CATALINA HOLDINGS (BERMUDA) LTD.

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

CATALINA HOLDINGS (BERMUDA) LTD.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Catalina Holdings (Bermuda) Ltd.

We have audited the accompanying consolidated financial statements of Catalina Holdings (Bermuda) Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Catalina Holdings (Bermuda) Ltd. and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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Other matter

Management has omitted certain disclosures related to short-duration contracts that U.S. generally accepted accounting principles require to be presented to supplement the basic consolidated financial statements. Such missing information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic consolidated financial statements is not affected by this missing information.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 19, 2018

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016
(Expressed in thousands of U.S. dollars)

	2017	2016
Assets		
Investments at fair value	$ 2,213,871	$ 1,329,817
Cash and cash equivalents	263,887	403,429
Restricted cash and cash equivalents	165,841	121,094
Accrued investment income	17,860	11,431
Investments in real estate	303,960	162,116
Real estate held for sale	10,843	-
Outstanding losses and loss expenses recoverable	568,934	419,684
Deferred reinsurance premiums	3,652	7,444
Funds held by cedants and claims administrators	88,524	75,196
Insurance and reinsurance balances receivable	29,508	26,267
Other assets	26,884	30,213
Intangible assets	12,750	12,750
Total assets	$ 3,706,514	$ 2,599,441
Liabilities		
Outstanding losses and loss expenses	$ 1,898,338	$ 1,392,247
Unearned premiums	6,617	14,279
Insurance and reinsurance balances payable	55,608	70,676
Accounts payable, accrued expenses and other liabilities	73,800	47,196
Long term subordinated debt	263,438	194,913
Loans payable	659,251	282,801
Total liabilities	2,957,052	2,002,112
Shareholders' equity		
Ordinary shares	7,059	7,040
Preference shares	476,145	375,453
Additional paid-in capital	57,151	40,982
Retained earnings	190,864	190,518
Accumulated other comprehensive income (loss)	12,597	(24,979)
Total Catalina Holdings (Bermuda) Ltd. shareholders' equity	743,816	589,014
Non-controlling interest	5,646	8,315
Total shareholders' equity	749,462	597,329
Total liabilities and shareholders' equity	$ 3,706,514	$ 2,599,441

The accompanying notes are an integral part of these consolidated financial statements

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2017 and 2016
(Expressed in thousands of U.S. dollars)

	2017	2016
Revenues		
Net premiums earned	10,132	7,222
Net losses and loss expenses	73,303	44,859
Commissions	(3,358)	1,394
Net run-off income	80,077	53,475
Net investment income	53,374	39,038
Net gains on investments	35,369	66,520
Rental income	12,119	10,217
Net foreign exchange (losses) gains	(29,311)	6,282
Gain on acquisition	1,708	-
Gain on sale of real estate and licenses	1,875	5,718
General and administrative expenses	(60,733)	(60,623)
Change in subordinated debt fair value	(11,995)	(923)
Interest expense	(33,409)	(23,088)
Income before income taxes	49,074	96,616
Income tax expense	(7,327)	(15,383)
Net income	$ 41,747	$ 81,233
Net income attributable to non-controlling interest	(404)	(507)
Net income attributable to Catalina Holdings (Bermuda) Ltd.	$ 41,343	$ 80,726

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2017 and 2016
(Expressed in thousands of U.S. dollars)

	2017	2016
Net income attributable to Catalina Holdings (Bermuda) Ltd.	$ 41,343	$ 80,726
Other comprehensive income (loss), before and net of tax:		
Foreign currency translation adjustments	36,962	(17,308)
Increase in fair value of interest rate swap	614	187
Other comprehensive income (loss), before and net of tax	37,576	(17,121)
Comprehensive income	$ 78,919	$ 63,605

The accompanying notes are an integral part of these consolidated financial statements

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2017 and 2016
(Expressed in thousands of U.S. dollars except for share and per share amounts)

	2017	2016
Share capital - "A" Ordinary shares of par value $1.00 each		
Balance at beginning of year	$ 6,045	$ 6,693
Repurchased during year	-	(648)
Other	(1)	-
Balance at end of year	6,044	6,045
Share capital - "B" Ordinary shares of par value $1.00 each		
Balance at beginning and end of year	600	600
Share capital - "C" Ordinary shares of par value $1.00 each		
Balance at beginning of year	395	418
Issued during year	20	37
Repurchased during year	-	(60)
Balance at end of year	415	395
Preference share capital - Preference shares of par value $1.00 each		
Balance at beginning of year	375,453	358,403
Issued during year	98,179	15,994
Change in accrued dividends during year	2,513	1,056
Balance at end of year	476,145	375,453
Additional paid-in capital		
Balance at beginning of year	40,982	26,477
Dividends on "B" and "C" Ordinary shares	(648)	-
Increase in subscription value of preference shares	16,817	13,857
Repurchased "A" Ordinary shares	-	648
Balance at end of year	57,151	40,982
Retained earnings		
Balance at beginning of year	190,518	144,218
Preference shares dividends and subscription value increase	(37,511)	(30,904)
Dividends on "B" and "C" Ordinary shares	(3,677)	(2,778)
Repurchased "C" Ordinary shares	-	(1,038)
Issued "C" Ordinary shares as stock-based compensation	191	294
Net income attributable to Catalina Holdings (Bermuda) Ltd.	41,343	80,726
Balance at end of year	190,864	190,518
Accumulated other comprehensive income (loss)		
Balance at beginning of year	(24,979)	(7,858)
Other comprehensive income (loss)	37,576	(17,121)
Balance at end of year	12,597	(24,979)
Non-controlling interest		
Balance at beginning of year	8,315	4,712
Purchase of non-controlling interest	(3,781)	-
Contribution of capital	-	4,904
Dividends paid	(744)	(485)
Net income attributable to non-controlling interest	404	507
Foreign currency translation adjustment	1,452	(1,323)
Balance at end of year	5,646	8,315
Total shareholders' equity	$ 749,462	$ 597,329

The accompanying notes are an integral part of these consolidated financial statements

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016
(Expressed in thousands of U.S. dollars)

	2017	2016
Cash flows from operating activities		
Net income	$ 41,747	$ 81,233
Adjustments to reconcile net income to net cash used in operating activities		
Gain on acquisitions	(1,708)	-
Gain on sale of real estate	(1,875)	(4,768)
Gain on sale of licenses	-	(950)
Depreciation of property and equipment	2,060	1,392
Amortization of net discounts on investments	6,611	4,101
Net gains on investments	(35,369)	(66,520)
Change in subordinated debt fair value	11,995	923
"C" shares issued as stock-based compensation	211	331
Changes in assets and liabilities:		
Accrued investment income	1,621	5,274
Funds held by cedants and claims administrators	17,636	18,759
Outstanding losses and loss expenses recoverable	(13,508)	69,906
Insurance and reinsurance balances receivable	62,307	16,021
Deferred reinsurance premiums	4,179	3,986
Other assets	6,033	(6,880)
Outstanding losses and loss expenses	(225,790)	(391,045)
Unearned premiums	(8,074)	(11,753)
Insurance and reinsurance balances payable	(16,296)	8,519
Accounts payable, accrued expenses and other liabilities	20,565	(11,291)
Net cash used in operating activities	(127,655)	(282,762)
Cash flows from investing activities		
Payment for acquisitions, net of cash acquired	(231,804)	(24,527)
Proceeds from sale of real estate and licenses	29,151	50,508
Purchases of investments	(1,513,150)	(1,143,095)
Proceeds from sale or maturity of investments	1,402,989	1,617,354
Investment in real estate	(155,400)	(82,730)
Net cash (used in) provided by investing activities	(468,214)	417,510
Cash flows from financing activities		
Proceeds from issuance of preference shares	80,000	-
Purchase of Non-controlling interest	(3,781)	-
Capital contributions for non-controlling interest	-	4,904
"B" and "C" Ordinary shares dividend	(4,325)	(2,778)
Proceeds from issuance of long term subordinated debt	49,314	24,118
Proceeds from issuance of loans payable	380,675	185,441
Non-controlling interest dividend	(744)	(485)
Repayment of loans	(33,512)	(228,000)
Net cash provided by (used in) financing activities	467,627	(16,800)
Effect of exchange rate changes	33,447	(2,523)
(Decrease) increase in cash, cash equivalents, and restricted cash	(94,795)	115,425
Cash, cash equivalents, and restricted cash at beginning of year	524,523	409,098
Cash, cash equivalents, and restricted cash at end of year	$ 429,728	$ 524,523
Supplemental information:		
Interest paid	$ 27,835	$ 24,674
Income taxes paid	$ 8,000	$ 10,477
Reconciliation to consolidated balance sheets:		
Cash and cash equivalents	$ 263,887	$ 403,429
Restricted cash and cash equivalents	165,841	121,094
Cash and cash equivalents, and restricted cash	$ 429,728	$ 524,523

The accompanying notes are an integral part of these consolidated financial statements

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

1. Description of business

Catalina Holdings (Bermuda) Ltd. ("Catalina" or the "Company"), incorporated on June 25, 2007, is a holding company organized under the laws of Bermuda. Catalina, through its subsidiaries located in Bermuda, the United States, the United Kingdom, Ireland and Switzerland, acquires and manages non-life insurance and reinsurance companies and portfolios of insurance and reinsurance business in run-off. Since October 2008, Catalina has completed the acquisition of insurance and reinsurance companies and portfolios of insurance and reinsurance business. The acquisitions are:

• Quanta Capital Holdings Ltd. ("Quanta")	October 2008
• Alea Holdings UK Limited	October 2009
• Western General Insurance Ltd. ("WestGen")	July 2010
• Glacier Reinsurance AG ("Glacier Re")	April 2011
• Residential Loss Control Holdings, LLC	October 2011
• HSBC Reinsurance Limited and HSBC Insurance (Ireland) Limited	October 2012
• KX Reinsurance Company Ltd.	April 2013
• American Safety Reinsurance Ltd. ("Catalina Safety")	October 2013
• Alea Group Holdings (Bermuda) Ltd. ("AGHBL")	March 2014
• SPARTA Insurance Holdings, Inc.	September 2014
• Danielson Indemnity Company	November 2014
• PXRE Reinsurance Company ("PXRE")	May 2015
• Papiro AG	October 2015
• Allianz Suisse Ruckversicherungs-Gesselschaft AG	December 2015
• AGF Insurance Limited ("AGF")	October 2016
• Hartford Financial Products International Limited ("HFPI")	May 2017
• Downlands Liability Management Limited ("DLM")	May 2017
• Globale Reinsurance Company Ltd. ("Globale Re")	May 2017

The portfolio transfers are:

• Contractors wrap-up policies from Renaissance Reinsurance Ltd.	November 2012
• Marine insurance liabilities from the Delta Lloyd Group	June 2014
• Residential construction liabilities from NationsBuilders Insurance Company	February 2015
• UK and EU insurance liabilities from Quinn Insurance Limited ("QIL")	June 2015
• US insurance liabilities from Samsung Fire and Marine Insurance Co., Ltd. (U.S. Branch)	December 2017

Catalina has renamed many of the entities acquired and simplified the group structure by merging and amalgamating entities where possible. As at December 31, 2017, Catalina had twelve regulated entities of which the most significant are Catalina General Insurance Ltd. ("CatGen"), Catalina Worthing Insurance Limited ("CWIL" formerly HFPI), SPARTA Insurance Company ("SPARTA"), AGF, Catalina London Limited, Glacier Re, and Catalina Insurance Ireland dac ("CII").

On November 6, 2017, the Company through its wholly owned subsidiary CII, signed a definitive agreement with Zurich Insurance Limited under which a portfolio of German legacy medical malpractice liabilities in run-off will be transferred to CII. Regulatory approval for this transaction was obtained from the Central Bank of Ireland ("CBI") on February 26, 2018. The transaction closed in March 2018.

