FIDELIS INSURANCE HOLDINGS LIMITED

Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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Independent Auditor's Report

The Board of Directors and Shareholders
Fidelis Insurance Holdings Limited

We have audited the accompanying consolidated financial statements of Fidelis Insurance Holdings Limited and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, 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.

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KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Fidelis Insurance Holdings Limited 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.

Other matter

U.S. generally accepted accounting principles require that the incurred and paid claims development information, and the historical claims duration information on page 30 to 32 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
February 21, 2018

FIDELIS INSURANCE HOLDINGS LIMITED
Consolidated Balance Sheets
As at December 31, 2017 and December 31, 2016
(Expressed in thousands of U.S. dollars)

	2017	2016
Assets		
Short-term Investments, trading at fair value (cost: $427,887, 2016: $81,727)	$ 427,399	$ 79,444
Equity securities, trading, at fair value (cost: $nil, 2016: $280,709)	-	306,535
Fixed income securities, trading at fair value (cost: $564,754, 2016: $329,544)	560,546	325,038
Other investments, at fair value (cost: $116,728, 2016: $315,478)	121,615	304,975
Total investments	1,109,560	1,015,992
Cash and cash equivalents	187,010	323,504
Derivative assets, at fair value	514	9,700
Reverse repurchase agreements	-	223,947
Securities pledged to creditors	-	106,279
Accrued investment income	3,695	2,604
Investments pending settlement	7,883	165,329
Restricted cash and cash equivalents	157,585	305,423
Premiums and other receivables	378,058	209,525
Deferred reinsurance premiums	38,098	15,920
Reinsurance balances recoverable on paid losses	19,556	500
Reinsurance balances recoverable on unpaid losses	285,044	10,005
Deferred policy acquisition costs	93,616	47,814
Deferred tax asset	4,846	3,786
Other assets	15,176	15,405
Total assets	$ 2,300,641	$ 2,455,733
Liabilities and shareholders' equity		
Liabilities		
Securities sold short, at fair value	-	505,871
Derivative liabilities, at fair value	1,765	3,747
Repurchase agreements	-	128,533
Investments pending settlement	-	99,580
Reserves for losses and loss expenses	437,642	109,782
Unearned premiums	477,981	265,810
Reinsurance balances payable	61,754	18,777
Other liabilities	16,267	15,230
Total liabilities	$ 995,409	$ 1,147,330
Shareholders' equity		
Common stock	1,224	1,226
Additional paid-in capital	1,189,744	1,189,736
Preferred stock	279,990	287,150
Accumulated deficit	(165,465)	(169,709)
Shareholders' equity	1,305,493	1,308,403
Non-controlling interest	(261)	-
Shareholders' equity attributable to common shareholders	$ 1,305,232	$ 1,308,403
Total liabilities, non-controlling interest and shareholders' equity	$ 2,300,641	$ 2,455,733

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE HOLDINGS LIMITED
Consolidated Statements of Operations
For the years ended December 31, 2017 and December 31, 2016
(Expressed in thousands of U.S. dollars)

	2017	2016
Revenues		
Gross premiums written	$ 545,929	$ 403,761
Reinsurance premiums ceded	(136,870)	(83,823)
Net premiums written	409,059	319,938
Change in net unearned premiums	(189,991)	(177,459)
Net premiums earned	219,068	142,479
Net investment return	(381)	(15,018)
Net foreign exchange gains	741	274
Other income	194	-
Total revenues	$ 219,622	$ 127,735
Expenses		
Losses and loss expenses	(93,076)	(91,743)
Policy acquisition expenses	(43,176)	(26,884)
General and administrative expenses	(52,177)	(44,196)
Financing costs	(1,711)	(1,510)
Total expenses	$ (190,140)	$ (164,333)
Net profit/(loss) before tax	29,482	(36,598)
Income tax benefit	1,059	2,780
Net profit/(loss) after tax	$ 30,541	$ (33,818)
Net loss attributable to non-controlling interest	261	-
Net profit/(loss)	$ 30,802	$ (33,818)
Preferred stock dividend	(26,558)	(27,234)
Net profit/(loss) available to common shareholders	$ 4,244	$ (61,052)

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE HOLDINGS LIMITED
Statements of Changes in Shareholders' Equity
For the years ended December 31, 2017 and year ended December 31, 2016
(Expressed in thousands of U.S. dollars)

Common stock	**2017**	**2016**
Balance - beginning of year	$ 1,226	$ 1,226
Common stock repurchased	(2)	-
Balance - end of year	$ 1,224	$ 1,226
Preferred stock		
Balance - beginning of year	$ 287,150	$ 304,000
Preferred stock repurchased	(7,160)	(16,850)
Balance - end of year	$ 279,990	$ 287,150
Additional paid-in capital		
Balance - beginning of year	$ 1,189,736	$ 1,186,196
Additional paid-in capital repurchased	(2,093)	-
Share compensation expense	2,101	3,540
Balance - end of year	$ 1,189,744	$ 1,189,736
Accumulated deficit		
Balance - beginning of year	$ (169,709)	$ (108,657)
Net profit/(loss) to Fidelis common shareholders	4,244	(61,052)
Balance - end of year	$ (165,465)	$ (169,709)
Total shareholders' equity	$ **1,305,493**	**$ 1,308,403**
Non-controlling interest	(261)	-
Total shareholders' equity attributable to common shareholders	$ **1,305,232**	$ **1,308,403**

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE HOLDINGS LIMITED
Statements of Cash Flows
For the years ended December 31, 2017 and December 31, 2016
(Expressed in thousands of U.S. dollars)

		2017		2016
Operating activities				
Net profit/(loss) after tax	$	30,541	$	(33,818)
Adjustments to reconcile net profit/(loss) after tax to net cash provided by operating activities:				
Share compensation expense		2,101		3,540
Depreciation		2,114		1,976
Net unrealized (gain)/ loss on investments and derivatives		15,944		(79,441)
Net realized (gain)/ loss on investments and derivatives		(9,645)		85,921
Net changes in assets and liabilities:				
Accrued investment income		(1,091)		(505)
Premiums and other receivables		(168,533)		(135,678)
Deferred reinsurance premiums		(22,178)		(14,868)
Reinsurance balances recoverable on paid claims		(19,556)		-
Reinsurance balances recoverable on unpaid claims		(274,539)		(10,275)
Deferred policy acquisition costs		(45,802)		(42,637)
Deferred tax asset		(1,059)		(2,780)
Prepayments and accounts receivable		(755)		(3,204)
Funds withheld		504		1,412
Reserves for losses and loss expenses		327,860		97,941
Unearned premiums		212,171		192,327
Reinsurance balances payable		42,977		16,912
Other liabilities		967		(1,300)
Net cash provided by operating activities	$	92,021	$	75,523
Investing activities				
Purchase of investments, trading		(2,341,327)		(3,456,325)
Proceeds from the sale of investments, trading		2,206,769		3,241,576
Purchase of investments to cover short sales		(1,312,682)		(1,771,459)
Proceeds from short sales of investments		764,244		2,048,776
Purchase of other investments		(285,000)		(198,750)
Proceeds from the sale of other investments		475,740		282,179
Change in reverse repurchase agreements		223,947		(158,209)
Change in investments pending settlement - assets		157,446		(141,956)
Change in investments pending settlement - liabilities		(99,581)		76,196
Purchase of fixed assets		(393)		671
Purchase of intangibles		(691)		(706)
Investment in dual		(550)		1,105
Net cash used in investing activities	$	(212,078)	$	(76,902)
Financing activities				
Dividends on preferred stock		(25,844)		(27,360)
Repurchase of common stock		(2,094)		-
Repurchase of preferred stock		(7,804)		(16,850)
Change in repurchase agreements		(128,533)		21,912
Net cash used in financing activities	$	(164,275)	$	(22,298)
Net (decrease) / increase in cash, restricted cash, and cash equivalents		(284,332)		(23,677)
Cash, restricted cash, and cash equivalents, beginning of year		628,927		652,604
Cash, restricted cash, and cash equivalents, end of year	$	344,595	$	628,927
Cash and cash equivalents comprise the following:				
Cash at bank and in hand		58,785		92,077
Cash equivalents		128,225		231,427
Restricted cash and cash equivalents		157,585		305,423
	$	344,595	$	628,927

See accompanying notes to the consolidated financial statements.

1. Nature of Operations

Fidelis Insurance Holdings Limited ("Fidelis" or the "Company") is a holding company which was incorporated under the laws of Bermuda on August 22, 2014. The Company raised $1,531 million of equity capital through two private placements in 2015. The Company has a group of initial founding investors ("Founders") who contributed a significant amount of the initial capital.

During 2015, the Company established the following wholly owned subsidiaries: Fidelis Insurance Bermuda Limited ("FIBL"), Fidelis Marketing Limited ("FML") and Fidelis Underwriting Limited ("FUL").

- FIBL was incorporated as an exempted company under the laws of Bermuda on February 26, 2015 and writes predominantly property insurance and reinsurance on a global basis. FIBL is registered as a Class 4 insurer under the Insurance Act of 1978 and related regulations of Bermuda (the "Insurance Act") and commenced (re)insurance operations in June 2015.

- FML was incorporated on April 1, 2015 and was established to act as an insurance intermediary for FIBL and a service company for FUL.

- FUL was incorporated under the laws of the United Kingdom on August 28, 2015 and writes predominantly specialty insurance on a global basis. FUL was licensed in the United Kingdom by the Prudential Regulatory Authority ("PRA") on December 4, 2015 and commenced (re)insurance operations on January 1, 2016.

During 2017, the Company established the following subsidiaries: Pine Walk Capital Limited ("Pine Walk"), Radius Specialty Limited ("Radius") and Firestone Surety Limited ("Firestone").

- Pine Walk was incorporated under the laws of England and Wales on July 3, 2017 to provide administrative support to the managing general agents.

- Radius was incorporated under the laws of England and Wales on July 21, 2017 to act as managing general agent and focus on niche specialty treaty excess of loss reinsurance business which is written on FUL's balance sheet.

- Firestone was incorporated under the laws of England and Wales on November 14, 2017 to act as managing general agent and focus on surety bonds and guarantees predominantly in the United Kingdom which is written on FUL's balance sheet.

The Company and its subsidiaries are collectively referred to as the "Group" in these financial statements.

2. Significant accounting policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("U.S. GAAP") and include the results of Fidelis Insurance Holdings Limited and its subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

Certain insignificant reclassifications have been made to prior year amounts to conform to the 2017 presentation. There is no impact of these reclassifications on net profit/(loss) or shareholders' equity.

Reporting currency

The financial information is reported in United States dollars ("U.S. dollars" or "$").

Use of Estimates

The preparation of these financial statements in conformity with U.S.GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates reflected in the financial statements include, but are not limited to, reserves for losses and loss expenses, reinsurance balances recoverable and estimates of written and earned premiums.

Cash and cash equivalents

Cash and cash equivalents consist of cash held in banks and other short-term, highly liquid investments with original maturity dates of ninety days or less.

