to its policyholder concerning the Conversion would reach all of its policyholders. ARI's notification process consisted of the following actions:

1. On March 17, 2015, ARI posted a press release to its website announcing its planned acquisition by AmTrust which contained a link to the announcement released by AmTrust further detailing the planned acquisition upon completion of the conversion of ARI to a stock company from a mutual company. This press release was also distributed to all independent agents representing ARI.
2. On April 9, 2015, ARI, via its legal counsel, submitted to the Department its Application and corresponding supporting documents which were publicly posted on the Department's website.
3. On April 13, 2015, ARI began attaching the Notice With Respect to Polices Issued After March 17, 2015 to all new business policies.
4. On April 24, 2015, ARI mailed the Notice of Plan of Conversion to the Eligible Members. There were 2,602 policyholders eligible with 52 having two policies resulting in mailings made to 2,550 policyholders.
5. On April 24, 2015 ARI mailed the Notice With Respect to Polices Issued After March 17, 2015 to all ineligible policyholders resulting in mailings made to 81 policyholders.
6. On August 21, 2015, ARI mailed the Notice of Public Informational Hearing Plan of Conversion. There were four originally eligible policies which cancelled subsequent to April 17, 2015 with cancellation effective prior to March 17, 2015, which were no longer eligible.

There were 2,598 policyholders eligible with 52 having two policies resulting in a total of 2,546 mailings made.

A public hearing has been scheduled for October 7, 2015, at such time, Eligible Members may comment on the Plan, including the allocation of Subscription Rights. The Registration Statement provides a detailed description of ARI, HoldCo, AmTrust, the Plan, the Conversion, and the procedure to subscribe for stock. When the Offering process begins, Eligible Members with additional questions will be able to contact a staffed conversion center via telephone.

Eligible Members must approve the Plan by a two-thirds vote of those voting at a special meeting. After the respective regulators have reviewed and provided comments on the offering materials, the Conversion Mailing will be mailed to all Eligible Members. The solicitation of the Proxy material and the Subscription Offering may take place concurrently. Eligible Members will have no less than 20 days to review the documents and submit their order.

As such, the process provides notification, information and opportunity for Eligible Members to comment on the Plan and time for Eligible Members to consider their options. ARI has not requested any deviation from the Act in conducting its Conversion.

ALLOCATION OF SUBSCRIPTION RIGHTS

According to 40 P.S. §914-A(a) certain provisions relating to the allocation of Subscriptions Rights must be included in the Plan. These include:

1) The reasons for the Conversion:

As noted above in Section I of this Report, ARI described several reasons for proposing the Conversion, which we believe are reasonable and appropriate. In determining to pursue a subscription rights conversion and determining the allocation of subscription rights, ARI's Board of Directors undertook a review of its strategic options with its financial advisor experienced in mutual-to-stock conversions. The scope of options considered in addition to a Subscription Offering included: remaining in the current mutual form of organization, reinsurance transactions, mergers or affiliations with other mutual insurance companies and converting through a subscription rights demutualization, either on a standalone basis, with a standby investor, or by means of a sponsored demutualization. While we express no opinion regarding the advisability of each of the alternatives explored relative to each other, we understand the Board of Directors' review took place over a period of time dating from early to mid-2014, utilized an external advisor with written reports and appeared to be a thorough exploration of ARI's options.

The decision process also included the context of the Company's financial condition and prospects.

2) The effect of the conversion on existing policies:

According to Section 13 of the Plan, all ARI policies in force on the effective date of the Conversion (the "**Effective Date**") shall continue to remain in force in accordance with the terms of such policy except that, following the Conversion, to the extent that they existed in ARI, any voting rights of the policyholders provided under such policies, any right to share in the surplus of ARI (unless such right is expressly provided for under the provisions of such policy), and any assessment provisions provided for under such policies, shall be extinguished on the Effective Date of the Conversion. The Plan indicates that ARI does not have and will not have on the Effective Date any, in force, participating policies.

3) That subscription rights to Eligible Members include, among other items:

The specific language from Section 40 P.S. §914-A subsection (a)(3)(ii) and (b) dealing with subscription rights to eligible members is included below:

"(ii) A provision that the subscription rights shall be allocated in whole shares among the eligible members using a fair and equitable formula. This formula may, but need not, take into account how the different classes of policies of the eligible members contributed to the surplus of the mutual company or any other factors that may be fair or equitable.

(b) The plan shall provide a fair and equitable means for allocating shares of capital stock in the event of an oversubscription to shares by eligible members exercising subscription rights received under subsection (a)(3)."

As noted above in Section I of this Report, the Plan provides for the allocation of the Subscription Rights to Participants. The order of priority among Participants and the approximate number of Participants in each class, are provided below:

Class	**Number of Participants**
1. Eligible Members	2,602
2. Non-Employee Directors	6

The Plan indicates that the Eligible Members will be given first priority in the Offering. No preferences were given to Eligible Members based on the size of the policy, longevity as policyholder, or premium volume. Also, Boenning notes that 52 Eligible Members out of 2,602 (2.0%) have more than one policy. This does not create a compelling case to divide subscription rights differently than contemplated by the Plan.

As permitted under the Act, a qualified stock plan may purchase up to 10% of the offering and such purchase will not be reduced by an oversubscription by Eligible Members. However, Boenning notes that the Plan does not contemplate participation by any qualified stock plan.

In the event of oversubscription among Participants, the Plan provides that the oversubscription will be resolved in two stages. First, as laid out in the Plan:

> "In the event that the total Subscription Amounts of all Eligible Members exceeds the Maximum of the Valuation Range, the available shares of Common Stock shall be allocated among subscribing Eligible Members so as to permit each such Eligible Members, to the extent possible, to purchase a number of shares which will make such member's allocation equal to the lesser of (i) the quotient of the Subscription Amount of such Eligible Member divided by the Purchase Price or (ii) 1,000 shares. Any shares of Common Stock remaining after such initial allocation will be allocated among the subscribing Eligible Members whose subscriptions remain unsatisfied in the proportion in which (i) the Subscription Amount as to which each such Eligible Member's subscription remains unsatisfied bears to (ii) the Aggregate Subscription Amount as to which all such Eligible Members' subscriptions remain unsatisfied; provided, however, that no fractional shares of Common Stock shall be issued. If, because of the magnitude of the oversubscription, shares of Common Stock cannot

> be allocated among subscribing Eligible Members so as to permit each such Eligible Member to purchase the lesser of 1,000 shares or the number of shares subscribed for, then shares of Common Stock will be allocated among the subscribing Eligible Members in the proportion in which: (i) the Subscription Amount by each such Eligible Member bears to (ii) the Aggregate Subscription Amount by all Eligible Members; provided, however, that no fractional shares of Common Stock shall be issued."

The Plan continues that if (because of the magnitude of the oversubscription) shares of Common Stock cannot be allocated among subscribing Eligible Members so as to permit each such Eligible Member to purchase the lesser of 1,000 shares or the number of shares subscribed for, then shares of Common Stock will be allocated among the subscribing Eligible Members in the proportion in which: (i) the Subscription Amount by each such Eligible Member bears to (ii) the Aggregate Subscription Amount by all Eligible Members, provided however, no fractional shares of Common Stock will be issued.

In the event of oversubscription among the Non-Employee Directors, the shares of Common Stock available will be allocated among Non-Employee Directors in the proportion in which (i) the Subscription Amount by each such Non-Employee Director bears to (ii) the aggregate Subscription Amount by all such Non-Employee Directors provided that no fractional shares are issued.

Purchases of shares of Common Stock in the Offering by anyone (as defined in the Plan, will include purchases by any Person together with any Associates or group of Persons acting in Concert), shall not exceed five percent (5%) of the capital stock of AmTrust, except with the approval of the Commissioner. The Plan notes that the limit set forth above should not be construed to increase any other purchase limit provided in the Plan. Per the Plan, "the maximum Subscription Amount in the Offering by any Eligible Member shall not exceed $100,000, and the maximum Subscription Amount in the Offering by any Non-Employee Director shall not exceed $50,000, irrespective of the different capacities in which such Person may have subscribed for such shares under this Plan (collectively, the "**Maximum Subscription"**)."

In the event that, after satisfaction of all subscriptions from Participants are met, the Offering meets or exceeds the Minimum of the Valuation Range but is less than the Maximum of the Valuation Range, then AmTrust shall issue shares of Common Stock in an amount to meet all the Subscriptions of the Participants in full. If, however, after satisfaction of all subscriptions from Participants are met, the Offering is less than the Minimum of the Valuation Range, the Plan describes that AmTrust will fund through a Cash Contribution Fund an amount of cash, in conjunction with the Aggregate Subscription Amount, sufficient to meet the Minimum of the Valuation Range. Section 3(d)(iii) outlining this process and Section 2.9 summarizing the determination of the Cash Contribution Fund, both from the Plan, are provided below:

> "3(d)(iii) *Offering Does Not Meet Minimum.* If the Aggregate Subscription Amount is less than the Minimum of the Valuation Range, then in such event AmTrust shall establish and fund the Cash Contribution Fund. On the Effective Date, AmTrust shall, subject to the terms and conditions of the Agreement: (A) issue shares of Common Stock to subscribing Participants in an amount sufficient to satisfy the subscriptions of such Participants in full, and (B) use the gross proceeds of the Offering and the amount deposited in the Cash Contribution Fund (which total amount shall not be less than the Minimum of the Valuation Range) to purchase the authorized stock of HoldCo in accordance with the Act and consummate the Acquisition."

> "**2.9** "**Cash Contribution Fund**" means the fund to be established by AmTrust in the event that the Aggregate Subscription Amount is less than the Minimum of the Valuation Range, and into which AmTrust shall contribute cash equal to the difference between (a) the Minimum of the Valuation Range less (b) the product of (i) the number of shares of Common Stock sold to Participants multiplied by (ii) the Purchase Price. (which total amount shall not be less than the Minimum of the Valuation Range) to purchase the authorized stock of HoldCo in accordance with the Act and consummate the Acquisition."

Importantly, regarding the allocation of the rights and purchase mechanisms, the Plan notes:

> "The Company and AmTrust shall have the absolute right, in their sole discretion and without liability to any Person, to determine which proposed subscribing Persons and which subscriptions and orders in the Offering meet the criteria provided in this Plan for eligibility to purchase Common Stock and the number of shares eligible for purchase by any Person, and to reject any Order Form that is (i) improperly completed or executed, (ii) not timely received, for whatever reason, (iii) not accompanied by the proper payment, or (iv) submitted by a Person whose representations AmTrust believes to be false or who it otherwise reasonably believes

is, either alone, or acting in concert with others, violating, evading or circumventing, or intending to violate, evade or circumvent, the terms and conditions of this Plan or the Act. The Company and AmTrust may, but will not be required to, waive any irregularity on any Order Form or may require the submission of corrected Order Forms or the remittance of full payment for shares of Common Stock by such date as they may specify. The interpretation of the Subscription Agent, the Company and AmTrust of the terms and conditions of the Order Forms shall be final and conclusive, and AmTrust and the Company shall be free from liability to any Person on account of such action. Once AmTrust, the Company (as agent for AmTrust) or the Subscription Agent, as applicable, receives an Order Form with full payment, the order shall be deemed placed and will be irrevocable; provided, however, that no Order Form shall be accepted until the Prospectus has been filed with the SEC and mailed or otherwise made available to the Persons entitled to Subscription Rights in the Offering, and any Order Form received prior to that time shall be rejected and no sale of Common Stock shall be made in respect thereof."

ADDITIONAL CRITERIA FOR THE SUBSCRIPTION RIGHTS

In addition, the Act lists several other criteria of the Subscription Rights that must be part of the Plan. We have reviewed these criteria below and discuss how they are addressed in ARI's Plan.

Subsections (d) through (j) of Act 40 P.S. §914-A prescribe the following:

"(d) The plan shall set the total price of the capital stock equal to the estimated pro forma market value of the converted stock company based upon an independent evaluation by a qualified expert. This pro forma market value may be that value that is estimated to be necessary to attract full subscription for the shares, as indicated by the independent evaluation and may be stated as a range of pro forma market value.

(e) The plan shall set the purchase price per share of capital stock equal to any reasonable amount. However, the minimum subscription amount required of any eligible member cannot exceed five hundred ($500.00) dollars, but the plan may provide that the minimum number of shares any person may purchase pursuant to the plan is twenty-five (25) shares.

(f) The plan shall provide that any person or group of persons acting in concert shall not acquire, in the public offering or pursuant to the exercise of subscription rights, more than five percentum (5%) of the capital stock of the converted stock company or the stock of another corporation that is participating in the conversion plan, as provided in subsection (a)(3)(i), except with the approval of the Commissioner. This limitation does not apply to any entity that is to purchase one hundred percentum (100%) of the capital stock of the converted company as part of the plan of conversion approved by the Commissioner.