On December 29, 2017, the Company through its wholly owned subsidiary CatGen signed a definitive agreement with Arch Reinsurance Ltd. to reinsure a portfolio of U.S construction defect and general liabilities through a loss portfolio transfer agreement. Regulatory approval for this transaction was obtained from the Bermuda Monetary Authority ("BMA") on April 9, 2018.

1. Description of business (continued)

In October 2017, Apollo Global Management LLC (together with its consolidated subsidiaries) signed a definitive agreement to acquire a majority shareholding in the Company. The transaction is subject to regulatory approval and is expected to close in June 2018.

2. Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities reported at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. While management believes the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, the actual results could ultimately be materially different from the amounts currently provided for in the consolidated financial statements. The Company's principal estimates relate to the development or determination of the following:

- valuation of outstanding losses and loss expenses;
- valuation of investments and determination of hierarchical inputs used to measure fair value of investments;
- valuation of assets and liabilities under business combination accounting;
- valuation of long term subordinated debt;
- provisions for litigation and other contingent liabilities;
- provision for non-collectible reinsurance balances recoverable;
- recoverability of insurance and reinsurance balances receivable; and
- valuation of intangible assets.

The Company's consolidated financial statements include the financial statements of the Company and all of its subsidiaries in which it owns, directly or indirectly through subsidiaries, over fifty percent of the voting rights or is in a position to govern the financial and operating policies of the entity. All significant balances and transactions among related companies have been eliminated on consolidation. The results of subsidiaries acquired are included from the dates of their acquisition by the Company.

Premiums

The Company's insurance and reinsurance subsidiaries wrote insurance policies and reinsurance contracts prior to entering into run-off. These subsidiaries no longer write new policies or contracts but premiums continue to be earned over the terms of the associated insurance policies and reinsurance contracts in proportion to the amount of insurance protection provided. The term of the insurance or reinsurance coverage provided may be cancelled by the insured or ceding company resulting in a return of written premium.

Profit commission accruals are recorded as commission expenses and are adjusted at the end of each year based on the experience of the underlying contract. Such adjustments related to profit commissions may be significant.

In some instances, prior to acquisition by the Company, ceded reinsurance or retrocessional coverage was used to limit the Company's insurance and reinsurance subsidiaries' individual and aggregate exposures to risks of losses arising from contracts of insurance or reinsurance. Reinsurance premiums ceded to reinsurers are recorded and earned in a manner consistent with that of the original contracts or policies written and the terms of the reinsurance agreements.

Premiums written and ceded relating to the unexpired periods of coverage or policy terms are recorded on the consolidated balance sheet as unearned premiums and deferred reinsurance premiums, respectively. Unearned premiums and deferred reinsurance premiums are recorded at fair value at the date that they were acquired. The fair value of the unearned premiums reserve was based on the estimated timing of reserve settlements discounted at a risk free rate.

2. Significant accounting policies (continued)

Assumed premiums on life insurance contracts are recognized as revenue when payable by the policyholder on underlying reinsurance policies. Premiums collected by intermediaries but not yet received are assessed based on estimates from underwriting or past experience and are included in premium revenue.

Retroactive reinsurance

Consideration received in excess of estimated liabilities assumed with respect to retroactive reinsurance contracts is recognized as deferred income at inception of such contracts. Deferred income is subsequently amortized using the interest method over the expected claims settlement periods. Changes to the estimated timing or amount of loss payments produce changes in periodic amortization. Changes in such estimates are applied retrospectively and are included within net income in the year in which such changes are made. Deferred income is reported within outstanding losses and loss expenses in the consolidated balance sheets and deferred income amortization is recognized within net losses and loss expenses in the consolidated statements of operations.

Outstanding losses and loss expenses

The Company establishes reserves for outstanding losses and loss expenses for estimates of future amounts to be paid in settlement of its ultimate liabilities for claims arising under its contracts of insurance and reinsurance that have occurred at or before the consolidated balance sheet date. The estimation of ultimate loss and loss expense liabilities is a significant judgment made by management and is inherently subject to significant uncertainties.

The Company's loss reserves fall into two categories; case reserves for reported losses and loss expenses (“case reserves”) and reserves for losses and loss expenses incurred but not reported (“IBNR reserves”). Case reserves are based initially on claim reports received from insureds, brokers or ceding companies, and may be supplemented by the Company's claims professionals with estimates of additional ultimate settlement costs. IBNR reserves are estimated by management using generally accepted statistical and actuarial techniques and are reviewed by independent actuaries. In applying these techniques, management uses estimates as to ultimate loss emergence, severity, frequency, settlement periods and settlement costs. In making these estimates, the Company relies on the most recent information available, including industry information, and on its own historical loss and loss expense experience.

On periodic payment order claims (“PPO’s”), due to the long delay from when the claim was settled and when the final payment will be made, the outstanding claims are discounted to take account of investment income earned to the final payment date. The Company discounts its PPO’s at a real discount rate of 0%, assuming a long term care index inflation rate of 3% per annum, offset by expected investment returns of 3%. For known PPO’s, cash flows were projected in accordance with the claimants’ life expectancy. Annual cash flows are increased in line with an assumed inflation rate of 3% per annum. These cash flows are then discounted to the valuation date at an assumed discount rate of 3% per annum. The Company has discounted the cash flows as it is of the opinion that estimating undiscounted reserves for PPO’s is neither reliable nor representative of the underlying value of the losses. The unreliability stems from the significant uncertainty involved in estimating an absolute level of indexation. Management believes that discounting cash flows using a real yield assumption based on the relationship of investment returns relative to inflation indices is more reliable in the long term.

A significant amount of the Company’s loss and loss expense reserves are related to casualty lines of business. This is due to the Company typically acquiring companies, or reinsuring portfolios, that have been in runoff for many years and therefore have significant exposure to casualty lines of business due to the long-tail nature of that business. As of December 31, 2017 most of the Company’s reserves are casualty lines of businesses. In addition, the Company has exposure to Asbestos and Environmental (“A&E”) from US Asbestos, US Pollution and UK EL Asbestos. A&E makes up 43% of the Company’s net reserves as at December 31, 2017 (2016: 21%). The Company’s exposure to A&E has increased significantly since the acquisition of CWIL in May 2017. US A&E makes up 24% of the Company’s net reserves as at December 31, 2017 (2016: 4%). The methodology relied on by the Company for US Asbestos in the CWIL portfolio is based on a ground up exposure evaluation based on a model (“Asbestos Model”) consisting of insureds’ ultimate liabilities applied to their respective coverage charts. The Asbestos Model makes use of future claim filing patterns extending beyond 2050 developed by researchers using data from the Manville Trust and based on epidemiological studies of asbestos-related diseases. CWIL projections were rebased to reflect the most recent experience of each underlying insured’s trends. This model is used to estimate potential asbestos liabilities from CWIL direct and assumed reinsurance contracts. The results

2. Significant accounting policies (continued)

from the model are then extrapolated to policies and treaties where little information is available. For US Pollution in the CWIL portfolio, reserve estimates rely on a ground-up exposure evaluation of individual assessments of the ultimate liabilities from the most significant insureds. The individual assessments involve the analysis of the costs of investigation and clean-up costs based upon attorney, cedant and consultant estimates. These costs are then spread over the applicable years of coverage after allowing for the impact of policy language, state and federal court decisions and legislation. The costs are then applied to the insured's policy limits and deductibles that CWIL participated in. For the Company's exposure to US A&E from other acquired portoflios, the methodologies are based on Industry benchmarks (Survival Ratio and IBNR to Case Ratio). UK EL Asbestos makes up 19% of the Company's net reserves as at December 31, 2017 (2016: 17%). For UK EL Asbestos, the Company's reserve estimate relies on a Frequency / Severity methodology. The Company's estimates of future asbestos (particularly mesothelioma), deaths are derived by applying a model developed in 2009 by the Health and Safety Laboratory (HSL), a specialist modeling arm of the UK Health and Safety Executive. The number of future claims is derived by the Institute of Actuaries UK Asbestos Working Party by applying the HSL model for the number of asbestos deaths, although the Company makes adjustments to the standard assumptions where management believes that it is appropriate to do so. These adjustments may have a significant impact on the results. The future severity estimates come from analyzing previous payments made by type of asbestos claim and then applying a severity trend. Asbestos claims, particularly mesothelioma claims, have significant risk due to the long manifestation period of in excess of 40 years. The most significant causes of uncertainty that may affect A&E claims are the emergence of future claims reporting, the development of future average claim settlements and the potential for future judicial developments that may result in significant changes in the expected settlement of these claims.

Management believes the Company's reserving techniques represent a reasonable basis for estimating ultimate claim costs and that the outstanding losses and loss expenses are sufficient to cover claims from losses occurring up to the consolidated balance sheet date; however, ultimate losses and loss expenses may be subject to significant volatility as a result of significant uncertainties. These uncertainties are driven by many variables that are difficult to quantify. These uncertainties include, for example, the period of time between the occurrence of an insured loss and actual settlement, fluctuations in inflation, prevailing economic, social and judicial trends, legislative changes, internal and third party claims handling procedures and the lack of complete historical data on which to base loss expectations. Accordingly, ultimate liabilities may differ materially from the amounts recorded in the consolidated financial statements.

The Company regularly reviews and adjusts its reserve estimates and reserving methodologies taking into account current information. Outstanding losses and loss expenses are adjusted as claim experience develops and new information becomes available. Any adjustments to previously established reserves may significantly impact net income.

Reinsurance recoverable

Reinsurance recoverables are recorded at fair value at the date that the subsidiary owning the assets is acquired. The fair value of the recoverable from reinsurers is based on the estimated timing of reserve settlements discounted at a risk adjusted rate determined by management.

The Company estimates outstanding loss and loss expenses recoverable using methodologies and assumptions consistent with those used in estimating reserves for losses and loss expenses. The estimation of outstanding loss and loss expenses recoverable is a significant judgment made by management and is inherently subject to significant uncertainties. The Company establishes allowances for amounts recoverable that are considered potentially uncollectible from its reinsurers. The valuation of this allowance for uncollectible reinsurance recoverable includes a review of the credit ratings of the reinsurance recoverables by reinsurer, an analysis of default probabilities as well as identifying whether or not coverage issues exist. These factors require management judgment and the impact of any adjustments to those factors is reflected in net income in the year that the adjustment is determined. The Company is subject to credit risk with respect to the reinsurance ceded because the ceding of risk does not relieve the Company from its original obligations to its insureds.

Life contracts

Life contracts comprise of traditional life savings business assumed through coinsurance and modified coinsurance reinsurance contracts. They have all been in run-off for several years although many have recurring premiums. Liabilities for life reinsurance contracts are booked at the amounts reported by the ceding companies. The Company estimates the

2. Significant accounting policies (continued)

policy benefits for the life and annuity contracts using standard actuarial techniques and cash flow models. Policy benefits are reviewed annually and the Company performs a liability adequacy test based on cash flow projections. Since estimating the policy benefits depends on cash flow projection, the Company makes assumptions based on experience and industry mortality tables, longevity, morbidity rates, lapse rates, expenses and investment experience including provision for adverse deviation. The assumptions used are determined at the acquisition of the Company that wrote the contract and locked in throughout the life of the contract unless a premium deficiency develops. The assumptions are reviewed annually and unlocked if it results in material adverse development. The estimates are established based on information provided by the ceding companies, contract specific historical experience and industry experience.

The policy benefits are maintained at a level that, when taken together with future premium payments and investment income, are expected to be sufficient to cover policyholder obligations as they fall due. Provision is made where current best estimates of future contractual cash flows arising from the contracts are expected to exceed the policy obligations, net of premiums receivable. Investment income from the assets supporting the liabilities is taken into account when calculating such provision. The assessment of whether an additional provision needs to be booked is based on information available after offsetting the surpluses and deficits arising on contracts within the life portfolio. Any deficiency is charged to the statement of operations by establishing a provision for losses arising from the liability adequacy test for the unexpired risk portion. The amount of the provision depends on the risk adjusted returns available on assets designated to support life contract liabilities.