Investments

During 2017, the Group's investment strategy was revised to hold a majority of assets in fixed income assets. The Group's investments in fixed income securities, short-term investments and equity securities are classified as "trading securities" and are carried at fair value. In 2016, the Group's other investments consisted of investments in hedge funds and in a limited partnership. In 2017, the Group's other investments consist of a limited partnership. This is carried at net asset values as reported by the investment managers. Investments maturing in less than one year are classified as short-term investments.

For securities classified as "trading securities" any realized and unrealized gains or losses are determined on the basis of the specific identification method (by reference to cost, as appropriate) and any realized and unrealized gains or losses on "other investments" are determined on the basis of first-in-first-out method. The net investment returns are included in the consolidated statements of operations.

Dividend income and expenses are recorded on the ex-dividend date. The ex-dividend date is the date as of when the underlying security needs to have been held to qualify for the dividend declared. Interest income is recognized in income when earned. Net investment return is stated net of investment management, administration, custody, and other related expenses.

Investment transactions are recorded on a trade date basis.

Derivative financial instruments

All derivatives are recognized in the consolidated balance sheets at fair value on a gross basis and not offset against any collateral pledged or received. Unrealized gains and losses resulting from changes in fair value are included in net investment return or net foreign exchange gains and losses in the consolidated statements of operations. The Group's derivative financial instrument assets are included in derivative assets and derivative financial instrument liabilities are included in derivative liabilities in the consolidated balance sheets. None of the Group's derivatives are designated as accounting hedges for financial reporting purposes. Pursuant to the International Swaps and Derivatives Association ("ISDA") master agreements and other derivative agreements, the Group and its counterparties typically have the ability to settle on a net basis. In addition, in the event a party to one of the ISDA master agreements or other derivative agreements defaults, or a transaction is otherwise subject to termination, the non-defaulting party generally has the right to set off against payments owed to the defaulting party or collateral held by the defaulting party.

The Group enters into derivative transactions to manage interest rate risk, currency exchange risk, and other exposure risks or to provide exposure to certain markets to enhance investment returns. Derivative transactions typically include futures, options, swaps and forwards. Derivative assets represent financial contracts whereby, based upon the contract's current fair value, the Group will be entitled to receive payments upon settlement. Derivative liabilities represent financial contracts whereby, based upon the contract's current fair value, the Group will be obligated to make payments upon settlement.

The Group looks to manage foreign currency exposure by substantively balancing assets with liabilities for certain major non-U.S. dollar currencies, or by entering into currency forward contracts. However, there is no guarantee that this will effectively mitigate exposure to foreign exchange gains and losses.

Investments pending settlement

Investments pending settlement include receivables and payables from unsettled trades due from/to prime brokers. Receivables and payables from unsettled trades are carried at fair value based on quoted prices in active markets for identical assets or derived based on inputs that are observable.

Short selling

As part of the Group's overall investment strategy, the Group may sell a security it does not own in anticipation of a decline in fair value of that security. The Group borrows the security or enters into an agreement to borrow the security before the Group sells a security short. The Group is required to maintain collateral with the broker-dealer from which the security was borrowed. Realized and unrealized gains and losses arising from short sales are recorded in the net investment return in the consolidated statements of operations. Securities sold short are recorded as liabilities in the consolidated balance sheets at fair value.

Repurchase and reverse repurchase agreements

Transactions involving repurchase agreements and reverse repurchase agreements are treated as Secured Borrowing transactions, and are recorded at their contracted resell or repurchase amounts, which approximates fair value.

The cash consideration received in a repurchase agreement is recognized as a financial asset and a financial liability is recognized for the obligation to pay the repurchase price. Securities pledged as collateral for repurchase agreements are recognized in their entirety in the consolidated balance sheets as securities pledged to creditors when the counterparty to the agreement has the right to sell or re-pledge the financial asset. In situations where the Group has relinquished control of securities pledged in repurchase agreements, it derecognizes the securities and records a receivable from the counterparty.

The cash consideration loaned to the counterparty in a reverse repurchase agreement is recognized as a financial asset. For all collateral pledged by a counterparty to a reverse repurchase agreement where the securities received qualify for collateral recognition under FASB ASC 860, the securities are recorded at fair value, along with an obligation to return them.

Upon maturity of the reverse repurchase agreements and repurchase agreements, the principal and interest income is received or paid, respectively. Interest expense and income related to these transactions are included in accrued investment income in the consolidated balance sheets. The repurchase agreements and reverse repurchase agreements are not subject to any master netting agreements and therefore are presented on a gross basis in the consolidated balance sheets.

Premiums and acquisition costs

Premiums written are recorded on inception of the policy. Premiums written include estimates based on information received from insureds, brokers and cedants, and any subsequent differences arising on such estimates are recorded as premiums written in the period they are determined. Premiums written are earned on a basis consistent with risks covered over the period the coverage is provided. The portion of the premiums written applicable to the unexpired terms of the underlying contracts and policies are recorded as unearned premium. Reinstatement premiums are recognized as written and earned after the occurrence of a loss and are recorded in accordance with the contract terms based upon management's estimate of losses and loss expenses.

Acquisition costs are directly related to the acquisition of insurance premiums and are deferred and amortized over the related policy period. The Group only defers acquisition costs incurred that are directly related to the successful acquisition of new or renewal insurance contracts, including commissions to agents, brokers and premium taxes. All other acquisition related expenses including indirect costs are expensed as incurred. To the extent that future policy revenues on existing policies are not adequate to cover related costs and expenses, deferred policy acquisition costs are charged to earnings. The Group evaluates the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment return is greater than expected future loss and loss adjustment expenses and acquisition costs.

Reinsurance

The Group seeks to reduce the risk of losses on business written by reinsuring certain risks and exposures with other reinsurers. Ceded reinsurance contracts do not relieve the group of its primary obligation to insureds. Ceded premiums are recognized when the coverage period incepts and are expensed pro-rata over the contract period in proportion to the period of coverage. Premiums relating to the unexpired portion of reinsurance ceded are recorded as deferred reinsurance premiums.

Losses and loss expenses

The liability for losses and loss expenses includes reserves for unpaid reported losses and for losses incurred but not reported. The reserve for losses and loss expenses is established by management based on reports from insureds, brokers, and ceding companies and the application of generally accepted actuarial techniques, and represents the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Group as incurred.

Inherent in the estimates of ultimate losses and loss expenses are expected trends in claim severity and frequency which may vary significantly as claims are settled. As a relatively new operation, the Group has limited loss history of its own and therefore uses industry data in the estimation of ultimate losses. Ultimate losses and loss expenses may differ significantly from the amount recorded in the financial statements. These estimates are reviewed regularly and as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are recorded in losses and loss expenses in the periods in which they are determined.

Premiums receivable

Premiums receivable includes amounts receivable from insureds which represent premiums that are both currently due and amounts not yet due on insurance and reinsurance policies. Premiums for insurance policies are generally due at inception. Premiums for reinsurance policies generally become due over the period of coverage based on the policy terms. Contract periods can be several years in length with premiums received in annual installments.

The Group monitors the credit risk associated with premiums receivable, taking into consideration the fact that in certain instances credit risk may be reduced by the Group's right to offset loss obligations or unearned premiums against premiums receivable. Amounts deemed uncollectible are charged to net income in the period they are determined. Changes in the estimate of reinsurance premiums written will result in an adjustment to premiums receivable in the period they are determined.

Reinsurance balances recoverable

Amounts recoverable from reinsurers are estimated based on the terms and conditions of the reinsurance contracts in a manner consistent with the underlying liability reinsured. If the Group determines that adjustments to earlier estimates are appropriate, such adjustments are recorded in the periods in which they are determined.

Allowances are established for amounts deemed uncollectible and reinsurance recoverables are recorded net of these allowances. The Group evaluates the financial condition of its reinsurers and monitors concentration risk to minimize its exposure to significant unrecoverables from individual reinsurers.

Income taxes

Income taxes have been provided for those operations that are subject to income taxes based on enacted tax laws and rates enacted in those jurisdictions. Current and deferred taxes are charged or credited to net income. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Group's assets and liabilities. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Uncertain tax positions are recognized when deemed more likely than not of being sustained upon examination by tax authorities. Changes in recognition or measurement are recognized in the period in which the change in judgment occurs.

A valuation allowance against deferred tax assets is recorded if management deem it is more likely than not that all or some portion of the benefits related to the deferred tax assets will not be realized.

Founders' warrants

The Group accounts for warrant contracts subject to a performance condition issued to certain of its founding investors in conjunction with the initial capitalization of the Group by using either the physical settlement or net-share settlement methods. The fair value of these warrants is recorded in equity as additional paid-in capital when performance conditions are met. The fair value of Founders' warrants issued are estimated on the grant date using the Black-Scholes option-pricing model.

Share compensation

Management was issued both basic warrants and ratchet warrants with the basic warrants subject to a service condition only and the ratchet warrants subject to a service and performance condition. The portion of the warrants that are considered probable of vesting are recognized as a share compensation expense in the consolidated statements of operations. Share compensation for management warrants considered probable of vesting is expensed over the vesting period on a graded vesting basis. The probability of the management warrants vesting is evaluated at each reporting period. When the management warrants are considered probable of vesting, the Group records a true up of share compensation expense from the grant date (service inception date) to the current reporting period end based on the fair value of the warrant contracts at grant date.

Restricted stock units (RSUs) granted contain both a service and performance condition and are recognized as share compensation expense only for the portion considered likely to vest. The fair value of the RSUs is estimated using the Group's book value per common share at the grant date. Share compensation expense is recognized on a straight-line basis over the vesting period, adjusted for the impact of any performance vesting conditions. At each balance sheet date, the Group revises the share compensation expense based on its estimate of the number of RSUs that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the consolidated statements of operations and a corresponding adjustment is made to additional paid-in capital in shareholders' equity on the consolidated balance sheets.

Foreign exchange

The Group's functional currency is the U.S. dollar. Transactions in foreign currencies are translated in U.S. dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities in foreign currencies are re-measured at the exchange rates in effect at the reporting date. Foreign exchange gains and losses are included in the consolidated statements of operations.

Variable Interest Entities

Variable Interest Entities (VIE) are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristic of a controlling financial interest. The Group would be deemed to have a controlling financial interest and be the primary beneficiary if it has both of the following characteristics:

- power to direct the activities of the VIE that most significantly impact the entity's economic performance; and
- an obligation to absorb losses of the entity that could potentially be significant to the VIE, or a right to receive benefits from the entity that could potentially be significant to the VIE.

The determination of whether an entity is a VIE requires judgment and depends on facts and circumstances specific to that entity.

Pine Walk, Radius and Firestone are considered VIEs and the Company is considered the primary beneficiary. As a result, they are consolidated by the Company and all significant inter-company transactions have been eliminated.

The Group has determined that its investment in Fidelis York Fund L.P. "York Fund" is an investment in a VIE for which it does not have the power to direct the activities that most significantly impact "York Fund" performance. The Group records its investment in "York Fund" at reported net asset value. This investment is included in other investments. At December 31, 2017, the carrying value of the Group's involvement in the York Fund is $121.6 million (2016: $103.7 million) which is the maximum loss exposure to the Group.

Non-controlling interests

Non-controlling shareholders' interests are presented separately in the Group's Consolidated Balance Sheets and Consolidated Statements of Changes in Shareholders' Equity as required under US GAAP. The net income attributable to non-controlling interests is presented separately in the Group's Consolidated Statements of Operations.