(g) The plan shall provide that no director or officer or person acting in concert with a director or officer of the mutual company shall acquire any capital stock of the converted stock company or the stock of another corporation that is participating in the conversion plan, as provided in subsection (a)(3)(i), for three (3) years after the effective date of the plan, except through a broker-dealer, without the permission of the Commissioner. This provision does not prohibit the directors and officers from making block purchases of one percentum (1%) or more of the outstanding common stock:

(1) Other than through a broker-dealer if approved in writing by the department;

(2) Through the exercise of subscription rights received under the plan; or

(3) From participating in a stock benefit plan permitted by section 806-A(c) or approved by shareholders pursuant to section 811-A(b).

(h) The plan shall provide that no director or officer may sell stock purchased pursuant to this section or section 806-A(a) within one (1) year after the effective date of the conversion.

(i) The plan shall provide that the rights of a holder of a surplus note to participate in the conversion, if any, shall be governed by the terms of the surplus note.

(j) The plan shall provide that, without the prior approval of the Commissioner, no converted stock company, or any corporation participating in the conversion plan pursuant to subsection (a)(3)(i)(A) or (B), shall for a period of three (3) years from the date of the completion of the conversion repurchase any of its capital stock from any person, except that this restriction shall not apply to either:

(1) A repurchase on a pro rata basis pursuant to an offer made to all shareholders of the converted stock company or any corporation participating in the conversion plan pursuant to subsection (a)(3)(i)(A) or (B); or

(2) A purchase in the open market by a tax-qualified or non-tax-qualified employee stock benefit plan in an amount reasonable and appropriate to fund the plan."

COMPLIANCE WITH THE ADDITIONAL CRITERIA FOR THE SUBSCRIPTION RIGHTS

Act 40 P.S. §914-A states that:

"(d) The plan shall set the total price of the capital stock equal to the estimated pro forma market value of the converted stock company based upon an independent evaluation by a qualified expert. This pro forma market value may be that fair value that is estimated to be necessary to attract full subscription of the shares, as indicated by the independent evaluation and may be stated as a range of pro forma market value."

With regard to 40 P.S. §914-A(d), ARI complied with this section of the Act by retaining an independent appraiser, Feldman in this case, to determine the pro forma market value or Valuation Range. Details regarding Boenning's review of the Appraisal and Appraisal Update are found in Section III herein.

Act 40 P.S. §914-A states that:

"(e) The plan shall set the purchase price per share of capital stock equal to any reasonable amount. However, the minimum subscription amount required of any eligible member cannot exceed five hundred ($500) dollars, but the plan may provide that the minimum number of shares any person may purchase pursuant to the plan is twenty-five (25) shares."

The Plan states that to the extent that shares of Common Stock are available, no Person may purchase fewer than the lesser of (i) 25 shares of Common Stock or (ii) shares of Common Stock having an aggregate Purchase Price of $500.00 in the Offering.

On the point of “purchase price per share” noted in the Act, the Plan introduces a formulaic mechanism to determine the Purchase Price per share that an Eligible Member or Non-Employee Director may purchase AmTrust’s Common Stock. The determination of the Purchase Price is described by Section 2.41 of the Plan and was reproduced in its entirety in Section I of this Report under the Registered Offering section.

Based on Exhibit B of the Plan, the Purchase Price will always result in a discount to AmTrust’s 10-day VWAP in the range of 20% at a 12.5% subscription level or lower, declining to a discount of only 10.43% at a 100% subscription level among Eligible Members and Non-Employee Directors, such that a total discount value is determined that cannot exceed $3,750,000 (“**Aggregate Discount Value**”). This sliding scale mechanism offers Eligible Members (and Non-Employees Directors) a declining discount the more Common Stock they subscribe for. This creates a natural disincentive for Eligible Members (and Non-Employee Directors) to participate and in effect, disadvantages them by accepting what is offered to them in exchange for their member interests.

Boenning notes that this mechanism of the Plan is complex and the calculation could prove to be difficult for Members to understand, thereby reducing their interest in participating. Additionally, the Purchase Price mechanism in conjunction with the Employee Bonus Pool Fund described in Section 10(f) of the Plan and reproduced below, may potentially create an inherent conflict between the interests of ARI management and the interests of Eligible Members.

Section 10(f) of the Plan introduces an employee bonus pool fund that is directly linked to the Aggregate Discount Value and works as follows:

> “(f) Employee Bonus Pool Fund. In the event that $3,750,000 shall exceed the Aggregate Discount Value (such excess amount being the “Employee Bonus Pool

> Fund"), AmTrust shall pay, in cash, an amount equal to the Employee Bonus Pool Fund as incentive compensation to all Employees as of the Effective Date (the "Acquired Company Employees"), as allocated by the Company CEO, or, in her absence, ARI's Board of Directors, pursuant to a written schedule delivered to AmTrust on or prior to the Effective Date, in three equal annual cash installments commencing on the first anniversary of the Effective Date. In the event that an eligible Acquired Company Employee dies prior to the payment of any amounts due pursuant to the foregoing sentence, such payment shall be made to the estate of such Acquired Company Employee."

Based on Section 10(f) from the Plan, a lower participation rate among Eligible Members and Non-Employee Directors results in additional funds being placed into the Employee Bonus Pool Fund. This dynamic could incent employees to discourage participation during interactions with Eligible Members and Non-Employee Directors in order to maximize their economic benefit ahead of ARI's Eligible Members.

Based on discussions with ARI management and their financial advisor, there are several mitigating factors that may lessen the concerns raised by the above observations. Related to the declining discount percentage with increasing subscription levels Boenning offers the following:

- The opportunity to get a low risk chance to earn a positive return based on Section 4.17 of the Registration Statement (citing price protection) is an attractive opportunity even if the discount is reduced to 10.43% at higher subscription levels.
- This mechanism was proposed by AmTrust as part of the negotiation of the transaction and what ARI had to accept in order to pursue the alternative they felt was in their policyholders' best interest as documented earlier in this Report.
    - AmTrust had to cap the amount they would in effect "pay" for the deal which resulted in the Aggregate Discount Value of $3,750,000.
- Management believed that based on the likely level of participation among Eligible Members that this mechanism would yield the biggest discount.
    - ARI's financial advisor concurred as they believe that based on prior transactions, anticipated take up rates in this Subscription Offering would leave the discount at the maximum. In other words, the interested

subscribers would not be negatively impacted because they will get the opportunity to purchase AmTrust Common Stock at a 20.0% discount.

There are several mitigating factors, listed below, that may lessen the concerns related to the inherent conflict between ARI employees and Eligible Members and Non-Director Employees:

- All three of the factors cited above are applicable to the question of conflict;
- AmTrust and ARI indicated to Boenning that they will add an updated analysis using a sample VWAP closer to the mailing date, have a plain English description contained in the proxy statement/prospectus and will be able to respond to inquiries from policyholders should they have any questions;
- There is no structural impediment to Eligible Member's participation caused by the Employee Bonus Pool Fund;
- Few policyholders actually call or interact with management or the company on these types of transactions typically;
- As noted on page 20 of this report, the Company's financial advisor will staff a conversion center supervised by a FINRA-licensed registered representative. Therefore, the Company's financial advisor, not management, will be responsible for handling policyholder inquiries that arise in connection with the offering;
- Management indicated that member focus was the motivation for the transaction and that they want Eligible Members to participate and obtain as much consideration as possible; and
- The employee bonus concept is not unusual in that typically mutual-to-stock conversions employees would have an ESOP;
    - ARI's financial advisor estimates that at typical take up rates, the Aggregate Subscription Discount would result in an Employees Bonus Pool Fund that would approximate 10% of the allocated ESOP amounts typical in other similar transactions.

Beyond these mitigating factors, Feldman did not believe these concerns affected their Appraisal and Appraisal Update, based on their view that they did not believe that subscription interest would be deterred by any components of the Purchase Price and related Employee Bonus Pool Fund mechanisms. The Department could include stipulations in the Order that attempt to control any "negative pressure" on Eligible Members such as i) A clear policyholder communication document that is properly mailed to assure delivery and attention, and, ii) A notice that Eligible Members should contact the Department if they feel ARI employees are discouraging them from participating in the Subscription Offering.

Considering the mitigating factors noted above and the possible steps the Department could take, these concerns/issues do not overwhelm our conclusions drawn in Section I of this Report, but they exist and are noted.

Act 40 P.S. §914-A states that:

> "(f) The plan shall provide that any person or group of persons acting in concert shall not acquire, in the public offering or pursuant to the exercise of subscription rights, more than five percentum (5%) of the capital stock of the converted stock company or the stock of another corporation that is participating in the conversion plan, as provided in subsection (a)(3)(i), except with the approval of the Commissioner. This limitation does not apply to any entity that is to purchase one hundred percentum (100%) of the capital stock of the converted company as part of the plan of conversion approved by the Commissioner."

The Plan limits purchases of shares of Common Stock that any Person, together with any Associate or group of Persons acting in concert, may directly or indirectly acquire in the Offering to the lesser of (i) five percent (5%) of the capital stock of AmTrust, except with the approval of the Commissioner and (ii) $100,000 in the case of Eligible Members and $50,000 in the case of Non-Employee Directors, and in both cases, irrespective of the different capacities in which such Person may have subscribed for such shares under this Plan.

Further, Non-Employee Directors shall not exceed the lesser of (i) the total number of shares to be issued at the Minimum of the Valuation Range in the Offering *minus* the number of shares subscribed for by Eligible Members, and (ii) 33.27% of the total number of shares of Common Stock as would be issued at the Minimum of the Valuation Range.

Act 40 P.S. §914-A states that:

"(g) The plan shall provide that no director or officer or person acting in concert with a director or officer of the mutual company shall acquire any capital stock of the converted stock company or the stock of another corporation that is participating in the conversion plan, as provided in subsection (a)(3)(i), for three (3) years after the effective date of the plan, except through a broker-dealer, without the permission of the Commissioner. This provision does not prohibit the directors and officers from making block purchases of one percentum (1%) or more of the outstanding common stock:

(1) Other than through a broker-dealer if approved in writing by the department;

(2) Through the exercise of subscription rights received under the plan; or

(3) From participating in a stock benefit plan permitted by section 806-A(c) or approved by shareholders pursuant to section 811-A(b)."

The Plan tracks these requirements almost verbatim and is consistent with the intent of this section of the Act.

Act 40 P.S. §914-A states that:

"(h) The plan shall provide that no director or officer may sell stock purchased pursuant to this section or section 806-A(a) within one (1) year after the effective date of the conversion."

In Section 6(c) of the Plan it states that "the restrictions described in §914-A(h) of the Act [cited above] is hereby referenced and incorporated herein." Therefore, we believe that ARI is in compliance with the Act. The Stock Purchase Agreement dated March 17, 2015 under Section 4.17 also provides:

"(a) Following receipt by Buyer within sixty (60) days following the Closing Date of written notice from an Eligible Member, who acquires shares of Common Stock pursuant to the Offering (an "Electing Member"), sent to the address specified in the stock order form accompanying the Prospectus that such Electing Member elects to sell to Buyer all of such acquired shares of Common Stock, Buyer shall acquire from such Electing Member all, but not less than all, of the shares of Common Stock acquired by such Electing Member pursuant to the Offering for a purchase price equal to the Subscription Price multiplied by the number of shares of such Common Stock acquired.

(b) Following receipt by Buyer within three hundred seventy-five (375) days following the Closing Date of written notice from Non-Employee Director, who acquires shares of Common Stock pursuant to the Offering, sent to the address specified in the stock order form accompanying the Prospectus that such Electing Director elects to sell to Buyer all of such acquired shares of Common Stock, Buyer shall acquire from such Electing Director for a purchase price equal to the Subscription Price multiplied by the number of shares of Common Stock acquired. In the event that the Commissioner waives the one-year holding requirement for shares of the Common Stock acquired by Non-Employee Directors in the Offering, the time period in this Section 4.17(b) shall be sixty (60) days."

Act 40 P.S. §914-A states that:

"(i) The plan shall provide that the rights of a holder of a surplus note to participate in the conversion, if any, shall be governed by the terms of the surplus note."

ARI does not have any Surplus Notes currently outstanding.