Structured settlements

Included within outstanding losses and loss expenses and outstanding losses and loss expenses recoverable in the consolidated balance sheets are amounts related to structured settlements. CatGen, through its Canadian branch, has assumed ownership of certain structured settlements and has purchased annuities from life insurance companies to provide fixed and recurring payments to the claimants. CatGen remains responsible to the claimants in the case of non-performance by the life insurance companies. The assets and liabilities related to the structured settlement contracts are booked at the amounts reported by the life insurance companies as management believes this to be the best available estimate of the obligations under these contracts.

Cash and cash equivalents

Cash equivalents include highly liquid instruments such as liquidity funds, money market funds and other time deposits with commercial banks and financial institutions which have maturities of less than three months from the date of purchase. See Note 12(a) in relation to concentrations of credit risk. Restricted cash and cash equivalents are separately reported in the consolidated balance sheets at December 31, 2017 and 2016.

Investments and net investments income

Investments are recognized and measured at fair value with subsequent changes to the fair value recorded within net gains (losses) on investments in the consolidated statements of operations. The Company holds trading portfolios of fixed maturities, short-term investments and equities which are recorded at fair value.

Purchases and sales of investments are recorded on a trade date basis. Realized gains and losses on sales of investments are determined on a first-in, first-out basis and are shown within net gains (losses) on investments in the consolidated statements of operations. Net investment income is recognized when earned and includes interest and dividend income, together with amortization of market premiums and discounts using the effective yield method and is presented net of investment management fees.

Other investments are recognized and measured at fair value with subsequent changes to the fair value, income distributions and realized gains and losses reported within net investment income in the consolidated statements of operations.

2. Significant accounting policies (continued)

Derivatives

The Company's derivative instruments are recorded in the consolidated balance sheets at fair value. Changes in the fair value of derivatives are recognized in the consolidated statements of operations, apart from changes in fair value of derivatives designated as cash flow hedging instruments which are reflected in the consolidated statements of comprehensive income.

Fair Value Measurements

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or a liability's categorization within the fair value hierarchy is based on the lowest level of input that is significant to its valuation. The hierarchy is broken down into three levels as follows:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

- Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs.

The Company used the following valuation techniques and assumptions in estimating the fair value of financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy:

Fixed maturities

At each valuation date, the Company uses a market approach technique to estimate the fair value of the fixed maturities portfolios, where possible. This market approach includes, but is not limited to, prices obtained from third party pricing services and broker-dealers for identical or comparable securities.

When quoted market prices are unavailable, the pricing service prepares estimates of fair value measurements with its proprietary pricing applications, using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, and expected cash flows, including prepayment speeds.

The following describes the significant inputs generally used to determine the fair value of fixed maturities by asset class:

- U.S. government and agency securities consist of securities issued by the U.S. Treasury and mortgage passthrough agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. The significant inputs include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

2. Significant accounting policies (continued)

- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Private debt securities have been classified in Level 3 as the inputs used to determine their fair values are not considered to be observable.

- Municipal securities consist primarily of bonds issued by U.S.-domiciled state and municipal entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair values of these securities includes the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, expected cash flows including prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Student loans asset-backed securities have been classified in Level 3 as the inputs used to determine the fair values of these securities are not considered to be observable.

- Mortgage-backed securities include both agency and non-agency originated securities. The significant inputs used to determine the fair values of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, expected cash flows including prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

<u>Equity securities</u>

Equity securities include exchange traded funds, mutual funds, common stocks and preferred stocks. Exchange traded debt and equity funds, common stocks and preferred stocks are classified within Level 1 as the fair values are based on quoted market prices in active markets. Certain convertible bond and multi-asset funds with daily liquidity and redemption values based on the net asset value of the fund are classified within Level 2. The policy for all equity securities classified within Level 3 has been described under alternative investments below.

<u>Alternative Investments</u>

Alternative Investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, hedge funds, private equity, private equity funds, private debt funds, debt funds, commercial real estate funds, common trust funds and venture capital funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment. The fair values of alternative investments have been estimated using the Net Asset Value ("NAV") of the funds reported by the entities responsible for administering the funds, where possible. In the absence of such information the assets are valued based on management's review and judgement of such assets. Because of the inherent uncertainty of such valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

2. Significant accounting policies (continued)

In May 2015, FASB issued an amendment to ASC 820, “Fair Value Measurements and Disclosures”, for investments that use NAV as a practical expedient to measure fair value, removing the requirement to present such investments within the fair value hierarchy. Accordingly, all alternative investments measured at NAV have been excluded from the fair value hierarchy.

Long term subordinated debt

Glacier Re:

Long term subordinated debt was issued by Glacier Re in 2005 (see Note 11). The Company classified its subordinated debt within Level 3 because similar debt trades infrequently and therefore there have been few observable inputs in terms of valuation benchmarks. Using judgement, the Company has therefore determined certain inputs in its valuation model which are not readily observable. Such inputs incorporate the counterparty risk of non-performance for Glacier Re’s debt.

Accordingly, the fair value of the long-term subordinated debt reflects the risk of non-performance of Glacier Re, captured by incorporating Glacier Re’s credit spread derived from the USD and Euro Composite yields to determine an appropriate discount rate which is applied to the nominal value of the debt at each measurement date. The discount rate is adjusted by an additional factor which reflects the implicit value, determined using management’s judgement, of the value of Glacier Re’s options for early repayment of the debt.

Alea Holdings US Company (“AHUSCO”):

AHUSCO issued $100 million of trust preferred securities ("TruPS") in December 2004 and an additional $20 million of TruPS in January 2005 which are classified within Level 3. The TruPS were issued by three Delaware trusts established by AHUSCO and provide for a preferred dividend at a rate of 3-month LIBOR plus 285 basis points. AGHBL gave a guarantee to the holders of the TruPS. The TruPS do not carry financial covenants or cross default covenants, have a fixed maturity of 30 years, and are callable. AHUSCO may optionally redeem the securities and thereby retire the TruPS but the holders of the TruPS may not call them prior to their maturity dates.

The fair value of the TruPS is calculated through an internal valuation model. Similar debt instruments trade infrequently and therefore the Company has determined certain inputs in its valuation model which are not readily observable. Such inputs incorporate the counterparty risk of non-performance of AGHBL’s debt. Accordingly, the fair value of the long-term subordinated debt reflects the risk of non-performance of the Company, captured by incorporating the Company’s credit spread derived from the USD composite yields to determine an appropriate discount rate which is applied to the nominal value of the debt at each measurement date. The discount rate is further adjusted by an additional factor to reflect the assumption that the subdebt’s credit risks are below BBB level. The Company classified this debt within Level 3.

Investments in real estate

The Company invests in real estate to generate returns via rental income and capital appreciation. The income from operating leases is recognized as rental income as per the terms of the leases.

The real estate acquired is recorded at cost less accumulated depreciation for the depreciable assets. The cost includes all acquisition costs directly identifiable with the purchase of the real estate. The Company splits the acquisition cost of each real estate asset between land and buildings based on management’s judgement. The buildings are comprised primarily of warehouses used to store goods. These buildings are depreciated over an estimated useful life of 40 years on a straight-line basis.

2. Significant accounting policies (continued)

The Company will assess its real estate for impairment when circumstances indicate the carrying value of the property may not be recoverable. The review will be based on the estimate of future undiscounted cash flows, excluding interest charge expected to result from the use and eventual disposal.

Property and equipment

Property and equipment, which consist of furniture, equipment, and leasehold improvements, are stated at cost less accumulated depreciation. Depreciation is computed using an accelerated method over the estimated useful lives of the related assets, ranging from three to seven years. Property and equipment are included in the other assets line item in the consolidated balance sheets.

Intangible assets

Intangible assets with indefinite useful lives are not amortized but are tested annually for impairment by a comparison to estimated realizable value. If the carrying amounts of intangible assets are greater than their fair values established during impairment testing, the carrying value is written-down to the fair value with a corresponding impairment loss recognized in the consolidated statements of operations.

Long term subordinated debt

Long term subordinated debt instruments issued by the Company are carried at amortized cost. Debt issuance costs are presented as a direct deduction from the related liability in the consolidated balance sheets. Amortization of debt issuance costs are included in interest expense in the consolidated statements of operations.

Long term subordinated debt instruments assumed through acquisitions of Glacier Re and AHUSCO are carried at their estimated fair values. Changes to estimated fair values are recognized in the consolidated statements of operations.

Foreign currency translation

The U.S. dollar is the functional currency of the Company and most of its subsidiaries. All foreign currency asset and liability amounts are translated into U.S. dollars at end-of-year exchange rates. Foreign currency income and expenses are translated at average exchange rates in effect during the year. Exchange gains and losses arising from the translation of foreign currency-denominated monetary assets and liabilities are included in the consolidated statements of operations. The effects of the currency translation adjustments for entities whose functional currency is not the U.S. dollar are included within foreign currency translation adjustments in the consolidated statements of comprehensive income.

Income taxes

Income taxes have been recognized in accordance with current standards, on those operations that are subject to income taxes. Deferred tax assets and liabilities result from net operating loss carryforwards and temporary differences between the carrying amounts of existing assets and liabilities recorded in the consolidated financial statements and their respective tax bases. A valuation allowance for a portion or all of deferred tax assets is recorded as a reduction to deferred tax assets if it is more likely than not that such portion or all of such deferred tax assets will not be realized.

Legal expenses

In the event of a dispute in the ordinary course of business, the Company expenses legal costs on an accrual basis. In the event of a specific litigation, when it is reasonably probable that the legal costs are going to be incurred, the Company accrues legal costs in line with the estimated incurred expenses.

2. Significant accounting policies (continued)

Commutations

As the Company actively runs off its insurance and reinsurance subsidiaries it seeks to mitigate its exposures through early settlement of its obligations to policyholders or ceding companies by entering into commutations or other arrangements.

These negotiated commutation agreements eliminate the risk of adverse claim experience as they provide for full and final settlement of all current and future policy obligations with respect to the transaction to which they relate. Gains and losses on commutations are recorded as either a decrease or an increase in incurred claims in the consolidated statements of operations.

The Company also enters into commutations with its reinsurers, assuming the reinsurers share of the obligations when the economic benefits are in excess of the additional exposure assumed. The Company carries out a detailed analysis of the underlying exposure and derives the commutation price to be charged to the reinsurer to ensure the viability of the transaction.

Acquisitions

The Company accounts for acquisitions using the acquisition method of accounting, which requires that the acquirer recognize and measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values. The fair values of each of the acquired reinsurance assets and liabilities are derived from probability-weighted ranges of the associated projected cash flows, based on actuarially prepared information and management’s run-off strategy.

The key assumptions used in the fair valuation of acquired companies are the projected timing and amount of claims payments, the related projected timing and amount of reinsurance collections, a risk-free discount rate, which is applied to determine the present value of the future cash flows, the estimated unallocated loss adjustment expenses to be incurred over the life of the run-off, the impact of any accelerated run-off strategy, and an appropriate risk margin.

The difference between the original carrying value of assets acquired and liabilities assumed at the date of acquisition and their fair value is recorded as an intangible asset or liability, which we refer to as the fair value adjustment. The fair value adjustment is amortized over the estimated payout period of outstanding losses and loss expenses acquired. To the extent the actual payout experience after the acquisition is materially faster or slower than anticipated at the time of the acquisition, or there is an adjustment to the estimated ultimate loss reserves, then the amortization of the fair value adjustment is adjusted to reflect such changes.

Any excess between the fair value of net assets acquired and the purchase price is recorded as a gain on bargain purchase in the consolidated statements of operations.

Share-based compensation

The Company has issued Class C ordinary shares to management as share-based compensation. The fair value of the compensation cost is measured at the grant date and is expensed over the service period of the award.

