HANNOVER RE (BERMUDA) LTD.

Financial Statements
(With Independent Auditor's Report Thereon)

Year Ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of **Hannover Re (Bermuda) Ltd.**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hannover Re (Bermuda) Ltd. (the "Company"), which comprise of the balance sheet as at December 31, 2017, the statements of income and comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statement

KPMG

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Audit Limited

KPMG Audit Limited
Hamilton, Bermuda
March 23, 2018

HANNOVER RE (BERMUDA) LTD.

Balance Sheet

December 31, 2017
(Expressed in thousands of United States Dollars)

		2017		2016
Assets				
Cash and cash equivalents (Notes 5 and 6)	$	115,155	$	88,851
Fixed-income securities – available for sale (Note 6)		2,073,800		1,983,514
Fixed-income securities – loans and receivables (Note 6)		14,088		21,131
Fixed-income securities – held to maturity (Note 6)		30,785		32,407
Other invested assets – available for sale (Note 6)		34,276		29,521
Funds withheld (Note 7)		94,332		111,856
Accounts receivable		187,629		147,435
Reinsurance recoverable on unpaid claims (Notes 7 and 8)		316,158		270,074
Deferred acquisition costs (Note 7)		17,645		14,346
Prepaid reinsurance premium (Notes 7 and 8)		32,891		30,303
Fixtures, fittings and equipment (Note 9)		144		200
Other assets (Note 10)		896		3,288
Total assets	$	2,917,799	$	2,732,926
Liabilities				
Loss and loss adjustment expense reserve (Note 8)	$	1,123,874	$	924,146
Ceded deferred acquisition costs (Note 7)		7,823		7,110
Unearned premium reserve (Note 8)		139,283		121,640
Ceded funds withheld (Note 7)		1,890		797
Reinsurance payable (Note 11)		256,943		230,970
Accounts payable and accrued expenses (Note 12)		2,283		2,356
Dividend payable (Note 13)		175,000		200,000
Total liabilities		1,707,096		1,487,019
Shareholder's equity				
Authorized, issued and fully paid, 4,522,359 shares of $1 par value each (Note 13)		4,522		4,522
Contributed surplus (Note 13)		1,097,200		1,097,200
Accumulated other comprehensive income (loss) (Note 14)		10,677		(1,061)
Retained earnings		98,304		145,246
Total shareholder's equity		1,210,703		1,245,907
Total liabilities and shareholder's equity	$	2,917,799	$	2,732,926

The notes are an integral part of the financial statements

Signed on behalf of the Board:

Director

Director

HANNOVER RE (BERMUDA) LTD.

Statement of Income

For the year ended December 31, 2017
(Expressed in thousands of United States Dollars)

		2017		2016
Income				
Gross written premium	$	610,400	$	574,823
Ceded written premium		(220,751)		(216,629)
Change in gross unearned premium (Note 8)		(9,770)		(3,855)
Change in ceded unearned premium (Note 8)		2,523		4,426
Net premium earned		382,402		358,765
Ordinary investment income		53,742		51,000
Realized gains on investments		7,546		6,565
Realized losses on investments		(4,461)		(3,681)
Permanent impairment		–		(552)
Net unrealized gains on derivatives		221		286
Other investment expenses		(2,637)		(2,540)
Net investment income (Note 6)		54,411		51,078
Total revenue		436,813		409,843
Expenses				
Losses and loss adjustment expenses incurred (Note 8)		278,053		175,258
Commission and brokerage net, change in deferred acquisition costs		13,801		7,515
Other acquisition costs		4,429		4,311
Administrative expenses		16,484		15,990
Depreciation (Note 9)		68		102
Total expenses		312,835		203,176
Other income (expenses) (Note 15)		4,080		(4,359)
Net income (all attributable to the shareholder)	$	128,058	$	202,308

The notes are an integral part of the financial statements

HANNOVER RE (BERMUDA) LTD.

Statement of Comprehensive Income

For the year ended December 31, 2017
(Expressed in thousands of United States Dollars)

	2017	2016
Net income	$ 128,058	$ 202,308
Other comprehensive income (loss)		
Reclassifiable to the statement of income		
Unrealized appreciation (depreciation) arising during the period	9,993	(2,446)
Less: reclassification adjustment for net realized losses included in net income	1,400	1,601
Amortisation of net unrealized appreciation related to securities transferred to held to maturity	(46)	312
Foreign exchange rate differences	391	460
Other comprehensive income (loss)	11,738	(73)
Comprehensive income (all attributable to the shareholder)	$ 139,796	$ 202,235

The notes are an integral part of the financial statements

HANNOVER RE (BERMUDA) LTD.

Statement of Changes in Shareholder's Equity

For the year ended December 31, 2017
(Expressed in thousands of United States Dollars)

	2017	2016
Share capital		
Balance at beginning and end of year (Note 13)	$ 4,522	$ 4,522
Contributed surplus		
Balance at beginning and end of year (Note 13)	1,097,200	1,097,200
Accumulated other comprehensive loss		
Balance at beginning of year	(1,061)	(988)
Change in unrealized appreciation of investments	11,738	(73)
Balance at end of year	10,677	(1,061)
Retained earnings		
Balance at beginning of year	145,246	142,938
Net income	128,058	202,308
Dividends declared (Note 13)	(175,000)	(200,000)
Balance at end of year	98,304	145,246
Total shareholder's equity	$ 1,210,703	$ 1,245,907

The notes are an integral part of the financial statements

HANNOVER RE (BERMUDA) LTD.

Statement of Cash Flows

For the year ended December 31, 2017
(Expressed in thousands of United States Dollars)

	2017	2016
Cash flows from operating activities		
Net income	$ 128,058	$ 202,308
Adjustments for non-cash items included in net income:		
Depreciation of capital assets	68	102
Net realized gains on disposal of investments	(3,085)	(2,884)
Net unrealized gains on derivatives	(221)	(286)
Investment impairment	–	552
Amortization of investments	5,900	3,313
Changes in accrued interest	(534)	(1,442)
Effect of changes in exchange rates	(4,080)	4,359
Net changes in non-cash balances relating to operations:		
Changes in funds withheld	29,530	(73,399)
Changes in receivables from reinsurance business	(29,658)	7,588
Changes in payables from reinsurance business	25,973	53,084
Changes in funds withheld under reinsurance business	973	763
Changes in unearned reinsurance premium (net)	7,247	(571)
Changes in loss and loss adjustment expense reserve (net)	117,577	52,199
Changes in deferred acquisition costs (net)	(1,936)	(1,158)
Changes in other assets and liabilities (net)	(2,798)	(928)
Cash flows provided by operating activities	273,014	243,600
Cash flows from investing activities		
Fixed-income securities – available for sale including short term investments		
Maturities and sales	926,912	647,804
Purchases	(978,764)	(768,791)
Fixed-income securities – loans and receivables		
Maturities and sales	7,000	7,000
Fixed-income securities – held to maturity		
Maturities	5,000	42,466
Other invested assets – available for sale		
Maturities and sales	11	–
Purchases	(7,850)	(5,385)
Purchase of fixed assets	(12)	(101)
Cash flows used in investing activities	(47,703)	(77,007)
Cash flows from financing activities		
Dividends paid	(200,000)	(200,000)
Interest paid	(824)	(700)
Cash flows used in financing activities	(200,824)	(200,700)
Exchange rate differences on cash and cash equivalents	1,817	(7,471)
Net increase (decrease) in cash and cash equivalents	26,304	(41,578)
Cash and cash equivalents at beginning of year	88,851	130,429
Cash and cash equivalents at end of year	$ 115,155	$ 88,851

The notes are an integral part of the financial statements

1. Company information

Hannover Re (Bermuda) Ltd. (the "Company") is a wholly owned subsidiary of Hannover Rück SE ("Hannover Re SE" or "the Parent"). The ultimate parent company of Hannover Re SE is HDI Haftpflichtverband der Deutschen Industrie V.a.G. ("HDI"). The Company is incorporated in Bermuda and its registered office is located at Victoria Place, 31 Victoria Street, Hamilton, Bermuda. The Company commenced writing reinsurance business in June 2001 and is licensed as a Class 4 reinsurer under the Insurance Act, 1978 of Bermuda and related regulations to write all classes of property and casualty business.

The Company writes primarily property catastrophe reinsurance contracts on an excess of loss basis. Property catastrophe reinsurance covers unpredictable events such as hurricanes, windstorms, hailstorms, earthquakes, freezes, riots and other man-made or natural disasters. Every property catastrophe excess of loss contract written by the Company provides for aggregate limits and attachment points. The Company also assumes workers' compensation, marine, aviation, credit surety, motor, casualty, personal accident and terrorism contracts primarily on an excess of loss basis.

2. Basis of presentation

2.1 Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were examined by the Board of Directors and adopted at the meeting of the Board of Directors held on March 16, 2018, and hence released for publication.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis. See Note 3 for the exceptions to this.

2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in United States Dollars, which is also the Company's functional currency.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The area involving a higher degree of judgment and where estimates are significant to the financial statements is the technical reserves. This is disclosed further in Notes 3.11 and 8 of these financial statements.

3. **Summary of significant accounting policies**

In the Company's efforts to meet international disclosure standards and to meet the requirements of the local regulators, the Company has prepared financial statements in accordance with IFRS.

The financial statements reflect all IFRS in force as at December 31, 2017, as well as all interpretations issued by IFRIC, application of which was mandatory for the 2017 financial year.