Act 40 P.S. §914-A states that:

"(j) The plan shall provide that, without the prior approval of the Commissioner, no converted stock company, or any corporation participating in the conversion plan pursuant to subsection (a)(3)(i)(A) or (B), shall for a period of three (3) years from the date of the completion of the conversion repurchase any of its capital stock from any person, except that this restriction shall not apply to either:

(1) A repurchase on a pro rata basis pursuant to an offer made to all shareholders of the converted stock company or any corporation participating in the conversion plan pursuant to subsection (a)(3)(i)(A) or (B); or

(2) A purchase in the open market by a tax-qualified or non-tax-qualified employee stock benefit plan in an amount reasonable and appropriate to fund the plan."

According to the Plan, such restrictions on repurchases have been adopted. Without the prior approval of the Commissioner, neither ARI nor HoldCo shall, for a period of three (3) years from the Effective Date, repurchase any of its capital stock from any Person. However, the Plan specifically states that §914-A(j) shall not apply to AmTrust so such restriction should not impact their publicly announced $150.0 million buyback plan announced January 2, 2014.

While not specifically cited as a requirement in the Act, Section 6e of the Plan details action to be taken should the Company increase or decrease any of the purchase limitations. Boenning's assessment is that adjustments to any purchase limitations do not violate the priority status of Eligible Members, and preserves the treatment of Eligible Members called for elsewhere in the Plan. Further, Section 6e of the Plan is consistent with similar provisions from prior plans filed in earlier conversions.

Sections 915 and 916

We believe the remaining two sections of the Act impacting Boenning's analysis of the allocation of the Subscription Rights are 40 P.S. §915-A and 40 P.S. §916-A.

Addressing part (d) of 40 P.S. §916-A, the Plan does not provide for a liquidation account. ARI does not anticipate a voluntary liquidation and cannot effect a voluntary liquidation without the prior approval of the Department.

40 P.S. §915-A states that:

> "(a) The plan shall provide that a mutual life insurance company's participating life policies in force on the effective date of the conversion shall be operated by the converted stock company for dividend purposes as a closed block of participating business, except that any and all classes of group participating policies may be excluded from the closed block."

According to ARI's management, ARI does not have any participating life policies and therefore does not plan to provide for a closed block.

40 P.S. §916-A states that:

> "(a) The plan may provide that the directors and officers of the mutual company shall receive, without payment, nontransferable subscription rights to purchase capital stock of the converted stock company or the stock of another corporation that is participating in the conversion plan, as provided in section 804-A(a)(3)(i). These subscription rights shall be allocated among the directors and officers by a fair and equitable formula and shall be subordinate to the subscription rights of eligible members. Nothing contained in this article shall require the subordination of subscription rights received by directors and officers in their capacity as eligible members, if any.
>
> (b) The aggregate total number of shares that may be purchased by directors and officers of the mutual company in their capacity under subsection (a) and in their capacity as eligible members under section 804-A(a)(3)(i) shall not exceed thirty-five percentum (35%) of the total number of shares to be issued for a mutual company if total assets of the mutual company are less than fifty million ($50,000,000) dollars or twenty-five percentum (25%) of the total number of shares to be issued for a mutual company if total assets of the mutual company are more than five hundred million ($500,000,000) dollars. For mutual companies with total assets of or between fifty million ($50,000,000) dollars and five hundred million ($500,000,000) dollars, the percentage of the total number of shares that may be purchased shall be interpolated.
>
> (c) The plan may allocate to a tax-qualified employee benefit plan nontransferable subscription rights to purchase up to ten percentum (10%) of the capital stock of the converted stock company or the stock of

> another corporation that is participating in the conversion plan, as provided in section 804-A(a)(3)(i). A tax-qualified employee benefit plan is entitled to exercise subscription rights granted under this subsection regardless of the total number of shares purchased by other persons.
>
> (d) The plan may provide for the creation of a liquidation account for the benefit of members in the event of voluntary liquidation subsequent to conversion in an amount equal to the surplus of the mutual company, exclusive of the principal amount of any surplus note, on the last day of the quarter immediately preceding the date of adoption of the plan."

The Plan does provide for Non-Employee Director to purchase Common Stock in the Offering in priority after Eligible Members, and restricts all other directors and officers. The Plan limits the purchase of shares of Common Stock issued in the Offering by Non-Employee Directors to 33.27% of the total number of shares of Common Stock as would be issued at the Minimum of the Valuation Range.

As it relates to part (c) above, ARI's Conversion does not anticipate an ESOP.

BOENNING'S OPINION REGARDING THE ALLOCATION OF SUBSCRIPTION RIGHTS

The Plan provides for the issuance of Subscription Rights to Eligible Members to purchase Common Stock in AmTrust at a uniform price. The Offering will not exceed the maximum of the estimated pro forma market value of ARI as a converted stock company. The Purchase Price will be determined on the day prior to the Special Meeting based on AmTrust's 10-day VWAP and the Stock Discount Percentage. The Subscription Rights are non-transferable and expire at the conclusion of the Subscription Offering.

The Plan permits each Eligible Member to purchase no fewer than the lesser of (1) 25 shares of Common Stock or (2) $500.00 and no more than a Subscription Amount of $100,000. In the event of an oversubscription, the Plan provides for an allocation scheme that first, provides an Eligible Member with an allocation of the lesser of (i) the quotient of the Subscription Amount of such Eligible Member divided by the Purchase Price or (ii) 1,000 shares. Any Common Stock remaining will be reallocated based upon a ratio of each Eligible Member's unsatisfied subscriptions to the total number if unsatisfied subscriptions. If the initial reallocation cannot be accomplished because of the magnitude of the oversubscription, then shares of Common Stock will be allocated among the subscribing Eligible Members in the proportion in which: (i) the Subscription Amount by each such Eligible Member bears to (ii) the Aggregate Subscription Amount by all Eligible Members; provided, however, that no fractional shares of Common Stock shall be issued.

The Act requires that the Subscription Rights shall be allocated in whole shares among the Eligible Members using a fair and equitable formula. This formula may take into account how the different classes of policies of the Eligible Members contributed to the surplus of the mutual company or any other factors that may be fair or equitable. However, there is no requirement that the allocation consider a formula that takes into account different classes of policies. ARI has chosen to allocate Subscription Rights equally among its Eligible Members as defined. Also, Boenning notes that only 52 Eligible Members out of over 2,602 (2.0%) have more than one policy. This does not create a compelling case to divide subscription rights differently than contemplated by the Plan.

As discussed earlier, the minimum Subscription Amount is the lesser of (i) 25 shares of Common Stock or (ii) shares of Common Stock having an aggregate Purchase Price of $500.00 in the Offering. The minimum purchase amount is permitted by the Act. The maximum Subscription Amount of $100,000 is likewise permitted by the Act and is less than 0.5% of the Midpoint. Non-Employee Directors, as a group, may purchase up to 33.27% of the total number of Common Shares as would be issued at the Minimum of the Valuation Range and are individually subject to a maximum Subscription Amount of $50,000.

ARI did not, and is not required to by the Act, consider alternate allocation formulas. Based on the fact that nearly 98.0% of Eligible Members only hold one policy, ARI believes its allocation will result in as wide a distribution of shares as practical. Alternative methods that could have been considered would have been based on number of policies, level of premium or longevity with ARI. We believe ARI's desire to permit policyholders to be treated equally is fair and equitable and should result in as wide a distribution as possible.

As previously discussed, ARI's Plan provides that in the event of an oversubscription among Eligible Members, it will first fill all orders up to 1,000 shares before reallocating shares and then allocate remaining shares based upon the proportion each Eligible Member's subscriptions are unfilled to the total number of unfilled subscriptions. If ARI cannot fill the lesser of 1,000 shares or the amount subscribed, it will then reallocate shares based upon the percent of shares subscribed by each Eligible Member to the number of subscribed shares. The reallocation in the event of an oversubscription likewise achieves the goal of providing for as wide a distribution as possible without favoring one class of policyholders over another.

As required by the Act, Eligible Members are provided preference over Non-Employee Directors (the only other class of potential purchasers) and may purchase up to 100% of the Common Stock sold, subject to any other restriction contained in the Plan. Specifically, Non-Employee Directors are subordinate to Eligible Members.

The Plan also provides that if the number of Common Shares subscribed in the Offering does not meet the minimum, AmTrust shall establish and fund the Cash Contribution Fund, which in conjunction with the Aggregate Subscription Amount will meet the Minimum of the Valuation Range. There is no type of under-subscription that allows ARI to terminate the Plan. This Plan will terminate if the Conversion and Acquisition are not consummated within 120 days after the date of the Special Meeting.

We understand that there have been four other conversions in Pennsylvania that utilized the subscription rights method: Old Guard Insurance Group ("**Old Guard**") in 1997, Mercer Insurance Group, Inc. ("**Mercer**") in 2003, Educators Mutual Life Insurance Company / Eastern Insurance Holdings, Inc. ("**Educators**") in 2006, and Penn Millers Mutual Holding Company (2009). These conversions utilized the method of conversion prescribed by the Act as does ARI. This included the distribution of subscription rights on an equal basis to eligible members, priority rights to eligible members, and a minimum and maximum purchase that satisfy the Act. Unlike the four companies noted above, ARI policyholders will not purchase stock in the converting company (or a related "newco" or holding company) itself, but will purchase AmTrust Common Stock as previously explained in this Report.

For the reasons discussed above, Boenning believes the allocation of Subscription Rights among Eligible Members is fair and equitable.

III. REVIEW OF THE APPRAISAL AND APPRAISAL UPDATE

Section 40 P.S. §914-A(a)(3)(ii)(d) of the Act states:

> "The plan shall set the total price of the capital stock equal to the estimated pro forma market value of the converted stock company based upon an independent evaluation by a qualified expert. This pro forma market value may be that value that is estimated to be necessary to attract full subscription for the shares, as indicated by the independent evaluation and may be stated as a range of pro forma market value."

In determining the pro forma market value of ARI pursuant to the Conversion, ARI retained Feldman.

ARI, through Feldman's Appraisal and Appraisal Update, has complied with the Act. Boenning was engaged to review Feldman's Appraisal of the pro forma market value of ARI, as of March 31, 2015 and Feldman's Appraisal Update as of August 20, 2015 pursuant to the Plan and Act as stated above. Specifically, Boenning was requested to advise the Department regarding the reasonableness of the methodologies and assumptions utilized by Feldman in deriving the estimate of the pro forma market value.

Feldman relied on the guideline company approach, further discussed below. Feldman selected a group of publicly traded insurance companies that they believe potential investors would compare to ARI. They then considered relative adjustments to derive the estimated pro forma market value based on a quantitative and qualitative comparison of ARI with the selected group of publicly traded insurance companies.

Feldman reserved the right to update its Appraisal as appropriate, and did so as of August 20, 2015. This update and any future updates will consider, among other factors, developments or changes in the Company's operating performance, financial condition, or management policies, and current conditions in the securities market for insurance company common stocks.

Boenning's review included both the Appraisal and Appraisal Update, but its analysis of the reasonability of the conclusion of pro forma market value was based on the Appraisal Update.

In Boenning's review of the Appraisal and Appraisal Update, we considered:

(1) The factors considered by Feldman;
(2) The standard of value determined by Feldman;
(3) Feldman's choice and application of generally accepted appraisal methodologies;
(4) Feldman's selection of comparable companies and/or transactions;
(5) Various market value adjustments applied by Feldman; and
(6) Feldman's reconciliation of value from the values indicated by the various methodologies.

FACTORS CONSIDERED BY FELDMAN

We reviewed the factors considered by Feldman in its Appraisal and Appraisal Update of ARI in light of Boenning's experience and those factors generally utilized within the appraisal industry. These factors include:

(1) **The nature and history of the business, including its financial condition and future prospects** - Feldman conducted due diligence which included a review of ARI's current business operations, corporate history, product lines, marketing and distribution, income and expense trends executive management, reasons for the Conversion and overall financial condition of the Company. In conjunction with this, Feldman reviewed other items Feldman believed material to the Appraisal and Appraisal Update. A thorough discussion of Feldman's review of ARI is contained in its Appraisal and Appraisal Update.

(2) **The earnings and earnings capacity of the company** - Feldman's financial analysis of ARI considered relevant data in the analysis of an insurance company. This data and analysis are presented in Feldman's Appraisal and Appraisal Update. ARI did not produce positive earnings for 2011 through 2014 and year to date 2015 on a statutory basis and on a GAAP basis. Feldman's Appraisal or Appraisal Update did not indicate adjustment for any non-recurring items that would need to be considered to normalize earnings for appraisal purposes. Likewise, our analysis did not indicate

such adjustments were needed nor did management indicate any adjustments that it considered material.