2. Significant accounting policies (continued)

New accounting standards adopted in 2017

Accounting Standards Update ("ASU") 2015-09, Disclosures about Short-Duration Contracts

In May 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-09, which makes targeted improvements to disclosure requirements for insurance companies that issue short-duration contracts. The ASU requires enhanced disclosures, on an annual basis, related to the reserve for losses and loss expenses which include (1) net incurred and paid claims development information by accident year, (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the reserve for losses and LAE, (3) for each accident year presented of incurred claims development, information about claim frequency (unless impracticable), and the amounts of IBNR liabilities, including expected development on reported claims, included in the reserve for losses and LAE, (4) a description of, and any significant changes to the methods for determining both IBNR and expected development on reported claims, and (5) for each accident year presented of incurred claims development, quantitative information about claims frequency, as well as a description of methodologies used for determining claim frequency information. While the adoption of this guidance impacted our disclosures, it did not have an impact on our consolidated financial statements. Management has omitted certain disclosures as they are not considered meaningful given the Company's business model of acquiring insurance and reinsurance business in run-off.

Recently issued accounting standards not yet adopted

ASU 2017-01, Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01 to clarify the definition of a business in Accounting Standards Codification ("ASC") 805 Business Combinations with the intent of making the application of the guidance more consistent and cost-efficient. This clarification may result in fewer acquired sets of assets and liabilities being identified as businesses. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

ASU 2017-09, Stock Compensation

In May 2017, the FASB issued ASU 2017-09 to amend the scope of modification accounting for share-based payments. The ASU provides guidance on the types of changes to share-based payments that would require the application of modification accounting under ASC 718. The guidance is effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements and disclosures.

ASU 2017-12, Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, which amends the hedge accounting recognition and presentation requirements in ASC 815 Derivatives and Hedging. The guidance enables entities to better portray the economics of risk management activities in the financial statements and enhance the transparency and understandability of hedge results. The guidance also reduces the complexity of the application of hedge accounting. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements and disclosures.

3. Acquisitions

The Company accounts for acquisitions using the acquisition method of accounting, which requires that the acquirer recognize and measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values.

3. Acquisitions (continued)

<u>HFPI and DLM</u>

On May 10, 2017, the Company, through its wholly-owned subsidiary, Catalina Holdings UK Limited ("CHUK"), completed the acquisition of HFPI and DLM from The Hartford Financial Services Group Inc. ("The Hartford"). HFPI was renamed as Catalina Worthing Insurance Limited after acquisition. CWIL is a UK regulated insurance company into which The Hartford transferred the business of Excess Insurance Company Limited, Hart Re (the UK branch of Hartford Fire) and certain business written by London & Edinburgh via a Part VII transfer which was completed in October 2015.

The purchase price of £214.1 million ($277.3 million), and acquisition costs of £1.4 million ($1.8 million) were financed from drawdowns on the Revolving Credit Facility. The net assets acquired amounted to $275.0 million for HFPI and $2.3 million for DLM.

The acquisition resulted in no pre-tax gain or loss in 2017.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition which are converted at the USD exchange rate of $1.295:

Assets		
Investments, at fair value	$	617,100
Cash and cash equivalents		49,551
Accrued investment income		7,615
Outstanding losses and loss expenses recoverable		121,528
Insurance and reinsurance balances receivable		98,609
Other assets		1,691
Total assets	$	896,094
Liabilities		
Outstanding losses and loss expenses	$	600,766
Insurance and reinsurance balances payable		10,334
Accounts payable and other liabilities		7,743
Total liabilities		618,843
Net assets acquired at fair value	$	277,251

<u>Globale Reinsurance Company Ltd.</u>

On May 31, 2017, the Company, through its wholly-owned subsidiary, Glacier Re, completed the acquisition of Globale Re, a regulated reinsurance company in run-off, from AXA DBIO S.C.A.

The primary reason for the acquisition of Globale Re was to expand Glacier Re's position in the Swiss non-life run-off market. On June 16, 2017, Globale Re was merged into Glacier Re as absorbing and surviving entity to generate administrative efficiencies and benefits.

The purchase price of CHF 13.6 million ($14.1 million) and acquisition costs of $0.2 million were financed from Glacier Re's own funds. The net assets acquired amounted to $15.9 million.

The acquisition resulted in a pre-tax gain of $1.7 million included within gain on acquisition in the consolidated statements of operations.

3. Acquisitions (continued)

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition which are converted at the USD exchange rate of $1.033:

Assets		
Investments, at fair value	$	16,899
Insurance and reinsurance balances receivable		52
Other assets		193
Total assets	$	17,144
Liabilities		
Outstanding losses and loss expenses	$	362
Accounts payable and other liabilities		846
Total liabilities		1,208
Net assets acquired at fair value	$	15,936

<u>AGF Insurance Limited</u>

On October 10, 2016, the Company, through its wholly-owned subsidiary, CHUK, completed the acquisition of AGF from AGF Holdings (UK) Limited, a subsidiary of Allianz SE. AGF is a UK regulated insurance company incorporated in 1960. It wrote predominantly direct Employer's and Public Liability insurance in the UK. AGF ceased to write new business and went into run-off in 1999.

The purchase price of £80.8 million ($99.7 million), and acquisition costs of $0.9 million were financed from an £83.0 million ($103.2 million) drawdown on the Revolving Credit Facility.

The acquisition resulted in no pre-tax gain or loss in 2016.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition which are converted at the USD exchange rate of $1.234:

Assets		
Investments, at fair value	$	231,822
Cash and cash equivalents		75,208
Outstanding losses and loss expenses recoverable		19,479
Insurance and reinsurance balances receivable		1,486
Other assets		1,637
Total assets	$	329,632
Liabilities		
Outstanding losses and loss expenses	$	227,594
Insurance and reinsurance balances payable		934
Accounts payable and other liabilities		1,369
Total liabilities		229,897
Net assets acquired at fair value	$	99,735

4. Significant new business

Samsung Fire and Marine Insurance Co., Ltd. - U.S. Branch

On December 21, 2017, the Company, through its wholly owned subsidiary Alea North America Insurance Co. ("ANAIC") signed an agreement with Samsung Fire and Marine Insurance Co., Ltd. – US Branch ("SFMI") to transfer a portfolio of legacy U.S. insurance liabilities in run-off to ANAIC. SMFI, a New York domiciled insurer, was established to provide insurance to Samsung branded entities. The loss portfolio transfer includes direct and assumed reinsurance business written by SFMI, but excludes insurance provided to Samsung branded entities. The portfolio consists mainly of U.S. general liability, workers' compensation, property and auto liability that was put into run-off during 2017.

As of December 21, 2017, ANAIC assumed net liabilities of $122.0 million for a total consideration of $111.9 million.

5. Investments

The fair value of fixed maturity, equity and other investments as of December 31, 2017 and 2016 are as follows:

	2017	2016
Fixed maturities:		
Corporate	$ 713,452	$ 483,633
Asset-backed securities	377,755	195,934
Mortgage-backed securities	186,684	123,507
U.S. government and agency	232,808	53,998
Non-U.S. government	126,979	64,839
Municipals	34,660	37,403
Total fixed maturities	1,672,338	959,314
Equities:		
Preferred and common stocks	106,040	54,131
Equity funds	7,004	5,384
Fund of funds	21,620	22,807
Total equities	134,664	82,322
Other investments:		
Hedge funds	37,190	134,754
Private equity	75,069	24,155
Private debt	47,068	72,597
Corporate debt	24,520	4,154
Debt funds	159,827	4,214
Commecial real estate funds	24,359	20,938
Mortgage loans	38,836	27,369
Total other investments	406,869	288,181
Total investments	$ 2,213,871	$ 1,329,817

Contractual maturities of the Company's fixed maturities as of December 31, 2017 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Fixed maturities:	
Due in one year or less	$ 136,098
Due after one year through five years	610,969
Due after five years through 10 years	225,847
Due after 10 years	134,985
Total fixed maturities	1,107,899
Mortgage and asset-backed securities	564,439
Total	$ 1,672,338

5. Investments (continued)

The components of net investment income for the years ended December 31, 2017 and 2016 were derived from the following sources:

	2017	2016
Fixed maturities, including mortgage and asset-backed securities	$ 43,478	$ 34,992
Equities	8,781	5,837
Other investments	2,108	1,102
Cash and cash equivalents	3,354	2,967
Gross investment income	57,721	44,898
Investment expenses	(4,347)	(5,860)
Net investment income	$ 53,374	$ 39,038

Net gains on investments within the consolidated statements of operations for the years ended December 31, 2017 and 2016 consisted of the following:

	2017	2016
Net realized gains on sales of investments	$ 25,777	$ 29,945
Net change in fair market value of investments	8,563	37,137
Net change in fair market value of derivative instruments	1,029	(562)
Net gains on investments	$ 35,369	$ 66,520

6. Fair Value Measurements

In 2016, the Company adopted ASU 2015-07, "Disclosures for Investments in Certain Entities that Calculate Net Asset Value or its Equivalent" for investments in investment funds where fair value is measured using NAV as a practical expedient, by removing the presentation of these investments within the fair value hierarchy.

At December 31, 2017 and 2016, the Company's financial instruments measured at fair value were categorized between Levels 1, 2 and 3 with the exception of alternative investments that use NAV as a practical expedient. Alternative investments measured at NAV have been disclosed as a separate line item:

At December 31, 2017	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets					
Fixed maturities:					
Corporate	$ -	$ 713,452	$ -	$ -	$ 713,452
Asset-backed securities	-	377,755	-	-	377,755
Mortgage-backed securities	-	186,684	-	-	186,684
U.S. government and agency	-	232,808	-	-	232,808
Non U.S. government	-	126,979	-	-	126,979
Municipals	-	34,660	-	-	34,660
Total fixed maturities	-	1,672,338	-	-	1,672,338
Equity securities:					
Preferred and common stocks	96,888	9,152	-	-	106,040
Equity funds	7,004	-	-	-	7,004
Fund of funds	21,620	-	-	-	21,620
Total equity securities	125,512	9,152	-	-	134,664
Other investments:					
Hedge funds	-	-	-	37,190	37,190
Private equity	-	-	5,217	69,852	75,069
Private debt	-	-	47,068	-	47,068
Corporate debt	-	-	24,520	-	24,520
Debt funds	-	-	-	159,827	159,827
Commercial real estate debt funds	-	-	15,632	8,727	24,359
Mortgage loans	-	-	38,836	-	38,836
Total other investments	-	-	131,273	275,596	406,869
Total assets	$ 125,512	$ 1,681,490	$ 131,273	$ 275,596	$ 2,213,871
Liabilities					
Long term subordinated debt	$ -	$ -	$ 186,408		$ 186,408
Total liabilites	$ -	$ -	$ 186,408		$ 186,408

6. Fair Value Measurements (continued)

At December 31, 2016	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets					
Fixed maturities:					
Corporate	$ -	$ 483,633	$ -	$ -	$ 483,633
Asset-backed securities	-	191,841	4,093	-	195,934
Mortgage-backed securities	-	123,507	-	-	123,507
U.S. government and agency	-	53,998	-	-	53,998
Non U.S. government	-	64,839	-	-	64,839
Municipals	-	37,403	-	-	37,403
Total fixed maturities	-	955,221	4,093	-	959,314
Equity securities:					
Preferred and common stocks	51,403	2,728	-	-	54,131
Debt funds	-	-	-	-	-
Equity funds	5,384	-	-	-	5,384
Fund of funds	22,807	-	-	-	22,807
Total equity securities	79,594	2,728	-	-	82,322
Other investments:					
Hedge funds	8,339	-	-	126,415	134,754
Private equity	-	-	-	24,155	24,155
Private debt	-	-	72,597	-	72,597
Corporate debt	-	-	-	4,154	4,154
Debt funds	-	-	-	4,214	4,214
Commercial real estate debt funds	-	-	-	20,938	20,938
Mortgage loans	-	-	2,512	24,857	27,369
Total other investments	8,339	-	75,109	204,733	288,181
Total assets	$ 87,933	$ 957,949	$ 79,202	$ 204,733	$ 1,329,817
Liabilities					
Long term subordinated debt	$ -	$ -	$ 170,795		$ 170,795
Total liabilites	$ -	$ -	$ 170,795		$ 170,795

The following table presents a reconciliation of the beginning and ending balances for all financial instruments measured at fair value on a recurring basis using Level 3 inputs for the years ended December 31, 2017 and 2016:

	Fixed maturities and Other investments	Long term subordinated debt
Balance at beginning of year, January 1, 2016	$ 56,698	$ (170,725)
Purchases	22,320	-
Net gains (losses)(*)	184	(923)
Foreign exchange gains	-	853
Balance at end of year, December 31, 2016	$ 79,202	$ (170,795)
Purchases	90,698	-
Sales	(6,605)	-
Maturities	(75,745)	-
Reclassification into Level 3	39,868	-
Net gains (losses) (*)	(242)	(11,995)
Foreign exchange gains (losses)	4,097	(3,618)
Balance at end of year, December 31, 2017	$ 131,273	$ (186,408)
(*) Level 3 gains (losses) included in earnings attributable to the change in unrealized gains and losses relating to financial instruments held at the reporting date	$ (242)	$ (11,995)

(*) Net gains (losses) on long term subordinated debt are included within change in subordinated debt fair value in the consolidated statements of operations.