Since 2002, the standards adopted by the International Accounting Standards Board ("IASB") have been referred to as IFRS; the standards dating from earlier years still bear the name "International Accounting Standards ("IAS")". Standards are cited in our Notes accordingly; in cases where the Notes do not make explicit reference to a particular standard, the term IFRS is used.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

New accounting standards or accounting standards applied for the first time

The amendments to existing standards listed below were applicable for the first time in the year under review and had no significant implications overall for the net assets, financial position or result of operations of the Company.

- Disclosure Initiative (Amendments to IAS 7)
- Annual Improvements to IFRSs 2014 - 2016 Cycle

Standards or changes in standards that have not yet entered into force or are not yet applicable

The IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the financial statements of the Company, application of which is not yet mandatory for the year under review and which are not being applied early by the Company:

In May 2017 the IASB published the final version of IFRS 17 "Insurance Contracts". IFRS 17 replaces IFRS 4 and thereby establishes for the first time consistent principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. The measurement model of IFRS 17 requires entities to measure groups of insurance contracts based on estimates of discounted future cash flows with an explicit risk adjustment for non-financial risks ("fulfilment cash flows") as well as a contractual service margin, representing the expected (i.e. unearned) profit for the provision of insurance coverage in the future.

Instead of reporting premium income when it is received, insurance revenue is reported when it is earned by recognising in each period the changes in the liability for providing coverage for which the insurance entity receives compensation as well as the part of the premiums that cover acquisition costs. Receipts and payments relating to savings components are not recognised as revenue or as profit or loss in the statement of income. Insurance finance income and expenses result from discounting effects and financial risks. For each portfolio of insurance contracts they may either be recognised in profit or loss in the statement of income or in other comprehensive income.

3. **Summary of significant accounting policies** (continued)

Changes in assumptions that do not relate to interest rates or financial risks are not recognised directly in the statement of income but are booked against the contractual service margin and hence spread across the remaining coverage period. Changes in estimates are only recognised immediately in profit or loss in the case of those groups of insurance contracts that are expected to be loss-making.

IFRS 17 includes an approximation method for short-term contracts that captures the liability for providing insurance coverage through unearned premium, as has been the case to date. Liabilities from outstanding claims must be discounted using current interest rates under IFRS 17.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021.

Hannover Re SE had already launched a very extensive implementation project in the middle of last year. At this moment, however, it is too early to comment on any specific implications of the new standard at the time of initial application.

In January 2016 the IASB issued IFRS 16 “Leases” setting out new principles governing the recognition, measurement, presentation and disclosure of leases. The most significant new requirements relate principally to accounting by lessees. In the future, the lessee shall as a general principle recognise a lease liability for all leases. At the same time it shall recognise a right to use the underlying asset. Accounting by lessors remains comparable with current practice, according to which the lessor classifies each lease as an operating lease or a finance lease. The standard is to be applied to annual periods beginning on or after 1 January 2019.

In July 2014 the IASB published the final version of IFRS 9 “Financial Instruments”, which supersedes all previous versions of this standard and replaces the existing IAS 39 "Financial Instruments: Recognition and Measurement". The standard contains requirements governing classification and measurement, impairment based on the new expected credit loss impairment approach and general hedge accounting. Initial mandatory application of the standard is set for annual periods beginning on or after 1 January 2018. In September 2016, however, the IASB published “Applying IFRS 9, Financial Instruments with IFRS 4, Insurance Contracts” (Amendments to IFRS 4). These amendments address the implications of the different effective dates for initial application of IFRS 9 and the anticipated new standard for the recognition of insurance and reinsurance contracts. Under the so-called deferral approach provided for in the amendments, entities whose predominant activity is issuing insurance and reinsurance contracts within the scope of IFRS 4 are granted an optional temporary exemption from recognising their financial instruments in accordance with IFRS 9 until the recognition of insurance and reinsurance contracts has been finally settled, although this option may not be used after 1 January 2021. The IFRS 9 implementation project is running parallel to and in close coordination with the IFRS 17 implementation project.

(Expressed in thousands of United States Dollars)

3. **Summary of significant accounting policies** (continued)

In May 2014 the IASB issued IFRS 15 “Revenue from Contracts with Customers”. The standard specifies when and in what amount revenue is to be recognised and which disclosures are required for this purpose. IFRS 15 provides a single five-step model framework to be applied to all contracts with customers. In the “Clarifications to IFRS 15, Revenue from Contracts with Customers”, which were published in April 2016, the IASB clarified various principles of IFRS 15 and included additional transition relief provisions. Financial instruments and other contractual rights and obligations which are to be recognised under separate standards as well as (re)insurance contracts within the scope of IFRS 4 “Insurance Contracts” are expressly exempted from the standard’s scope of application. Both the standard and the clarifications are to be applied for the first time to annual periods beginning on or after 1 January 2018. The Company subjected the service contracts existing as at the balance sheet date to analysis and does not anticipate any significant changes relative to current practice. The predominant activity of the Company falls within the scope of application of IFRS 4. Consequently, the services falling within the scope of application of IFRS 15 will probably not have any significant implications overall for the Company’s net assets, financial position or result of operations. The Company intends to opt for the modified retrospective approach on initial application of IFRS 15, according to which the cumulative effect of applying the new standard is recognised in retained earnings as at 1 January 2018. In addition, the practical transition relief provided in the standard with respect to completed contracts and contract modifications will be utilised.

In addition to the accounting principles described above, the IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the financial statement of the Company, application of which was not yet mandatory for the year under review and which are not being applied early by the Company. Initial application of these new standards is not expected to have any significant implications for the Company’s net assets, financial position or result of operations.

Further IFRS Amendments and Interpretations		
Published:	Title	Initial application to annual periods beginning on or after the following date:
December 2017	Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019
October 2017	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
December 2016	Transfer of Investment Property (Amendments to IAS 40)	1 January 2018
December 2016	IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration	1 January 2018
June 2016	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018

3. **Summary of significant accounting policies** (continued)

3.1 **Reinsurance contracts**

IFRS 4 “Insurance Contracts’’ represents the outcome of Phase I of the IASB project “Insurance Contracts” and constitutes a transitional arrangement. IFRS 17, which was issued by the IASB in May 2017, establishes binding principles for the measurement of insurance contracts effective for annual reporting periods beginning on or after 1 January 2021. IFRS 4 sets out basic principles for the accounting of insurance contracts. Underwriting business is to be subdivided into insurance and investment contracts. The standard is also applicable to reinsurance contracts. IFRS 4 contains fundamental rules governing specific circumstances, such as the separation of embedded derivatives and unbundling of deposit components, but it does not set out any more extensive provisions relating to the measurement of insurance and reinsurance contracts. In conformity with the basic rules of IFRS 4 and the IFRS Framework, reinsurance-specific transactions therefore continue to be recognised in accordance with the pertinent provisions of US GAAP (United States Generally Accepted Accounting principles) as applicable on the date of initial application of IFRS 4 on January 1, 2005.

(a) Premiums earned
Premiums assumed are estimated based on information received from ceding companies and reinsurance intermediaries and are included in income on a straight-line basis over the period of underlying coverage with the unearned portion deferred in the balance sheet. Reinsurance premiums ceded are similarly pro-rated over the terms of the treaties with the unearned portion being deferred in the balance sheet as prepaid reinsurance premium. Adjustments to premium estimates are recorded when updated information is reported by the ceding companies and reinsurance intermediaries. Such adjustments could result in significantly higher or lower premiums than originally estimated by the Company.

(b) Reinstatement premiums and Retrospectively-rated premiums
Reinstatement premiums and retrospectively-rated premiums are recognised in accordance with provisions of the reinsurance contracts. Reinstatement premiums are premiums charged for the restoration of the reinsurance limit, generally coinciding with the payment of losses by the Company. Reinstatement premiums are earned immediately whilst the original contract premium continues to be earned over the full period of the contract. Retrospectively-rated premiums triggered by losses are earned immediately.

Premium deficiencies are recognised in the income statement, to the extent that such deficiencies exist, in the period in which they arise.

3.2 **Financial assets**

As a basic principle we recognise the purchase and sale of directly held financial assets as at the trade date.

(a) Financial assets held to maturity
Financial assets held to maturity are comprised of non-derivative assets that entail fixed or determinable payments on a defined due date and are acquired with the intent and ability to be held until maturity. They are measured at amortized cost. The corresponding premiums or discounts are recognised in profit or loss across the duration of the instruments using the effective interest rate method. A write-down is taken in the event of permanent impairment.

(b) Loans and receivables
Loans and receivables are non-derivative financial instruments that entail fixed or determinable payments on a defined due date and are not listed on an active market or sold at short notice. They are carried at amortized cost. Premiums or discounts are deducted or added within the statement of income using the effective interest rate method until the amount repayable becomes due. Impairment is taken only to the extent that repayment of a loan is unlikely or no longer to be expected in the full amount.

3. **Summary of significant accounting policies** (continued)

3.2 **Financial assets** (continued)

(c) Financial assets at fair value through profit or loss
Such assets consist of securities held for trading and are classified and measured at fair value through profit or loss since acquisition. In addition, all derivative financial instruments not acquired for hedging purposes are recognised here. Realized and changes in unrealized gains or losses on financial assets carried at fair value through profit or loss are recognised directly in the statement of income in the period in which they occur.

(d) Financial assets classified as available for sale
Financial assets classified as available for sale are carried at fair value. Unrealized gains and losses arising out of changes in the fair value of securities held as available for sale are recognised in shareholder's equity. All financial instruments that do not satisfy the criteria for classification as held to maturity, loans and receivables, at fair value through profit or loss, or trading are allocated to the category of available for sale. Accrued interest is also recognised in this category.