In analyzing the equity of insurance companies, it is often appropriate to consider earnings multiples, if available, of the comparable companies and ARI. Like Feldman, we believe that the 2015 Operating Budget and future projections cannot be relied upon because: (i) They are highly speculative given recent performance and management's commentary regarding the Company's prospects; (ii) future projections are challenging for management on a "free standing basis" due to downgrading from recent large losses; and (iii) because of the relatively large level of pro forma surplus resulting from a conversion, the use of price to book multiples would give a more reliable indication of value.

An additional element making assessment of future earnings challenging is that the Company continues to be hampered by pre-1989 open claims. Numbering approximately 23 claims, management acknowledged that such claims are difficult to reserve and adverse development in a single claim could present a large impact on a small company, such as ARI.

Feldman did not utilize a discounted cash flow approach in its Appraisal or Appraisal Update due to ARI's poor historical earnings and lack of reliable forecasted data provided by ARI to Feldman. We concur that a discounted cash flow would not provide an appropriate indication of value due to the reasons listed above.

(3) **The book value of the company** - Feldman determined its estimate of pro forma market value principally through the examination of the price to book ("**P/B**"). ARI's book value as of March 31, 2015 was utilized in Feldman's Appraisal Update. Book value was adjusted to take into consideration the impact of the Conversion. For reasons discussed later in this report, we agree with Feldman's reliance on P/B.

(4) **Economic conditions and competitive factors impacting the business of the company** - Feldman's Appraisal contains a lengthy discussion of ARI's business including its market area, and the insurance industry segment and regulatory

environment in which it operates. In addition, a discussion of the rationale for ARI's current rating is included in the Feldman Appraisal. Comments on the insurance industry were included by Fitch, Inc. and Standard and Poor's. Feldman also tracked relevant indices for publicly traded insurance companies in its Appraisal and Appraisal Update reports. Feldman's discussion appears relevant to the Appraisal and Appraisal Update and in our opinion contains an appropriate amount of detail.

(5) **Goodwill and other intangibles -** Typical intangible assets include trademarks, patents, know-how, workforce, customer lists, and many others. Feldman did not specifically value the intangibles of ARI because ARI was valued as a going concern, which is generally defined as the value of a business enterprise, assuming that its organization and assets remain intact and are used to generate future income and cash flows. Feldman utilized valuation ratios or multiples derived from selected comparable companies that incorporate the market value of the entire business enterprise, including all intangible assets and goodwill. Therefore, the value indications for ARI using these multiples includes the value of goodwill and other intangible assets. Furthermore, ARI does not intend to liquidate or sell its assets piecemeal. Boenning agrees with Feldman in its approach to assessing the value of goodwill and other intangibles and believes it is appropriate to utilize valuation ratios or multiples derived from selected comparable companies when valuing a company as a going concern.

(6) **Sales of similar businesses and the prices of publicly-traded stocks in the business of the company -** Feldman considered the prices of publicly traded insurance companies in its Appraisal and Appraisal Update, but did not specifically consider a method using merger and acquisition transactions. We believe that, while such transactions would provide an indication of a controlling interest, or an interest in which a majority stake of a company is acquired, they would not provide a direct indication of value of a minority interest, or an interest in which a non-controlling stake of a company is acquired, which is the subject interest being valued in the

Appraisal and Appraisal Update and prescribed by the Act. Since controlling interests typically require an additional premium over the price at which minority interests would trade, it would be inappropriate to consider controlling interest transactions. Additional discussion of publicly traded companies and transactions are provided later in this report.

Boenning notes the availability of only one year of audited GAAP Company financial statements (December 31, 2014), which is not preferred for purposes of financial analysis and reliability of results. However, one year of audited financial data conforms to the current requirements of the JOBS Act, providing some basis for the limited financial information. In our interview, Feldman acknowledged that they also would have preferred the availability of additional historical annual periods to review, but were comfortable completing their analysis based on the information that was available. Boenning concurs on this point with Feldman.

In addition, as detailed elsewhere, historical and current losses and management's explanation of the significant deterioration in the Company's financial condition likely led to the eventual rating downgrade by A.M. Best in March 2015, and resulted in Boenning to concluding that it would be inappropriate to rely on any of the future projections developed by the Company as documented in its 2015 Strategic Plan.

STANDARDS OF VALUE

The Act requires that the total price of the capital stock be equal to the estimated pro forma market value of ARI. The Act further states that the pro forma market value may be that value necessary to achieve a full subscription of the shares. In a conversion, the value of the underlying securities that are being offered for sale is of paramount importance and is best represented by the freely-traded minority share standard of value. Freely-traded minority share value refers to the value of a non-controlling ownership interest in an open and liquid market.

Feldman's Appraisal and Appraisal Update determined the value of stock of ARI as if the shares were freely-traded in the open market on a minority interest basis. We agree that this is the correct standard of value.

As stated in the Act, the total price of capital stock must be set equal to the estimated pro forma market value of the converted stock company. The pro forma market value shall be estimated as the value necessary to attract a full subscription of the shares and may be stated as a range of pro forma market value, as determined by an appraiser.

The use of a range in determining the pro forma market value is permitted in the Act per Section 40 P.S. §914-A(d). Also, in appraisals generally, and in mutual to stock conversions specifically, ranges are common, and provides for flexibility in conducting an offering in a market environment that changes constantly. In addition, past appraisals of insurance company conversions in Pennsylvania and elsewhere have used a 15% range. The 15% range from the estimated pro forma market value, determined by Feldman, is reasonable and consistent in this context, though it does not guarantee that, based upon changing market conditions or financial performance of ARI, the range of value in the Appraisal and Appraisal Update would not need to be revised.

APPRAISAL METHODOLOGIES

In determining the freely-traded value of a business enterprise, such as ARI, an appraiser would typically consider two commonly utilized methodologies referred to as: (i) the market approach; and (ii) the income approach. A third methodology, the asset-based approach, is generally not utilized in the current context for reasons discussed below. A brief discussion of each approach follows:

There are two variations of the market approach. One variation of the market approach is the guideline company approach, which measures value through an analysis of publicly traded guideline companies operating in the same or similar lines of business. Stocks of these corporations are actively traded in a free and open market, either on an exchange or over-thecounter. When applied to the valuation of businesses, consideration is given to the financial condition and operating performance of the company being appraised relative to those of the publicly traded companies. Adjustments to account for significant differences between the subject company and the guideline companies are made to the valuation multiples of the comparable companies.

The other variation of the market approach is the merger & acquisition transaction approach. The transaction approach measures the value of a company through an analysis of transactions involving similar companies in the mergers and acquisitions market. The transaction approach yields “control” value instead of “minority share” discussed above as used in an appraisal of this nature.

The income approach measures the value of an asset by the present value of its future economic benefits. These benefits can include earnings, cost savings, tax deductions and proceeds from its disposition. When applied to equity interests in businesses, value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation and risks associated with the particular investment. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as of the valuation date.

The asset based or cost approach measures the value of an asset by the cost to reconstruct or replace it with another of like utility. When applied to the valuation of equity interests in businesses, value is based on the net aggregate fair market value of the entity's underlying assets. The technique entails a restatement of the balance sheet of the enterprise substituting the fair market value of its assets and liabilities for their book values. The resulting equity is reflective of a 100% ownership interest in the business.

Feldman comments that the comparative market approach provides a sound basis to determine estimates of going-concern valuation where a regular and active market exists for the stocks of peer institutions. This reliance on this methodology is documented in the Appraisal and Appraisal Update and discussed in more detail below. Feldman states that:

> "The comparative market approach was utilized in determining the estimates pro forma market value of ARI because: (i) reliable market and financial data are readily available for comparable institutions, and (ii) the comparative market methods has been widely accepted as a valuation approach by the applicable regulatory authorities. The generally employed valuation method in initial public offerings ("**IPOs**"), where possible, is the comparative market approach, which also can be relied upon to determine pro forma market value in an insurance company stock conversion."

Further, Feldman's Appraisal and Appraisal Update is silent as to applicability of and reasons to forego use of an income or asset based approach in valuing ARI. Boenning discussed this issue with Feldman and Feldman provided an affirmation of the applicability of the comparative market approach as well as rationale for excluding the income and asset based approach.

With respect to Feldman's exclusion of the income approach, Boenning agrees with Feldman that the historical and current lack of profitability and reliability of earning prospects presented in the 2015 Strategic Plan are challenging and cannot be relied upon because:

(i) ARI's ability to deploy the pro forma capital profitably and restore positive earnings constitutes a significant operating challenge in the highly competitive P&C insurance marketplace wherein the Company strives to overcome the lack of economies of scale, critical mass, and geographic diversification in its fundamental business model;

(ii) recent earnings are negative due to events in the fourth quarter of 2014 resulting from $2 million in adverse commercial auto loss reserve development in connection with a change to a more conservative actuarial position and a $1.5 million loss from a 1985 workers compensation claim that exceeded reinsurance retention. In addition, $3.3 million of the fourth quarter 2014 loss was from a 100% valuation allowance against ARI's deferred tax asset. Collectively, these reduced ARI's capital by ~$7.0 million in the fourth quarter. Management indicated in interviews that this drove the Company to a position of vulnerability, and contributed to a downgrade in its rating from A.M. Best (which did occur on March 10, 2015 from B++ to B+). Management indicated that financial forecasts under these conditions are very difficult and highly speculative; and

(iii) although ARI's management provided Boenning with the 2015 Strategic Plan we were told that these projections were prepared without consideration for (a) the likely adverse development which the Company has consistently experienced in recent historical years and (b) of the results of the Company in light of the Conversion.

Therefore, the discounted cash flow analysis cannot be utilized to provide a reliable indication of value. In addition, the cost approach is best utilized in determining the liquidation value of a company and generally not for situations where the subject business is valued as a going concern. We agree with Feldman that in the context of valuing a company for an equity offering in a mutual-to-stock conversion, the market approach provides the best indicator of value because of the readily available market and financial data for comparable companies and transactions.

GUIDELINE COMPANY APPROACH

The guideline company approach measures the value of an asset through an analysis of recent sales or offerings of comparable securities. The approach entails the following process: (i) identification of guideline companies; (ii) a comparison of the performance of the subject company to the guideline companies; (iii) the calculation of relevant valuation multiples or ratios for each of the guideline companies; (iv) choosing the appropriate valuation multiple for the subject company; and (v) application of the chosen multiple to the subject company's financial data.

Although it is clear that no two companies are entirely alike, the only restrictive requirement imposed by this approach is that the publicly traded companies selected as guideline companies be engaged in the same or similar lines of business. Other relevant factors such as location, exchange, size, and profitability, are also considered.

FELDMAN'S SELECTION OF COMPARABLE COMPANIES

Feldman's Appraisal was based upon the market approach utilizing publicly traded comparable companies as a means of estimating the freely-traded value of ARI. With limited exception, as noted below, we believe the selection of the comparable companies presented a reasonable basis for performing the appraisal.

There generally does not exist one individual company or any set of comparable companies that is identical to the subject company. This statement is particularly true of ARI as there are no publicly traded small, single state, commercial auto insurance companies. The selection of the comparable companies is based upon criteria established by the appraiser to develop a group that provides reliable insights into how the market would value the subject company. Feldman's Appraisal and Appraisal Update documents, confirmed through Boenning's interview and subsequent calls with Feldman, focused exclusively on publicly traded (on select U.S. exchanges) insurance companies in the property and casualty segment and in doing so identified 49 companies that comprised a general comparable company universe ("**Public P&C Insurance Group**"). The median asset size of this group is $3.8 billion. This is significantly larger than ARI and Boenning notes Feldman's observation that there are five companies in the Public P&C Insurance Group that have assets less than $200.0 million and only two with assets less than ARI's total assets of $128.5 million.

Feldman further evaluated the companies in the Public P&C Insurance Group and refined the group by using several different operating, marketability and liquidity criteria. From this, Feldman selected its comparable companies based primarily upon:

- company size based on assets;
- markets served; and
- comparability of product lines.

This resulted in 13 selected P&C insurance companies that Feldman used for its comparisons to ARI ("**Comparative Group**"). Feldman's Appraisal report contains a description of each company in the Comparative Group and an indication of relevant differences and similarities with ARI. Feldman's methodology and criteria represent reasonable factors in the selection of the comparable companies. Also, Boenning was able to conduct its own screening of publicly traded insurance companies based on the parameters set out by Feldman and reproduce the results of both the Feldman Public P&C Insurance Group and Comparative Group.