Recent accounting pronouncements

<u>Recently adopted</u>

In May 2015, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") 2015-09, concerning the disclosure regarding the liability for unpaid claims and claims adjustment expenses for insurance entities. The update amends the disclosure requirements applicable for all insurance entities that issue short-duration contracts requiring disaggregated claims development tables and related information for short-duration contracts. This is effective for years beginning after December 15, 2016. This has had no impact on the Group's financial position, results of operations, or cash flows.

In November 2015, the FASB issued ASU 2015-17, concerning balance sheet classification of deferred taxes. The update amends current GAAP requirements to separate deferred income tax liabilities and assets into current and noncurrent classifications. The amendment in this update requires deferred tax liabilities and assets be classified as noncurrent in the balance sheet. This is effective for years beginning after December 15, 2016. This has had no impact on the Group's financial position, results of operations, or cash flows.

In November 2016, FASB issued ASU 2016-18, Restricted Cash. ASU 2016-18 was issued to limit the amount of diversity in the classification and presentation of changes in restricted cash in the statement of cashflows. This amendment requires that amounts described as restricted cash and cash equivalents be included with cash and cash equivalents when reconciling total cash and cash equivalents on the statement of cashflows. The amendment is effective for years beginning after December 15, 2018. Management has reviewed and implemented ASU 2016-18 in accordance with the new US GAAP pronouncement and as a result there was no significant impact on the Group's financial position, results of operations, or cash flows

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which was issued as part of the FASB's simplification initiative and intended to improve the accounting for share-based payment transactions, including classification of awards as either equity or liabilities, accounting policy election on forfeitures and classifications on the statements of cash flows. It is effective for years beginning after December 15, 2017. Early adoption is permitted, and the Group has implemented ASU 2016-09 into our accounting policies for the year ended December 31, 2017.

<u>Recently issued but not yet adopted</u>

In January 2016, the FASB issued an ASU No. 2016-01, concerning accounting for equity investments and financial liabilities. The amendment in this update requires the following: Equity investments with readily determinable fair values - these equity investments are measured with changes in fair value recognized in net income. Equity investments without readily determinable fair values - Entities have the option to either measure these investments at fair value or at cost adjusted for changes in observable prices and impairment. Changes in measurement under either alternative are recognized in net income. Financial Liabilities - Entities that elect the fair value option for financial liabilities must recognize changes in fair value related to instrument specific credit risk in other comprehensive income (OCI). Deferred Taxes - Entities must assess valuation allowances for deferred tax assets related to available-for-sale fixed income securities in combination with their other deferred tax assets. This ASU is effective for years beginning after December 15, 2018. The Group is currently evaluating the impact of this guidance and does not expect a significant impact on the Group's financial position, results of operations, or cash flows.

In February 2016, FASB issued ASU 2015-03, Leases, after which lessees will recognize most leases on-balance sheet. It is effective for annual periods beginning after December 15, 2019. The Group does not expect a significant impact on the Group's financial position, results of operations, or cash flows.

In May 2017, FASB issued ASU 2017-09, Compensation, Stock Compensation. ASU 2017-09 was issued to provide clarity and reduce diversity in the way modification to applications of share based payments are reported. The amendment is effective for years beginning after December 15, 2017. The Group does not expect a significant impact on the Group's financial position, results of operations, or cash flows.

(Expressed in thousands of U.S. dollars)

3. Investments

The Group's investments are managed by external investment managers through individual investment management agreements and limited partnership agreements. The Group monitors activity and performance of the external managers on a weekly basis.

a) Fixed income securities, trading at fair value

The following table summarizes the fair value of fixed maturity investments managed by external investment managers:

	As at December 31, 2017		
	Cost	Net unrealized gains/(losses)	Fair value
U.S. treasuries	$ 115,132	$ (443)	$ 114,689
Certificates of deposits	11,200	(11)	11,189
Commercial papers	5,500	(2)	5,498
Agencies	46,811	(236)	46,575
Non-U.S. government	55,032	(401)	54,631
Corporate bonds	233,895	(2,695)	231,200
Asset-backed securities	45,958	8	45,966
Agency asset-backed securities	51,226	(428)	50,798
Total fixed income securities	$ 564,754	$ (4,208)	$ 560,546

	As at December 31, 2016		
	Cost	Net unrealized gains/(losses)	Fair value
U.S. treasuries	$ 155,945	$ (5,848)	$ 150,097
Agencies	8,103	(31)	8,072
Non-U.S. government	33,190	(238)	32,952
Corporate bonds	85,323	(456)	84,867
Asset-backed securities	13,678	984	14,662
Agency asset-backed securities	20,435	516	20,951
Commercial mortgage-backed securities	12,870	567	13,437
Total fixed income securities	$ 329,544	$ (4,506)	$ 325,038

(Expressed in thousands of U.S. dollars)

Review of the fixed income securities is performed on a regular basis to consider concentration, credit quality and compliance with established guidelines. The composition of the fair values of fixed income securities held as trading by credit rating is as follows:

	2017			2016		
		Fair value	%		Fair value	%
AAA	$	282,159	50%	$	174,576	54%
AA		56,294	10%		32,344	10%
A		128,444	23%		32,062	10%
BBB		92,151	16%		29,508	9%
BB and other below		-	-		56,548	17%
Not rated		1,498	1%		-	-
Total fixed income securities trading	$	560,546	100%	$	325,038	100%

For individual fixed income securities, Standard & Poor's (S&P) ratings are used. In the absence of an S&P rating, ratings from other globally recognized rating agencies are used. Agency debt and related mortgage-backed securities, whether with implicit or explicit government support, reflect the credit quality rating of the U.S. government for the purpose of these calculations.

The contractual maturities of fixed income securities are listed in the following table:

	2017				2016			
		Cost		Fair value		Cost		Fair value
Due in one year or less	$	139,030	$	138,185	$	15,239	$	15,166
Due after one year through five years		336,409		333,452		118,164		116,874
Due after five years through ten years		34,703		34,727		80,044		81,124
Due after ten years		54,613		54,182		116,097		111,874
Total fixed income securities trading	$	564,755	$	560,546	$	329,544	$	325,038

Expected maturities may differ from contractual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Additionally, lenders may have the right to put the securities back to the borrower.

b) Short-term investments, trading at fair value

The following investments were included in short-term investments managed by external investment managers:

	As at December 31, 2017					
		Cost		Net unrealized gains/(losses)		Fair value
Agency	$	1,507	$	(13)	$	1,494
Commercial paper		85,090		182		85,272
Non-U.S. government		184,748		(117)		184,631
Corporate Bonds		156,542		(540)		156,002
Total short-term investments	$	427,887	$	(488)	$	427,399

(Expressed in thousands of U.S. dollars)

	As at December 31, 2016					
		Cost		Net unrealized gains/(losses)		Fair value
Certificates of deposit	$	39,757	$	4	$	39,761
Commercial paper		8,992		5		8,997
Non-U.S. government		31,967		(2,283)		29,684
Corporate Bonds		1,011		(9)		1,002
Total short-term investments	$	81,727	$	(2,283)	$	79,444

Short-term investments held by the Group have maturities of less than one year at the time of purchase.

c) Pledged investments

At December 31, 2017, $274.4 million of fixed income securities at fair value were on deposit with a custodian in respect to the Group's letter of credit facilities (2016: $nil).

d) Equity securities, trading at fair value

The Group did not directly hold any equity securities at December 31, 2017.

The following long positions were included in equity securities managed by external investment managers as at December 31, 2016:

	As at December 31, 2016					
		Cost		Net unrealized gains		Fair value
Equity securities						
United States	$	142,508	$	17,009	$	159,517
International		138,201		8,817		147,018
Total equity securities	$	280,709	$	25,826	$	306,535

e) Other investments, at fair value

As at December 31, 2017, the Group only held the investment in the York Fund. The limited partnership is invested in a multi-strategy hedge fund and credit hedge fund, both of which are managed by York. There are currently no outstanding commitments to the York Fund. The fair value of the York Fund at December 31, 2017 was $121.6 million (2016: $103.7 million). On July 31, 2016, the Group made a redemption of $140.2 million of which $0.1 million has yet to be received as of December 31, 2017 (2016: $1.2 million).

The Group has recorded its investment in the York Fund at reported net asset value.

As at December 31, 2017, all hedge funds have been redeemed and $7.6 million (2016: $nil) had yet to be received from the hedge funds.

(Expressed in thousands of U.S. dollars)

At December 31, 2016, the following hedge funds were held:

	As at December 31, 2016				
Strategy	Fair value	Redemptions notice period	Redemptions permitted	Liquidity restrictions	Unfunded commitments
Commodities trading					
Fund 1	$ 53,400	60 days	Monthly	None	-
Fund 2	26,245	30 days	Monthly	None	-
Multi-strategy					
Fund 3	58,831	30 days	Monthly	None	-
Fund 4	37,982	3 days	Weekly	None	-
Long-term trends					
Fund 5	24,787	1 day	Daily	None	-
Total hedge funds	$ 201,245				

The Group had used reported net asset values to measure fair values of the investments in hedge funds.

f) Securities sold short, at fair value

Securities sold short are securities that the Group has sold, but does not own, in anticipation of a decline in the market value of the security. The Group's risk is that the value of the security will increase rather than decline. Consequently, the settlement amount of the liability for securities sold short, may exceed the amount recorded in the consolidated balance sheet as the Group is obligated to purchase the securities sold short in the market at prevailing prices to settle its obligation.

To sell a security sold short, the Group needs to borrow the security to deliver to the buyer. On each day the transaction is open, the liability for the obligation to replace the borrowed security is marked-to-market and the unrealized gain/loss is recorded. When the transaction is closed, the Group realizes a gain/loss equal to the difference between the price at which the security was acquired, adjusted for transaction and financing costs. While the transaction is open, the Group will also incur an expense for any dividends or interest which will be paid to the lender of the security.

The Group did not hold any securities sold short at December 31, 2017.

The following securities were included in investments in securities sold short, at fair value as at December 31, 2016:

	As at December 31, 2016		
	Amortized cost/cost	Net unrealized gains/(losses)	Fair value
Fixed income securities:			
U.S. treasuries	$ (235,273)	$ 14,021	$ (221,252)
Non-U.S. government	(2,743)	166	(2,577)
Total fixed income securities	(238,016)	14,187	(223,829)
Equity securities	(276,118)	(5,924)	(282,042)
Total securities sold short	$ (514,134)	$ 8,263	$ (505,871)

(Expressed in thousands of U.S. dollars)

g) Repurchase and reverse repurchase agreements

At December 31, 2017, the Group did not hold any reverse repurchase agreements or repurchase agreements.

At December 31, 2016, the Group recognized a receivable of $223.9 million related to reverse repurchase agreements that generally mature within one business day. Counterparty risk is present within these agreements and is mitigated through short maturities and by having the loans collateralized by underlying securities which are of strong creditworthiness. At December 31, 2016, counterparties to these loans have pledged as collateral fixed income securities with a fair value of $223.8 million. This was comprised of U.S. treasuries with a fair value of $221.2 million and non-U.S. government securities with a fair value of $2.6 million. The Group did not sell or re-pledge any collateral associated with these transactions. The Group participated in reverse repurchase agreements as a mechanism to generating additional interest income on cash.