Establishment of the fair value of financial instruments carried as assets or liabilities: The fair value of financial instruments carried as assets or liabilities is established using the methods and models described below. The fair value of a financial instrument corresponds to the amount that the Company would receive or pay if it were to exit the said financial instrument on the balance sheet date. Insofar as market prices are listed on markets for financial assets, their bid price is used; financial liabilities are valued at ask price. In other cases the fair values are established on the basis of the market conditions prevailing on the balance sheet date for financial assets with similar credit rating, duration and return characteristics or using recognised models of mathematical finance. The Company uses a number of different valuation models for this purpose. The details are set out in the table below. Financial assets for which no publicly available prices or observable market data can be used as inputs (financial instruments belonging to fair value hierarchy Level 3) are for the most part measured on the basis of proven valuations drawn up by knowledgeable, independent experts, e.g. audited net asset value, the plausibility of which has previously been subjected to systematic review. For further information see our explanatory remarks on the fair value hierarchy in Note 6.7.

Valuation models		
Financial instrument	***Parameter***	***Pricing Model***
Fixed-income securities		
Unlisted plain vanilla bonds, interest rate swaps	Interest rate curve	Present value model
Unlisted structured bonds	Interest rate curve, volatility surfaces	Hull-white, Black-Karasinski, LIBOR market model, etc.
Other invested assets		
Unlisted equities and equity instruments	Acquisition cost, cash flows, EBIT multiples, as applicable book value	Capitalised earnings method, discounted cash flow method, multiple-based approaches
Currency forwards	Interest rate curves, spot and forward rates	Interest parity model

(e) Investment income
Investment income is recognised on the accrual basis and includes the amortization of premium or discount on debt securities purchased at amounts different from their par value.

3. **Summary of significant accounting policies** (continued)

3.2 **Financial assets** (continued)

(f) Netting of financial instruments
Financial assets and liabilities are only netted and recognised in the appropriate net amount if a corresponding legal claim (reciprocity, similarity and maturity) exists or is expressly agreed by contract, in other words if the intention exists to offset such items on a net basis or to effect this offsetting simultaneously.

(g) Impairment loss and reversals
Management records a write-down to fair value through net income for any impairment in the value of securities. Any subsequent recovery in the fair value of an impaired debt instrument classified as available for sale is reversed through net income, while a recovery in an impaired available for sale equity security is recognised in other comprehensive income.

3.3 **Cash and cash equivalents**

Cash is carried at face value. For purposes of the statements of cash flows, the Company considers all time deposits with an original maturity of ninety days or less and money market funds which can be redeemed without penalty as equivalent to cash.

3.4 **Short term investments**

This item consists of investments with an original maturity of up to one year and is carried at fair value.

3.5 **Funds withheld**

Funds withheld are receivables or payables due to or from reinsurers in the amount of their contractually withheld cash deposits; they are recognised at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

3.6 **Accounts receivable**

Accounts receivable are carried at nominal value; value adjustments are made where necessary on the basis of a case-by-case analysis. Accounts receivable predominantly represent amounts due from ceding companies including amounts due from related parties of $29,068 (2016 - $21,662). See Note 18.2.

3.7 **Deferred acquisition costs**

Deferred acquisition costs principally consist of commissions, brokerage and other variable costs directly connected with the acquisition or renewal of existing reinsurance contracts. These acquisition costs are capitalized and amortized over the expected period of the underlying reinsurance contracts.

3.8 **Reinsurance recoverable on unpaid claims**

Shares of our retrocessionaires in the loss and loss adjustment expense reserve are calculated according to the contractual conditions on the basis of the gross loss and loss adjustment expense reserve. Appropriate allowance is made for credit risks.

3.9 **Other assets**

Other assets other than derivatives are accounted for at cost or amortized cost. Derivative financial instruments are measured at fair value. See Note 3.17.

3. **Summary of significant accounting policies** (continued)

3.10 Fixtures, fittings and equipment

Fixtures, fittings and equipment are recorded at cost less accumulated depreciation calculated on a straight-line basis, over the estimated useful lives of the assets, which are as follows:

Computer equipment	3 years
Fixtures and fittings	5 years
Leasehold improvements	5 years

3.11 Loss and loss adjustment expense reserve

Reserves are established for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are subdivided into reserves for reinsurance losses reported by the balance sheet date and reserves for reinsurance losses that have already been incurred but not yet reported ("IBNR") by the balance sheet date. The loss and loss adjustment expense reserves are based on estimates that may diverge from the actual amounts payable. In reinsurance business a considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. For this reason the realistically estimated future settlement amount based on long-standing established practice is carried out. Recognised actuarial methods are used for estimation purposes. In this regard we make allowance for past experience, currently known facts and circumstances, the expertise of the market units as well as other assumptions relating to the future development, in particular economic, social and technical influencing factors. Future payment obligations are not discounted for the time value of money. The Company involves an actuary in the annual reserving process.

Loss and loss adjustment expense reserves are shown gross in the balance sheet, i.e. before deduction of the share attributable to our reinsurers.

3.12 Unearned premium

Unearned premium is premium that has been recorded but is allocated to future risk periods. In reinsurance business, flat rates are sometimes used if the data required for calculation pro rata temporis is not available.

3.13 Shareholder's equity

The items "common shares" and "contributed surplus" are comprised of the amounts paid in by the Parent. In addition to the statutory reserves of the Company and the allocations from net income, the retained earnings consist of reinvested profits generated by the Company in previous periods. For retrospective change of accounting policies, the adjustment for previous periods is recognised in the opening balance sheet value of the retained earnings and comparable items of the earliest reported period. Unrealized gains and losses from the fair value measurement of financial instruments held as available for sale are carried in accumulated other comprehensive loss.

3.14 Related party transactions

IAS 24 defines related parties, among others, as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself.

All related party transactions have been recorded in accordance with IAS 24 and include business both assumed and ceded under usual market conditions.

See Note 18 for further details.

3. **Summary of significant accounting policies** (continued)

3.15 **Currency translation**

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from these transactions and balances are recognised in the statement of income for the year.

Foreign currency assets and liabilities are translated at exchange rates in effect at the balance sheet date. Exchange rate differences from the translation of assets and liabilities are recognised directly in the statement of income. Foreign currency gains and losses from components of equity are recognised in the statement of other comprehensive income.

3.16 **Impairment of assets**

(a) Financial assets carried at amortised cost
The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events;

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract, such as a default or delinquency in payments;
(iii) it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
(iv) the disappearance of an active market for that financial asset because of financial difficulties; or
(v) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held to maturity financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement for the period. If a held to maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the original effective interest rate determined under contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

3. **Summary of significant accounting policies** (continued)

3.16 **Impairment of assets** (continued)

(a) Financial assets carried at amortised cost (continued)
For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Company's grading process that considers asset type industry, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss on the debt instrument is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement for the period.

(b) Available for sale financial assets
The Company assesses at each balance sheet date whether there is objective evidence that an available for sale financial asset is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income for the period. The impairment loss is reversed through the statement of income for the period, if in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(c) Impairment of other non-financial assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

3.17 **Derivative financial instruments**

Derivatives are financial instruments, the fair value of which is derived from an underlying instrument such as equities, bonds, indices or currencies.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognised immediately in profit or loss.

The fair values of the derivative financial instruments are determined on the basis of the market information available at the balance sheet date and using the effective interest rate method. If the underlying transaction and the derivative are not carried as one unit, the derivative is recognised in the trading portfolio item on the balance sheet.

See Note 10.2 for further details.

(Expressed in thousands of United States Dollars)

3. **Summary of significant accounting policies** (continued)

3.18 **Employee benefits**

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

4. **Management of technical and financial risks**

4.1 **General risk management**

Due to the nature of its business, the Company expects that its claims experience will generally be characterized by low frequency and high severity claims. The Company manages its exposure to catastrophic events by limiting the amount of its exposure in each geographic zone.

The Company assumes a worldwide diversified book of business that covers exposures across various catastrophe zones and perils, certain of which are protected by retrocession programs. In 2017, the Company's geographical exposure comprised of approximately 26% U.S. based risks (2016 - 27%), 26% European based risks (2016 - 24%), 18% Asian based risks (2016 - 20%), 13% Australian based risks (2016 - 14%) and 17% other (2016 - 15%). Within the U.S., risks are further diversified by state.

As part of a holistic approach to risk management, the Company takes into account numerous relevant scenarios. In addition, extreme scenarios are analysed, their effect on key balance sheet variables and performance indicators are determined, evaluated in relation to the planned figures and alternative courses of action are identified.

The following market scenarios for stress tests for natural catastrophe after retrocessions are realistically estimated future settlement amounts based on a long-standing established practice. Actual outcomes could potentially vary greatly.

Stress tests for natural catastrophes after retrocessions

	Effect on net income and shareholder's equity	
	2017	2016
1 in 100-year loss US Wind (Gulf of Mexico)	$ (436,007)	$ (325,659)
1 in 100-year loss US (California Earthquake)	(174,097)	(155,445)
1 in 100-year loss Europe Wind	(190,882)	(165,642)

4. **Management of technical and financial risks** (continued)

4.2 Technical risk

The under reserving of claims constitutes a significant technical risk. Loss reserves are determined using actuarial methods, primarily based on information provided by cedants and supplemented as necessary by additional reserves established on the basis of the Company's own loss assessments. Reserves are set aside for claims that have occurred and been reported to the insurer, but in respect of which the amount is not yet known and which therefore cannot yet be paid. There are also claims that do not manifest themselves until a later stage and which are therefore only reported by the policyholder to the insurer and by the insurer to its reinsurer sometime after their occurrence. Reserves must be established for such IBNR (incurred but not reported) claims because years or even decades often elapse until the final settlement of such losses. This is especially true of liability claims. For certain catastrophic events, there is considerable uncertainty underlying the assumptions and associated estimated reserve for loss and loss adjustment expenses. These estimates are reviewed regularly and as experience develops and new information becomes known, the reserves are adjusted as necessary. Uncertainties in relation to reserving are therefore unavoidable. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions.

