FIDELIS INSURANCE BERMUDA LIMITED

Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of
Fidelis Insurance Bermuda Limited

We have audited the accompanying consolidated financial statements of Fidelis Insurance Bermuda Limited and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated income statements, statements of changes in shareholders' equity, and statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Fidelis Insurance Bermuda Limited and its subsidiaries as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matter

U.S. generally accepted accounting principles require that the insured and paid claims development information, and the historical claims duration information on page 25 to 28 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 25, 2019

FIDELIS INSURANCE BERMUDA LIMITED
Consolidated Balance Sheets
As at December 31, 2018 and December 31, 2017
(Expressed in thousands of U.S. dollars)

	2018	2017
Assets		
Short-term investments, trading at fair value (cost: $nil, 2017: $405,030)	$ –	$ 404,623
Short-term investments, available-for-sale (cost: $1,570, 2017: $nil)	1,570	–
Fixed income securities, trading at fair value (cost: $219,271, 2017: $429,165)	216,229	426,612
Fixed income securities, available-for-sale (cost: $534,354, 2017: $nil)	534,586	–
Other investments, at fair value (cost: $116,728, 2017: $116,728)	113,753	121,615
Total investments	866,138	952,850
Cash and cash equivalents	35,356	130,101
Restricted cash and cash equivalents	192,018	151,828
Investments pending settlement	3,447	7,866
Derivatives assets, at fair value	11,478	111
Accrued investment income	5,091	2,784
Premiums and other receivables	347,120	258,076
Deferred reinsurance premiums	30,564	30,124
Reinsurance balances recoverable on paid losses	49,994	19,270
Reinsurance balances recoverable on unpaid losses	434,067	280,253
Deferred policy acquisition costs	108,597	67,073
Amounts due from affiliates	10,764	8,830
Deferred tax asset	137	–
Other assets	9,989	5,323
Total assets	$ 2,104,760	$ 1,914,489
Liabilities and shareholder's equity		
Liabilities		
Derivative liabilities, at fair value	527	1,281
Reserves for losses and loss expenses	598,243	421,598
Unearned premiums	434,878	309,452
Reinsurance balances payable	63,395	54,236
Investments pending settlement	3,056	–
Amount due to affiliates	5,736	8,929
Other liabilities	8,772	6,220
Total liabilities	$ 1,114,607	$ 801,716
Shareholder's equity		
Common stock	1,000	1,000
Additional paid-in capital	986,120	1,197,120
Accumulated other comprehensive income	232	–
Accumulated deficit	2,801	(85,347)
Total shareholder's equity	**$ 990,153**	**$ 1,112,773**
Total liabilities, and shareholder's equity	**$ 2,104,760**	**$ 1,914,489**

Director Director

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE BERMUDA LIMITED
Consolidated Income Statements
For the years ended December 31, 2018 and December 31, 2017
(Expressed in thousands of U.S. dollars)

		2018		2017
Revenues				
Gross premiums written	$	526,659	$	424,295
Reinsurance premiums ceded		(173,653)		(127,815)
Net premiums written		353,006		296,480
Change in net unearned premiums		(124,985)		(105,048)
Net premiums earned		228,021		191,432
Net investment return		18,771		(909)
Net foreign exchange gains/(losses)		(1,679)		889
Intercompany recharge income		8,547		6,346
Total revenues	**$**	**253,660**	**$**	**197,758**
Expenses				
Losses and loss expenses		(75,338)		(87,606)
Policy acquisition expenses		(53,314)		(36,472)
General and administrative expenses		(34,768)		(25,912)
Financing costs		(2,208)		(1,890)
Total expenses	**$**	**(165,628)**	**$**	**(151,880)**
Net profit before tax		88,032		45,878
Income tax benefit		116		–
Net profit after tax	**$**	**88,148**	**$**	**45,878**
Other comprehensive income				
Unrealised gains on available for sale financial instruments, net of tax		232		–
Total other comprehensive income	**$**	**232**	**$**	**–**
Total comprehensive income attributable to common shareholder	**$**	**88,380**	**$**	**45,878**

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE BERMUDA LIMITED
Statements of Changes in Shareholder's Equity
As at December 31, 2018 and December 31, 2017
(Expressed in thousands of U.S. dollars)

Common stock		**2018**		**2017**
Balance – beginning and end of year	$	1,000	$	1,000
Additional paid-in capital				
Balance – beginning of year	$	1,197,120	$	1,252,120
Distribution		(211,000)		(55,000)
Balance – end of year	$	986,120	$	1,197,120
Accumulated other comprehensive income, net of tax				
Balance – beginning of year	$	–	$	–
Unrealised gains on available-for-sale securities, net of tax				
Balance – beginning of year		–		–
Unrealised losses arising during the year		(102)		–
Realised losses transferred to net income		334		–
Balance – end of year	$	232	$	–
Accumulated deficit				
Balance - beginning of year	$	(85,347)	$	(131,225)
Net profit available to common shareholder		88,148		45,878
Balance - end of year	$	2,801	$	(85,347)
Total shareholder's equity	$	**990,153**	**$**	**1,112,773**

See accompanying notes to the consolidated financial statements.