At December 31, 2016, the Group recognized a liability in the consolidated balance sheet of $128.5 million related to cash considerations received in connection with repurchase agreements. The repurchase agreements generally mature within one business day. At December 31, 2016, fixed income securities with a fair value of $128.8 million were pledged by the Group to collateralize repurchase agreements and recognized as securities pledged to creditors in the consolidated balance sheets. This was comprised of U.S. treasuries with a fair value of $105.8 million, non-U.S. government securities with a fair value of $0.5 million and U.S. treasuries sold pending settlement with a fair value of $22.5 million. If the fair value of the collateral declines, the Group may be required to post additional collateral to the counterparty. To mitigate this risk, the Group pledged financial instruments as collateral that are 1) issued by entities with strong creditworthiness to meet their obligations when they come due, and 2) sufficiently liquid to be sold at their carrying amounts in the ordinary course of operations. The Group participated in repurchase agreements as a mechanism to leverage investing activities.

h) Net investment return

The components of net investment return are as follows:

	2017	2016
Net interest and dividend income	$ 9,385	$ 7,954
Net realized gains/(losses) on fixed income securities	3,851	(4,699)
Net realized gains/(losses) on equity securities	16,079	(20,234)
Net realized losses on other investments	(8,078)	(56,093)
Net realized losses on derivatives	(2,207)	(4,895)
Net realized gains on foreign exchange	2,979	1,520
Change in net unrealized gains / (losses) on fixed income securities	(6,234)	4,047
Change in net unrealized gains / (losses) on equity securities	(19,902)	24,557
Change in net unrealized gains on other investments	15,390	47,283
Change in net unrealized gains / (losses) on derivatives	(4,557)	3,195
Change in net unrealized gains / (losses) on foreign exchange	(137)	206
Investment expenses	(6,950)	(17,859)
Net investment return	$ (381)	$ (15,018)

4. Fair value measurements

FASB ASC 820-10, Fair Value Measurements and Disclosures, defines fair value, establishes a consistent framework for measuring fair value and requires disclosures about fair value measurements. The standard requires the Group to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Fair value hierarchy

FASB ASC 820-10 specifies a hierarchy of inputs based on whether the inputs are observable or unobservable. Observable inputs are developed using market data and reflect market participant assumptions, while unobservable inputs reflect the Group's market assumptions. The fair value hierarchy is as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets. The fair value is determined by multiplying the quoted price by the quantity held by the Group.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices (e.g. interest rates, yield curves, prepayment spreads, default rate, etc.) for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability or can be corroborated by observable market data.
- Level 3: Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement. Significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

As required under the fair value hierarchy, the Group considers relevant and observable market inputs in its valuations where possible. The frequency of transactions, the size of the bid-ask spread and the amount of adjustment necessary when comparing similar transactions are all factors in determining the liquidity of markets and the relevance of observable prices in those markets.

The Group's policy with respect to transfer between levels of the fair value hierarchy is to recognize transfers into and out of each level as of the end of the reporting period.

Determination of fair value

The following section describes the valuation methodologies used by the Group to measure assets and liabilities at fair value, including an indication of the level within the fair value hierarchy in which each asset or liability is generally classified.

Fixed income securities

The Group's fixed income securities portfolio is managed by external investment managers with oversight from the Group's Chief Investment Officer, and the Group's Board of Directors. Fair values for all securities in the fixed income investments portfolio are independently provided by the investment administrator, investment custodians, and investment managers, each of which utilize internationally recognized independent pricing services. Bloomberg is, however, the main pricing service utilized to estimate the fair value measurements for the Group's fixed income securities for corporate and government bonds. Interactive Data Corporation (IDC) is the main pricing service for asset backed fixed income securities.

For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment spreads, default rates and such other inputs as are available from market sources to determine a reasonable fair value.

The following describes the techniques generally used to determine the fair value of the Group's fixed income securities by asset class.

- U.S. treasuries are bonds issued by the U.S. government. The significant inputs used to determine the fair value of these securities are based on quoted prices in active markets for identical assets and are therefore classified within Level 1.
- Agency securities consists of securities issued by U.S. and non-U.S. government sponsored agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, government development banks and other agencies which are not mortgage pass-through.
- Non-U.S. government securities consist of bonds issued by non-U.S. governments and supranationals. The significant inputs used to determine the fair value of these securities 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.
- Corporate bonds consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. When available, significant inputs are used to determine the fair value of these securities are based on quoted prices in active markets for identical assets. When not available, 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. The fair values of these securities are classified within Level 1 to 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 value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment spreads and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Agency asset-backed securities consist of securities issued by mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Mortgage-backed securities are a type of asset-backed security that is secured by a mortgage or collection of mortgages. Additionally, collateralized mortgage obligations are included here, which are securities that contain complex tranche structures that each have a different claim to the cash flows from the pool of mortgages. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment spreads and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Commercial mortgage-backed securities are a type of mortgage-backed security that is secured by the loans on a commercial property. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment spreads and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

Short-term investments

The Group's short-term investments consist of certificates of deposit, commercial paper and bonds with maturities of less than one year at the time of purchase. The significant inputs used to determine the fair value of these securities 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.

Equity securities

In 2016, the Group's equities were traded on major exchanges and are managed by external investment managers. Fair values were based on unadjusted quoted prices in active markets. The Group's equity securities were widely diversified and there was no significant concentration in any specific industry. The Group had categorized all investments in equities as Level 1.

(Expressed in thousands of U.S. dollars)

Derivative financial instruments

Exchange-traded derivatives, measured at fair value using quoted prices in active markets, where available are classified as Level 1 of the fair value hierarchy. Derivatives without quoted prices in an active market and derivatives executed over the counter are valued using internal valuations techniques that consider the time value of money, volatility, the current market and contractual prices of underlying financial instruments. These derivative instruments are classified as either Level 2 or Level 3 depending upon the observability of the significant inputs to the model. The valuation techniques and key inputs depend on the type of derivative and the nature of the underlying instrument.

Repurchase and reverse repurchase agreements

In 2016, repurchase and reverse repurchase agreements were held. No quoted prices exist for such instruments; therefore, fair value is determined using a discounted cash flow technique. Cash flows are estimated based on the terms of the contract. Expected cash flows are discounted using interest rates appropriate to the maturity of the instrument as well as the nature of the underlying collateral. Generally, when such instruments are held at fair value, they are classified within Level 2 on the fair value hierarchy, as the inputs, such as the pricing rate, used in the valuation are readily observable.

Other investments

The Group values its investments in hedge funds and the limited partnership at fair value, which are estimated based on the Group's share of the net asset values as provided by the investment managers of the underlying investment funds. The Group has elected to use the practical expedient method to record the fair value of the investments in hedge funds and the limited partnership at net asset value (NAV) and has therefore not assigned levels to these investments in the fair value hierarchy.

The following table presents the financial instruments measured at fair value on a recurring basis as at December 31, 2017 and 2016:

	As at December 31, 2017			
Assets	Level 1	Level 2	Level 3	Total
Fixed income securities				
U.S. treasuries	$ 114,689	$ -	$ -	$ 114,689
Certificate of deposits	-	11,189	-	11,189
Commercial paper	-	5,498	-	5,498
Agencies	-	46,575	-	46,575
Non-U.S. government	-	54,631	-	54,631
Corporate bonds	-	231,200	-	231,200
Asset-backed securities	-	45,966	-	45,966
Agency asset-backed securities	-	50,798	-	50,798
Total fixed income securities	114,689	445,857	-	560,546
Short-term investments				
Commercial paper	-	85,272	-	85,272
Agency	-	1,494	-	1,494
Non-U.S. government	-	184,631	-	184,631
Corporate bonds	-	156,002	-	156,002

(Expressed in thousands of U.S. dollars)

Total short-term investments	-	427,399	-	427,399
Derivative assets	514	-	-	514
Total Assets	$ 115,203	$ 873,256	$ -	$ 988,459

Liabilities	As at December 31, 2017 Level 1	Level 2	Level 3	Total
Derivative liabilities	(553)	(1,212)	-	(1,765)
Total Liabilities	$ (553)	$ (1,212)	$ -	$ (1,765)

There were no transfers into or out of Level 1 and Level 2 during 2017.

Assets	As at December 31, 2016 Level 1	Level 2	Level 3	Total
Fixed income securities				
U.S. treasuries	$ 150,097	$ -	$ -	$ 150,097
Agencies	-	8,072	-	8,072
Non-U.S. government	-	32,952	-	32,952
Corporate bonds	-	84,867	-	84,867
Asset-backed securities	-	14,662	-	14,662
Agency asset-backed securities		20,951		20,951
Commercial mortgage-backed securities	-	13,437	-	13,437
Total fixed income securities	150,097	174,941	-	325,038
Short-term investments				
Certificates of deposit	-	39,761	-	39,761
Commercial paper	-	8,997	-	8,997
Non-U.S. government	-	29,684	-	29,684
Corporate bonds	-	1,002	-	1,002
Total short-term investments	-	79,444	-	79,444
Equity securities	306,535	-	-	306,535
Derivative assets	847	8,853	-	9,700
Reverse repurchase agreements	-	223,947	-	223,947
Total Assets	$ 457,479	$ 487,185	$ -	$ 944,664

Liabilities	As at December 31, 2016 Level 1	Level 2	Level 3	Total
Securities sold short				
Fixed income securities				
U.S. treasuries	$ (221,252)	$ -	$ -	$ (221,252)
Non-U.S. government	-	(2,577)	-	(2,577)

(Expressed in thousands of U.S. dollars)

Total fixed income securities	(221,252)	(2,577)	-	(223,829)
Equity securities	(282,042)	-	-	(282,042)
Total securities sold short	(503,294)	(2,577)	-	(505,871)
Derivative liabilities	(1,720)	(2,027)	-	(3,747)
Repurchase agreements	-	(128,533)	-	(128,533)
Total Liabilities	$ (505,014)	$ (133,137)	$ -	$ (638,151)

There were no transfers into or out of Level 1 and Level 2 during 2016.

5. Investments pending settlement

The Group has receivables and payables from financials instruments sold and purchased from prime brokers and external managers which arise in the ordinary course of business. The Group is exposed to risk of loss from the inability of brokers to pay for purchases or to deliver the financial instruments pending transfer, in which case the Group would have to sell or purchase the financial instruments at prevailing market prices. Credit risk is reduced to the extent that an exchange or clearing organization acts as a counterparty to the transaction and replaces the prime broker. As of December 31, 2017, the Group recognized a receivable of $7.9 million (2016: $165.3 million), of which $nil (2016: $22.5 million) was pledged by the Group to collateralize repurchase agreements and a payable of $nil (2016: $99.6 million) for trades pending settlement.

6. Cash and cash equivalents

	2017	2016
Cash at bank	$ 194,068	$ 344,263
Cash held with brokers	22,302	247,617
Cash held in money market funds	70,200	37,047
Certificate of deposits and commercial paper	58,025	-
Total cash and cash equivalents	$ 344,595	$ 628,927

Due to the short term nature of cash and cash equivalents, management believes the above noted carrying values approximate their fair value.