4.3 Market risk

The overriding principle guiding the Company's investment strategy is capital preservation while giving adequate consideration to the security, liquidity, mix and spread of the assets. Risks in the investment sector consist primarily of market, credit, spread and liquidity risks. The most significant market price risks are interest rate and currency risks. Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing.

Management employs a "value at risk" ("VaR") tool used for monitoring and managing market price risks. The VaR is determined on the basis of historical data, e.g. for the volatility of the fair values and the correlation between risks. As part of these calculations, a decline in the fair value of our portfolio is simulated with a given probability and within a certain period. The VaR of the Company determined in accordance with these principles specifies the decrease in the fair value of our total portfolio that with a probability of 95% will not be exceeded within ten trading days.

In order to monitor interest rate risks and share price risks, management also uses stress tests that estimate the loss potential under extreme market conditions as well as sensitivity and duration analyses that complement the Company's range of risk management tools. Interest rate risks refer to an unfavourable change in the value of financial assets held in the portfolio due to changes in the market interest rate level. One of management's central objectives of this strategy is to match cash flows on the assets and liabilities sides as closely as possible. In addition, management uses defined duration ranges within which asset managers can position themselves opportunistically according to their market expectations. The parameters for these ranges are directly linked to the Company's risk-carrying capacity.

(Expressed in thousands of United States Dollars)

4. **Management of technical and financial risks** (continued)

4.3 **Market risk** (continued)

Scenarios for changes in the fair value of securities

2017	Scenario	Portfolio change based on fair value
Fixed-income securities	Yield increase +50 basis points	$ (39,450)
	Yield increase +100 basis points	(77,096)
	Yield increase +200 basis points	(146,979)
	Yield decrease -50 basis points	40,856
	Yield decrease -100 basis points	83,366

2016	Scenario	Portfolio change based on fair value
Fixed-income securities	Yield increase +50 basis points	$ (37,182)
	Yield increase +100 basis points	(73,006)
	Yield increase +200 basis points	(140,578)
	Yield decrease -50 basis points	37,591
	Yield decrease -100 basis points	76,330

The above scenarios for changes in the fair value of our securities are realistically estimated future settlement amounts based on a long-standing established practice. Actual outcomes under these scenarios could be materially different.

Management spreads these risks through systematic diversification across various sectors and regions.

Currency risks are of considerable importance to an internationally operating reinsurance enterprise that writes a significant proportion of its business in foreign currencies. The Company monitors and reduces its risks through extensive matching of currency distributions on the assets and liabilities side.

Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities as well as on the currencies in which investments are held in Notes 6.5 and 6.6.

4. **Management of technical and financial risks** (continued)

4.3 **Market risk** (continued)

Changes in the Ogden rate

The UK government stipulates that discount rates be applied when lump sum compensation payments for personal injury claims are determined. The lump sum amount is calculated using Ogden tables defined by the Lord Chancellor of the UK Ministry of Justice. A significant component of the Ogden tables is the discount rate, currently minus 0.75%, which has been in effect since February 2017 when it was reduced from 2.5%. Changes to the discount rate affect the Company's UK Motor portfolio, which accounts for approximately 11 % of the Company's gross reserves. While it is difficult to predict how the rate will be set in the future, based on currently available information the rate for future settlement of claims is likely to be in the region of 0% to 1%. The Company has therefore reserved the UK Motor portfolio assuming an Ogden discount rate of approximately 0%.

4.4 **Credit risks**

Bad debt risks in reinsurance are of relevance to the Company because the business that the Company accepts is not always fully retained, but instead portions are retroceded as necessary. Retrocession partners are therefore carefully selected in light of credit considerations. This is also true of the Company's broker relationships, under which risks may occur inter alia through the loss of the premium paid by the cedant to the broker or through double payments of claims.

Credit risks may arise out of a failure to pay (interest and/or capital repayment) or change in the credit status (rating downgrade) of issuers of securities. The Company attaches vital importance to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines. See Note 6.5 for the rating structure of fixed-income securities and Note 7.1 for additional credit risk disclosure.

4.5 **Liquidity risks**

The liquidity risk refers to the risk that it may not be possible to sell holdings or close open positions due to the illiquidity of the market – or to do so only with delays or price markdowns – as well as the risk that the traded volumes influence the markets in question. Regular liquidity planning and a liquid asset structure are used by the Company to make the necessary payments. The Company manages the liquidity risk inter alia by allocating a liquidity code to every security. Adherence to the limits defined in the investment guidelines for each liquidity class is subject to daily control. The spread of investments across the various liquidity classes is specified in the monthly investment reports and controlled by limits. See Note 6.1 for the maturities of fixed-income securities and Note 8.2 for expected maturities of the technical reserves.

4.6 **Limitations of sensitivity analysis**

The sensitivity information included in Notes 4.1 and 4.3 demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results. Furthermore, estimates of sensitivity may become less reliable in unusual market conditions such as instances when risk free interest rates fall towards zero.

(Expressed in thousands of United States Dollars)

5. Cash and cash equivalents

	2017	2016
Cash at bank	$ 92,409	$ 34,663
Time deposits	22,746	54,188
Total cash and cash equivalents	$ 115,155	$ 88,851

The average interest rate on time deposits at December 31, 2017 was 1.63% (2016 - 3.63%) and the average maturity of time deposits was 7 days (2016 - 4 days).

6. Investments including income and expenses

The Company classifies investments according to the following categories: held to maturity, loans and receivables, financial assets at fair value through profit or loss, and available for sale. The allocation and measurement of investments are determined by the investment intent.

The investments also encompass investments in other invested assets, short-term investments, cash and funds withheld/contract deposits.

For further explanation see Note 3 “Summary of significant accounting policies”.

6.1 Maturities of the fixed-income securities

	2017		2016	
	Cost or amortized cost, including accrued interest	Fair value	Cost or amortized cost, including accrued interest	Fair value
Held to maturity				
Due within one year	$ 12,191	$ 12,198	$ 5,244	$ 5,256
Due after one through two years	6,128	6,506	10,737	10,915
Due after two through three years	–	–	5,421	5,915
Due after three through four years	12,466	13,987	–	–
Due after four through five years	–	–	11,005	12,698
Due after five through ten years	–	–	–	–
Due after ten years	–	–	–	–
Total	$ 30,785	$ 32,691	$ 32,407	$ 34,784

(Expressed in thousands of United States Dollars)

6. **Investments including income and expenses** (continued)

6.1 **Maturities of the fixed-income securities** (continued)

	2017		2016	
	Cost or amortized cost, including accrued interest	Fair value	Cost or amortized cost, including accrued interest	Fair value
Loans and receivables				
Due within one year	$ 7,088	$ 7,091	$ 7,131	$ 7,337
Due after one through two years	7,000	7,003	7,000	7,202
Due after two through three years	–	–	7,000	7,202
Due after three through four years	–	–	–	–
Due after four through five years	–	–	–	–
Due after five through ten years	–	–	–	–
Due after ten years	–	–	–	–
Total	$ 14,088	$ 14,094	$ 21,131	$ 21,741

Maturities of the fixed-income securities

	2017		2016	
	Cost or amortized cost, including accrued interest	Fair value	Cost or amortized cost, including accrued interest	Fair value
Available for sale, including cash and cash equivalents and short term investments				
Due within one year	$ 326,729	$ 326,769	$ 234,534	$ 235,259
Due after one through two years	466,646	467,120	254,080	255,107
Due after two through three years	267,319	267,093	445,618	447,615
Due after three through four years	246,711	243,831	269,981	270,345
Due after four through five years	166,569	167,158	205,315	202,688
Due after five through ten years	530,770	530,443	601,639	592,443
Due after ten years	181,546	186,541	69,972	68,909
Total	$ 2,186,290	$ 2,188,955	$ 2,081,139	$ 2,072,366

The stated maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

(Expressed in thousands of United States Dollars)

6. **Investments including income and expenses** (continued)

6.2 **Amortized cost, unrealized gains and losses, accrued interest and fair value on the portfolio of investments**

(a) **Held to maturity**

	2017				
	Cost or amortized cost	Unrealized gains	Unrealized losses	Accrued interest	Fair value
Fixed-income securities					
Government debt securities of EU member states	$ –	$ –	$ –	$ –	$ –
Debt securities issued by semi-governmental entities	–	–	–	–	–
Corporate securities	5,997	2	–	–	5,999
Covered bonds	24,269	1,904	–	519	26,692
Total	$ 30,266	$ 1,906	$ –	$ 519	$ 32,691

	2016				
	Cost or amortized cost	Unrealized gains	Unrealized losses	Accrued interest	Fair value
Fixed-income securities					
Government debt securities of EU member states	$ –	$ –	$ –	$ –	$ –
Debt securities issued by semi-governmental entities	5,003	12	–	241	5,256
Corporate securities	5,270	4	–	–	5,274
Covered bonds	21,437	2,361	–	456	24,254
Total	$ 31,710	$ 2,377	$ –	$ 697	$ 34,784