FIDELIS INSURANCE BERMUDA LIMITED
Statements of Consolidated Cash Flows
For the years ended December 31, 2018 and December 31, 2017
(Expressed in thousands of U.S. dollars)

	2018	2017
Operating activities		
Net profit after tax	$ 88,148	$ 45,878
Adjustments to reconcile net profit to net cash provided by operating activities:		
Depreciation	696	578
Net unrealized gain / (loss) on investments and derivatives	(1,418)	14,882
Net realized gain / (loss) on investments and derivatives	849	(12,036)
Net changes in assets and liabilities:		
Accrued investment income	(2,307)	(570)
Premiums and other receivables	(89,044)	(110,876)
Deferred reinsurance premiums	(440)	(18,284)
Reinsurance balances recoverable on paid claims	(30,724)	(18,770)
Reinsurance balances recoverable on unpaid claims	(153,815)	(273,605)
Deferred policy acquisition costs	(41,524)	(32,696)
Deferred tax asset	(137)	–
Amounts due from affiliates	(1,934)	(7,371)
Other assets	(4,508)	644
Reserves for losses and loss expenses	176,645	322,901
Unearned premiums	125,426	123,333
Reinsurance balances payable	9,159	39,941
Amounts due to affiliates	(3,193)	6,719
Other liabilities	2,550	(2,816)
Net cash provided by operating activities	**$ 74,429**	**$ 77,852**
Investing activities		
Purchase of investments, trading	(2,737)	(2,152,314)
Proceeds from the sale of investments, trading	615,272	2,073,519
Purchase of available-for-sale securities	(644,194)	–
Proceeds from sale of available-for-sale securities	116,109	–
Purchase of investments to cover short sales	(10,324)	(1,312,533)
Proceeds from short sales of investments	1,383	763,675
Purchase of other investments	–	(285,000)
Proceeds from the sale of other investments	–	475,740
Change in reverse repurchase agreements	–	223,947
Change in investments pending settlement - assets	4,420	157,416
Change in investments pending settlement - liabilities	3,055	(99,581)
Purchase of fixed assets	(968)	(600)
Net cash provided by/ (used in) investing activities	**$ 82,016**	**$ (155,731)**
Financing activities		
Distribution paid	(211,000)	(55,000)
Change in repurchase agreements	–	(128,533)
Net cash used in financing activities	**$ (211,000)**	**$ (183,533)**
Net decrease in cash, restricted cash, and cash equivalents	(54,555)	(261,412)
Cash, restricted cash, and cash equivalents, beginning of year	281,929	543,341
Cash, restricted cash, and cash equivalents, end of year	$ 227,374	$ 281,929
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	29,229	16,176
Cash equivalents	6,027	113,925
Restricted cash and cash equivalents	192,018	151,828
	$ 227,374	$ 281,929

See accompanying notes to the consolidated financial statements.

1. Nature of operations

Fidelis Insurance Bermuda Limited (the “Company”) was incorporated as an exempted company under the laws of Bermuda on February 26, 2015 and writes insurance and reinsurance on a global basis. The Company is registered as a Class 4 insurer under the Insurance Act of 1978 and related regulations of Bermuda (the “Insurance Act”) and commenced (re)insurance operations in June 2015. The Company is a wholly owned subsidiary of Fidelis Insurance Holdings Limited (“Fidelis”, or “FIHL”) which was incorporated under the laws of Bermuda on August 22, 2014.

During 2018, the Company established the following wholly owned subsidiaries: Fidelis Insurance Ireland DAC (“FIID”) and Fidelis European Holdings Limited (“FEHL”).

- FIID is an indirect, wholly owned subsidiary of FIBL and was incorporated under the laws of Ireland on December 27, 2017 and plans to write bespoke and specialty European business. FIID was licensed in Ireland by the Central Bank of Ireland (“CBI”) on October 22, 2018. FIID plans to commence writing business from January 1, 2019 and accept non-UK EEA insurance policies from Fidelis Underwriting Limited (“FUL”) through a Part VII transfer under the Financial Services and Market Act of 2000 during 2019, subject to court approval.