7. Restricted cash and cash equivalents

In 2016, the Group was required to maintain certain levels of cash in segregated accounts with prime brokers and derivative counterparties. The amount of restricted cash held by derivative counterparties is cash collateral to support the current value of any amounts that may be due to the counterparty based on the value of the underlying financial instrument. In addition, in prior years, restricted cash was held by prime brokers to support the liability created from securities sold short.

The Group also has investments in segregated portfolios primarily to provide collateral for Letters of Credit, which support its (re)insurance business. In addition, the Group also has cash in trust funds which support the insurance and reinsurance business written on certain lines of business.

The Group is also required to hold cash as collateral for credit card limits which support general business activities.

(Expressed in thousands of U.S. dollars)

The following table presents the restricted cash and cash equivalents as at December 31, 2017 and 2016:

	2017	2016
Restricted cash held by prime brokers	$ 706	$ 16,190
Letters of Credit collateral	132,118	264,574
Trust fund	24,485	24,485
Credit card collateral	276	174
Total restricted cash and cash equivalents	$ 157,585	$ 305,423

8. Derivative financial instruments

The Group enters into derivative instruments such as futures and forward contracts primarily for duration, interest rate and foreign currency exposure management. The Group's derivative instruments are generally traded under International Swaps and Derivatives Association master agreements, which establish the terms of the transactions entered into with the Group's derivative counterparties. In the event one party becomes insolvent or otherwise defaults on its obligations, a master agreement generally permits the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' marked-to-market values so that a single sum in a single currency will be owed by, or owed to, the non-defaulting party. Effectively, this contractual close-out netting reduces credit exposure from gross to net exposure.

The following tables identify the listing currency, fair value and notional amounts of derivative instruments included in the consolidated balance sheets, categorized by primary underlying risk. Balances are presented on a gross basis:

	As at December 31, 2017		
	Listing currency (1)	Notional amount of underlying instruments (2)	Fair value of net assets on derivatives
Derivative assets by primary underlying risk			
Interest rate contracts			
Futures	USD	$ 96,536	$ 514
Total interest rate contracts		96,536	514
Total derivatives assets		$ 96,536	$ 514

	As at December 31, 2017		
	Listing currency (1)	Notional amount of underlying instruments (2)	Fair value of net obligations on derivatives
Derivative liabilities by primary underlying risk			
Interest rate contracts			
Futures	USD	$ 276,393	$ 553
Total interest rate contracts		276,393	553
Foreign exchange contracts			

Forwards (3)	AUD/CAD/EUR/GBP/JPY	29,750	640
Forwards (4)		181,410	572
Total foreign exchange contracts		211,160	1,212
Total derivative liabilities		$ 487,553	$ 1,765

(1) AUD = Australian Dollar, CAD = Canadian Dollar, EUR = Euro, GBP = British Pound, JPY = Japanese Yen and USD = US Dollar
(2) The absolute notional exposure represents the Group's derivative activity as of December 31, 2017, which is representative of the volume of derivatives held during the period.
(3) Contracts used to manage foreign currency risks in underwriting and non-investment operations.
(4) Contracts used to manage foreign currency risks in investments operations.

	As at December 31, 2016		
	Listing currency (1)	Notional amount of underlying instruments (2)	Fair value of net assets on derivatives
Derivative assets by primary underlying risk			
Interest rate contracts			
Futures	AUD/CAD/EUR/GBP/ USD	$ 656,741	$ 588
Options	EUR/JPY/USD	5,880	559
Swaps	BRL/EUR/INR/TRY/USD	63,207	773
Total interest rate contracts		725,828	1,920
Foreign exchange contracts			
Forwards (3)	AUD/CAD/EUR/GBP/JPY	29,576	359
Forwards (4)	BRL/CAD/CNH/HUF/JPY/ MXN/NOK/PHP/PLN/SEK/TRY / USD/ZAR	72,035	5,835
Futures	USD	521	2
Options	AUD/USD	11,441	669
Total foreign exchange contracts		113,573	6,865
Equity contracts			
Futures	CHF/EUR/GBP	27,427	131
Options	USD	2,804	425
Swaps	USD	10,935	233
Total equity contracts		41,166	789
Commodity contracts			
Futures	USD	8,099	126
Total commodity contracts		8,099	126
Total derivatives assets		$ 888,666	$ 9,700

(1) AUD = Australian Dollar, BRL = Brazil Real, CAD = Canadian Dollar, CHF = Swiss Franc, CNH = China Offshore Spot, EUR = Euro, GBP = British Pound, HUF = Hungarian Forint, INR = Indian Rupee, JPY = Japanese Yen, MXN = Mexican Peso, NOK = Norwegian Krone, PHP = Philippine Peso, PLN = Polish Zloty, SEK = Swedish Krona, TRY = Turkish Lira, USD = US Dollar and ZAR = South African Rand
(2) The absolute notional exposure represents the Group's derivative activity as of December 31, 2016, which is representative of the volume of derivatives held during the period.
(3) Contracts used to manage foreign currency risks in underwriting and non-investment operations.
(4) Contracts used to manage foreign currency risks in investments operations.

(Expressed in thousands of U.S. dollars)

	As at December 31, 2016		
	Listing currency (1)	Notional amount of underlying instruments (2)	Fair value of net obligations on derivatives
Derivative liabilities by primary underlying risk			
Interest rate contracts			
Futures	AUD/CAD/EUR/GBP/ USD	$ 687,125	$ 764
Options	JPY/USD	1,309	474
Swaps	BRL/NOK/TRY/USD	50,228	345
Total interest rate contracts		738,662	1,583
Foreign exchange contracts			
Forwards (3)	BRL/CAD/CNH/JPY/KRW/MXN/ NOK/SEK/USD/ZAR	31,425	681
Futures	USD	44,571	382
Options	AUD/USD	6,546	397
Total foreign exchange contracts		82,542	1,460
Equity contracts			
Futures	CAD/USD	39,849	350
Options	USD	2,744	91
Swaps	EUR/GBP/USD	3,993	38
Total equity contracts		46,586	479
Commodity and other contracts			
Futures	USD	15,316	225
Total commodity and other contracts		15,316	225
Total derivative liabilities		$ 883,106	$ 3,747

(1) AUD = Australian Dollar, BRL = Brazil Real, CAD = Canadian Dollar, CNH = China Offshore Spot, EUR = Euro, GBP = British Pound, JPY = Japanese Yen, KRW = South Korean Won, MXN = Mexican Peso, NOK = Norwegian Krone, SEK = Swedish Krona, TRY = Turkish Lira, USD = US Dollar, and ZAR = South African Rand

(2) The absolute notional exposure represents the Group's derivative activity as of December 31, 2016, which is representative of the volume of derivatives held during the period.

(3) Contracts used to manage foreign currency risks in investments operations.

(Expressed in thousands of U.S. dollars)

The following table presents derivative instruments by major risk type, the Group's net realized gains/(losses) and change in net unrealized gains/(losses) relating to derivative trading activities for the years ended December 31, 2017 and 2016. Net realized gains/(losses) and net unrealized gains/(losses) related to derivatives are included in net investment return and net foreign exchange gains and losses in the consolidated statements of operations.

	2017		2016	
Derivatives	Net realized gains/(losses)	Change in net unrealized gains/(losses)	Net realized gains/(losses)	Change in net unrealized gains/(losses)
Interest rate contracts				
Futures	$ (3,018)	$ 137	$ 4,769	$ (53)
Options	(1,981)	1,337	(4,072)	(1,882)
Swaps	984	(428)	440	426
Total interest rate contracts	(4,015)	1,046	1,137	(1,509)
Foreign exchange contracts				
Forwards [(1)]	(1,855)	(5,726)	1,903	359
Forwards [(2)]	3,755	(1,000)	1,404	4,973
Futures	(2,746)	380	1,432	(310)
Options	(39)	(82)	(214)	122
Total foreign exchange contracts	(885)	(6,428)	4,525	5,144
Equity contracts				
Futures	5,197	218	795	(222)
Options	123	(297)	97	295
Swaps	(996)	(195)	(1,461)	(43)
Total equity contracts	4,324	(274)	(569)	30
Commodity and other contracts				
Forwards	-	-	(58)	(3)
Futures	(3,486)	99	(8,008)	(108)
Options	-	-	(19)	-
Total commodity and other contracts	(3,486)	99	(8,085)	(111)
	$ (4,062)	$ (5,557)	$ (2,992)	$ 3,554

(1) Contracts used to manage foreign currency risks in underwriting and non-investment operations.
(2) Contracts used to manage foreign currency risks in investments operations.

The Group obtains/provides collateral from/to counterparties for OTC derivative financial instruments in accordance with bilateral letter of credit facilities.

(Expressed in thousands of U.S. dollars)

The Group does not offset its derivative instruments and presents all amounts in the consolidated balance sheets on a gross basis. The Group has pledged cash collateral to counterparties to support the current value of amounts due to the counterparties based on the value of the underlying security. The gross and net amounts of derivative instruments that are subject to enforceable master netting arrangements or similar agreements were as follows:

	As at December 31,2017			
		Gross amounts not offset in the balance sheet		
	Gross amounts of assets presented in the balance sheet	Financial instruments available for offset	Cash collateral received	Net amount of asset
Counterparty 3	$ 111	$ 69	$ -	$ 42
Counterparty 5	403	403	-	-
	$ 514	$ 472	$ -	$ 42

	As at December 31, 2017			
		Gross amounts not offset in the balance sheet		
	Gross amounts of liabilities presented in the balance sheet	Financial instruments available for offset	Cash collateral pledged	Net amount of liability
Counterparty 3	$ 70	$ 70	$ -	$ -
Counterparty 5	484	403	-	81
Counterparty 10	43	-	230	(187)
Counterparty 14	641	-	-	641
Counterparty 15	78	-	-	78
Counterparty 16	127	-	-	127
Counterparty 17	27	-	-	27
Counterparty 18	121	-	-	121
Counterparty 19	43	-	-	43
Counterparty 20	94	-	130	(36)
Counterparty 21	37	-	-	37
	$ 1,765	$ 473	$ 360	$ 932

	As at December 31,2016			
		Gross amounts not offset in the balance sheet		
	Gross amounts of assets presented in the balance sheet	Financial instruments available for offset	Cash collateral received	Net amount of asset
Counterparty 1	$ 85	$ -	$ -	$ 85
Counterparty 2	573	129	-	444
Counterparty 3	48	25	-	23
Counterparty 4	2	-	-	2
Counterparty 5	1,533	-	-	1,533
Counterparty 6	412	412	-	-
Counterparty 7	1,514	971	-	543
Counterparty 8	32	5	-	27
Counterparty 9	2,260	495	-	1,765
Counterparty 10	2,750	-	-	2,750
Counterparty 11	-	-	-	-
Counterparty 12	132	-	-	132
Counterparty 13	-	-	-	-
Counterparty 14	359	-	-	359
	$ 9,700	$ 2,037	$ -	$ 7,663

(Expressed in thousands of U.S. dollars)

	As at December 31, 2016			
		Gross amounts not offset in the balance sheet		
	Gross amounts of liabilities presented in the balance sheet	Financial instruments available for offset	Cash collateral pledged	Net amount of liability
Counterparty 1	$ -	$ -	$ -	$ -
Counterparty 2	129	129	-	-
Counterparty 3	25	25	-	-
Counterparty 4	-	-	-	-
Counterparty 5	-	-	-	-
Counterparty 6	1,513	412	-	1,101
Counterparty 7	971	971	-	-
Counterparty 8	5	5	-	-
Counterparty 9	495	495	-	-
Counterparty 10	-	-	-	-
Counterparty 11	177	-	-	177
Counterparty 12	-	-	-	-
Counterparty 13	432	-	-	432
Counterparty 14	-	-	-	-
	$ 3,747	$ 2,037	$ -	$ 1,710

(Expressed in thousands of U.S. dollars)

9. Reserves for losses and loss expenses

The following table presents a reconciliation of unpaid losses and loss expenses for the years ended December 31, 2017 and 2016.