We note that a few of the companies in the Comparative Group have non-comparable characteristics that are major drivers of their business rendering them not directly comparable to ARI. Five of the companies have very little or no exposure to the auto lines of business. National Security Group, Inc., Unico American Corporation and 1347 Property Insurance Holdings have no direct exposure to auto. Federated National Holdings is predominantly (90%) a homeowners insurance company and EMC Insurance Company has only a 13% exposure to auto lines of business. However, these companies fit into the lower band of the size range, and like Feldman, we agree their inclusion is important to give the Comparative Group better comparability with ARI based on size. Given the small size of ARI, it is very difficult to form a comparable group of publicly traded property and casualty insurance companies that are similar in size to ARI while also keeping the number of constituents in the list to a meaningful enough statistical number. Feldman's Comparative Group included several companies with over $1.0 billion in assets (compared to $128.5 million for ARI) and total policy revenue exceeding $300.0 million (compared to $38.5 million for ARI).

Further, we note that two of the companies in the Comparative Group, Donegal Group, Inc. and EMC Insurance Group, Inc., are each primarily owned by their nonpublic, mutual parent companies, and as such, have limited public floats (<40%).

The reasons for the inclusion of each of these companies in the Comparative Group are given in Feldman's Appraisal and Appraisal Update and we find nothing to suggest that these companies do not generally meet the criteria Feldman established. We would have been concerned if these companies were included in the Comparative Group without an analysis of the relationship between size and valuation; however, Feldman made an adjustment for ARI's relative small size (as discussed below). Also, in our view, it would have been appropriate to at least comment on ARI's predominantly single state focus compared to Feldman's selected companies. We note that of the 13 companies in the Comparative Group, five of them are predominantly single state writers 1347 Property Insurance Holdings (only Louisiana), Federated National Holding Company (predominantly Florida), Kingstone Companies, Inc. (predominantly New York), Safety Insurance Group, Inc. (predominantly New Hampshire), and Unico American Corporation (predominantly California).

Nonetheless, given the unusual nature of ARI's position in the market and financial condition (small size, primarily single state and 100% commercial auto), the use of publicly traded companies, and Feldman's Comparative Group specifically, provides a reasonable comparable group of publicly traded companies available and a good estimate of how the market would value ARI.

BOENNING'S SELECTION OF COMPARABLE COMPANIES

In order to assess the relevance of the Feldman's Public P&C Insurance Group and Comparative Group, determine that these groups had not changed from the March 31, 2015 Appraisal and to understand Feldman's company selection process, we utilized SNL Financial to perform our comparable company analysis. As noted above, Boenning was able to recreate the screening methodology performed in the Appraisal and derive the constituents of the Public P&C Insurance Group and Comparative Group. We believe that the criteria utilized by Feldman were reasonable particularly as it relates to ARI's size, single state, and single business line and statistical integrity of the analysis as summarized below:

> "In determining the Comparative Group composition, we focused primarily on ARI's size, market segment, and product lines. Attempting to concentrate on the Company's financial characteristics and enlarge the Comparative Group to obtain a meaningful statistical cluster of companies, we broadened the size range criterion to encompass a statistically significant number of companies. In addition, due to the ongoing consolidation activity within the insurance industry, we sought to include a sufficient number of companies in the event that one or several members are subsequently

subject to acquisition as we update this Appraisal prior to completion of the Company's Conversion."

Given the limited number of available comparable companies as documented in the Feldman Appraisal, Boenning does not believe that there are significant changes to the Comparative Group that materially change any of the resulting comparative results to ARI. As such and as noted below, Boenning has adopted most of the same criteria in its review of the publicly traded companies. However, in order to test Feldman's results we did develop a universe of companies to compare to Feldman's Public P&C Insurance Group as well as a narrower group to compare to Feldman's Comparative Group. The following documents our analysis undertaken and any results that differ from Feldman's.

In developing our universe, we identified the following criteria used by Feldman that could be modified to possibly improve the resulting companies:

1. Type of insurance company – We elected to review all insurance companies not just those designated as P&C as in Feldman's analysis.

2. Exchange of public shares – We elected to look at any publicly traded company regardless of what exchange its shares trade on particularly because ARI's profile makes it very similar to many of the companies traded on the OTC for example in terms of size and liquidity. Feldman only considered companies traded on the New York Stock Exchange and the NASDAQ Stock Market.

3. Level of exposure to auto line of business – We elected to only look at companies that had exposure to any facet of the auto line of business.

It is our premise that modifying these criteria would not result in any companies that are less comparable to ARI than the companies identified by Feldman and possible identify additional companies that would have been automatically screened out of Feldman's analysis.

Boenning's search yielded a universe of 46 insurance companies. Of these identified companies, three companies that have similar characteristics to ARI particularly from a size prospective were precluded from Feldman's Public P&C Insurance Group. Further analysis indicated, however, that each of these companies failed other criteria such as financial condition or current filing status (all adopted from Feldman based on our concurrence), ultimately rendering their inclusion inappropriate and reducing our universe to 43 ("**Publicly Traded Insurance Group**"). This is compared to the 49 in Feldman's Public P&C Insurance Group with the difference resulting from the exclusion of insurance companies without any exposure to auto line of business and includes all public insurance companies instead of primarily property and casualty. As shown in the following table, ARI's total assets, total equity, return on assets ("**ROA**"), and return on equity ("**ROE**") are well below the medians of Boenning's Publicly Traded Insurance Group.

Table 1
Summary of Boenning's Publicly Traded Insurance Companies

	Total Assets ($000s)	Total Equity ($000s)	ROA (%)	ROE (%)
ARI	128,467	23,100	(8.46)	(36.56)
<u>Publicly Traded Insurance Companies</u>				
Mean	70,238,062	14,324,138	2.75	10.41
Median	7,885,000	2,109,900	2.42	8.48

Note: Financials as of March 31, 2015.

To refine our Publicly Traded Insurance Group to more closely match to the profile of ARI, we introduced a constraint for size based on equity. Feldman's Appraisal and Appraisal Update used assets as the criteria to screen for size. While asset size is typical and customary for financial institutions, Boenning believes that equity is a more appropriate and customary criteria when dealing with insurance companies. Selecting $500.0 million as an equity threshold reduced Boenning's Publicly Traded Insurance Group by 33 companies.

In addition, given ARI's 100% focus on auto, we felt that this criteria should carry more weight in the screening process even if it was additionally restrictive on the number of resulting companies in the group. Requiring a primarily insurance company to have a meaningful (>5%) exposure to auto, necessitated the removal of Federated National Holding Company, Atlantic American Corporation, and National Security Group, Inc. and reduced the Publicly Traded Insurance Group to seven companies.

Lastly, in order to obtain a larger sample that would be more statically meaningful (drawing on the similar goal of Feldman noted above) and to better match the relative size of ARI, Boenning recognized the merits of including smaller companies from its Publicly Traded Insurance Group. As a result, we have reinstated National Security Group, Inc. based on its $44.2 million in equity and 1347 Property Insurance Holdings and Unico American Corporation identified by Feldman based on their meeting of all of our identified criteria (outside of exposure to auto and equity threshold).

Based on the refinements noted above to Boenning's Publicly Traded Insurance Group, we have identified 10 companies as comparable to ARI (the "**Boenning Comparable Group**"). The following table shows the mean and median assets, equity, ROA, ROE, price to revenue ("**P/R**"), P/B, price to assets ("**P/A**"), and price to earnings ("**P/E**") of the derived Boenning Comparable Group.

Table 2
Boenning Comparable Group

Company Name	Total Assets ($000s)	Total Equity ($000s)	ROA (%)	ROE (%)	Price / Revenue (%)	Price / Book (%)	Price / Assets (%)	Price / Earnings (x)
1347 Property Insurance Holdings, Inc	75,864	48,981	(0.12)	(0.17)	2.23	98.3	62.3	NM
Atlas Financial Holdings, Inc.	366,768	117,963	6.34	17.75	1.85	178.6	55.5	11.0
Baldwin & Lyons, Inc.	1,126,458	403,284	2.63	7.42	1.16	84.7	30.5	13.1
Donegal Group Inc.	1,495,269	425,530	1.51	5.34	0.67	91.7	26.8	14.9
First Acceptance Corporation	359,896	108,111	8.91	30.31	0.45	117.2	34.8	5.1
Hallmark Financial Services, Inc.	1,017,674	261,718	1.44	5.71	0.65	84.2	21.7	11.7
Kingstone Companies, Inc.	137,389	40,916	4.09	13.82	1.15	149.0	45.6	9.8
National Interstate Corporation	1,796,601	370,043	0.58	2.79	0.93	151.3	31.0	20.3
National Security Group, Inc.	147,016	44,213	5.50	19.73	0.50	74.9	22.2	4.9
Unico American Corporation	135,556	71,440	(0.11)	(0.20)	1.67	72.3	38.1	NM
Mean	665,849	189,220	3.08	10.25	1.13	110.2	36.8	11.4
Median	363,332	113,037	2.07	6.56	1.04	95.0	32.9	11.4
ARI	128,467	23,100	(8.46)	(36.56)				

Note: Financials as of March 31, 2015. Pricing as of August 20, 2015.

All 10 of the above companies are included among the 13 companies in Feldman's Comparative Group. The three names excluded were EMC Insurance Group, Inc. and Safety Insurance Group, Inc. as they had equity levels higher than our selected threshold, and Federated National Holding Company as they had no meaningful exposure to auto line of business.

Boenning notes that ARI has not exhibited a positive ROA or ROE in the current year or since 2011. To take this into consideration, Boenning created a subgroup of its Boenning Comparable Group to identify companies with similar performance. As such, Boenning used an ROE threshold of <6% for the Boenning Comparable Group and identified five companies that met this performance criteria (the "**Boenning Performance Comparable Group**").

Table 3 Summary of Boenning Performance Comparable Group				
	Total Assets ($000s)	Total Equity ($000s)	ROA (%)	ROE (%)
1347 Property Insurance Holdings, Inc	75,864	48,981	(0.12)	(0.17)
Donegal Group Inc.	1,495,269	425,530	1.51	5.34
Hallmark Financial Services, Inc.	1,017,674	261,718	1.44	5.71
National Interstate Corporation	1,796,601	370,043	0.58	2.79
Unico American Corporation	135,556	71,440	(0.11)	(0.20)
Mean	904,193	235,542	0.66	2.69
Median	1,017,674	261,718	0.58	2.79
ARI	128,467	23,100	(8.46)	(36.56)

Note: Financials as of March 31, 2015.

For comparative purposes, the following table summarizes the mean and median assets, equity, ROA and ROE of the Boenning Comparable Group and Boenning Performance Comparable Group against Feldman's Comparative Group. In addition, to test if either of the Boenning derived groups would result in an estimate of pro forma market value that is materially different than that estimated by Feldman, in the table below, we compared the mean and median P/R and P/B ratios of the groups.

Table 4 Summary of Comparable Company Groups						
	ROA (%)	ROE (%)	Price / Revenue (%)	Price / Book (%)	Price / Assets (%)	Price / Earnings (x)
Boenning Comparable Group						
Mean	3.08	10.25	1.13	110.2	36.8	11.4
Median	2.07	6.56	1.04	95.0	32.9	11.4
Boenning Performance Comparable Group						
Mean	0.66	2.69	1.23	99.6	36.0	15.6
Median	0.58	2.79	0.93	91.7	31.0	14.9
Feldman's Comparative Group						
Mean	3.26	10.35	1.13	113.0	39.0	10.9
Median	2.63	7.42	1.05	98.3	34.8	10.6
ARI	(8.46)	(36.56)				

(1) Details in Exhibit V.
Note: Financials as of March 31, 2015. Pricing as of August 20, 2015.

In comparing the 13 comparable companies identified in Feldman's Comparative Group, Boenning has focused only on P/B based on its appropriateness as discussed earlier. The mean and median P/B ratios of Feldman's Comparative Group were 113.0% and 98.3%. Both the mean and median P/B ratios for the Boenning Comparable Group and Boenning's Performance Comparable Group were approximately 110.2% and 95.0% and 99.6% and 91.7%, respectively.

Based on the Boenning Comparable Group, a 3.4% difference in median P/B ratio is not material because it will not change the concluded value. Boenning believes this to be the case for two reasons. First, valuations are not purely mathematical exercise and ranges are typically used in valuations. Based on experience, ranges of 10.0% to 20.0% are common in valuations. Further, ranges are recognized by the Act, which indicates that an appraisal "may be stated as a range of pro forma market value." Ranges of 15.0% were utilized in several recent demutualizations. A 3.4% difference on a P/B ratio falls well within a 15.0% range. Second, the P/B ratio must be discounted to account for company specific and conversion specific risks, as discussed by Feldman in the Appraisal under the section of their report titled "Valuation Analysis."