Transfers into and out of level 3 are recorded as of the end of the year consistent with the date of determination of fair value.

7. Derivative instruments

The following table summarizes information on the location and amounts of derivative fair values on the consolidated balance sheets:

	Nominal amount		Balance Sheet Location	Fair Value	
At December 31, 2017					
Interest rate futures	$	-	Other Liabilities	$	(296)
Interest rate swap		125,000	Other Assets		1,290
Total	$	125,000		$	994
At December 31, 2016					
Interest rate futures	$	-	Other Liabilities	$	(553)
Interest rate swap		125,000	Other Assets		676
Total	$	125,000		$	123

The Company utilizes exchange traded U.S. Treasury notes and UK GILT futures contracts to manage portfolio duration of its fixed maturity investments. The fair value as at December 31, 2017 of $0.3 million (2016: $0.6 million) is included in accounts payable, accrued expenses and other liabilities in the consolidated balance sheet.

On July 26, 2010, the Company entered into an interest rate swap to exchange fixed interest received on a Non U.S. government bond for floating interest rate. The interest rate swap was due to mature on July 20, 2020. The swap was terminated on May 17, 2016. The Company utilized this derivative instrument to manage investment risk on certain fixed maturity securities. This derivative was not designated as a hedging instrument for financial reporting purposes.

The following table provides the total gains recorded in the consolidated statements of operations for the years ended December 31, 2017 and 2016:

	Gain (loss)		Statement of operations Location
Year ending December 31, 2017			
Interest rate futures	$	(3,633)	Net investment income
Total	$	(3,633)	
Year ending December 31, 2016			
Interest rate futures	$	6,996	Net investment income
Total	$	6,996	

On August 24, 2015, the Company entered into a $125 million interest rate swap with ING Bank N.V. to exchange floating rate interest paid on the Revolving Credit Facility for fixed interest of 1.38%. This interest rate swap matures on September 12, 2019. The Company utilizes this derivative instrument to manage the interest rate exposure associated with the Revolving Credit Facility. This has been designated as a hedging instrument for financial reporting purposes. The fair value as at December 31, 2017 of $1.3 million (2016: $0.7 million) is included in accumulated other comprehensive income.

The Company entered into foreign exchange forward contracts to mitigate the foreign exchange rate risk of fluctuation in the U.S. Dollar against certain foreign currencies. These derivatives have not been designated as hedging instruments. The fair value of the derivative instruments as at December 31, 2017 of $0.6 million (2016: $0.7 million) is included in accounts payable, accrued expenses and other liabilities in the consolidated balance sheet. The loss on derivative instruments of $2.2 million for the year ended December 31, 2017 (2016: gain of $3.0 million) is included in net gains (losses) on investments in the consolidated statements of operations.

7. Derivative instruments (continued)

The foreign exchange forward contracts as at December 31, 2017 and 2016 are as follows:

Foreign Exchange Forward Contracts	Contract Amount		Settlement Amount		Fair Value as at December 31, 2017	
U.S. dollars	$	35,036	£	26,380	$	606
	$	21,807	€	18,254		207
Euro	€	25,673	$	30,434		(433)
	€	53,198	£	47,332		89
British pound	£	48,125	$	64,197		(887)
Canadian dollars	C$	10,900	$	8,500		(181)
Total					**$**	**(599)**

Foreign Exchange Forward Contracts	Contract Amount		Settlement Amount		Fair Value as at December 31, 2016	
U.S. dollars	$	31,521	£	25,299	$	(312)
Euro	€	24,767	£	20,726		(249)
British pound	£	33,758	$	41,479		(107)
Canadian dollars	C$	11,400	$	8,249		(69)
Total					**$**	**(737)**

8. Investments in real estate

The Company acquires properties through its subsidiaries, Oxenwood Catalina Ltd., Oxenwood Catalina II Ltd. and Oxenwood Catalina III Ltd., all Guernsey incorporated companies, to generate returns via rental income and capital appreciation.

During 2017, the Company acquired three properties in the United Kingdom and six properties in Germany. The details of the acquired properties are as follows:

Property Name	Date Acquired	Location	Acquiring Company	Cost		Acquisition Expenses	
Heywood	January 30, 2017	Heywood, UK	Oxenwood Catalina II Ltd.	$	11,170	$	726
South Normanton, Synseal	September 29, 2017	Normanton, UK	Oxenwood Catalina Ltd.		32,023		2,105
Eastleigh, DHL	November 29, 2017	Eastleigh, UK	Oxenwood Catalina II Ltd.		13,647		894
Weissenhorn	December 22, 2017	Weissenhorn, Germany	Oxenwood Catalina III Ltd.		14,935		1,053
Landsberg	December 22, 2017	Landsberg, Germany	Oxenwood Catalina III Ltd.		9,537		671
Wuerselen	December 22, 2017	Wuerselen, Germany	Oxenwood Catalina III Ltd.		11,456		808
Cologne	December 22, 2017	Cologne, Germany	Oxenwood Catalina III Ltd.		25,432		2,507
Duisburg	December 22, 2017	Duisburg, Germany	Oxenwood Catalina III Ltd.		17,874		2,171
Appenweier	December 22, 2017	Appenweier, Germany	Oxenwood Catalina III Ltd.		6,658		469

On March 16, 2017, a property in Immingham, United Kingdom, acquired in 2015, was sold for $28.5 million. The carrying value of the property at the date of sale was $26.3 million. The gain on sale of $1.9 million, net of selling costs, is included in gain on sale of real estate and licenses in the consolidated statements of operations.

During 2016, the Company acquired four properties in the United Kingdom. The details of the acquired properties are as follows:

Property Name	Date Acquired	Location	Acquiring Company	Cost		Acquisition Expenses	
Runcorn, Howdens	May 13, 2016	Runcorn, UK	Oxenwood Catalina II Ltd.	$	29,900	$	4,300
Stoke, DHL	July 5, 2016	Stoke-on-Trent, UK	Oxenwood Catalina Ltd.		17,400		1,100
Sheffield, Amazon	August 26, 2016	Sheffield, UK	Oxenwood Catalina II Ltd.		20,400		900
Burton, DHL	November 23, 2016	Burton upon Trent, UK	Oxenwood Catalina II Ltd.		15,000		1,100

8. Investments in real estate (continued)

On November 28, 2016, a property in Runcorn, United Kingdom, acquired in 2014, was sold for $35.7 million. The carrying value of the property at the date of sale was $30.9 million. The gain on sale of $4.8 million is included in gain on sale of real estate and licenses in the consolidated statements of operations.

As discussed in Note 11 the acquisition of the properties was partially funded by term loans. The loans are secured by a first ranking legal charge over the properties.

The cost of each property is split between land and buildings. The cost of the buildings is depreciated over a period of 40 years on a straight-line basis. Income from these real estate investments is recognized as per the terms of the lease agreements.

	2017	2016
Land, at cost	$ 153,985	$ 81,992
Buildings, at cost	153,985	81,992
Accumulated depreciation	(4,010)	(1,868)
Buildings, net of accumulated depreciation	149,975	80,124
Total	$ 303,960	$ 162,116

The total estimated market value of the real estate properties as at December 31, 2017 is $336.4 million (2016: $179.6 million).

Real Estate Held for Sale

On August 3, 2017, a property in Scunthorpe, United Kingdom was purchased at a cost of $10.8 million including acquisition related expenses of $1.0 million. This property is intended to be sold within one year from acquisition and is shown as Real estate held for sale in the consolidated balance sheet.

The estimated market value of this property as at December 31, 2017 is $13.9 million.

9. Intangible assets

On the acquisition of Quanta, the Company acquired 43 insurance licenses to operate in various states across the United States through its subsidiary Quanta Indemnity Company. On December 8, 2016, these licenses were sold for $5.0 million realizing a gain of $1.0 million over their book value. The gain is included under “gain on sale of real estate and licenses” in the consolidated statement of operations.

On the acquisition of AGHBL, the Company acquired U.S. insurance licenses on all 50 states plus a Washington D.C. admitted insurance license for ANAIC. These licenses were valued at $6.4 million as of the date of acquisition.

Through the acquisition of SPARTA, AHUSCO has acquired licenses to operate in various states. The Company determined the value of the SPARTA licenses at $6.4 million as of the date of acquisition.

10. Outstanding losses and loss expenses

Outstanding losses and loss expenses as of December 31, 2017 and 2016 are as follows:

	2017	2016
Case reserves	$ 998,009	$ 652,925
Incurred but not reported	722,524	437,737
Structured settlements	276,816	273,151
Life reserves	30,104	29,508
Unamortized fair value adjustment	(130,072)	(15,310)
Deferred income	957	14,236
	$ 1,898,338	$ 1,392,247

10. Outstanding losses and loss expenses (continued)

Outstanding losses and loss expenses recoverable as of December 31, 2017 and 2016 are as follows:

	2017	2016
Case reserves	$ 321,129	$ 104,112
Incurred but not reported	33,637	62,252
Structured settlements	276,816	273,151
Unamortized fair value adjustment	(62,648)	(19,831)
	$ 568,934	$ 419,684

The fair value adjustments represent the unamortized difference between the carrying value of reserves of acquired companies at the date of acquisition and the fair value of the reserves. The fair value of the outstanding losses and loss expenses was based on the estimated timing of reserve settlements discounted at a risk free rate and a risk margin determined by management. The fair value of the outstanding losses and loss expenses recoverable was based on the estimated timing of reserve settlements discounted at a risk adjusted rate determined by management reflecting credit risk and duration. The fair value adjustments are amortized over the estimated payout period using the constant yield method.

The deferred income relates to the Reinsurance Novation Agreement between CatGen and NationsBuilders Insurance Company in 2015, 100% Quota-Share Reinsurance Agreement assumed by CatGen from Glencoe Insurance Ltd., a subsidiary of Renaissance Re Holdings Ltd. in 2012, the loss portfolio transfer assumed by Glacier Re from the Delta Lloyd Group in 2014, and the loss portfolio transfer assumed by CII from QIL in 2015. This deferred income was offset by deferred loss on the loss portfolio transfer assumed by ANAIC from SFMI in 2017.

CatGen, through its Canadian branch, has assumed ownership of certain structured settlements and has purchased annuities from life insurance companies to provide fixed and recurring payments to the claimants. The gross liability for the structured settlements is fully recoverable from the life insurance companies resulting in no net liability to the Company. These annuities are fully funded and were purchased from Canadian life insurance companies with a Standard and Poor's Financial Strength Rating of A+ and higher. In the event of the life insurance companies being unable to meet their obligations under the structured settlements to the Company, 85% of the total exposure is recoverable from the Compensation Corporation of Canada leaving a net credit risk exposure of approximately $41.5 million.