- FEHL was incorporated under the laws of England and Wales on January 11, 2018 to act as a holding company within the Group.

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

In May 2018, FIHL sponsored Socium Re Limited (“Socium”), a Bermuda domiciled special purpose insurance company formed to provide additional collateralised capacity to support the Group’s business. The Group accounts for its interest in Socium under the equity method of accounting and includes it within other assets in the Consolidated Balance Sheets.

Basis of presentation

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

Certain insignificant reclassifications have been made to prior year amounts to conform to the 2018 presentation. There is no impact of these reclassifications on net profit or shareholder’s equity.

Reporting currency

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

Use of estimates

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

Cash and cash equivalents

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

Investments

During 2018, the Group amended the accounting policy such that all fixed income securities acquired from January 1, 2018 are classified as available for sale. Fixed income securities acquired prior to January 1, 2018 are classified as trading. During 2017, the Group’s investment strategy was revised to hold a majority of assets in fixed income assets. The fixed income securities portfolio comprises securities issued by governments and government agencies, corporate bonds, mortgage and other asset-backed securities. Investments in fixed income securities have been classified as available for sale or trading and are reported at estimated fair value in the consolidated balance sheet.

2. Significant accounting policies

In 2018 and 2017, the Group's other investments consist of an investment in a limited partnership. This is carried at net asset value as reported by the investment manager.

Investments maturing in less than one year are classified as short-term investments.

For all fixed income securities and other investments any realised and unrealised gains or losses are determined on the basis of first-in-first-out method. For all fixed income securities classified as "available for sale", realised gains and losses in the Consolidated Income Statements include adjustments to the cost basis of investments for declines in value that are considered to be other-than-temporary. Unrealised gains and losses represent the difference between the cost, or the cost as adjusted by amortisation of any difference between its cost and its redemption value ("amortised cost"), of the security and its fair value at the reporting date and are included within other comprehensive income for securities classified as "available for sale". For securities classified as "trading", realised and unrealised gains or losses are included in the Consolidated Income Statements within net investment return.

Other-than-temporary impairment of investments

A security is impaired when its fair value is below its cost or amortised cost. The Group reviews its investment portfolio each quarter on an individual security basis for potential other-than-temporary impairment ("OTTI") based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions.

OTTI is deemed to occur when there is no objective evidence to support recovery in value of a security and (i) the Group intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of its cost or adjusted amortised cost basis or (ii) it is deemed probable that the Group will be unable to collect all amounts due according to the contractual terms of the individual security. In the first case, the entire unrealised loss position is taken as an OTTI charge to realised losses in earnings. In the second case, the unrealised loss is separated into the amount related to credit loss and the amount related to all other factors. The OTTI charge related to credit loss is recognised in realised losses in earnings and the amount related to all other factors is recognised in other comprehensive income. The cost basis of the investment is reduced accordingly and no adjustments to the cost basis are made for subsequent recoveries in value.

Although the Group reviews each security on a case by case basis, it has also established parameters focusing on the extent and duration of impairment to help identify securities in an unrealised loss position which are other-than-temporarily impaired. For fixed income securities in the available for sale portfolio, the Group considers securities which have been in an unrealised loss position for 12 months or more which currently have a market value of more than 20% below cost should be other-than-temporarily impaired.

Net investment return

Net investment return includes amounts received and accrued in respect of periodic interest ("coupons") payable to the Group by the issuer of fixed income securities and interest credited on cash and cash equivalents. It also includes amortisation of premium and accretion of discount in respect of fixed income securities. Investment management, custody, and investment administration fees are charged against net investment return reported in the Consolidated Income Statements.

Investment transactions are recorded on a trade date basis.

Derivative financial instruments

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

The Group enters into derivative transactions to manage interest rate risk, currency exchange risk, or other exposure risks. The Group also sometimes enters catastrophe swap derivatives to manage its exposure to catastrophe events. Derivative transactions typically include futures, options, swaps and forwards. Derivative assets represent financial contracts whereby, based upon the contract's current fair value, the Group will be entitled to receive payments upon settlement. Derivative liabilities represent financial contracts whereby, based upon the contract's current fair value, the Group will be obligated to make payments upon settlement.