The Boenning Performance Comparable Group is intended to illustrate the impact of poor financial results for the purpose of supporting the conclusion related to appropriateness of discounts to be considered. This holds true relative to the Boenning Comparable Group and Feldman's Comparative Group. In the case of the latter, the Boenning Performance Comparable Group represents a discount in the median P/B ratio of 6.7%. While this discount is interpreted further in the Discounts Applied section below, Boenning would conclude that it would not change the concluded value of the Appraisal or Appraisal Update for the two reasons documented earlier. Once a range in discounts is applied to the P/B ratio the 3.4% difference could be (and in this case is) inconsequential.

Although our results of the guideline company approach differ slightly from that of Feldman's Appraisal and Appraisal Update, we believe that the criteria Feldman used to choose a comparable company group represents reasonable factors in the selection of the comparable companies and, therefore Feldman selected a reasonable group for appraisal purposes. Additionally, we do not believe our selected group would result in a material change to the conclusions reached in Feldman's Appraisal and Appraisal Update. Furthermore, as discussed on the following pages in the Discounts Applied section, to develop an appropriate valuation ratio for the subject company, it is necessary to make adjustments to the ratio. These adjustments, or discounts, include company specific risks (versus the comparable companies) and market related conditions that need to be applied to determine the pro forma market value. Because the factors considered in determining the appropriate discount are subjective, the discount that Boenning utilizes is different than the discount Feldman utilizes in its analysis. These differences result in the final conclusions being the same, despite the slight differences in the multiples derived from the guideline company approach noted above.

DISCOUNTS APPLIED

After arriving at an appropriate pro forma multiple (in this case, primarily the P/B multiple) in the guideline company analysis, the appraiser must make adjustments to the ratio to develop the applicable multiples for the subject company. Market value adjustments or discounts were applied to derive the pro forma market value. Discounts considered by Feldman included:

(1) Earnings prospects;
(2) Management;
(3) Liquidity of the issue;
(4) Subscription interest;
(5) Stock market conditions; and
(6) New issue discount.

Importantly, the application of discounts is a subjective exercise and is not precisely quantifiable.

Feldman calculated the median and mean P/B for the Comparative Group of companies as of August 20, 2015. Based on the Appraisal and Appraisal Update estimation of the appropriate discounts, to account for differences in ARI versus the guideline companies and factors and risks related to the Conversion, Feldman determined a pro forma midpoint P/B ratio of 54.4% for the Company (a discount of 44.7% from the median of the Comparative Group).

Feldman concluded that the approximate discount range on the P/B valuation metric was approximately 40.0% to 50.0%. The factors Feldman considered are adjustments or discounts that a knowledgeable investor would consider. The factors considered by Feldman included: (i) the earnings prospects of ARI compared to the comparable companies; (ii) management; (iii) liquidity of the issue; (iv) subscription interest; (v) stock market conditions; (vi) and new issue discount.

The first two factors are company-specific and relate to the relative degree of risk of ARI compared to the comparable group, where risk incorporates the uncertainty of achieving future results. The other four factors are related to the prospects of the stock given the current economic conditions and stock market conditions. As such, these factors include, not only issue-specific factors, but, factors outside of the Company and its management's control.

In the following sections, we review each factor and describe our method of estimating a range of appropriate discounts. The application of discounts is a subjective exercise and not precisely quantifiable; therefore, Boenning, using valuation industry convention, has expressed its estimate of appropriate discounts as a range.

Earnings Prospects

In determining the appropriate valuation multiple, an investor comparing ARI to the comparative publicly traded companies would consider the future earnings prospects of the Company. This analysis would incorporate revenue growth prospects as well as profitability expectations, and the risk of achieving the expected results. In determining future prospects and risks, such an investor would consider the historical operating results and performance of ARI compared to the publicly traded companies.

ARI has seen its direct premiums written increase significantly by $30.5 million, or 112.9%, from $27.0 million in 2012 to $57.6 million in 2014. Direct premiums written declined by 0.6% from $13.7 million in the March 2014 quarter to $13.6 million in the March 2015 quarter. During 2014, ARI entered into a 20.0% quota share treaty with respect to all business in force for all losses incurred after June 30, 2014. The entry into this quota share agreement permitted ARI to reduce its net written premiums and reduce its ratio of net premiums written to surplus while permitting it to take advantage of the current hard market for commercial auto insurance in New Jersey. Despite this reinsurance change, overall revenue has still increased dramatically from $21.5 million in 2012 to $40.4 million in 2014 or 87.9%. Net premiums written dropped from $11.1 million to negative $6.5 million over the corresponding quarters as the amount of written premiums ceded increased to $20.2 million for the March 2015 quarter. However, as exhibited by ARI’s deteriorating combined ratio of 106.6% in 2012, 107.5% in 2013 and 120.8% in 2014, profitability has suffered. This negative trend is mainly attributable to the higher loss ratio, which primarily reflects the increased level of losses and loss adjustment expenses incurred. The loss ratio expanded from 75.8% in 2012 to 80.5% in 2013 and 93.9% in 2014. The unfavorable development for 2014 is primarily the result of prior years' claims settling for more than originally estimated. As a result of changes in estimates of insured events that occurred in prior years, the Company increased losses and loss adjustment expenses incurred by $7.6 million in 2014. The Company also incurred a $1.5 million addition to reserves with respect to a 1985 workers compensation claim. While not captured in the 2015 and 2016 forecast developed by the Company, through Boenning’s interview with management it was conveyed that the level of adverse development experienced would outweigh the current year underwriting profitability forecasted. The March 2015 quarter did have some improvement in loss and loss adjustment expense decreasing from $8.0 million to $6.7 million. However, with the decline in the March 2015 quarter, the loss ratio was relatively unchanged at 85.7%.

The relative underperformance from an underwriting perspective, can easily be seen when looking at the median loss ratio of 61.7% for the Boenning Comparable Group compared to ARI’s of 93.9% as of December 31, 2014. Offsetting this severely negative trend has been the Company’s ability to leverage its expense base by reducing its expense ratio from 30.8% in 2012 to 26.9% in 2014, evidencing the steady growth in premium volume. This actually represents outperformance relative to the Boenning Comparable Group that had a median expense ratio of 29.5% as of December 31, 2014. However, the expense ratio increased sharply from 27.4% in the March 2014 quarter to 47.7% in the March 2015 quarter due to the combination of operating expenses and the decline in net premiums earned. This resulted in a combined ratio of 133.4% at March 31, 2015 compared to the Boenning Comparable Group at 95.8%.

The Company's level of underperformance is even more acute compared to the Boenning Performance Comparable Group based on LTM ROA and ROE. This group has a median LTM ROA and ROE of 0.58% and 2.79%, respectively and dramatically lags the better performing members of the Boenning Comparable Group by 89.4% on ROA and 84.3% on ROE. While exhibiting a significant lag to the Boenning Comparable Group, the Boenning Performance Comparable Group on the median still operates on a profitable basis. ARI's lack of profitability stands in stark contrast to the better performing members of the Boenning Comparable Group and even underperforms the Boenning Performance Comparable Group. Of particular note is the median P/B of the Boenning Performance Comparable Group being 91.7%, which is a discount of 21.8% compared to the median of the five better performing companies in the Boenning Comparable Group and a 3.5% discount to the overall median of the Boenning Comparable Group including all ten companies. Therefore, it would appear that those companies which produce lower returns/profitability exhibit lower P/B ratios. ARI's worse performance relative to the poorer performers in the Boenning Comparable Group is an important factor in determining the appropriate discount for earnings/profitability.

It should also be noted that relative to the comparable companies, ARI is currently predominantly a single state writer even though they are licensed in states beyond New Jersey. Also, even though they have experienced growth in the past year, ARI is much smaller than most of the comparable companies. These factors collectively have an impact on the stability and valuation of earnings of the Company by investors in the market relative to the comparable companies.

Based on this review, it appears that, as far as earnings growth prospects are concerned, ARI is inferior to the Boenning Comparable Group and market multiples should be discounted.

Management

Feldman believes that ARI is professionally and knowledgably managed and that no adjustment was warranted. We believe that investors looking at the poor earnings history of the Company would hold management at least partially responsible and incorporate this factor in their estimate of earnings prospects. As such, the discount for earnings prospects includes a discount for management performance. Therefore, no further or separate adjustment would be warranted.

Other Factors

Other factors that were not listed by Feldman in its determination of a discount include ARI's size and lack of geographic diversification. ARI's pro forma total assets estimated to be approximately $153.2 million (using the Midpoint) is more than two times smaller than the Boenning Comparable Group. From a revenue perspective, ARI's revenue of approximately $38.8 million is less than all but two of the Boenning Comparable Group. Likewise, the Boenning Comparable Group on average has greater geographic diversification, and thus less risk relative to ARI. Therefore, for these factors, ARI is inferior to the Boenning Comparable Group and a discount is warranted.

Liquidity of the Issue

Feldman states that the companies in their Comparative Group are actively traded. In our analysis of trading volume, several of the guideline companies chosen by Feldman are fairly thinly traded, with average weekly volume of less than 0.5% of the issues outstanding shares. Because of the low trading volume, we believe that a discount for lack of liquidity may be implicit to some degree in the price of those shares. Unlike Feldman, we don't believe that the shares of HoldCo are likely, on average, to obtain listing and achieve a level of trading at least comparable to the Boenning Comparable Group. Beyond this, Feldman notes, and we again agree, that in general companies with lower levels of market capitalization also tend to experience restrained trading volumes and frequent price volatility due to limited shares outstanding and other factors. For these reasons, we agree that a downward adjustment is warranted.

Subscription Interest

There is always a risk that the subscription offering will not result in the expected number of shares being sold.

Based on information from the WilmerHales 2015 IPO report, the number of IPOs in 2014 was above the annual average for the period of 2004 to 2007 (the last period of sustained offering activity). According to Renaissance Capital, who tracks the IPO market, 2014 IPO activity through August of 2015 has lagged the same comparable period in 2014 and trending on a pace of less than 200 priced IPOs for the first time since 2012. The recent extreme volatility in the market adds substantial headwinds to materially change this course.

The size, industry, financial condition and earnings prospects of other IPO candidates are likely different from ARI and, as such, have limited comparability for valuation purposes.

Since the Offering will occur in the future, the current volatility of the markets should not be overly considered in this context. Further, the results of the subscription offering is hard to forecast and are as of the date of this Report, unknown.

Taking all these factors into account, we differ from Feldman's conclusion that no adjustment is needed to attract subscription interest. Given the aforementioned numerous uncertainties and recent trading levels of the market overall, we believe that a discount in excess of a standard new issue discount should be applied to induce potential shareholders to purchase shares and attract a full subscription.

Stock Market Conditions

Feldman gives a detailed review of the condition of the stock market, including an acknowledgement of the current elevated levels of volatility in the market. Based on the liquid and active trading markets for the Boenning Comparable Group and Feldman's Comparative Group any factors affecting value due to stock market conditions are likely priced in the securities. Also, Boenning notes that the volatility among insurance companies was more subdued than the overall market. In addition, as discussed with Feldman, the fact that the Conversion will take place at a future date renders some of the current market activity less concerning. Most importantly, however, the range of value +/- 15% accounts can absorb the volatility over any given short term period.

New Issue Discount

Stock prices in an IPO are typically discounted from the expected trading price. Though several theories regarding underpricing exist, in the case of insurance companies, capital adequacy requirements would cause insurance IPOs to seek to ensure that the entire subscription is sold, such that proceeds are maximized. Studies have shown that typical IPO discounts (based on the percentage change from the offer price to the price at the end of the first day of trading) range from roughly 10.0% to 20.0%. One study[1] found that discounts during the 2000 to 2014 time period averaged 16.0%. Another study[2] suggests that greater uncertainty about a firm's value will result in higher expected underpricing.

Based on this analysis, we believe that an adjustment for ARI is warranted in this case to account for the new issue discount.

[1] WilmerHale, "2015 IPO Report."
[2] Beatty, R. and J. Ritter, 1986, "Investment Banking, Reputation, and the Underpricing of Initial Public Offerings," Journal of Financial Economics, 15: 213-232.

Evidence from Prior Conversions

Company Name	Year Date	Discount Midpoint
Old Guard Group, Inc.	1997	45.0%
American Physicians Capital, Inc.	2000	36.0%
Fremont Michigan Insuracorp, Inc. (est)	2004	58.0%
MEEMIC Holdings, Inc. (est)	1999	67.0%
NCRIC Group, Inc. (est)	1905	12.0%
Mercer Insurance Group	2003	46.0%
Eastern Insurance Holdings, Inc. (Educators)	2006	42.0%
Penn Millers Holding Corporation	2009	25.0%
First Nonprofit Insurance Company	2012	34.0%
Median		42.0%

Discounts for the transactions noted above are estimates based on information available in public filings.