(Expressed in thousands of United States Dollars)

6. **Investments including income and expenses** (continued)

6.2 **Amortized cost, unrealized gains and losses, accrued interest and fair value on the portfolio of investments** (continued)

(b) **Loans and receivables**

	2017				
	Cost or Amortised cost	Unrealized gains	Unrealized losses	Accrued interest	Fair value
Loans and receivables	$ 14,000	$ 6	$ –	$ 88	$ 14,094
Total	$ 14,000	$ 6	$ –	$ 88	$ 14,094

	2016				
	Cost or Amortised cost	Unrealized gains	Unrealized losses	Accrued interest	Fair value
Loans and receivables	$ 21,000	$ 610	$ –	$ 131	$ 21,741
Total	$ 21,000	$ 610	$ –	$ 131	$ 21,741

(c) **Available for sale**

	2017				
	Cost or amortized cost	Unrealized gains	Unrealized losses	Accrued interest	Fair value
Fixed-income securities					
Government debt securities of EU member states	$ 86,677	$ 418	$ 106	$ 716	$ 87,705
US Treasury notes	618,848	2,552	9,977	2,761	614,184
Debt securities issued by semi-governmental entities	152,141	241	655	1,091	152,818
Debt securities issued by other foreign governments	172,026	408	525	1,797	173,706
Corporate securities	912,001	13,153	3,134	9,499	931,519
Covered bonds	32,469	5	203	182	32,453
Asset-backed securities	80,338	494	6	589	81,415
	2,054,500	17,271	14,606	16,635	2,073,800
Other invested assets					
Investment funds	11,577	7,929	–	–	19,506
Shares in limited partnership	14,732	48	10	–	14,770
	26,309	7,977	10	–	34,276
Total	$ 2,080,809	$ 25,248	$ 14,616	$ 16,635	$ 2,108,076

(Expressed in thousands of United States Dollars)

6. **Investments including income and expenses** (continued)

6.2 **Amortized cost, unrealized gains and losses, accrued interest and fair value on the portfolio of investments** (continued)

(c) **Available for sale** (continued)

	2016				
	Cost or amortized cost	Unrealized gains	Unrealized losses	Accrued interest	Fair value
Fixed-income securities					
Government debt securities of EU member states	$ 31,442	$ 484	$ 17	$ 259	$ 32,168
US Treasury notes	590,248	1,117	12,467	2,592	581,490
Debt securities issued by semi-governmental entities	192,290	698	706	1,466	193,748
Debt securities issued by other foreign governments	159,641	195	844	1,502	160,494
Corporate securities	889,040	9,398	6,267	8,925	901,096
Covered bonds	34,284	109	88	238	34,543
Asset-backed securities	79,781	464	849	579	79,975
	1,976,726	12,465	21,238	15,561	1,983,514
Other invested assets					
Investment funds	15,007	7,611			22,618
Shares in limited partnership	6,894	10	1	–	6,903
	21,901	7,621	1	–	29,521
Total	$ 1,998,627	$ 20,086	$ 21,239	$ 15,561	$ 2,013,035

6.3 **Investment income**

	2017	2016
Fixed-income securities – held to maturity	$ 932	$ 1,781
Fixed-income securities – loans and receivables	376	551
Fixed-income securities – available for sale	56,777	50,860
Other invested assets	1,249	742
Interest on investments	59,334	53,934
Amortization	(5,900)	(3,313)
Interest on cash balances, cash equivalents and short term investments	308	379
Ordinary investment income	53,742	51,000
Realized gains on investments	7,546	6,565
Realized losses on investments	(4,461)	(3,681)
Permanent impairment	–	(552)
Unrealized gains/losses on derivatives	221	286
Other investment expenses	(2,637)	(2,540)
Total investment income	$ 54,411	$ 51,078

(Expressed in thousands of United States Dollars)

6. **Investments including income and expenses** (continued)

6.3 **Investment income** (continued)

Included in realized gains and losses on investments is $544 (2016 - $764) and nil (2016 - $738) respectively, which are the yield components of forward exchange transactions that were entered into by the Company in 2017. See Note 10.2.

6.4 **Net gains and losses on investments**

2017	Ordinary investment income	Realized gains and losses	Appreciation (impairments)	Unrealized gains and losses	Net income from invested assets
Held to maturity					
Fixed-income securities	$ 858	$ –	$ –	$ –	$ 858
Loans and receivables					
Fixed-income securities	376		–	–	376
Available for sale					
Fixed-income securities	50,951	2,274	–	–	53,225
Other invested assets	1,249	267	–	–	1,516
At Fair Value through profit and loss					
Derivative financial instruments	–	544	–	221	765
Cash	308	–	–	–	308
Total	$ 53,742	$ 3,085	$ –	$ 221	$ 57,048

2016	Ordinary investment income	Realized gains and losses	Appreciation (impairments)	Unrealized gains and losses	Net income from invested assets
Held to maturity					
Fixed-income securities	$ 1,733	$ –	$ –	$ –	$ 1,733
Loans and receivables					
Fixed-income securities	551	–	–	–	551
Available for sale					
Fixed-income securities	47,595	2,857	(552)	–	49,900
Other invested assets	742	–	–	–	742
At Fair Value through profit and loss					
Derivative financial instruments	–	27	–	286	313
Cash	379	–	–	–	379
Total	$ 51,000	$ 2,884	$ (552)	$ 286	$ 53,618

(Expressed in thousands of United States Dollars)

6. **Investments including income and expenses** (continued)

6.4 **Net gains and losses on investments** (continued)

The net gains and losses on the investment portfolio of held to maturity investments, loans and receivables, available for sale investments, derivative financial instruments and other are comprised of interest income, amortization, and realized gains and losses. In the case of derivative financial instruments recognised at fair value through profit and loss, an allowance is also made for changes in unrealized gains and losses.

6.5 **Rating structure of fixed-income securities**

	2017					
	AAA	AA	A	BBB	BBB>	Total
Fixed-income securities - held to maturity	$ 24,788	$ –	$ –	$ 5,997	$ –	$ 30,785
Fixed-income securities - loans and receivables	$ –	$ 14,088	$	$ –	$ –	$ 14,088
Fixed-income securities - available for sale	$ 805,373	$ 371,799	$ 411,195	$ 461,007	$ 24,426	$ 2,073,800
Total invested assets	$ 830,161	$ 385,887	$ 411,195	$ 467,004	$ 24,426	$ 2,118,673

	2016					
	AAA	AA	A	BBB	BBB>	Total
Fixed-income securities - held to maturity	$ 27,137	$ –	$ –	$ 5,270	$ –	$ 32,407
Fixed-income securities - loans and receivables	$ –	$ –	$ 21,131	$ –	$ –	$ 21,131
Fixed-income securities - available for sale	$ 784,105	$ 321,379	$ 411,662	$ 438,884	$ 27,484	$ 1,983,514
Total invested assets	$ 811,242	$ 321,379	$ 432,793	$ 444,154	$ 27,484	$ 2,037,052

(Expressed in thousands of United States Dollars)

6.6 **Investments were held in the following currencies**

	2017						
	AUD	EUR	GBP	JPY	USD	Other	Total
Fixed-income securities - held to maturity	$ –	$ 30,785	$ –	$ –	$ –	$ –	$ 30,785
Fixed-income securities - loans and receivables	–	–	–	–	14,088	–	14,088
Fixed-income securities - available for sale	92,703	16,357	129,630	17,133	1,656,954	161,023	2,073,800
Other invested assets - available for sale	–	–	–	–	34,276	–	34,276
Short-term investment, cash	6,697	2,973	7,418	2,913	80,771	14,383	115,155
Total Investments and cash	$ 99,400	$ 50,115	$ 137,048	$ 20,046	$1,786,089	$175,406	$ 2,268,104

	2016						
	AUD	EUR	GBP	JPY	USD	Other	Total
Fixed-income securities - held to maturity	$ –	$ 27,163	$ –	$ –	$ 5,244	$ –	$ 32,407
Fixed-income securities - loans and receivables	–	–	–	–	21,131	–	21,131
Fixed-income securities - available for sale	55,989	54,956	–	24,500	1,643,111	204,958	1,983,514
Other invested assets - available for sale	–	–	–	–	29,521	–	29,521
Short-term investment, cash	4,465	7,953	23,764	1,640	38,765	12,264	88,851
Total Investments and cash	$ 60,454	$ 90,072	$ 23,764	$ 26,140	$1,737,772	$217,222	$ 2,155,424

6. **Investments including income and expenses** (continued)

6.7 Fair value measurement

For the purposes of the disclosure requirements pursuant to IFRS 13 "Fair Value Measurement", it is necessary to assign to a three-level fair value hierarchy not only the financial assets and liabilities recognised at fair value but also those assets and liabilities that are recognised at amortised cost but for which disclosure of fair value is required.

The fair value hierarchy, which reflects characteristics of the price data and inputs used for measurement purposes, is structured as follows:

- Level 1: Assets or liabilities measured at (unadjusted) prices quoted directly in active and liquid markets.
- Level 2: Assets or liabilities which are measured using observable market data and are not allocable to level 1. Measurement is based, in particular, on prices for comparable assets and liabilities that are traded on active markets, prices on markets that are not considered active as well as inputs derived from such prices or market data.
- Level 3: Assets or liabilities that cannot be measured or can only be partially measured using observable market inputs. The measurement of such instruments draws principally on valuation models and methods.