2. Significant accounting policies (continued)

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

Investments pending settlement

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

Premiums and acquisition costs

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

Acquisition costs are directly related to the acquisition of insurance premiums and are deferred and amortised over the related policy period. The Group only defers acquisition costs incurred that are directly related to the successful acquisition of new or renewal insurance contracts, including commissions to agents, brokers and premium taxes. All other acquisition related expenses including indirect costs are expensed as incurred. To the extent that future policy revenues on existing policies are not adequate to cover related costs and expenses, deferred policy acquisition costs are charged to earnings.

The Group evaluates premium deficiency and the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment return is greater than expected future loss and loss adjustment expenses and acquisition costs.

Reinsurance

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

Losses and loss expenses

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

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

Premiums receivable

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

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

2. Significant accounting policies (continued)

Reinsurance balances recoverable

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

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

Income taxes

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

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

Foreign exchange

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

Variable interest entities

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

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

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

VIEs for which the Group is deemed to have a controlling financial interest and be the primary beneficiary are consolidated and all significant inter-company transactions are eliminated.

The Group has determined that its investment in Fidelis York Fund L.P. "York Fund" is an investment in a VIE for which it does not have the power to direct the activities that most significantly impact "York Fund" performance. The Group records its investment in York Fund at reported net asset value. This investment is included in other investments. At December 31, 2018, the carrying value of the Group's involvement in the York Fund is $113.8 million (2017: $121.6 million) which is the maximum loss exposure to the Group.

2. Significant accounting policies (continued)

Recent accounting pronouncements

Recently adopted

In March 2017, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU") 2017-08, Premium Amortisation on Purchased Callable Debt Securities, which shortens the amortisation period for certain purchased callable debt securities held at a premium as the new guidance requires that the premium on callable debt securities be amortised through the earliest call date rather than through the maturity date. The standard update is effective for annual periods beginning after December 15, 2019. Early adoption is permitted, and the Group has implemented ASU 2017-08 for the year ended December 31, 2018.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements, which contains amendments affecting a wide variety of topics in the codification. Included within the requirements of this ASU are amendments to the following subtopics: a) 220-10, Income Statement—Reporting Comprehensive Income—Overall b) 470-50, Debt—Modifications and Extinguishments c) 480-10, Distinguishing Liabilities from Equity—Overall d) 718-740, Compensation—Stock Compensation—Income Taxes e) 805-740, Business Combinations—Income Taxes f) 815-10, Derivatives and Hedging—Overall g) 820-10, Fair Value Measurement—Overall h) 940-405, Financial Services—Brokers and Dealers—Liabilities and i) 962-325, Plan Accounting—Defined Contribution Pension Plans—Investments—Other. This is effective for years beginning after December 15, 2017. The amendment did not have a material impact on the Group's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement, which amends the fair value measurement disclosure framework in Subtopic 820. This ASU is effective for years beginning after December 15, 2019, however the amendment allows for early adoption and a retrospective transition is required. The Group elected to early adopt ASU 2018-13 to the Group's consolidated financial statements for the year ended December 31, 2018.

Recently issued but not yet adopted

In January 2016, the FASB issued ASU 2016-1, Financial Instruments – Overall, which enhances the reporting model for financial instruments including equity investments measured at fair value in net income and valuation allowances deferred tax assets related to available-for-sale securities. The standard update is effective for annual periods beginning after December 15, 2018. It is not anticipated the adoption of this ASU will have a significant impact on the Group's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, and, in July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases. ASU 2016-02 requires lessees to recognise operating leases on balance sheet through a lease asset and a related financial liability. It is effective for annual periods beginning after December 15, 2019. The Group expects a lease asset and related liability to be presented on the Consolidated Balance Sheets, however the Consolidated Income Statements and cash flows will remain unchanged.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which requires loans, receivables and available-for-sale debt securities to record credit losses through an allowance for credit losses account. The update introduces a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new credit loss model, the Group will be required to recognise an allowance for its expected credit losses on certain financial assets including trade receivables, debt instruments not measured at fair value, and reinsurance receivables. Available-for-sale debt securities will record credit losses through an allowance for credit losses, which will be limited to the amount by which fair value is below amortised cost. The Group does not expect the ASU to have a material impact on the Consolidated Balance Sheets, Consolidated Income Statements, cash flows or disclosures. The standard update is effective for annual periods beginning after December 15, 2020.

In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall, which amends multiple areas in Subtopic 825-10 via improvements to clarify the Codification or to correct unintended application of guidance. The standard update is effective for annual periods beginning after December 15, 2018. The Group does not expect the ASU to have a material impact on the Consolidated Balance Sheets, Consolidated Income Statements, cash flows or disclosures.