The discounts found by the appraisers for several prior (Pennsylvania) mutual-to-stock conversions using the subscription rights method, Old Guard, Mercer and Educators, concluded on discounts of 45.0%, 46.0% and 42.0%, respectively, adding further support for Feldman's discount range of 40.0% to 50.0% based on book value and Boenning's estimate of the appropriate range noted below.

Comparison With Feldman

Feldman did not conclude on a discount for each individual factor, but instead concluded that a combined discount range of approximately 40.0% to 50.0% based on book value was reasonable and appropriate for determining the pro forma market value. We agree with their assessment that discounts and/or premiums may not be additive and that in some instances, offset or overlay each other. The discounts applied are not easy to quantify and are almost always based upon the subjective judgment of the appraiser. Boenning concluded to an approximate range of discounts of 45.0% to 55.0%. This range reflects the multiple discounts utilized and the possible ranges for each discount. Below we summarize Feldman's conclusion on whether the factor had an impact, and the relative direction of such discount, where downward is a higher discount and therefore a lower valuation multiple.

	Feldman	**Boenning**
Earnings Prospects	Downward	Downward
Management	Neutral	Neutral
Liquidity	Neutral to Downward	Downward
Subscription Interest	Neutral	Downward
Stock Market Conditions	Neutral	Neutral
New Issue Discount	Downward	Downward
Size/Other	N/A	Downward

We agree with Feldman that an adjustment is appropriate because of the nature of the Conversion as well as company-specific factors compared to the comparable companies. Furthermore, discounting in the context of a conversion transaction or new issues is typical. The amount of the adjustment is not easy to quantify and is based upon subjective judgment of the appraiser. We believe that Feldman correctly applied these discounts and that their chosen discount range of approximately 40.0% to 50.0% compares reasonably with the range determined by Boenning.

RECONCILIATION OF VALUE

Pro forma market value for an insurance company can be determined through P/E, P/B, P/R and P/A ratios. The P/E was also not relied upon due to ARI's negative, inconsistent and unpredictable level of profitability. Reliance on these ratios for pro forma market value will provide distorted ratios. The P/A and P/R were considered, consistent with Feldman. However, we have relied solely on the P/B ratio as a metric to determine ARI's pro forma market value relative to the comparable company group.

We believe the P/B ratio provides a reasonable estimate of pro forma market value when compared to the P/B ratio of the comparable companies after considering the discounts discussed above. As shown in the following table, we believe that Feldman's conclusions are reasonable and are consistent with our findings. Feldman's Comparative Group, as well as the Boenning Comparable Group are illustrated with discount of 40.0% to 55.0%.

Table 5 Price / Book Ratio Comparison						
		Price/Book	Discount on Price / Book			
Company Name		(%)	40.0%	45.0%	50.0%	55.0%
Feldman	Max	57.8				
	Midpoint	54.4				
	Min	50.3				
Feldman's Comparative Group						
Mean		113.0	67.8	62.2	56.5	50.9
Median		98.3	59.0	54.1	49.1	44.2
Boenning Comparable Group						
Mean		110.2	66.1	60.6	55.1	49.6
Median		95.0	57.0	52.2	47.5	42.7
Boenning Performance Comparable Group						
Mean		99.6	59.7	54.8	49.8	44.8
Median		91.7	55.0	50.4	45.8	41.3

CONCLUSION REGARDING THE FELDMAN APPRAISAL AND APPRAISAL UPDATE

Based on our analysis and review of Feldman's Appraisal and Appraisal Update, as well as discussions with Feldman, we believe Feldman's Appraisal and Appraisal Update considered the appropriate factors, analysis and approaches and that the Appraisal and Appraisal Update reports were complete. We believe the methodologies utilized and assumptions made were reasonable in light of 40 P.S. §914-A(d).

Furthermore, the pro forma market value as of March 31, 2015 and August 20, 2015, determined by Feldman in the Appraisal and Appraisal Update are reasonable. The Midpoint pro forma value of ARI was estimated at $26.0 million. Applying a range of value of 15% above and below the midpoint, resulted in a minimum value of $22.1 million and a maximum value of $29.9 million.

Exhibit I

STATEMENT OF GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report is subject to the following general assumptions and limiting conditions.

1. No investigation has been made of, and no responsibility is assumed for, the legal description of the property being valued or legal matters, including title or encumbrances. Title to the property is assumed to be good and marketable unless otherwise stated. The property is assumed to be free and clear of any liens, easements or encumbrances unless otherwise stated.

2. Information furnished by others, upon which all or portions of this appraisal is based, is believed to be reliable, but has not been verified except as set forth in this report. No warranty is given as to the accuracy of such information.

3. This report has been made only for the purpose stated and shall not be used for any other purpose. Neither this report nor any portions thereof (including, without limitation, any conclusions as to value, the identity of Boenning & Scattergood, Inc. ("**Boenning**") or any individuals signing or associated with this report, or the professional associations or organizations with which they are affiliated) shall be disseminated to third parties, except via the Department's website, by any means without the prior written consent and approval of Boenning.

4. Neither Boenning nor any individual signing or associated with this report shall be required by reason of this report to give further consultation, provide testimony, or appear in court or other legal proceeding unless specific arrangements therefore have been made.

5. No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or conditions which occur subsequent to the date hereof.

6. The date of value to which the opinion expressed in this report applies is set forth in the letter of transmittal. Our financial opinion is based on the purchasing power of the United States dollar as of that date.

7. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can readily be obtained or renewed for any property use on which the financial estimates contained in this report are based.

Exhibit I

STATEMENT OF GENERAL ASSUMPTIONS AND LIMITING CONDITIONS (continued)

8. Full compliance with all applicable federal, state and local zoning, use, environmental and similar laws and regulations is assumed, unless otherwise stated.

9. Responsible ownership and competent management are assumed.

10. Any opinions of value are predicated on the financial structure prevailing as of the date of this report.

11. We were not engaged nor are we qualified to detect the existence of hazardous material which may or may not be present on or near the properties in question. The presence of potentially hazardous substances such as asbestos, urea formaldehyde foam insulation, industrial wastes, etc., may affect the value of the company. Any value estimate herein is predicated on the assumption that there is no such material on, in, or near the property that would cause a loss in value. No responsibility is assumed for any such condition or for any expertise or engineering knowledge required to discover them. The client should retain an expert in this field if further information is desired.

12. This report may not be included or referred to in any Securities and Exchange Commission filing or other public document unless separate arrangements have been made with Boenning.

13. Boenning's maximum liability relating to services rendered under this report (regardless of form of action, whether in contract, negligence, or otherwise) shall be limited to the charges paid to Boenning for the portion of its services or work products giving rise to liability. In no event shall Boenning be liable for consequential, special, incidental, or punitive losses, damages, or expenses (including, without limitation, lost profits, opportunity costs, etc.) even if it has been advised of their possible existence.

Exhibit II

CERTIFICATION

We certify that, to the best of our knowledge and belief:

- the statements of fact and data reported by the reviewer and contained in this Report are true and correct;

- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions;

- we have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved;

- our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report; and

Anthony A. Latini, Jr.

James W. Adducci

Orlando J. Lam

September 29, 2015

Exhibit III

PROFESSIONAL BACKGROUNDS

Anthony A. Latini, Jr., CFA – Managing Director

Tony leads the firm's insurance practice and has over 25 years of experience with the property/casualty and life segments. His merger & acquisition transaction experience includes approximately $2 billion in transaction value and he has assisted in raising in excess of $1 billion in debt and junior capital. Prior to joining Boenning & Scattergood, Mr. Latini was Managing Director of Curtis Financial Group's financial services industry group. He has also held positions at Berwind Financial L.P., Evans & Company, Inc. and CoreStates Financial Corp. Tony received his Bachelor of Science degree in Economics with a concentration in Finance from the Wharton School of the University of Pennsylvania. He holds the Chartered Financial Analyst designation and the FINRA Series 7, 24, 63, and 79 licenses.

James Adducci – Director

James has 14 years of investment banking experience working with public and private companies executing exclusive sale assignments, buy-side transactions, financings and various other strategic advisory assignments. James has completed more than 60 transactions totaling more than $1 billion in value. James has been involved with multiple deals involving companies in the insurance sector. Prior to joining Boenning in 2004, James worked in the diversified industrials group at Dresdner Kleinwort in New York where he focused on cross-border M&A transactions. James received his BA in economics from Carleton College. He is registered with FINRA and holds the Series 7 and 63 licenses.

Orlando Lam – Analyst

Orlando joined Boenning & Scattergood, Inc. as an analyst in 2014. As part of the Investment Banking Group, Orlando has primarily worked on transactions, including mergers and acquisitions and capital raises. Prior to joining Boenning & Scattergood, Orlando was an intern at Bryant Park Capital working in a variety of industries ranging from industrials to financial services. Orlando earned a Bachelor of Sciences in Finance and Accounting from Drexel University. He is registered with FINRA and holds the Series 63 and 79 licenses.

Exhibit IV

Preliminary Information Request List
ARI Mutual Conversion

The following list is intended to indicate the information Boenning & Scattergood requires to complete its analysis. We understand that certain items may only be available for "on-site" review and/or are better answered in the management interview process. For each item, please consider the relevance of the information for ARI Mutual v. any affiliated companies and provide for the relevant entity. For items that management believes are best or fully answered in materials previously provided to the Department, please indicate exact reference in the Plan or other filings (section, page numbers etc.)

	Diligence Item	Status	Comments
I.	Financial (both entities as applicable)		
	A. Annual audited financial statements (GAAP and Stat, as available) for the past five fiscal years; most recent internal year to date results (with comparative year to date period from prior year); if available, schedule of Stat to GAAP adjustments.		
	B. Monthly internal financials for 2014 and YTD.		
	C. Any long-term financial projections or strategic plans.		
	D. Data/research utilized to substantiate projections.		
	E. Copies of recent Board package.		
	F. Accountant's Management Letter.		
	G. Risk based capital calculations.		
	H. Copies of any loan documents and description of financial ratio covenants, repayment schedules.		
	I. Loss and LAE reserve internal calculations - please note under/over reserve assessment. Most recent external actuarial report		
	J. Investment portfolio report, most current.		
II.	Business Description		
	A. Principal Markets (by geography and insurance lines) and Competition.		
	B. Policyholders by type of product, premium and geography.		
	C. Distributor or Policyholder concentration, if any.		
	D. Competition - include names, market shares, and principal means of competing.		
	E. Summary of reinsurance program.		
	F. Listing of agents/brokers with production volume (last 3 years).		
	G. Listing of all subsidiaries and affiliates (corporate organization chart).		
	H. Listing of states licensed.		
	I. Significant processes, policies and contracts with regard to:		
	J. Marketing plan and growth strategy.		
	K. New business data (5 most recent years if available):		

Exhibit IV

	Diligence Item	Status	Comments
	L. New policies by year.		
	M. Statistics on renewal of policies.		
	N. Calculation of expense ratios.		
	O. Claims statistics for the last three years		
	P. Claims/Loss assessment and reserves.		
	Q. Describe pricing and regulation and any plans for premium rates going forward.		
	R. Discuss capital expenditures plan and note any material deferred items.		
	S. Commissions/Agent and Broker Relationships. – 3 year new business volume history and commission rates/amounts.		
	T. Underwriting and delegation of binding authority.		
	U. Policyholder and Stockholder Dividends.		
	V. Description of Facilities and Operations including:		
	a. Location.		
	b. Describe any plan to close current office locations and any financial impact.		
	c. Capacities and required capital investment.		
	d. Schedule of fair market value of real estate owned (include appraisals or cost-basis), if available.		
	e. Equipment description (include for significant equipment only and give useful life remaining, estimated replacement costs, etc.).		
III.	Management and Personnel		
	A. Organization chart.		
	B. List of officers including title, age, length of service, former affiliation, and salary (list terms of any employment agreements including incentive compensation).		
	C. Number of employees and employee benefit plans (including post retirement costs and funding status).		
	D. Employees by function		
	E. Change in control or employment agreements		
IV.	Other		
	A. Discussion of federal or state tax returns unsettled and any tax treatments in contention.		
	B. Discussion of significant regulatory issues, in particular, any issues in contention.		
	C. Discussion of significant or unusual leases.		
	D. Schedule of pending litigation.		