If input factors from different levels are used to measure a financial instrument, the level of the lowest input factor material to measurement is determinative.

The operational units responsible for coordinating and documenting measurement are organizationally separate from the operational units that enter into investment risks. All relevant valuation processes and valuation methods are documented. Decisions on fundamental valuation issues are taken by a valuation committee that meets monthly.

(Expressed in thousands of United States Dollars)

6. **Investments including income and expenses** (continued)

6.7 **Fair value measurement** (continued)

At December 31, 2017, the Company's financial instruments were allocated between Levels 1, 2 and 3 as follows:

2017	Total	Level 1	Level 2	Level 3
Liabilities	$ –	$ –	$ –	$ –

2017	Total	Level 1	Level 2	Level 3
Fixed-income securities				
Government debt securities of EU member states	$ 87,705	$ –	$ 87,705	$ –
US treasury notes	614,184	–	614,184	–
Debt securities issued by other foreign government	173,706	–	173,706	–
Semi government	152,819	–	152,818	–
Corporate securities	931,518	–	931,519	–
Covered bonds	32,453	–	32,453	–
Asset-backed securities	81,415	–	81,415	–
	2,073,800	–	2,073,800	–
Other invested assets				
Investment funds	19,506	–	19,506	–
Shares in limited partnership	14,770	–	–	14,770
	34,276	–	19,506	14,770
Total	$ 2,108,076	$ –	$ 2,093,306	$ 14,770

(Expressed in thousands of United States Dollars)

6. **Investments including income and expenses** (continued)

6.7 **Fair value measurement** (continued)

2016	Total	Level 1	Level 2	Level 3
Liabilities	$ –	$ –	$ –	$ –

2016	Total	Level 1	Level 2	Level 3
Fixed-income securities				
Government debt securities of EU member states	$ 32,167	$ –	$ 32,167	$ –
US treasury notes	581,491	–	581,491	–
Debt securities issued by other foreign government	160,494	–	160,494	–
Semi government	193,749	–	193,749	–
Corporate securities	901,096	–	901,096	–
Covered bonds	34,542	–	34,542	–
Asset-backed securities	79,975	–	79,975	–
	1,983,514		1,983,514	
Other invested assets				
Investment funds	22,618	–	22,618	–
Shares in limited partnership	6,903	–	–	6,903
	29,521		22,618	6,903
Total	$ 2,013,035	$ –	$2,006,132	$ 6,903

(Expressed in thousands of United States Dollars)

6. **Investments including income and expenses** (continued)

6.7 **Fair value measurement** (continued)

The following table summarizes the fair value hierarchy of financial assets and liabilities measured at amortised cost:

2017	Total	Level 1	Level 2	Level 3
Liabilities	$ –	$ –	$ –	$ –

2017	Total	Level 1	Level 2	Level 3
Fixed-income securities				
Government debt securities of EU member states	$ –	$ –	$ –	$ –
Debt securities issued by semi government	–	–	–	–
Corporate securities	5,999	–	5,999	–
Covered bonds	26,692	–	26,692	–
Loans and receivables	14,094	–	14,094	–
Total	$ 46,785	$ –	$ 46,785	$ –

2016	Total	Level 1	Level 2	Level 3
Liabilities	$ –	$ –	$ –	$ –

2016	Total	Level 1	Level 2	Level 3
Fixed-income securities				
Government debt securities of EU member states	$ –	$ –	$ –	$ –
Debt securities issued by semi government	5,256	–	5,256	–
Corporate securities	5,274	–	5,274	–
Covered bonds	24,254	–	24,254	–
Loans and receivables	21,741	–	21,741	–
Total	$ 56,525	$ –	$ 56,525	$ –

There were no transfers between levels during 2017 or 2016. There were three Level 3 investments held during 2017 (2016 - three). All transfers in and out of the levels of the Fair Value Hierarchy are deemed to have occurred at the beginning of the reporting period.

(Expressed in thousands of United States Dollars)

6. Investments including income and expenses (continued)

6.7 Fair value measurement (continued)

The following table summarizes the movement on the Company's Level 3 investments during the year:

2017	Other invested assets- available for sale	Total
Level 3 investments as of January 1, 2017	$ 6,903	$ 6,903
Capital calls	7,839	7,839
Net appreciation included in appreciation of investments in the income statement	–	–
Unrealized gains included in accumulated other comprehensive income	28	28
Level 3 investments as of December 31, 2017	$ 14,770	$ 14,770

2016	Other invested assets- available for sale	Total
Level 3 investments as of January 1, 2016	$ 1,500	$ 1,500
Capital calls	5,386	5,386
Net appreciation included in appreciation of investments in the income statement	–	–
Unrealized gains included in accumulated other comprehensive income	17	17
Level 3 investments as of December 31, 2016	$ 6,903	$ 6,903

The securities included in Level 3 consist of a limited partnership share, priced using the Mark to Model method as at the balance sheet date. As these investments have limited observable transactions at the reported net asset value date, they have been classified as Level 3.

(Expressed in thousands of United States Dollars)

7. Technical assets

The retrocessionaires' portions of the technical reserves are based on the contractual agreements of the underlying reinsurance treaties. For further details refer to the remarks on the technical reserves (see Note 8).

In Property and Casualty business, acquisition costs directly connected with the acquisition or renewal of contracts are deferred for the unearned portion of the premium.

Development of deferred acquisition costs

	2017		
	Gross	Retroceded	Net
Balance at December 31 of the previous year	$ 14,346	$ 7,110	$ 7,236
Currency translation at January 1	330	6	324
Balance at January 1	14,676	7,116	7,560
Allocations	6,243	7,794	(1,551)
Withdrawals	(3,605)	(7,093)	3,488
Currency translation at December 31	331	6	325
Balance at December 31	$ 17,645	$ 7,823	$ 9,822

	2016		
	Gross	Retroceded	Net
Balance at December 31 of the previous year	$ 12,261	$ 5,970	$ 6,291
Currency translation at January 1	(114)	–	(114)
Balance at January 1	12,147	5,970	6,177
Allocations	7,819	7,118	701
Withdrawals	(5,519)	(5,976)	457
Currency translation at December 31	(101)	(2)	(99)
Balance at December 31	$ 14,346	$ 7,110	$ 7,236

For further explanatory remarks, see Note 3 "Summary of significant accounting policies".

7.1 Reinsurance

In 2017 and 2016, the Company entered into Whole Account excess of loss treaty reinsurance agreements with the Parent. The Parent's subsidiaries are protected under the covers of the Whole Account treaties which are then ceded to third party insurers. The treaties cover specific named perils including earthquake, flood, storm and similar natural catastrophes, as well as aviation and marine events.

The Company also participates in the Parent's K Quota Share which was placed with investors in North America, South America, Europe and Asia. This involves a quota share cession on geographically specific natural catastrophe risks as well as worldwide aviation and marine risks. The transaction has an indefinite term and can be cancelled annually by the investors. Each investor's participation is wholly collateralized by contractually defined investments in the form of cash and equivalent liquid assets.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for any amounts deemed uncollectible. At December 31, 2017, losses recoverable from reinsurers in the amount of $315,254 (2016 - $269,748) and prepaid reinsurance premium of $32,358 (2016 - $29,814) were associated with the Parent. The Parent is rated AA- by Standard & Poor's and A+ by A.M. Best.

7.2 Funds withheld

The funds withheld of $94,332 (2016 - $111,856) represents the cash and security deposits furnished by the Company to cedants that do not trigger any cash flows and cannot be realized by cedants without the Company's consent. At December 31, 2017, funds withheld in the amount of $85,266 (2016 - $104,977) were associated with related parties, while interest earned on this related party balance totalled $808 (2016 - $598). Total interest earned on funds withheld during 2017 amounted to $888 (2016 - $713).

7.3 Ceded funds withheld

Ceded funds withheld under reinsurance treaties totalling $1,890 (2016 - $797), represent cash deposits furnished to the Company by our retrocessionaires that do not trigger any cash flows and cannot be realized without the consent of our retrocessionaires.

(Expressed in thousands of United States Dollars)

8. Technical reserves

In order to show the net technical reserves remaining in the retention the following table compares the gross reserves with the corresponding retrocessionaires' shares shown as assets.

	2017			2016		
	Gross	Retroceded	Net	Gross	Retroceded	Net
Loss and loss adjustment expense reserve	$ 1,123,874	$ 316,158	$ 807,716	$ 924,146	$ 270,074	$ 654,072
Unearned premium reserve	139,283	32,891	106,392	121,640	30,303	91,337
Total	$ 1,263,157	$ 349,049	$ 914,108	$ 1,045,786	$ 300,377	$ 745,409

The loss and loss adjustment expense reserves are in principle recorded on the basis of information supplied by the ceding companies. Additional IBNR reserves are established for losses that have been incurred but not as yet reported. This estimate is based on past experience and estimations of the future development.

The development of the loss and loss adjustment expense reserve is shown in the following table. Commencing with the gross reserve, the change in the reserve after deduction of the reinsurers' portions is shown in the year under review and the previous year.