The following table represents the activity in outstanding losses and loss expenses for the years ended December 31, 2017 and 2016:

	2017	2016
Gross outstanding losses and loss expenses, beginning of year	$ 1,392,247	$ 1,560,347
Less reinsurance recoverable, beginning of year	(419,684)	(470,689)
Net losses and loss expenses, beginning of year	972,563	1,089,658
Net losses and loss expenses acquired	592,428	208,117
Net incurred losses related to:		
Current year	1,569	2,691
Prior years	(74,872)	(47,550)
	(73,303)	(44,859)
Net paid losses related to:		
Current year	(1,065)	(995)
Prior years	(215,242)	(231,138)
	(216,307)	(232,133)
Foreign exchange losses (gains)	54,023	(48,220)
Net losses and loss expenses, end of year	1,329,404	972,563
Reinsurance recoverable, end of year	568,934	419,684
Gross outstanding losses and loss expenses, end of year	$ 1,898,338	$ 1,392,247

10. Outstanding losses and loss expenses (continued)

During the year ended December 31, 2017, the Company experienced net favorable loss development of $74.9 million. This is primarily due to a $38.6 million reduction of ultimate incurred losses on the liabilities acquired through the loss portfolio transfer from QIL. The Company had favorable developments of $12.7 million on the European non-life book, $7.8 million on the AGF book, and on several other lines of business. The Company also had a commutation gain of $11.1 million in CWIL.

During the year ended December 31, 2016, the Company experienced net favorable loss development of $47.6 million primarily due to a $62.4 million reduction in the estimates of ultimate incurred losses in the Company's liabilities that were acquired through the portfolio transfer from QIL. The Company also had favorable development of $14.7 million on the marine reinsurance run-off business, $8.1 million on the European non-life business and favorable development in several other lines of business. The favorable loss development was partially offset by $58.6 million of adverse development on the Company's auto liability and general liability lines of business.

Net losses incurred of $(73.3) million (2016: $(44.9) million) are net of $35.2 million (2016: $32.3 million) of loss and loss expenses recovered from reinsurers. Included within net losses incurred is a positive effect from the net amortization of fair value adjustments of $3.3 million (2016: $0.8 million).

Management believes that the assumptions used represent a realistic and appropriate basis for estimating the outstanding losses and loss expenses as of December 31, 2017 and 2016. However, these assumptions are subject to change and the Company regularly reviews and adjusts its reserve estimates and reserving methodologies taking into account all currently known information and updated assumptions related to unknown information.

Short Duration Contract Disclosures

During the year ended December 31, 2017, the Company adopted ASU 2015-09 and has included the required disclosures below. Refer to note 2 for further information.

The Company has disaggregated its claims information presented in the tables below by run-off book of business acquired through either acquisitions or loss portfolio transfers. The Company's legacy books of business consists mainly of portfolios that were in run-off before 2013 and do not have incurred losses for accident years 2013 through to 2017. The lines of business presented in the tables below are SPARTA, Samsung LPT, Catalina Safety and Delta Lloyd Marine LPT.

The following information about incurred and paid claims developments as of December 31, 2017, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts.

10. Outstanding losses and loss expenses (continued)

The following table shows the incurred and paid claims development relating to SPARTA as of December 31, 2017:

SPARTA

Incurred Losses and Loss Expenses, Net of Reinsurance

Accident Year	Incurred losses and loss expenses, net of reinsurance	Total IBNR Reserve, net of reinsurance	Cumulative Claim Count
2013	$ 209,217	$ 11,887	27,881
2014	86,707	5,495	9,750
2015	2,089	375	256
2016	391	52	-
2017	41	16	-
Total	$ 298,445	$ 17,825	

Cumulative Paid Losses and Loss Expenses, Net of Reinsurance

Accident Year	Paid Losses and Loss Expenses, net of reinsurance
2013	$ 170,508
2014	66,385
2015	1,258
2016	177
2017	6
Total	$ 238,334
Net losses and loss expenses, before 2013 accident year	$ 64,554
Net reserve for losses and loss expenses	$ 124,665

The following table shows the incurred and paid claims development relating to Samsung LPT as of December 31, 2017:

Samsung LPT

Incurred Losses and Loss Expenses, Net of Reinsurance

Accident Year	Incurred losses and loss expenses, net of reinsurance	Total IBNR Reserve, net of reinsurance	Cumulative Claim Count
2013	$ 24,475	$ 15,654	174
2014	42,079	23,944	271
2015	24,095	12,345	305
2016	20,040	11,126	296
2017	7,260	3,457	206
Total	$ 117,949	$ 66,526	

Cumulative Paid Losses and Loss Expenses, Net of Reinsurance

Accident Year	Paid Losses and Loss Expenses, net of reinsurance
2013	$ 879
2014	3,917
2015	1,569
2016	2,100
2017	357
Total	$ 8,822
Net losses and loss expenses, before 2013 accident year	$ 4,218
Net reserve for losses and loss expenses	$ 113,345

10. Outstanding losses and loss expenses (continued)

The following table shows the incurred and paid claims development relating to Catalina Safety as of December 31, 2017. The Catalina Safety book of business was amalgamated into CatGen in 2015.

Catalina Safety

Incurred Losses and Loss Expenses, Net of Reinsurance

Accident Year	Incurred losses and loss expenses, net of reinsurance	Total IBNR Reserve, net of reinsurance	Cumulative Claim Count
2013	$ 25,741	$ 4,764	1,165
2014	5,645	1,486	211
2015	2,004	404	34
2016	-	-	-
2017	-	-	-
Total	$ 33,390	$ 6,654	

Cumulative Paid Losses and Loss Expenses, Net of Reinsurance

Accident Year	Paid Losses and Loss Expenses, net of reinsurance
2013	$ 18,194
2014	3,682
2015	1,120
2016	-
2017	-
Total	$ 22,996
Net losses and loss expenses, before 2013 accident year	$ 38,310
Net reserve for losses and loss expenses	$ 48,704

The following table shows the incurred and paid claims development relating to Delta Lloyd Marine LPT as of December 31, 2017.

Delta Lloyd Marine LPT

Incurred Losses and Loss Expenses, Net of Reinsurance

Accident Year	Incurred losses and loss expenses, net of reinsurance	Total IBNR Reserve, net of reinsurance
2013	$ 62,877	$ 1,225
2014	6,399	462
2015	883	183
2016	1,431	529
2017	484	107
Total	$ 72,074	$ 2,506

Cumulative Paid Losses and Loss Expenses, Net of Reinsurance

Accident Year	Paid Losses and Loss Expenses, net of reinsurance
2013	$ 55,838
2014	5,025
2015	316
2016	19
2017	41
Total	$ 61,239
Net losses and loss expenses, before 2013 accident year	$ 28,911
Net reserve for losses and loss expenses	$ 39,746

10. Outstanding losses and loss expenses (continued)

Individual claim counts related to the Delta Lloyd Marine LPT are not available to us, and the losses arising from this book of business have been treated as a single claim as the underlying individual claim count information is generally not reported to us by the cedant.

The reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses in the consolidated statement of financial position is as follows:

Reconciliation of Loss Development Information to the Reserves for Losses and Loss Expenses

		December 31, 2017
Net losses and loss expenses		
SPARTA	$	124,665
Samsung LPT		113,345
Catalina Safety		48,704
Delta Lloyd Marine LPT		39,746
Total net outstanding losses and loss expenses	$	326,460
Loss reserves recoverable		
SPARTA	$	48,499
Samsung LPT		72,409
Catalina Safety		-
Delta Lloyd Marine LPT		265
Total loss reserves recoverable	$	121,173
Unallocated loss adjustment expenses		3,779
Deferred loss - Samsung LPT		(9,679)
Outstanding losses and loss expenses - Other acquired books		1,456,605
Total gross outstanding losses and loss expenses	$	1,898,338

11. Loans payable

Catalina Revolving Credit Facility

On August 12, 2014, Catalina entered into a $225 million Revolving Credit Facility Agreement with Royal Bank of Scotland plc (“RBS”) and other banks. The agreement was most recently amended on April 18, 2017 to increase the facility to $500 million. On March 1, 2018, Catalina utilized the accordion feature of the facility to increase the facility to $550 million. The entire facility is available to be utilized by Catalina, up to $80 million of the facility is available to be utilized by AHUSCO, and up to £130 million of the facility is available to be utilized by CHUK. The interest rate is based on LIBOR plus the applicable margin percentage based on gearing. The total outstanding loan as of December 31, 2017 was $486.8 million (2016: $200.5 million). During the year, the interest rates were between 2.97% to 3.18% which included a margin of between 2.75% and 3.5%. As at December 31, 2017, the Catalina loans were comprised of a loan of $51.0 million and a loan of £322.5 million ($435.8 million).

Catalina	$ 291,106
AHUSCO	20,000
CHUK	175,656
Balance at December 31, 2017	$ 486,762

Catalina’s Revolving Credit Facility Agreement has financial covenants in relation to maximum gearing ratios and minimum aggregate group regulatory capital. At December 31, 2017 and 2016, Catalina was in compliance with all covenants under the Revolving Credit Facility Agreement.

CHUK repaid £11 million ($15.2 million) on March 5, 2018 and £35 million ($49.5 million) on March 29, 2018, of the outstanding loan.

11. Loans payable (continued)

On March 19, 2018, CHBL drewdown Euros 54 million ($66.5 million) to fund the German legacy medical malpractice transaction.

CHBL repaid $11 million and Euros 1.5 million ($1.8 million) on March 29, 2018, and £16.5 million ($23.2 million) on April 4, 2018, of the outstanding loan.

Oxenwood Loan Facilities

The Company's Oxenwood subsidiaries entered into Term Loan Facility Agreements with RBS, Wells Fargo Bank ("Wells Fargo"), Landesbank Baden-Wurttemberg ("LBBW"), and Bremer Kreditbank ("BKB") in order to partially fund their purchase of real estate investments. The loans are secured by a first ranking legal charge over the properties. The outstanding balances of these loans as of December 31, 2017 and 2016 are as follows:

Entity	Bank	Interest Rate	Maturity Date		December 31, 2017
OXW Catalina (Logistics) Limited	RBS	3M LIBOR plus 1.6% margin	June 30, 2019	£	15,023
OXW Catalina (Logistics III) Limited	RBS	3M LIBOR plus 1.6% margin	June 30, 2019		6,250
OXW Catalina (Logistics VII) Limited	RBS	3M LIBOR plus 1.6% margin	June 30, 2019		5,693
OXW Catalina (Logistics VIII) Limited	RBS	3M LIBOR plus 1.6% margin	June 30, 2019		13,035
OXW Catalina (NPP) Limited	Wells Fargo	3M LIBOR plus 1.7% margin	June 30, 2019		12,000
OXW Catalina (Logistics II) Limited	Wells Fargo	3M LIBOR plus 1.7% margin	June 30, 2019		10,450
OXW Catalina (Logistics IV) Limited	Wells Fargo	3M LIBOR plus 1.7% margin	June 30, 2019		7,300
OXW Catalina (Logistics V) Limited	Wells Fargo	3M LIBOR plus 1.7% margin	June 30, 2019		5,610
OXW Catalina (Logistics VI) Limited	Wells Fargo	3M LIBOR plus 1.7% margin	June 30, 2019		4,133
OXW Catalina (Logistics IX) Limited	Wells Fargo	3M LIBOR plus 1.7% margin	June 30, 2019		5,050
				£	84,544
OXW Catalina (Germany I) Sarl	LBBW	1.08%	December 20, 2022	€	19,052
OXW Catalina (Germany II) Sarl	BKB Bridge Loan	5.00%	December 19, 2018		15,751
OXW Catalina (Germany IV) Sarl	BKB Bridge Loan	5.00%	December 19, 2018		12,128
OXW Catalina (Germany V) Sarl	LBBW	1.08%	December 20, 2022		3,842
				€	50,773

Entity	Bank	Interest Rate	Maturity Date		December 31, 2016
OXW Catalina (Logistics) Limited	RBS	3M LIBOR plus 1.5% - 1.6% margin	May 10, 2018	£	14,895
OXW Catalina (Immingham) Limited	RBS	3M LIBOR plus 1.6% margin	May 10, 2018		10,375
OXW Catalina (Logistics III) Limited	RBS	3M LIBOR plus 1.6% margin	May 10, 2018		6,250
OXW Catalina (NPP) Limited	Wells Fargo	3M LIBOR plus 1.75% margin	June 18, 2018		12,000
OXW Catalina (Logistics II) Limited	Wells Fargo	3M LIBOR plus 1.75% margin	June 18, 2018		10,450
OXW Catalina (Logistics IV) Limited	Wells Fargo	3M LIBOR plus 1.75% margin	June 18, 2018		7,300
OXW Catalina (Logistics V) Limited	Wells Fargo	3M LIBOR plus 1.75% margin	June 18, 2018		5,610
				£	66,880

On November 25, 2016, OXW Catalina (Logistics) Limited repaid £10.5 million of the outstanding loans. On March 16, 2017, OXW Catalina (Immingham) Limited repaid in full its outstanding loan of £10.4 million.