	2017	2016
Gross unpaid losses and loss expenses, beginning of year	$ 109,782	$ 11,841
Reinsurance recoverable on unpaid losses	(10,005)	(230)
Net unpaid losses and loss expenses, beginning of year	99,777	11,611
Net losses and loss expenses incurred in respect of losses occurring in		
Current year	116,595	94,700
Prior years	(23,519)	(2,957)
Total incurred	93,076	91,743
Net losses and loss expenses paid in respect of losses occurring in:		
Current year	(20,088)	(1,956)
Prior years	(21,686)	(475)
Total paid	(41,774)	(2,431)
Foreign exchange and other	1,519	(1,146)
Net unpaid losses and loss expenses, end of year	152,598	99,777
Reinsurance recoverable on unpaid losses	285,044	10,005
Gross unpaid losses and loss expenses, end of year	$ 437,642	$ 109,782

Current year net incurred losses in 2017 increased from 2016 primarily due to the impact of losses from Hurricanes Harvey, Irma and Maria and the Californian wildfires. The Group has estimated losses incurred, net of reinsurance recoveries and reinstatements premiums of $38.4 million in respect of these events.

The reserves for losses and loss expenses include an amount determined from reported claims and estimates based on historical loss experience and industry statistics for losses incurred but not reported using a variety of actuarial methods.

The reserves for unpaid reported reserves for losses and loss expenses are established by management based on reports from brokers, ceding companies and insureds and represents the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by the Group.

The reserves for IBNR losses and loss expenses is established by management based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled. Accordingly, ultimate losses and loss expenses may differ materially from the amounts recorded in the consolidated financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, will be recorded in losses and loss expenses in the period in which they become known. As a result of the changes in estimates of prior years, the 2016 and prior reserves for losses and loss expenses have decreased by $23.5 million (2016: $3.0 million).

IBNR reserves are calculated on a best estimate basis and are estimated by management using various actuarial methods as well as the Company's own growing loss experience, historical insurance industry loss experience, estimates of pricing adequacy trends and management's professional judgement. Due to the limited historical data available, reliance is placed upon benchmark data and a review of individual policies. Estimates are calculated at the lowest level line of business, separately for gross and ceded, and for attritional, extreme and catastrophic claims.

The principal actuarial methods, and associated key assumptions, used to perform the Company's loss reserve analysis include:

Initial expected loss ratio

To estimate ultimate losses, the Company multiplies earned premiums by an expected loss ratio. The expected loss ratio is determined using a combination of benchmark data, the business plan, and expert judgement.

Paid and incurred chain ladder

This method estimates ultimate losses by calculating past paid and incurred loss development factors and applying them to exposure periods with further expected paid loss development. The main underlying assumption of this method is that historical loss development patterns are indicative of future loss development patterns.

Paid and incurred Bornhuetter-Ferguson ("BF")

This method combines features of the chain ladder and initial expected loss ratio method by using both reported and paid losses as well as an initial expected loss ratio to arrive at an ultimate loss estimate. The weighting between these two methods depends on the maturity of the business. This means that for more recent years a greater weight is placed on the initial expected loss ratio, while for more mature years a greater weight is placed on the loss development patterns.

Benktander: Credible claims reserves

The Benktander method is similar to the Bornhuetter-Ferguson, but replaces the initial loss ratio used within the BF method, with the loss estimate from the BF method. The credibility factor is increased as claims develop. It gives more weight to:

- Emerged losses than the BF; and
- Initial expected loss ratio rather than the chain ladder.

Case-by case

Given the nature of the business written, some of the lines of business may consist of a small number of policies. Where appropriate, the loss reserves will be calculated explicitly for a particular contract using expert judgement, and documented appropriately.

It is the responsibility of the actuarial function to apply the relevant actuarial methodologies and judgements to the calculation of loss reserves. The Chief Actuary presents the recommendations of the actuarial review of the reserves to the Reserving Committee for sign-off. The Reserving Committee reviews, challenges and recommends to the Company's Audit Committee the level of reserves required to meet the outstanding claims liabilities and loss adjustment expenses.

(Expressed in thousands of U.S. dollars)

The reserve estimates contain an inherent level of uncertainty and actual results may vary, potentially significantly, from the estimates the Company has made. Reserves are reviewed on a quarterly basis and estimates are adjusted to reflect emerging claims experience.

There were no material changes made to the Group's methodology for calculating loss and loss adjustment reserves for the year ended December 31, 2017.

During 2017 the Group adopted ASU 2015-09 and has included the disclosures below.

a) Loss development tables

The following tables present the Group's total loss and loss adjustment expenses incurred, net of reinsurance and loss adjustment expenses paid by accident year.

Specialty

Total incurred ultimate claims and allocated claim adjustment expenses - net of reinsurance

	For the years Ended December 31,			As of December 31, 2017	
				Total of IBNR plus expected development on reported claims	Cumulative number of Reported claims
Accident year	2015	2016	2017		
	(Unaudited)	(Unaudited)			
2015	$ 3,184	$ 2,373	$ 771	$ 771	1
2016		25,359	17,590	13,300	101
2017			27,714	24,769	382
Total			$ 46,075		

Cumulative paid claims and allocated claim adjustments expenses, net of reinsurance

	For the years Ended December 31,		
Accident year	2015	2016	2017
	(Unaudited)	(Unaudited)	
2015	$ -	$ -	$ -
2016		13	1,353
2017			1,691
		Total	$ 3,044

Liabilities for claims and claim adjustment expenses, net of reinsurance	$ 43,031

(Expressed in thousands of U.S. dollars)

Reinsurance

Total incurred ultimate claims and allocated claim adjustment expenses - net of reinsurance

	For the years Ended December 31,			As of December 31, 2017	
				Total of IBNR plus expected development on reported claims	Cumulative number of Reported claims
Accident year	2015	2016	2017		
	(Unaudited)	(Unaudited)			
2015	$ 8,427	$ 6,281	$ 6,081	$ 3,335	1
2016		67,109	53,679	31,429	39
2017			86,637	45,755	36
Total			$ 146,397		

Cumulative paid claims and allocated claim adjustments expenses, net of reinsurance

	For the years Ended December 31,		
Accident year	2015	2016	2017
	(Unaudited)	(Unaudited)	
2015	$ -	$ 475	$ 2,746
2016		1,943	11,933
2017			26,482
		Total	$ 41,161
Liabilities for claims and claim adjustment expenses, net of reinsurance			$ 105,236

The Company's loss reserve analysis is based primarily on underwriting year data. The preparation of the above accident year development tables required an allocation of underwriting year data to the corresponding accident year.

Allocations are performed using accident year loss payment and reporting patterns, which are derived from company specific loss data. Ultimate reserves are allocated based on reserve movement splits between prior and current year and reflects the movement in earned premium by underwriting year. The Company considers its allocations to be reasonable, based on the principal of proportionality.

The information has been provided separately for each of specialty and reinsurance lines of business in line with how the Group manages the business. No data has been omitted from providing this information on a segment basis.

(Expressed in thousands of U.S. dollars)

b) Reconciliation of loss development information to the reserves for losses and loss expenses

The table below reconciles the loss development information to the Group's reserves for losses and loss expenses as at December 31, 2017:

	December 31, 2017
Reserves for losses and loss expenses, net of reinsurance	
Specialty	$ 43,031
Reinsurance	105,236
Total reserves for losses and loss expenses, net of reinsurance	148,267
Reinsurance recoverable on unpaid claims	
Specialty	10,679
Reinsurance	274,365
Total reinsurance recoverable on unpaid claims	285,044
Unallocated claims adjustment expenses	4,331
Total gross liability for unpaid claims and claim adjustment expenses	$ 437,642

c) Historical loss duration

The following table presents the Group's historical average annual percentage of estimated ultimate payout of loss and loss adjustment expenses incurred, net of reinsurance recoveries by age as of December 31, 2017.

	December 31, 2017		
Years	1	2	3
		(Unaudited)	
All lines	16%	15%	33%

The Group was incorporated on August 22, 2014, commenced underwriting in 2015. As a result, the Group has limited historical data and is unable to present a full cycle of claim payments.

10. Reinsurance

The Group from time to time uses reinsurance and retrocessional reinsurance to manage its net retention on individual risks as well as overall exposure to losses while providing it with the ability to offer policies with sufficient limits to meet policyholder needs. In a reinsurance transaction, an insurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. In a retrocessional reinsurance transaction, a reinsurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. The ceding of insurance does not legally discharge the Group from its primary liability for the full amount of the policies, and the Group will be required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance or retrocessional agreement.

(Expressed in thousands of U.S. dollars)

A credit risk exists with ceded reinsurance to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance or retrocessional contracts. Allowances are established for amounts deemed uncollectible. No allowances have been made at December 31, 2017 (2016: $nil).

The following table summarizes the effect of reinsurance and retrocessional reinsurance on premiums written and earned and on net loss and loss expenses for the years ended December 31, 2017 and 2016:

2017	Premiums Written	Premiums Earned	Losses Incurred
Direct	$ 223,350	$ 75,752	$ 14,120
Assumed	322,579	258,008	384,548
Ceded	(136,870)	(114,692)	(305,592)
Net	$ 409,059	$ 219,068	$ 93,076

2016	Premiums Written	Premiums Earned	Losses Incurred
Direct	$ 181,217	$ 38,439	$ 10,508
Assumed	222,544	172,996	91,774
Ceded	(83,823)	(68,956)	(10,539)
Net	$ 319,938	$ 142,479	$ 91,743

The Group evaluates the financial condition of its reinsurers on a regular basis and monitors concentrations of credit risk with reinsurers. As at December 31, 2017, the reinsurance balance recoverable on unpaid losses and loss expenses was $285.0 million (2016: $10.0 million) and the reinsurance balance recoverable on paid losses was $19.6 million (2016: $0.5 million). All reinsurance premiums ceded and reinsurance recoverables are either fully collateralized or placed with reinsurers that are rated A- or greater by A.M. Best.

11. Variable Interest Entities

At times, the Group has utilized variable interest entities ("VIEs") both indirectly and directly in the ordinary course of the Group's business.

Within its investment portfolio, the Company has a holding in the York Fund, an investment in a VIE, for which it does not have the power to direct the activities that most significantly impact "York Fund" performance. The Group records its investment in York Fund at reported net asset value. This investment is included in other investments. At December 31, 2017, the carrying value of the Group's investment in the York Fund is $121.6 million (2016: $103.7 million) which is the maximum loss exposure to the Group.