Exhibit IV

	Diligence Item	Status	Comments
	E. Minutes of Board meetings for past two years.		
	F. Most recent regulatory examination (including market conduct study).		
	G. Discussion of known and potential environmental liabilities.		
	H. Most recent actuarial letter/report.		
	I. Copies of any material agreements with vendors.		
	J. Copies of By-Laws.		
	K. Agreements and other documentation relating to sales of securities, including private placement memoranda or other offering circulars and subscription agreements.		
V.	Corporate Strategic Actions		
	A. Describe any offers to purchase the company, include any correspondence with potential buyers.		
	B. Descriptions of any acquisitions made by the company in past five years		
	C. Plan of Conversion – method of allocation of subscriber rights and method for verification of all members included		
	D. Plan of Conversion – rationale and strategy; alternatives considered		
	E. Conversion Sponsor Process – all material board / management presentations describing the process of finding and selecting the sponsor		

Exhibit V
Comparable Company Groups

Company Name	State	Exchange:Ticker	Total Revenue ($000s)	Total Assets ($000s)	Total Equity ($000s)	ROA (%)	ROE (%)	2014 Combined Ratio (%)	2014 Loss Ratio (%)	2014 Expense Ratio (%)	Price / Revenue (%)	Price / Book (%)	Price / Assets (%)	Price / Earnings (x)
ARI	PA			128,467	23,100	(8.46)	(36.56)	120.8	93.9	26.9				
Boenning Comparable Group														
1347 Property Insurance Holdings, Inc.	FL	NASDAQ:PIH	21,192	75,864	48,981	(0.12)	(0.17)	71.7	19.6	52.1	2.23	98.3	62.3	NM
Atlas Financial Holdings, Inc.	IL	NASDAQ:AFH	109,750	366,768	117,963	6.34	17.75	90.7	62.3	28.4	1.85	178.6	55.5	11.0
Baldwin & Lyons, Inc.	IN	NASDAQ:BWINB	294,783	1,126,458	403,284	2.63	7.42	93.0	61.0	32.0	1.16	84.7	30.5	13.1
Donegal Group Inc.	PA	NASDAQ:DGICA	600,981	1,495,269	425,530	1.51	5.34	101.7	69.8	31.9	0.67	91.7	26.8	14.9
First Acceptance Corporation	TN	NYSE:FAC	275,757	359,896	108,111	8.91	30.31	96.6	73.9	22.7	0.45	117.2	34.8	5.1
Hallmark Financial Services, Inc.	TX	NASDAQ:HALL	341,707	1,017,674	261,718	1.44	5.71	95.9	65.4	30.5	0.65	84.2	21.7	11.7
Kingstone Companies, Inc.	NY	NASDAQ:KINS	54,564	137,389	40,916	4.09	13.82	77.1	52.2	24.9	1.15	149.0	45.6	9.8
National Interstate Corporation	OH	NASDAQ:NATL	600,393	1,796,601	370,043	0.58	2.79	103.9	83.8	20.1	0.93	151.3	31.0	20.3
National Security Group, Inc.	AL	NASDAQ:NSEC	65,273	147,016	44,213	5.50	19.73	87.4	50.7	36.7	0.50	74.9	22.2	4.9
Unico American Corporation	CA	NASDAQ:UNAM	30,861	135,556	71,440	(0.11)	(0.20)	78.0	55.0	23.0	1.67	72.3	38.1	NM
Mean			239,526	665,849	189,220	3.08	10.25	89.6	59.4	30.2	1.13	110.2	36.8	11.4
Median			192,754	363,332	113,037	2.07	6.56	91.9	61.7	29.5	1.04	95.0	32.9	11.4
Boenning Performance Comparable Group														
1347 Property Insurance Holdings, Inc.	FL	NASDAQ:PIH	21,192	75,864	48,981	(0.12)	(0.17)	71.7	19.6	52.1	2.23	98.3	62.3	NM
Donegal Group Inc.	PA	NASDAQ:DGICA	600,981	1,495,269	425,530	1.51	5.34	101.7	69.8	31.9	0.67	91.7	26.8	14.9
Hallmark Financial Services, Inc.	TX	NASDAQ:HALL	341,707	1,017,674	261,718	1.44	5.71	95.9	65.4	30.5	0.65	84.2	21.7	11.7
National Interstate Corporation	OH	NASDAQ:NATL	600,393	1,796,601	370,043	0.58	2.79	103.9	83.8	20.1	0.93	151.3	31.0	20.3
Unico American Corporation	CA	NASDAQ:UNAM	30,861	135,556	71,440	(0.11)	(0.20)	78.0	55.0	23.0	1.67	72.3	38.1	NM
Mean			319,027	904,193	235,542	0.66	2.69	90.2	58.7	31.5	1.23	99.6	36.0	15.6
Median			341,707	1,017,674	261,718	0.58	2.79	95.9	65.4	30.5	0.93	91.7	31.0	14.9
Feldman's Comparative Group														
Mean			306,651	805,386	254,477	3.26	10.35	90.7	59.9	30.8	1.13	113.0	39.0	10.9
Median			275,757	555,266	221,800	2.63	7.42	93.0	62.3	30.6	1.05	98.3	34.8	10.6

Note: Financials as of March 31, 2015 except where noted. Pricing as of August 20, 2015.

Exhibit VI-1
ARI MUTUAL INSURANCE COMPANY
Statutory Statements of Admitted Assets, Liabilities and Policyholders' Surplus

	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	3/31/2015
ASSETS						
Cash and invested assets:						
Bonds	$ 27,407	$ 35,610	$ 31,131	$ 40,329	$ 45,978	$ 41,716
Preferred stocks	1,000	2,031	1,781	1,527	1,138	889
Preferred stocks	-	187	991	1,893	2,528	2,812
Common stocks	18,992	14,341	15,550	11,087	8,941	9,188
Real estate	2,083	3,634	3,602	3,920	3,779	3,744
Cash and short-term investments	1,031	3,908	4,877	6,914	6,362	5,205
Total cash and invested assets	**50,513**	**59,711**	**57,932**	**65,670**	**68,726**	**63,554**
All Other Assets:						
Premiums receivable	4,063	7,501	10,656	14,334	17,292	16,155
Reinsurance recoverable on paid losses and loss adjustment expenses	2,480	704	941	550	1,358	1,248
Contingent commission receivable	310	393	379	392	468	590
Net deferred tax asset	600	1,782	3,199	3,367	-	-
Investment income due and accrued	379	447	417	485	481	411
Guaranty funds receivable	727	733	736	744	729	746
Receivable from affiliate	324	120	-	37	-	-
Other assets	59	141	115	93	42	69
Total Other Assets	8,942	11,821	16,443	20,002	20,370	19,219
TOTAL ASSETS	**$ 59,455**	**$ 71,532**	**$ 74,375**	**$ 85,672**	**$ 89,096**	**$ 82,773**
LIABILITIES						
Unpaid losses and loss adjustment expenses	$ 19,250	$ 29,529	$ 27,815	$ 32,922	$ 44,678	$ 45,786
Unearned premiums	5,403	9,377	12,974	19,335	19,127	4,801
Ceded balances payable	2,068	776	1,160	2,046	2,740	7,293
Accrued expenses and other liabilities	1,478	1,677	1,889	2,748	2,764	3,133
Provision for reinsurance	11	169	103	13	375	375
Total Liabilities	**28,210**	**41,528**	**43,941**	**57,064**	**69,684**	**61,388**
STOCKHOLDERS' EQUITY						
Unassigned surplus	31,245	29,230	30,434	28,608	19,412	21,385
Additional admitted deferred tax assets under SSAP No. 10R	-	774	-	-	-	-
Total stockholders' equity	**31,245**	**30,004**	**30,434**	**28,608**	**19,412**	**21,385**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 59,455**	**$ 71,532**	**$ 74,375**	**$ 85,672**	**$ 89,096**	**$ 82,773**

Exhibit VI-2
ARI MUTUAL INSURANCE COMPANY
Statutory Statements of Income

	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	3/31/2015
Revenues						
Direct business written	$ 19,497	$ 20,250	$ 27,045	$ 43,830	$ 57,578	$ 13,596
Reinsurance ceded	(8,867)	(4,384)	(3,981)	(7,449)	(19,415)	(20,114)
Net premiums written	10,630	15,866	23,064	36,381	38,163	(6,518)
Change in unearned premiums	2,012	(3,974)	(3,598)	(6,361)	208	14,326
Net premiums earned	**12,642**	**11,892**	**19,466**	**30,020**	**38,371**	**7,808**
Loss and loss adjustment expenses	8,897	11,837	14,763	24,155	36,028	6,693
Other underwriting expenses incurred	4,279	5,165	7,100	9,826	10,276	(730)
Net underwriting income (loss)	**(534)**	**(5,110)**	**(2,397)**	**(3,961)**	**(7,933)**	**1,846**
Net investment income	1,098	1,069	1,364	1,127	1,120	248
Realized investment gains	92	249	138	1,529	645	36
Other income	35	145	492	1	226	51
Income (loss) before provision for income taxes	**691**	**(3,647)**	**(403)**	**(1,304)**	**(5,942)**	**2,181**
Federal income tax benefit	(3)	-	2	-	-	-
Net income	**$ 688**	**$ (3,647)**	**$ (401)**	**$ (1,304)**	**$ (5,942)**	**$ 2,181**
Loss ratio (1)	70.4%	99.5%	75.8%	80.5%	93.9%	85.7%
Expense ratio (2)	40.3%	32.6%	30.8%	27.0%	26.9%	NM
Combined ratio (3)	110.6%	132.1%	106.6%	107.5%	120.8%	NM

(1) Losses and loss adjustment expenses divided by net premiums earned.
(2) Other underwriting expenses incurred divided by net premiums written.
(3) Sum of the loss ratio and expense ratio.

Exhibit VII-1
ARI MUTUAL INSURANCE COMPANY
Consolidated Balance Sheet - GAAP Basis

	12/31/2014	3/31/2015	3/31/2014
ASSETS			
Investments:			
Fixed maturities	$ 53,269	$ 49,350	$ 51,222
Equity securities	4,818	5,124	6,404
Short-term investments	1,388	2,318	1,051
Total Investments	**59,475**	**56,792**	**58,677**
All Other Assets:			
Cash	5,662	3,570	4,874
Premiums receivable	17,292	16,150	15,195
Deferred policy acquisition cost	4,300	-	3,940
Deferred income taxes, net	-	-	3,620
Reinsurance receivables	35,298	45,918	21,179
Property, plant and equipment	4,530	4,375	5,037
Other assets	1,338	1,662	1,297
Total Other Assets	**68,420**	**71,675**	**55,142**
TOTAL ASSETS	**$ 127,895**	**$ 128,467**	**$ 113,819**
LIABILITIES			
Unpaid losses and loss adjustment expenses	$ 71,487	$ 73,904	$ 52,625
Unearned premiums	28,680	28,206	25,241
Accrued expenses and other liabilities	2,733	3,257	2,970
Total Liabilities	**102,900**	**105,367**	**80,836**
POLICYHOLDERS' EQUITY			
Retained earnings	25,575	23,377	33,628
Accumulated other comprehensive loss	(580)	(277)	(645)
Total stockholders' equity	**24,995**	**23,100**	**32,983**
TOTAL LIABILITIES AND POLICYHOLDERS' EQUITY	**$ 127,895**	**$ 128,467**	**$ 113,819**

Exhibit VII-2
ARI MUTUAL INSURANCE COMPANY
Consolidated Statement of Income and Comprehensive Income - GAAP Basis

	12-months-ending	3-months-ending	
	12/31/2014	**3/31/2015**	**3/31/2014**
Revenues			
Direct premiums earned	$ 51,808	$ 14,112	$ 11,290
Reinsurance assumed	128	60	23
Reinsurance ceded	(13,565)	(6,363)	(2,036)
Premiums earned	38,371	7,808	9,278
Net investment income	1,814	407	452
Other income	268	62	82
Realized investment gains	-	-	79
Total Revenues	**40,453**	**8,277**	**9,891**
Expenses			
Loss and loss adjustment expenses	36,028	6,693	8,014
Policy acquisition costs	7,817	2,405	1,734
Other operating costs	1,592	1,321	806
Realized investment losses	145	212	-
Total Expenses	**45,582**	**10,631**	**10,554**
Income (Loss) Before Provision for Income Taxes	**(5,129)**	**(2,354)**	**(663)**
Provision for income taxes (benefit)	3,404	(156)	(183)
Net Income	**$ (8,533)**	**$ (2,198)**	**$ (480)**
Other Income			
Unrealized Holdings Gains on Available for Sale Securities	420	303	355
Total other income	**420**	**303**	**355**
Comprehensive Income (Loss)	**$ (8,113)**	**$ (1,895)**	**$ (125)**
Loss ratio (1)	93.9%	85.7%	86.4%
Expense ratio (2)	24.5%	47.7%	27.4%
Combined ratio (3)	118.4%	133.4%	113.8%

(1) Losses and loss adjustment expenses divided by net premiums earned.
(2) The sum of policy acquisition costs and other operating costs divided by net premiums earned.
(3) Sum of the loss ratio and expense ratio.