Each of Oxenwood's Term Loan Facility Agreement has financial covenants in relation to net rental income interest cover and loan to value. During 2017 and 2016, each of the Oxenwood subsidiaries was in compliance with all covenants under their respective Term Loan Facility Agreements.

The loans due in 2018 and 2019 are expected to be repaid through either refinancing or sales of the associated properties.

11. Loans payable (continued)

Long term subordinated debt

On May 5, 2017, CatGen issued $45.5 million of floating rate subordinated notes. The notes are due on May 5, 2027. The notes constitute direct, unconditional, unsecured and subordinated obligations of the Company. Interest on the subordinated notes is based on LIBOR plus a margin of 7.55%. Interest expense on the notes for the year ended December 31, 2017 was $2.7 million and is included within interest expense in the consolidated statement of operations. On March 16, 2018, CatGen issued a further $25.0 million of floating rate subordinated notes.

On December 14, 2016, CII issued Euro 23.8 million of floating rate unsecured subordinated notes to increase its Tier 2 own funds regulatory capital in accordance with the provisions of Solvency II. The notes are due on January 5, 2027. The notes rank subordinated to all direct, unconditional, secured or unsecured and unsubordinated obligations, pari passu without any preference among themselves, and in priority to holders of any undated subordinated obligations. Interest on the subordinated notes is based on EURIBOR plus a margin of 7.2%. Interest expense on the notes for the year ended December 31, 2017 was $2.0 million (2016: $0.1 million) and is included within interest expense in the consolidated statement of operations.

Prior to the acquisition by Catalina, Glacier Re issued a total of $68.0 million and Euro 26.0 million of floating rate unsecured subordinated notes to support its underwriting activities. The notes are due in 2035 and include options for Glacier Re for partial or full early repayment, respectively, and to defer interest for up to 20 consecutive quarters but not beyond the maturity date of the respective notes. The notes rank pari passu without any preference among themselves and do not contain any covenants concerning financial ratios or specified levels of net worth or liquidity.

Interest on the subordinated notes is based on LIBOR or EURIBOR plus a margin between 3.25% and 3.70%. Interest expense in connection with these notes was $4.2 million for the year ended December 31, 2017 (2016: $3.8 million) and is included within interest expense in the consolidated statements of operations.

Prior to acquisition by Catalina, AHUSCO issued a total of $120 million of TruPS. The TruPS were issued by three Delaware trusts established by AHUSCO and provide for a preferred dividend at a rate of 3-month LIBOR plus a margin of 2.85%. These securities allow for the postponement of preferred dividends under certain circumstances for up to five years. The TruPS carry no financial covenants or cross default covenants, have a fixed maturity in 2034 / 2035 and are callable. The holders of the TruPS may not call the securities prior to their maturity dates. Interest expense on the TruPS for the year ended December 31, 2017 was $4.9 million (2016: $4.2 million) and is included within interest expense in the consolidated statement of operations.

Interest expense in connection with the Company's debt facilities and long term subordinated debt was $33.4 million for the year ended December 31, 2017 (2016: $23.1 million) and is included within interest expense in the consolidated statements of operations.

12. Concentrations, commitments and contingencies

a) Concentrations of credit risk

As of December 31, 2017 and 2016, substantially all of the Company's cash and cash equivalents, and investments were held by eight custodians. Management monitors the credit ratings of these custodians and believes them to be of high credit quality. The Company's investment portfolio is primarily managed by external investment advisors in accordance with the Company's investment guidelines. The Company limits its exposure to any single issuer to 5% or less of the total portfolio's market value at the time of purchase, with the exception of U.S. government and agency securities. As of December 31, 2017, the largest single non-U.S. government and agency issuer accounted for 4.0% (2016: 5.3%) of the aggregate fair value of the Company's invested assets. As of December 31, 2017, the Company's fixed maturity investments had a weighted average Standard & Poor's credit rating of A.

The Company is exposed to credit risk on the $47.1 million of private debt held at December 31, 2017 (2016: $72.6 million). The credit risk is mitigated as the Company holds security in excess of the value of the debt and is also the beneficiary of Non-Payment Insurance policies for 90% of the future receivables.

12. Concentrations, commitments and contingencies (continued)

At December 31, 2017, the Company had a provision for uncollectible premiums receivable of $44.7 million (2016: $7.3 million). The increase was due to a $26.3 million of provision for uncollectible premiums receivable at CWIL.

Reinsurance assets due from reinsurers include outstanding losses and loss expenses recoverable and deferred reinsurance premiums. The Company is subject to credit risk with respect to reinsurance ceded because the ceding of risk does not relieve the Company from its primary obligations to its policyholders. The concentration of credit risk relating to the structured settlements is explained in Note 10. Failure of the Company's reinsurers to honor their obligations could result in credit losses. As of December 31, 2017, the Company has recorded a provision for credit losses relating to outstanding losses and loss expenses recoverable of $36.8 million (2016: $16.9 million) including $24.4 million booked at CWIL. During the year ended December 31, 2017, outstanding loss and loss expenses recoverable of $4.1 million were written off (2016: $1.5 million).

Two reinsurers each accounted for more than 19% of the outstanding losses and loss expenses recoverable balance as of December 31, 2017. These reinsurers were both rated AA- by S&P as at December 31, 2017. The Company's reinsurers had a weighted average credit rating of AA- as of December 31, 2017.

b) Restricted assets

The Company is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated by the regulations of the individual locations within which the Company operates. These funds on deposit are available to settle insurance and reinsurance liabilities.

The Company's bankers have also issued letters of credit ("LOC") under the Company's credit agreements (for which cash and cash equivalents and investments are pledged as security) and in favor of certain ceding companies to collateralize the Company's obligations under contracts of insurance and reinsurance (see Note 15).

The Company also utilizes trust funds where the trust funds are set up for the benefit of the ceding companies, and generally take the place of LOC requirements.

The fair values of these restricted assets by category at December 31, 2017 and 2016 are as follows:

	2017		2016	
	Cash and cash equivalents	Investments	Cash and cash equivalents	Investments
Deposits with U.S. insurance regulatory authorities	$ 395	$ 106,473	$ 209	$ 123,469
LOC pledged assets	43,963	128,994	39,263	75,125
Trust funds	121,483	892,764	81,316	334,359
Amounts held in trust funds related to deposit liabilities	-	-	306	-
Total	$ 165,841	$ 1,128,231	$ 121,094	$ 532,953

c) Fund commitments

As of December 31, 2017, the Company has unfunded capital commitments for fund investments of $103.7 million (2016: $78.1 million).

12. Concentrations, commitments and contingencies (continued)

d) Lease commitments

The Company leases office space, and furniture and equipment under operating lease agreements. Rent expenses are being recognized on a straight-line basis over the respective lease terms. Future annual minimum payments under non-cancelable operating leases are as follows:

Year ending December 31,		
2018	$	1,818
2019		1,683
2020		1,410
2021		1,210
2022		701
Later years		2,510
Total	$	9,332

Total rent expense under operating leases for the year ended December 31, 2017 was approximately $1.3 million (2016: $1.6 million).

e) Contingent liabilities

The Company and/or its subsidiaries, from time to time, are a party to litigation and/or arbitration that arises in the normal course of its business operations. The Company and/or its subsidiaries are also subject to other potential litigation, disputes and regulatory or governmental inquiries.

f) Guarantees

As at December 31, 2017, the Company had issued parental guarantees supporting its subsidiaries' insurance obligations of $64.7 million (2016: $57.4 million).

13. Taxation

Under current Bermuda law, the Company and its Bermuda subsidiaries are not required to pay any taxes in Bermuda on income including realized capital gains. The Company has received an undertaking from the Minister of Finance of Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2035.

The Company has operating subsidiaries in the United States, United Kingdom, Switzerland and Ireland and is subject to the relevant taxes in those jurisdictions. The Company is not subject to taxation other than as stated above. There can be no assurance that there will not be changes in applicable laws, regulations or treaties, which might require the Company to become subject to additional taxation.

During 2017, tax of $8.0 million (2016: $10.5 million) was paid, of which $0.1 million was paid in the U.S., $4.1 million was paid in Ireland, $2.7 million was paid in the United Kingdom, $0.8 million was paid in Guernsey and $0.3 million was paid in Switzerland.

13. Taxation (continued)

Deferred income taxes reflect net operating loss carryforwards and the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for income tax purposes. The significant components of the net deferred tax assets and liabilities as of December 31, 2017 and 2016 are as follows:

	2017	2016
Deferred tax assets:		
Investments	$ 274	$ 1,281
Outstanding losses and loss expenses	7,623	7,093
Unearned premiums	591	1,040
Net operating loss carry forwards	81,955	105,706
Capital loss carry forwards	-	2,053
Other	8,473	8,347
Total deferred tax assets	98,916	125,520
Valuation allowance	(81,539)	(104,337)
Total deferred tax assets net of valuation allowance	17,377	21,183
Deferred tax liabilities:		
Investments	(2,759)	(6,790)
Goodwill	(1,339)	(2,227)
Outstanding losses and loss expenses	(860)	(1,033)
Subordinated debt	(922)	(1,445)
Underwriting results subject to timing differences for taxation	(4,609)	(3,453)
Other	(6,112)	(9,334)
Total deferred tax liabilities	(16,601)	(24,282)
Net deferred tax asset (liability)	$ 776	$ (3,099)

The deferred tax asset and liability balances presented above represent the gross deferred tax asset and liability balances across each tax jurisdiction. The net deferred tax asset balance of $0.8 million (2016: $3.1 million deferred tax liability) includes deferred tax asset of $3.4 million within other assets and $2.6 million deferred tax liability within accounts payable, accrued expenses and other liabilities in the consolidated balance sheets as of December 31, 2017. The net deferred tax asset balance of $3.4 million included within other assets, includes netting of certain deferred tax assets and liabilities within a tax jurisdiction to the extent such netting is consistent with the regulations of the tax authorities in that jurisdiction.

As of December 31, 2017, the Company has a deferred tax asset of $82.0 million (2016: $105.7 million) generated by net operating loss carry forwards (“NOL”) of approximately $439.7 million (2016: $376.6 million), of which $179.7 million (2016: $227.7 million) relates to NOL in the United States (“U.S. NOL”) and $260.0 million (2015: $148.9 million) relates to NOL in the United Kingdom (“UK NOL”). The deferred tax asset in the United States reflects the impact of the Tax Cuts and Jobs Act of 2017.

In relation to the U.S. NOL and UK NOL, the Company believes that it is more likely than not that the deferred tax asset will not be recognized. Accordingly, the Company has recorded a full valuation allowance against these net deferred tax assets as of December 31, 2017 and 2016.