During 2017, the Group, along with another investor, formed Pine Walk to provide administrative support to the managing general agents. The Group holds a majority interest in Pine Walk and has a majority of the board of director seats. Accordingly, the financial statements of Pine Walk have been included in the consolidated financial statements of the Group. The equity interest attributable to third party investors in Pine Walk as recorded in the

(Expressed in thousands of U.S. dollars)

Group's Consolidated Balance Sheets as "Non-controlling interest in equity of consolidated subsidiaries", was $0.2 million at December 31, 2017.

During 2017, the Group, along with another investor, formed Radius Specialty Limited ("Radius"), a managing general agent that writes on FUL's balance sheet focusing on niche specialty treaty excess of loss reinsurance business. The Group holds a majority interest in Radius. Accordingly, the financial statements of Radius have been included in the consolidated financial statements of the Group. The equity interest attributable to third party investors in Radius as recorded in the Group's Consolidated Balance Sheets as "Non-controlling interest in equity of consolidated subsidiaries" was $0.1 million at December 31, 2017.

During 2017, the Group, along with another investor, formed Firestone Surety Limited ("Firestone"), a managing general agent that writes on FUL's balance sheet, focusing on surety bonds predominantly in the United Kingdom. The Group holds a majority interest in Firestone. Accordingly, the financial statements of Firestone have been included in the consolidated financial statements of the Group. The equity interest attributable to third party investors in Firestone as recorded in the Group's Consolidated Balance Sheets as "Non-controlling interest in equity of consolidated subsidiaries" was $nil at December 31, 2017.

12. Non-controlling Interests

A summary of the Group's non-controlling interests on its consolidated balance sheets and consolidated statement of operations is summarized below:

		2017		2016
Non-controlling interest - Pine walk	$	(167)	$	-
Non-controlling interest - Radius		(71)		-
Non-controlling interest - Firestone		(23)		-
Total Non-controlling interest	$	(261)	$	-

13. Commitments and contingencies

a) Lease commitments

The following table presents our future minimum annual lease commitments under various non-cancellable operating leases for our facilities:

Years Ended December 31,	
2018	2,382
2019	2,382
2020	2,382
2021	2,382
2022	2,382
Thereafter	3,775
Total	15,685

Operating lease expense was $3.0 million for the year ended December 31, 2017 (2016: $2.3 million), this includes $1.2 million of expense relating to the sublease for the office space in Bermuda (2016: $1.2 million).

b) Letter of Credit facilities

As at December 31, 2017, the Group had the following letter of credit facilities:

- A Standby Letter of Credit Facility Agreement with Lloyds Bank plc ("Lloyds"), under which Lloyds committed to make available to the Group a letter of credit facility in the amount of $150.0 million. The letter of credit facility was renewed on December 20, 2017 and is available until December 31, 2019. Letters of credit can be issued under the facility for the purposes of 1) the provision of Funds at Lloyds and 2) supporting insurance and reinsurance obligations. As of December 31, 2017, there were letters of credit outstanding under this facility totaling $101.2 million (2016: $58.0 million), secured by collateral in the amount of $163.9 million (2016: $58.0 million).

- A Master Agreement for the Issuance of Payment Instruments with Citibank NA London Branch ("Citibank"), under which Citibank committed to make available a letter of credit facility in the amount of $250.0 million. The letter of credit facility was renewed on December 21, 2017 and the facility is available until December 31, 2018. As of December 31, 2017, there were letters of credit outstanding under this facility totaling $123.6 million (2016: $202.0 million), secured by collateral in the amount of $131.8 million (2016: $206.3 million).

- A Letter of Credit Facility Agreement with Barclays Bank PLC ("Barclays"), under which Barclays committed to make available a letter of credit facility in the amount of $100.0 million. The letter of credit facility was renewed on September 6, 2017 and is available until September 6, 2018. The letters of credit can be issued to support reinsurance agreements, insurance agreements or regulatory requirements. As of December 31, 2017, there were letters of credit outstanding under this facility totaling $91.8 million (2016: $nil), secured by collateral in the amount of $110.6 million (2016: $nil).

c) Legal proceedings

From time to time in the normal course of business, the Group may be involved in formal and informal dispute resolution procedures, which may include arbitration or litigation, the outcomes of which determine the rights and obligations of the Group under the Group's (re)insurance contracts, and other contractual agreements, or other matters as the case may be. In some disputes, the Group may seek to enforce its rights under an agreement or to collect funds owing to it. In other matters, the Group may resist attempts by others to collect funds or enforce alleged rights. While the final outcome of legal disputes that may arise cannot be predicted with certainty, the Group is not currently involved in any material formal or informal dispute resolution procedures. We do not believe that the eventual outcome of any specific litigation, arbitration or alternative dispute resolution proceedings to which we are currently a party will have a material adverse effect on the financial condition of our business as a whole.

Other Proceedings Not Arising Under Insurance Contracts or Reinsurance Agreements

The Company is involved in other lawsuits that do not arise under insurance contracts or reinsurance agreements. The legal costs associated with such lawsuits are expensed in the period in which the costs are incurred. Based upon currently available information, the Company does not believe it is reasonably possible that any such lawsuit or related lawsuits would be material to the Company's results of operations or would have a material adverse effect on the Company's financial position or liquidity.

(Expressed in thousands of U.S. dollars)

d) Concentration of credit risk

Credit risk arises out of the failure of a counterparty to perform according to the terms of the contract. The Group underwrites all of its (re)insurance business through brokers and credit risk exists should any of these brokers be unable to fulfill their contractual obligations with respect to the payments of premium or failure to pass on claims, if there is no risk transfer, to the Group.

During the period ended December 31, 2017, gross premiums written generated from or placed by the below companies individually accounted for more than 10% of the Group's consolidated gross premiums written, as follows:

(Percentage of consolidated gross premiums written)	2017	2016
Aon plc	22%	22%
Willis Limited	6%	20%
Marsh & McLennan Companies	28%	24%
Integro Insurance Broker Ltd.	12%	7%
Others	32%	27%

The Group believes that the brokers will meet all of their obligations. The Group's credit risk is generally reduced by the right to offset loss obligations against premiums receivable.

The Group has policies and standards in place to manage and monitor the credit risk of intermediaries with a focus on day to day monitoring of the largest positions. Note 10 describes the credit risk related to the Group's reinsurance recoverable asset.

14. Related party transactions

On August 8, 2017 the Group repurchased 250,000 common shares for a total of $2.1 million as mentioned in Note 16 from a previous director of the Company. The Group has no other related party transactions to report for the year ended December 31,2017 (2016: $nil).

15. Statutory requirements and dividend restrictions

The Group's ability to pay dividends is subject to certain regulatory restrictions on the payment of dividends by its subsidiaries. The payment of such dividends is limited by applicable laws and statutory requirements of the jurisdictions in which the Group and its subsidiaries operate, detailed further below. The minimum required statutory capital and surplus is the amount of statutory capital and surplus necessary to satisfy regulatory requirements based on the Group's current operations.

(Expressed in thousands of U.S. dollars)

The estimated statutory capital and surplus and minimum required statutory capital and surplus for the Company's regulatory jurisdictions is as follows:

	As at 31, December 2017	
	Bermuda [(1)]	United Kingdom [(2)]
Minimum statutory capital and surplus	$440,000	$130,000
Actual statutory capital and surplus	$1,070,000	$165,000

	As at 31, December 2016	
	Bermuda [(1)]	United Kingdom [(2)]
Minimum statutory capital and surplus	$491,177	$88,706
Actual statutory capital and surplus	$1,174,992	$130,372

(1) Estimated required statutory capital and surplus represents 100% of the Bermuda Solvency Capital Requirement ("BSCR").
(2) Estimated required statutory capital and surplus represents the Solvency II Solvency Capital Requirement ("SCR").

Bermuda Operations
Under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the Insurance Act), FIBL is required to prepare and submit audited GAAP financial statements and statutory financial statements and to file with the Bermuda Monetary Authority (BMA) a statutory financial return and a capital and solvency return. The BMA acts as group supervisor of the Group and has designated FIBL as the 'designated insurer' of the Group. In accordance with the Group supervision and insurance group solvency rules, FIBL is required to prepare and submit annual audited Group GAAP financial statements, annual Group statutory financial statements, an annual Group statutory financial return, an annual Group capital and solvency return and quarterly Group unaudited GAAP financial statements.

As a Class 4 (re)insurer, FIBL must maintain available statutory economic capital at a level equal to its enhanced capital requirement (ECR), which is established by reference to the Bermuda Solvency Capital Requirement (BSCR) model. The BSCR model is a risk-based capital model that provides a method for determining a (re)insurer's capital requirements (statutory capital and surplus) by taking into account the risk characteristics of different aspects of the (re)insurer's business. In addition the Group is required to maintain available statutory economic capital and surplus at a level equal to or in excess of the group ECR which is established by reference to the Group BSCR model.

Under the Insurance Act, FIBL is prohibited from declaring or paying a dividend if it is in breach of its minimum solvency margin, ECR or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. In addition, FIBL is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files with the BMA an affidavit stating that it will continue to meet the relevant solvency and liquidity margins. Without the approval of the BMA, FIBL is prohibited from reducing by 15% or more its total statutory capital as set out in its previous year's financial statements and any application for such approval must include an affidavit stating that it will continue to meet the required solvency and liquidity margins.

United Kingdom Operations

The PRA regulatory requirements impose no explicit restrictions on the U.K. subsidiaries' ability to pay a dividend, but the Group would have to notify the PRA 28 days prior to any proposed dividend payment. Under the UK Companies Act (2006) dividends may only be distributed from profits available for distribution.

(Expressed in thousands of U.S. dollars)

16. Share capital

Authorized and issued

The following sets out the number and par value of shares authorized, issued and outstanding at December 31, 2017 and 2016:

	2017	2016
Common stock, par value $0.01		
Authorized	600,000,000	600,000,000
Issued and outstanding:		
Common shares	122,375,827	122,625,827

	2017	2016
Preferred stock, par value $0.01		
Authorized	1,040,000	1,040,000
Issued and outstanding:		
Undesignated preference shares	-	-
9% cumulative preference shares	27,999	28,715
	27,999	28,715

Common stock

On August 8, 2017, the Group repurchased 250,000 common shares for a total of $2.1 million.

Preferred stock

In 2015, the Group issued 30,400 cumulative 9% preference shares with a redemption price equal to $10,000 per share, plus all declared and unpaid dividends. Holders of preferred stock are entitled to receive dividend payments only when, as and if declared by the Group's Board of Directors. To the extent declared, these dividends will accumulate, with respect to each dividend period, in the amount per share equal to 9% of the $10,000 liquidation preference per annum. The holders of all preferred stock do not have any voting rights.

During the year, the Group has paid quarterly preferred dividends of $25.9 million (2016: $27.4 million) to holders of the Group's preferred shares. At December 31, 2017, dividends payable of $1.1 million (2016: $1.0 million) is included in other liabilities.

On December 7, 2017 the Group repurchased 716 preference shares for a total of $7.8 million (2016: 1,685 preference shares for a total of $16.9 million).