(Expressed in thousands of United States Dollars)

8. **Technical reserves** (continued)

8.1 Loss and loss adjustment expense reserve roll-forward

	2017		
	Gross	Retroceded	Net
Balance at December 31 of the previous year	$ 924,146	$ 270,074	$ 654,072
Currency translation at January 1	40,854	10,888	29,966
Balance at January 1	965,000	280,962	684,038
Losses and loss adjustment expenses incurred			
Current year	658,001	239,895	418,106
Previous years	(182,062)	(42,009)	(140,053)
	475,939	197,886	278,053
Losses and loss adjustment expenses paid			
Current year	(151,901)	(102,243)	(49,658)
Previous years	(170,493)	(59,676)	(110,817)
	(322,394)	(161,919)	(160,475)
Currency translation at December 31	5,329	(771)	6,100
Balance at December 31	$ 1,123,874	$ 316,158	$ 807,716

	2016		
	Gross	Retroceded	Net
Balance at December 31 of the previous year	$ 800,087	$ 182,400	$ 617,687
Currency translation at January 1	(10,402)	(1,304)	(9,098)
Balance at January 1	789,685	181,096	608,589
Losses and loss adjustment expenses incurred			
Current year	356,384	114,769	241,615
Previous years	(55,264)	11,093	(66,357)
	301,120	125,862	175,258
Losses and loss adjustment expenses paid			
Current year	(22,831)	(17,292)	(5,539)
Previous years	(136,722)	(19,202)	(117,520)
	(159,553)	(36,494)	(123,059)
Currency translation at December 31	(7,106)	(390)	(6,716)
Balance at December 31	$ 924,146	$ 270,074	$ 654,072

(Expressed in thousands of United States Dollars)

8. **Technical reserves** (continued)

8.1 **Loss and loss adjustment expense reserve roll-forward** (continued)

The loss and loss adjustment expense reserves are based upon estimations that entail an element of uncertainty. Owing to the fact that the period of some reinsurance treaties is not the calendar year or because they are concluded on an underwriting-year basis, it is frequently impossible in reinsurance business to make an exact allocation of claims expenditures to the current financial year and the previous year and as such management has to make estimates as part of the allocation process.

The run-off triangles show the run-off of the reserve established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserve for individual occurrence years is not shown in this regard, but rather the run-off of the reserve constituted annually in the balance sheet as at the balance sheet date.

8.2 **Net loss reserve and its run-off**

Loss and loss adjustment expense reserve – gross

	2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of ultimate claims:									
- at end of year	$ 482,217	$ 1,060,170	$ 166,179	$274,928	$ 234,257	$ 290,921	$ 356,384	$ 658,001	
- one year later	418,473	1,134,975	159,738	248,486	246,563	293,775	347,467		
- two years later	438,148	1,124,140	83,211	209,104	206,745	183,440			
- three years later	482,015	1,175,744	78,516	174,266	176,567				
- four years later	550,463	1,179,101	73,245	160,552					
- five years later	555,130	1,161,091	67,040						
- six years later	591,393	1,154,524							
- seven years later	589,330								
Cumulative payments to date	(480,988)	(1,086,721)	(51,955)	(94,809)	(104,244)	(63,487)	(104,127)	(151,901)	
Cumulative effects of currency rate changes	(25,939)	(5,991)	(10,251)	(34,544)	(20,731)	(285)	12,754	2,088	
Total	82,403	61,812	4,834	31,199	51,592	119,668	256,094	508,188	1,115,790
Liability in respect of prior years									8,084
Liability recognised in the balance sheet									1,123,874

(Expressed in thousands of United States Dollars)

8. **Technical reserves** (continued)

8.2 **Net loss reserve and its run-off** (continued)

Loss and loss adjustment expense reserve – net

	2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of ultimate claims:									
- at end of year	$ 398,572	$ 373,311	$ 138,942	$ 218,266	$ 188,787	$ 226,314	241,615	418,106	
- one year later	379,723	310,773	132,745	202,815	200,995	235,156	225,010		
- two years later	438,331	322,058	70,813	175,368	170,782	153,683			
- three years later	467,318	376,038	66,322	145,880	149,784				
- four years later	493,867	383,804	61,051	132,166					
- five years later	485,527	368,616	54,846						
- six years later	486,714	364,687							
- seven years later	493,333								
Cumulative payments to date	(435,666)	(326,585)	(36,078)	(68,522)	(85,819)	(51,843)	(56,739)	(49,658)	
Cumulative effects of currency rate changes	(39,926)	11,751	(13,934)	(32,445)	(20,730)	(285)	12,728	1,778	
Total	17,741	49,853	4,834	31,199	43,235	101,555	180,999	370,226	799,642
Liability in respect of prior years									8,074
Liability recognised in the balance sheet									$ 807,716

(Expressed in thousands of United States Dollars)

8. **Technical reserves** (continued)

8.2 **Net loss reserve and its run-off** (continued)

Duration of the Loss and loss adjustment expense reserve

IFRS 4.38 in conjunction with 4.39(d) requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables the future maturities of the technical reserves are shown and these are broken down by the expected remaining payment profiles of the liability. The analysis below excludes funds withheld directly related to the reserves. For further explanation of the recognition and measurement of the reserves see Note 3 "Summary of significant accounting policies".

Expected maturities of the Loss and loss adjustment expense reserve

	Loss and loss adjustment expense reserve					
	2017			2016		
	Gross	Retroceded	Net	Gross	Retroceded	Net
Due within one year	$ 262,218	$ 52,514	$ 209,704	$ 242,409	$ 43,995	$ 198,414
Due between one and five years	764,320	233,862	530,458	613,571	203,474	410,097
Due between five and ten years	95,269	29,150	66,119	65,559	21,741	43,818
Due between eleven and fifteen years	2,067	632	1,435	2,607	864	1,743
	$ 1,123,874	$ 316,158	$ 807,716	$ 924,146	$ 270,074	$ 654,072

The average duration of the gross loss and loss adjustment expense reserves was 1.84 years (2016 - 1.65 years) and is determined using projections of the expected future payments based on the historical payment pattern.

The payment patterns are determined with the aid of estimation methods and adjusted to reflect changes in payment behaviour and outside influences. The payment patterns used can be compared year for year by contrasting the projected payments with the actual amounts realized.

(Expressed in thousands of United States Dollars)

8. **Technical reserves** (continued)

8.3 **Development of unearned premium reserve**

	2017		
	Gross	Retroceded	Net
Balance at December 31 of the previous year	$ 121,640	$ 30,303	$ 91,337
Currency translation at January 1	4,486	33	4,453
Reserve at January 1	126,126	30,336	95,790
Allocations	13,302	32,757	(19,455)
Withdrawals	(3,532)	(30,234)	26,702
Currency translation at December 31	3,387	32	3,355
Balance value at December 31	$ 139,283	$ 32,891	$ 106,392

	2016		
	Gross	Retroceded	Net
Balance at December 31 of the previous year	$ 119,364	$ 25,886	$ 93,478
Currency translation at January 1	(1,373)	(11)	(1,362)
Reserve at January 1	117,991	25,875	92,116
Allocations	1,773	30,334	(28,561)
Withdrawals	2,082	(25,908)	27,990
Currency translation at December 31	(206)	2	(208)
Balance value at December 31	$ 121,640	$ 30,303	$ 91,337

The unearned premium reserve derives from the deferral of gross written premium. The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by the ceding companies. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

The adequacy of the technical liabilities arising out of reinsurance treaties is reviewed as at each balance sheet date. As part of the adequacy test for technical liabilities the anticipated future contractual payment obligations are compared with the anticipated future income. The Company adopts the "loss recognition" method set out under US GAAP. Should the result of the test indicate that the anticipated future income will not be sufficient to fund future payments; the entire shortfall is recognised in income by first writing off capitalized acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

(Expressed in thousands of United States Dollars)

9. Fixtures, fittings and equipment

	Leasehold improvements	Fixtures and fittings	Computer equipment	Total
Cost				
At January 1, 2016	$ 1,766	$ 996	$ 1,425	$ 4,187
Additions	–	–	101	101
At December 31, 2016	$ 1,766	$ 996	$ 1,526	$ 4,288
Additions	–	8	4	12
At December 31, 2017	$ 1,766	$ 1,004	$ 1,530	$ 4,300
Accumulated depreciation				
At January 1, 2016	$ 1,723	$ 982	$ 1,281	$ 3,986
Depreciation	12	5	85	102
At December 31, 2016	$ 1,735	$ 987	$ 1,366	$ 4,088
Depreciation	11	5	52	68
At December 31, 2017	$ 1,746	$ 992	$ 1,418	$ 4,156
Carrying amount				
At December 31, 2016	$ 31	$ 9	$ 160	$ 200
At December 31, 2017	$ 20	$ 12	$ 112	$ 144

With regard to the measurement of fixtures, fittings and equipment, refer to our explanatory notes on other assets in Note 3 “Summary of significant accounting policies”.

(Expressed in thousands of United States Dollars)

10. Other assets and liabilities

10.1 Other assets

	2017	2016
Other receivables	$ –	$ 43
Prepaid expenses	665	627
Derivative financial instrument	231	2,618
Total	$ 896	$ 3,288

10.2 Other items

Derivative financial instruments

Derivatives are financial instruments, the fair value of which is derived from an underlying instrument such as equities, bonds, indices or currencies. The Company used derivative financial instruments in order to hedge currency risks during the transition of the change of functional currency from the Euro to the United States Dollar in 2014. In this context special care is taken to limit the risks, select first-class counterparties and adhere strictly to the standards defined by investment guidelines.

As a result of these transactions, the Company had a negative income impact in 2017 of $5,889 (2016 – positive income impact of $891) and, at December 31, 2017, has a derivative financial asset balance of $231 (2016 - $2,618) presented within other assets. At December 31, 2017, the derivative financial instruments arising were as a result of the nominal amounts of €27,200, €3,500 and €5,000 (2016 - €48,600) hedged against the United States Dollar at a rate of 1.19988, 1.19906 and 1.19912 respectively (2016 - 1.102). The derivative financial instruments are recorded at fair value, denominated in United States Dollars and are classified as Level 2 investments.