Income tax expenses for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Current income tax expense	$ 11,202	$ 11,097
Deferred income tax expense	(3,875)	4,286
Total income tax expense	$ 7,327	$ 15,383

The effective tax rate of 14.9% (2016: 15.9%) differs from the rate of 0% under Bermuda law primarily due to the geographical distribution of the Company’s pre-tax net income between our taxable and non-taxable jurisdictions.

14. Shareholders' equity

a) Preference share capital

As at December 31, 2017, the total authorized preference share capital of the Company was $488,000,000 divided into 488,000,000 8% convertible, cumulative, non-redeemable, preference shares of $1.00 each. The total number of preference shares issued and outstanding as of December 31, 2017 was 464,740,931.

During 2017, the Company issued 98,179,104 (2016: 15,993,884) preference shares at par. In accordance with the terms of the preference shares, a return of 8% per annum accrues on the subscription price.

The Company adopted amended and restated bye-laws on May 30, 2017 (“Amended Bye-laws”). Under the Amended Bye-laws, certain rights attaching to the preference shares were changed. The preference shares were originally non-convertible and redeemable. After the adoption of the Amended Bye-laws, the preference shares became convertible and non-redeemable.

During the year ended December 31, 2017, dividends of $20.7 million (2016: $17.1 million) have been accrued to the preference shares. On June 30 each year the unpaid preference share dividends are converted to preference shares. For U.S. shareholders, $16.8 million has been accrued for the year ended December 31, 2017 (2016: $13.9 million) as an increase in the subscription value of preference shares held. This amount is included within additional paid-in capital in the consolidated statements of changes in shareholders’ equity.

On February 23, 2018, the Company reclassified 200,000,000 of its Class “D” Ordinary shares (Class “D” Shares) into 200,000,000 preference shares. This decreased the authorized share capital in respect of Class “D” Shares from $700,000,000 to $500,000,000. No Class “D” Shares have been issued. There was a corresponding increase in the authorized share capital in respect of preference shares from $488,000,000 to $688,000,000.

On March 16, 2018, the Company issued 55,000,000 preference shares at par.

b) Ordinary share capital

As at December 31, 2017, the total authorized share capital in respect of Ordinary shares was $710,074,251 of which $9,000,000 was in respect of Class “A” Ordinary shares (Class “A” Shares), $600,000 was in respect of Class “B” Ordinary shares (Class “B” Shares), $455,250 was in respect of Class “C” Ordinary shares (Class “C” Shares), $700,000,000 was in respect of Class “D” Shares and $19,001 was in respect of unclassified shares (which could be classified as Class “B” Shares or Class “C” Shares by the board), in all cases with Ordinary shares having a par value of $1.00 each.

The issued and outstanding ordinary shares of the Company, all with a par value of $1.00, consists of the following for the years ended December 31, 2017 and 2016:

	Class “A”	Class “B”	Class “C”
Authorized, issued and outstanding ordinary shares at January 1, 2016	6,692,308	600,000	418,100
Shares repurchased during the year ended December 31, 2016	(648,252)	-	(60,000)
Shares issued during the year ended December 31, 2016	-	-	37,150
Authorized, issued and outstanding ordinary shares at December 31, 2016	6,044,056	600,000	395,250
Shares issued during the year ended December 31, 2017	-	-	20,000
Issued and outstanding ordinary shares at December 31, 2017	6,044,056	600,000	415,250

No Class “D” Shares have been issued.

14. Shareholders' equity (continued)

During the year ended December 31, 2016, 648,252 Class "A" Ordinary shares were repurchased for nominal consideration.

During the year ended December 31, 2016, 60,000 Class "C" Shares were repurchased for $1.1 million. During the year ended December 31, 2017, 20,000 (2016: 37,150) Class "C" Shares were issued to management as long term incentive in consideration for performance and for retention purposes. The estimated value of the shares of $0.21 million (2016: $0.33 million) has been included in General and administrative expenses.

The holders of Class "A" Shares, Class "B" Shares and Class "C" Shares have one vote for every such Ordinary share held. Holders of Class "D" Shares do not generally have a vote.

Except with the consent or sanction of all of the preference shareholders, no dividend shall be declared or paid by the Company on the Ordinary shares unless and until all arrears and accruals of the Preference shares have been satisfied.

During the year ended December 31, 2017, dividends of $4.3 million (2016: $2.8 million) were paid to the holders of the Class "B" Shares and Class "C" Shares. On March 26, 2018, dividends of $4.5 million were paid to the holders of the Class "B" Shares and Class "C" Shares. Class "B" Shares and Class "C" Shares are owned by management.

On November 28, 2016, the Company reduced its authorized share capital through the cancellation of 106,745 unclassified shares of par value $1.00 each. These shares were unissued and were not assigned to any class of shares.

On February 15, 2018, the Company repurchased 290,973 Class "A" Ordinary shares from the Class "A" Ordinary shareholders for nominal consideration.

On February 19, 2018, the shareholders of the Company passed a resolution authorising the reduction of the authorised share capital of the Company by $19,001 by cancelling the remaining 19,001 unissued unclassified shares, each with a par value of $1.0. The reduction becomes effective as of March 8, 2018.

15. Credit agreements

Two of Catalina's subsidiaries have a discretionary collateralized LOC agreement with Comerica Bank. The aggregate commitment under this agreement is currently up to $93 million. The availability for issuances of LOCs on account of any borrower is based on the amount of eligible investments pledged by the applicable borrower(s). The agreements contain financial and other covenants, among them a requirement to maintain a minimum statutory capital and surplus value. At December 31, 2017, the outstanding LOCs issued under the facility were $41.6 million (2016: $51.6 million). During the year ended December 31, 2017, the Company was in compliance with the covenants under the facility. On July 24, 2015, Catalina Safety entered into an uncommitted LOC facility agreement with ING Bank N.V. At December 31, 2017, the outstanding LOC issued under this facility was $0.6 million (2016: $2.1 million).

Prior to the acquisition of AGHBL by the Company, AGHBL entered into a discretionary collateralized LOC agreement with Citibank N.A. ("Citibank"). The availability for issuances of LOCs is based on the amount of eligible investments pledged. At December 31, 2017, the outstanding LOCs issued under the Citibank LOC agreement were $11.5 million (2016: $12.2 million).

Catalina acquired LOC agreements with Citibank Europe Plc following the acquisitions of CWIL and Catalina London. At December 31, 2017, the outstanding LOCs issued under the facilities were $65.1 million for CWIL and $15.3 million (2016: $18.5 million) for Catalina London.

Prior to the acquisition of WestGen by Catalina, WestGen entered into a discretionary collateralized LOC agreement with Citibank. The availability for issuances of LOCs is based on the amount of eligible investments pledged. At December 31, 2017, the outstanding LOCs issued under the facility were $3.1 million (2016: $4.4 million).

15. Credit agreements (continued)

Prior to the acquisition of Glacier Re by Catalina, Glacier Re entered into a collateralized LOC agreement with UBS AG. The aggregate commitment under this agreement is $30.0 million at December 31, 2017 and the outstanding LOCs issued under the facility were $11.7 million (2016: $12.4 million).

Prior to the acquisition of PXRE by Catalina, PXRE entered into a collateralized LOC agreement with Merrill Lynch. This LOC agreement was terminated during the year ended December 31, 2016.

16. Related party transactions

Apollo Rose L.P. ("Apollo") holds 45% of the Company's issued Class "A" Ordinary shares and Preference shares. The Company has investments in Apollo Credit Allocation Fund II Class A, Apollo Offshore Credit Fund, and Apollo Credit Fund LP Class S-2, which are managed by an affiliate of Apollo. The total fair value of the Company's investments in these funds as of December 31, 2017 is $159.8 million or 7.2% of investments at fair value (2016: $99.1 million or 7.5%).

During 2017, the Company advanced loans to four executives under the Company's Management Shareholder Loan Scheme. The loans are for five years and are secured on the executives' shares in the Company. Interest was charged at 3% to April 5, 2017 and at 2.5% from April 6, 2017 onwards. The total balances outstanding at December 31, 2017 were $3.6 million.

17. Statutory financial information and dividend restrictions

The Company's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate, which are Bermuda, the United States, the United Kingdom, Switzerland and Ireland. The regulations in these jurisdictions include restrictions that limit the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities. Typically, these restrictions relate to minimum levels of solvency, capital and liquidity as defined by the relevant insurance laws and regulations.

<u>Bermuda</u>

CatGen is registered under the Insurance Act of 1978 of Bermuda (the "Insurance Act"), and licensed as a Class 3A general business, and Class C long-term insurer. The Insurance Act grants the BMA powers to supervise the insurance companies.

The Insurance Act requires CatGen to hold minimum statutory capital and surplus (Enhanced Capital Requirement or "ECR") at least equal to the greater of a minimum solvency margin or the Bermuda Solvency & Capital Requirement ("BSCR"). The BSCR is calculated using the standard risk-based capital model developed by the BMA. The BSCR model follows a standard formula framework and capital attributed to each risk is calculated by applying capital factors to the assets and liabilities. The BMA sets a Target Capital equivalent to 120% of the ECR. CatGen's licenses preclude it from effecting any new contracts without the permission of the BMA.

On March 24, 2016, Bermuda's enhanced commercial insurance regime was approved as being fully equivalent to regulatory standards applied under Solvency II by the European Parliament. Solvency II sets out new capital adequacy and risk management requirements for insurers across the European Union with the aim of further enhancing policyholder protection while instilling greater risk awareness. The equivalence was granted retroactive from January 1, 2016.

The BMA also acts as the Group Supervisor of Catalina. The Company, on an annual basis, is required to file the Group audited GAAP financial statements, the Group Capital and Solvency Return and the Group Solvency Self-Assessment with the BMA.

17. Statutory financial information and dividend restrictions (continued)

United Kingdom

The insurance subsidiaries based in the U.K. are regulated by the U.K. Prudential Regulatory Authority (the "PRA"). Since January 1, 2016, the UK companies have been required to comply with the Solvency II Framework Directive adopted by the PRA. The Solvency Capital Requirement for the U.K. subsidiaries are assessed using the Solvency II standard formula model.

Ireland

The insurance subsidiary based in Ireland is regulated by the CBI. Since January 1, 2016, the Irish company has been required to comply with the Solvency II Framework Directive adopted by the CBI. The Solvency Capital Requirement is assessed using the Solvency II standard formula model.

Switzerland

Glacier Re is subject to the regulatory reporting requirements of the Swiss Financial Market Authority ("FINMA"). The Swiss insurance regulation regime has been approved by the European Commission ("EC") to be fully equivalent to the regulatory standards applied under Solvency II.

Annually, Glacier Re calculates Risk Bearing Capital and Target Capital pursuant to the Swiss Solvency Test rules and regulations. Risk Bearing Capital is defined as the difference between the market consistent value of assets less the best estimate value of liabilities. The long term subordinated debt is considered to be supplementary capital and is therefore included in the Risk Bearing Capital. Glacier Re has significant excess capital as at December 31, 2017.

United States

The Company's U.S. subsidiaries required statutory capital and surplus is determined using various criteria, including risk based capital tests. If a company falls below certain levels of risk based capital, and dependent upon the degree to which the company falls below, the commissioner of insurance with jurisdiction of the company is authorized to take certain regulatory actions to protect policyholders and creditors.

The Company is subject to a 30% withholding tax on certain dividends received from its U.S. subsidiaries.

As at December 31, 2017 and 2016, there are statutory restrictions on the payment of dividends from retained earnings or the return of capital from some of the Company's subsidiaries. Most of the Company's regulated reinsurance and insurance subsidiaries require regulatory approval before paying a dividend from retained earnings or returning capital.

At December 31, 2017 and 2016, the Company met the minimum levels of solvency and liquidity in all jurisdictions in which the Company operates.

18. Subsequent Events

In preparing the consolidated financial statements, the Company has evaluated subsequent events through April 19, 2018, which is the date that these financial statements were issued, and concluded that there are no other items requiring disclosure, other than those disclosed in Notes 1, 11 and 14.