(Expressed in thousands of U.S. dollars)

Founders' warrants

In connection with the establishment of the Group, in 2015, the Group authorized and issued 15,746,575 warrants to purchase common shares to the Group's Founders with an exercise price of $10.00 which is equal to the price paid for common shares by the Founders in the private placement. The Group reserved for issuance to founder warrants to purchase common shares, in the aggregate, up to 9.0% of the diluted shares. As at December 31, 2017, the warrants cannot be exercised as certain performance conditions were not met. The warrants were valued using the Black Scholes option-pricing model using a risk free rate of 1.74%, a volatility estimate of 18%, and expires 10 years from the date of issuance, which was June 9, 2015. During 2017, an additional 134,055 warrants (2016: 110,783 warrants) were issued due to the RSU Top-Up clauses contained in the warrant agreements.

The Founders' warrant activity for the years ended December 31, 2017 and 2016 were as follows:

	Number of warrants	Weighted average exercise price
Outstanding as of December 31, 2015	15,746,575	10.00
Granted	110,783	10.00
Forfeited	-	10.00
Outstanding as of December 31, 2016	15,857,358	10.00
Granted	134,055	10.00
Forfeited	-	10.00
Outstanding as of December 31, 2017	15,991,413	10.00

The following table summarizes information about the Founders' warrants outstanding as of December 31, 2017:

Exercise Price		Aggregate calculated value of warrants '000	Number of warrants outstanding	Number of warrants exercisable and vested
$10	$	47,243	15,991,413	-

The following table summarizes information about the Founders' warrants outstanding as of December 31, 2016:

Exercise Price		Aggregate calculated value of warrants '000	Number of warrants outstanding	Number of warrants exercisable and vested
$10	$	46,847	15,857,358	-

17. Share compensation

In connection with the establishment of the Group, in 2015, the Group reserved for issuance to management warrants to purchase common shares, in the aggregate, up to 7.5% of the diluted shares (up to a maximum of $2.1 billion of subscribed stock).

The calculated value of the basic warrants and ratchet warrants were estimated at grant date using the Black Scholes option-pricing model. The volatility estimate used was based on the estimated volatility of a peer group of (re)insurers as the Group had only been in operation for under two years, therefore it was not practicable to estimate the Group's share price volatility. The other assumptions used in the Black Scholes option-pricing model were as follows; risk free rate of 1.74%, expected life of 5 years, and a 0.0% dividend yield. Management basic warrants and ratchet warrants expire 10 years from the date of issuance, which was June 9, 2015.

(Expressed in thousands of U.S. dollars)

As of December 31, 2017, the weighted average contractual term for management basic warrants outstanding was 7.4 years (2016: 8.4 years).

Basic warrants

The basic warrant activity for the years ended December 31, 2017 and 2016 were as follows:

	Number of warrants	Weighted average exercise price
Outstanding as of December 31, 2015	6,963,608	$ 14.00
Granted	121,446	14.00
Forfeited	(203,112)	14.00
Outstanding as of December 31, 2016	6,881,942	14.00
Granted	148,920	14.00
Forfeited	(1,728,909)	14.00
Outstanding as of December 31, 2017	5,301,953	$ 14.00

Management were issued basic warrants subject to a service condition only. The service condition is met with a portion vesting and becoming exercisable immediately, on grant, and the remainder vesting and becoming exercisable on each of the first five anniversary dates following the grant date of the warrants. The vesting percentages range from 12.5% to 25.0% annually.

For the year ended December 31, 2017, total compensation income of $0.4 million (2016: expense of $3.2 million) related to basic warrants was included in general and administrative expenses. At December 31, 2017, the Group had $1.5 million (2016: $4.1 million) of unamortized share compensation expense related to the basic warrants which is expected to be amortized over the remaining weighted average period of 2.4 years (2016: 3.4 years).

The following table summarizes information about the Company's management basic warrants outstanding as of December 31, 2017:

Exercise Price	Aggregate calculated value of warrants	Number of warrants outstanding	Number of warrants exercisable and vested
$10	$ 7,832	2,650,970	1,256,527
$16	1,644	1,325,495	530,223
$20	939	1,325,488	530,220
	$ 10,415	5,301,953	2,316,970

(Expressed in thousands of U.S. dollars)

The following table summarizes information about the Company's management basic warrants outstanding as of December 31, 2016:

Exercise Price		Aggregate calculated value of warrants	Number of warrants outstanding	Number of warrants exercisable and vested
$10	$	10,166	3,440,965	827,468
$16		2,134	1,720,492	344,098
$20		1,218	1,720,485	344,097
	$	13,518	6,881,942	1,515,663

Ratchet warrants

Management were issued ratchet warrants subject to a service and performance condition. No management warrants were exercisable as of December 31, 2017 (2016: nil).

The performance condition will be met with respect to ratchet warrants upon meeting Group performance goals, including achieving specific target internal rate of return thresholds. Upon meeting all required performance conditions, the ratchet warrants will vest on the fifth anniversary following the grant date. For the year ended December 31, 2017, total compensation expense of $nil (2016: $0.5 million credit) related to ratchet warrants was included in general and administrative expenses. At December 31, 2017, the Group had $nil (2016: $nil) of unamortized share compensation expense related to the ratchet warrants.

Ratchet warrant activity for the years ended December 31, 2017 and 2016 were as follows:

	Number of warrants		Weighted average exercise price
Outstanding as of December 31, 2015	1,468,573	$	10.00
Granted	14,982		10.00
Forfeited	(35,380)		10.00
Outstanding as of December 31, 2016	1,448,175		10.00
Granted	18,257		10.00
Forfeited	(333,799)		10.00
Outstanding as of December 31, 2017	1,132,633	$	10.00

The following table summarizes information about the Company's ratchet warrants outstanding as of December 31, 2017:

Exercise Price		Aggregate calculated value of warrants	Number of warrants outstanding	Number of warrants exercisable and vested
$10	$	3,346	1,132,633	-

(Expressed in thousands of U.S. dollars)

The following table summarizes information about the Company's ratchet warrants outstanding as of December 31, 2016:

Exercise Price		Aggregate calculated value of warrants	Number of warrants outstanding	Number of warrants exercisable and vested
$10	$	4,278	1,448,175	-

Restricted stock units

On February 17, 2016, the Fidelis Insurance Holdings Limited 2015 Non-Qualified Share Option Plan (the "Plan") was approved by the Board of Directors. The Group reserved up to 2% of the diluted shares to the issuance of Restricted Stock Units ("RSUs") to purchase common shares.

On April 12, 2016, an aggregate of 838,336 RSUs were granted under the Plan with a $0.01 exercise price and expire 10 years from the date of issuance. On February 28, 2017, an aggregate of 1,043,351 RSUs were granted under the Plan with a $0.01 exercise price and expire 10 years from the date of issuance.

The RSUs contain both service and performance conditions. The RSUs vest after a three-year period and a portion are subject to the satisfaction of certain performance conditions based on achievement of pre-established targets for return on equity for the Group.

The following table provides additional information on RSUs for the year ended December 31, 2017 and 2016:

	Number of Restricted Stock Units		Weighted-Average Fair Value per Share at Grant Date		Calculated value
Outstanding as at December 31, 2015	-		-		-
Granted	838,336	$	8.60	$	7,210
Forfeited	(3,296)		8.60		(28)
Outstanding as at December 31, 2016	835,040		8.60		7,182
Granted	1,043,351		8.33		8,691
Forfeited	(310,407)		8.45		(2,623)
Cancelled	(188)		8.33		(2)
Outstanding as at December 31, 2017	1,567,796	$	8.45	$	13,248

As at December 31, 2017, total compensation expense of $2.5 million (2016: $0.8 million) relating to the RSUs was included in general and administrative expenses. As of December 31, 2017, there was a remaining unamortized balance of $5.4 million (2016: $2.6 million), which will be recognized on a straight-line basis over the weighted average remaining service period of 2.0 years (2016: 2.3 years).

(Expressed in thousands of U.S. dollars)

18. Taxation

United Kingdom

The Company and all its subsidiaries, with the exception of FIBL, are tax residents in the United Kingdom and are subject to relevant taxes in that jurisdiction. On November 18, 2015, the United Kingdom government passed Finance (No. 2) Act 2015 which reduced the corporate income tax rate from 20% to 19% (effective April 1, 2017) and provided for a further reduction from 19% to 18% (effective April 1, 2020). On September 15, 2016, the United Kingdom passed Finance Bill 2016 which further reduced the rate to 17% (effective April 1, 2020) replacing the previously enacted 18%. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

2016 and 2017 are open tax years in the United Kingdom that are subject to examinations by local tax authorities, and 2015 is still open for FML. The Group continues to believe that it has made adequate provision for the liabilities likely to arise from these periods. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of agreements with relevant tax authorities. Fidelis has developed its process to review and measure uncertain tax positions using internal expertise, experience and judgment, together with assistance and opinions from professional advisors. Original estimates are always refined as additional information becomes known.

Bermuda

Under current Bermuda law, the Company's Bermudian subsidiary, FIBL, is not required to pay any taxes in Bermuda on its income or capital gains. The subsidiary has received undertakings from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, they will be exempt from taxation in Bermuda until March 2035 under the Tax Assurance Certificates issued to such entities pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966, as amended. The impact of this is included within income/losses not subject to income taxes in the reconciliation of taxes below.

The Group income tax benefit for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Deferred tax benefit	$ (1,170)	$ (3,400)
Rate change on deferred tax	111	620
Income tax benefit	$ (1,059)	$ (2,780)

The effective tax rate for the Group is negative 3.6% (2016: 7.6%).

A reconciliation of the difference between the benefit for income taxes and the expected tax benefit at the weighted average tax rate for the years ended December 31, 2017 and 2016 is provided below. The weighted average tax benefit has been calculated using pre-tax accounting loss multiplied by the applicable statutory tax rate.

(Expressed in thousands of U.S. dollars)

	2017	2016
Expected tax cost/(benefit) at weighted average rate	$ 5,349	$ (7,320)
Permanent differences:		
Disallowed expenses	537	831
Income/losses not subject to income taxes	(8,511)	2,519
Adjustments in respect of prior year	(206)	88
Effects of other tax rates	91	620
Valuation allowance	1,681	482
Income tax benefit	$ (1,059)	$ (2,780)

The components of the Group's net deferred tax asset as at December 31, 2017 and 2016 are as follows:

	2017	2016
Deferred tax asset	$ 7,118	$ 5,036
Valuation allowance	(2,654)	(1,118)
Other temporary differences	194	4
Deferred tax liability on fixed assets	188	(136)
Net deferred tax asset	$ 4,846	$ 3,786

The valuation allowance has been made against certain loss carryforwards as the Group considers that it is more likely than not that these will not be recovered against future income.

There is no expiry date for the losses.

The Group did not pay or accrue any interest or penalties during the years ended December 31, 2017 and December 31, 2016.

19. Subsequent events

Subsequent events have been evaluated up to and including February 21, 2018, the date of issuance of these consolidated financial statements.

Proposed dividend
On 13 February 2018 the Board approved a proposed dividend of $0.94 per common share, payable on 15 March 2018 to common stockholders of record at the close of business on 1 March 2018.

Proposed preferred share repurchase
On 13 February 2018, the Board approved the repurchase of 3,126 preference shares for a total of $35.9 million.