Derivative financial instrument gains and losses are recorded through profit and loss as either a foreign exchange component or an interest yield component. The foreign exchange component is recorded through profit and loss under foreign exchange gains or losses while the interest component is recorded as a realized or unrealized investment gain or loss.

The derivative financial instruments mature on January 11th, 2019, April 10^{th,} 2018, and January 11th, 2018. The derivative financial instruments are legally entered into by the Parent, which is rated AA- by Standard & Poor's, and passed on to the Company through a contractual intercompany arrangement.

11. Reinsurance payable

	2017	2016
Balance payable to related parties	$ 58	$ 981
Balance payable to third parties	256,885	229,989
	$ 256,943	$ 230,970

Balances payable to reinsurers include amounts due for retroceded premiums netted off against amounts recoverable from retrocessionaires for their share of claims recoverable, as calculated in accordance with individual retrocession arrangements.

The carrying value of these amounts approximates fair value due to the short-term nature of the payables.

(Expressed in thousands of United States Dollars)

12. Accounts payable and accrued expenses

	2017	2016
Accrued expenses	$ 548	$ 609
Other accounts payable	24	–
Stock option and share award provisions	1,711	1,747
	$ 2,283	$ 2,356

13. Shareholder's equity

Shareholder's equity is shown as a separate component of the financial statements in accordance with IAS 1 "Presentation of Financial Statements" and subject to IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholder's equity comprises of not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognised in the statement of income.

The 4,522,359 common shares of $1 par value represent the total authorized, issued and fully paid share capital of the Company. Each share carries an equal voting right and an equal dividend settlement.

13.1 Contributed surplus

Contributed surplus represents cash contributed by the shareholder in excess of the issued share capital, as described in Note 3.

13.2 Dividends

The dividends declared in 2017 and 2016 were $175,000 and $200,000 respectively. This represents a dividend per share in United States Dollars of $38.70 (2016 - $44.22). Dividends of $200,000 and $200,000 were paid in 2017 and 2016, respectively.

14. Other comprehensive income (loss)

Accumulated other comprehensive income (loss) amounted to $10,677 (2016 - $(1,061)). This arose primarily from the recognition of unrealized gains and losses on investments at year end.

15. Other income (expenses)

Foreign exchange gain (loss)	2017	2016
Investment revaluation	$ 25,278	$ (12,897)
Loss and loss adjustment expense reserve revaluation	(46,183)	17,509
Reinsurance recoverable on unpaid claims revaluation	10,116	(1,696)
Accounts receivable revaluation	10,536	410
Other revaluation	4,333	(7,685)
Total	$ 4,080	$ (4,359)

(Expressed in thousands of United States Dollars)

16. Taxes

Under current Bermuda law the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2035.

17. Staff and expenditures on personnel

17.1 Staff

The average number of staff at the Company is 30 (2016 - 30).

17.2 Key management compensation

	2017	2016
Salaries and other short-term employee benefits	$ 2,851	$ 2,555
Post-employment benefits	163	160
Stock options	(159)	(489)
Total	$ 2,855	$ 2,226

17.3 Defined contribution plans

The Company has a defined contribution plan that is based on length of service, the employee's income, and level of contributions. The expense recognised for these obligations in the year under review in accordance with IAS 19.46 amounted to $723 (2016 - $686).

18. Related party disclosures

18.1 Loans to related parties

Included in the balance sheet under fixed income securities – loans and receivables, is a loan in the amount of $14,088 (2016 - $21,131) including accrued interest of $88 (2016 - $131) to Hannover Life Reassurance Bermuda Ltd., a company related through common control. The loan was granted on February 26, 2014, bears an interest rate of 2.5% per annum, will be repaid in equal instalments over five years, and will mature on February 26, 2019.

During the year, interest income of $376 (2016 - $551) was earned on this loan and is included within investment income in the accompanying statement of income.

(Expressed in thousands of United States Dollars)

18. **Related party disclosures** (continued)

18.2 **Other related party transactions and balances**

Underwriting transactions with related parties

	2017	2016
Income statement		
Gross written premium		
Companies related through common control	$ 141,028	$ 140,805
Ceded written premium		
Hannover Re SE	42,273	41,938
Companies related through common control	39	46
Acquisition and other underwriting expenses		
Hannover Re SE	1,275	1,225
Companies related through common control	7,793	7,820
Losses and loss adjustment expenses incurred		
Companies related through common control	4,520	175,066
Reinsurance recoveries		
Hannover Re SE	57,885	33,562
Other expenses		
Hannover Re SE	310	79
Balance sheet		
Accounts receivable		
Hannover Re SE	$ 36,802	$ 2,519
Companies related through common control	29,068	21,662
Deferred acquisition costs		
Hannover Re SE	1	–
Companies related through common control	231	175
Prepaid reinsurance premium		
Hannover Re SE	532	711
Companies related through common control	–	2
Outstanding losses recoverable from reinsurers		
Hannover Re SE	24,259	44,462
IBNR losses recoverable from reinsurers		
Hannover Re SE	52,371	52,395
Unearned premium reserve		
Companies related through common control	22,376	18,216
Outstanding losses and loss adjustment expenses		
Companies related through common control	133,865	181,595
IBNR losses and loss adjustment expenses		
Companies related through common control	41,880	66,078
Reinsurance payable		
Companies related through common control	58	981
Other liabilities		
Companies related through common control	10	–

All transactions and balances arise from the normal course of business and are unsecured.

(Expressed in thousands of United States Dollars)

18. **Related party disclosures** (continued)

18.2 **Other related party transactions and balances** (continued)

Other investment expenses

The Company has an investment management agreement in place with a related party to manage the Company's investment portfolio. Investment management fees incurred during the year amounted to $2,350 (2016 - $2,224) which are paid as incurred.

19. **Statutory requirements**

As a Class 4 insurer, the Company must at all times maintain a solvency margin and an enhanced capital requirement ("ECR") in accordance with the provisions of the Insurance Act. Each year the Company is required to file with the Bermuda Monetary Authority (the "Authority") a capital and solvency return within four months of its relevant financial year end (unless specifically extended).

Under the Bermuda Insurance Act, 1978 and related regulations, the Company is subject to capital requirements calculated using the Bermuda Solvency Capital Requirement ("BSCR"), which is standardized statutory risk-based capital model used to measure the risk associated with the Company's assets, liabilities, premiums and the risk associated with operations. The Authority requires all Class 4 insurers to maintain their capital at a target level which is 120% of the ECR calculated in accordance with the BSCR and to maintain the minimum margin of solvency.

Actual statutory capital and surplus, as determined using statutory accounting principles, is as follows:

	2017	2016
Total shareholder's equity	$ 1,210,703	$ 1,245,907
Non-admitted assets	(810)	(826)
Statutory capital and surplus	$ 1,209,893	$ 1,245,081

The Company is also required to maintain a minimum liquidity ratio, whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, accrued interest receivable, premiums receivable, funds withheld by ceding company, available for sale fixed- income securities and held to maturity fixed-income securities. Certain categories of assets do not qualify as relevant assets under the statute. The relevant liabilities are total general business insurance reserves (net of reinsurance recoverable) and total other liabilities, less sundry liabilities.

(Expressed in thousands of United States Dollars)

19. **Statutory requirements** (continued)

At December 31, 2017, the Company was required to maintain relevant assets of approximately $1,012,668 (2016 - $884,649). At that date relevant assets were approximately $2,536,064 (2016 - $2,393,716) and the minimum liquidity ratio was therefore met.

The Company is prohibited from declaring or paying a dividend if its Class 4 statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause such breach. Further, the Company, as a Class 4 insurer, is prohibited from paying in any year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the Authority an affidavit stating that it will continue to meet its solvency margin and minimum liquidity ratio. The Company must obtain the Authority's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to those under the Companies Act 1981, which apply to all Bermuda companies. The maximum amount available for payment of dividends or other distributions from retained earnings in 2017 without prior regulatory approval is approximately $311,270 (2016 - $309,140).

All statutory requirements were met as at December 31, 2017 and December 31, 2016.

20. **Capital management**

The preservation and consistent enhancement of its capital is a key strategic objective for the Company. The Company satisfies the capital expectations of the rating agencies that assess its financial strength. The Company met the applicable local minimum capital requirements in the year under review.

21. **Other notes**

21.1 **Letters of credit**

Ceding companies domiciled in the United States and Australia are required, pursuant to their insurance laws, to obtain letters of credit issued on the Company's behalf from approved banks in order to further secure the Company's obligations under certain reinsurance contracts. At December 31, 2017, letters of credit totalling $115,071 (2016 - $71,753) were issued on behalf of the Company.

21.2 **Operating lease**

Future minimum rentals payable under non-cancellable operating leases as at December 31 are as follows:

	2017	2016
Less than one year	$ 812	$ 812
Between one and five years	2,713	812
More than five years	678	–
Total	$ 4,203	$ 1,624

21. **Other notes** (continued)

21.2 **Operating lease** (continued)

The Company leases its building and as such, this leased asset is not recognised on the Company's balance sheet. The lease runs for a period of 10 years, with an option to renew the lease after that date for the same period. The Company signed a new lease with a term of five years commencing January 1, 2019. The lease payments include a portion of the maintenance expenses calculated according to the square footage of the premises.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. During the year ended December 31, 2017, $888 (2016 - $862) was recognised as an expense in the statement of income in respect of operating leases.