In August 2018, the FASB issued ASU 2018-12, Financial Services—Insurance, which amends the scope of Topic 944 via improvements to the accounting for long-duration contracts. The standard update is effective for annual periods beginning after December 15, 2021. The Group does not expect the ASU to have a material impact on the Consolidated Balance Sheets, Consolidated Income Statements, cash flows or disclosures.

(Expressed in thousands of U.S. dollars)

3. Investments

As at December 31, 2018, the Group's investments are managed by external investment managers through individual investment management agreements and a limited partnership agreement. The Group monitors activity and performance of the external managers on a weekly basis.

a) Fixed income securities

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

	As at December 31, 2018			
	Cost	**Unrealised gains**	**Unrealised losses**	**Fair value**
Trading				
U.S. treasuries	$ 56,955	$ –	$ (616)	$ 56,339
Non-U.S. government	25,051	–	(192)	24,859
Corporate bonds	76,588	–	(1,700)	74,888
Asset-backed securities	52,059	15	(277)	51,797
Agency asset-backed securities	8,618	–	(272)	8,346
Total fixed income securities trading	**$ 219,271**	**$ 15**	**$ (3,057)**	**$ 216,229**
Available-for-sale				
U.S. treasuries	$ 203,522	$ 795	$ (87)	$ 204,230
Agencies	5,155	17	(33)	5,139
Non-U.S. government	8,676	38	(11)	8,703
Corporate bonds	250,498	412	(565)	250,345
Asset-backed securities	58,868	5	(405)	58,468
Agency asset-backed securities	7,635	66	–	7,701
Total fixed income securities available-for-sale	**$ 534,354**	**$ 1,333**	**$ (1,101)**	**$ 534,586**
Total fixed income securities	**$ 753,625**	**$ 1,348**	**$ (4,158)**	**$ 750,815**

(Expressed in thousands of U.S. dollars)

3. Investments (continued)

	As at December 31, 2017			
	Cost	Unrealised gains	Unrealised losses	Fair value
Trading				
U.S. treasuries	$ 111,518	$ -	$ (383)	$ 111,135
Certificate of deposits	11,200	-	(11)	11,189
Commercial paper	5,500	-	(2)	5,498
Agencies	34,990	-	(134)	34,856
Non-U.S. government	42,196	-	(201)	41,995
Corporate bonds	136,529	-	(1,544)	134,985
Asset-backed securities	41,931	55	(28)	41,958
Agency asset-backed securities	45,301	52	(357)	44,996
Total fixed income securities	**$ 429,165**	**$ 107**	**$ (2,660)**	**$ 426,612**

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

	2018		2017	
	Fair value	%	Fair value	%
AAA	$ 411,259	55%	$ 255,572	60%
AA	67,101	9%	36,870	9%
A	184,148	24%	83,867	20%
BBB	88,307	12%	48,805	11%
Not rated	–	–	1,498	0%
Total fixed income securities trading	**$ 750,815**	**100%**	**$ 426,612**	**100%**

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

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

	2018		2017	
	Cost	Fair value	Cost	Fair value
Due in one year or less	$ 27,773	$ 27,618	$ 109,267	$ 108,844
Due after one year through five years	620,955	619,132	238,739	236,872
Due after five years through ten years	66,933	66,369	34,159	34,203
Due after ten years	37,964	37,696	47,000	46,693
Total fixed income securities trading	**$ 753,625**	**$ 750,815**	**$ 429,165**	**$ 426,612**

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

(Expressed in thousands of U.S. dollars)

3. Investments (continued)

b) Short-term investments

The following investments were included in short-term investments managed by external investment managers and are classified as available-for-sale:

	As at December 31, 2018			
	Cost	Unrealised gains	Unrealised losses	Fair value
Non-U.S. government	$ 995	$ –	$ –	$ 995
Asset Backed	575	–	–	575
Total short-term investments	**$ 1,570**	**$ –**	**$ –**	**$ 1,570**

As at December 31, 2017 all short-term investments were classified as trading:

	As at December 31, 2017			
	Cost	Unrealised gains	Unrealised losses	Fair value
Commercial paper	$ 85,090	184	(2)	$ 85,272
Non-U.S. government	180,944	706	(779)	180,871
Corporate Bonds	138,996	1	(517)	138,480
Total short-term investments	**$ 405,030**	**891**	**(1,298)**	**$ 404,623**

c) Available-for-sale – net loss position

The following table summarises, by type of security, the aggregate fair value and gross unrealised loss by length of time the security has been in an unrealised loss position for the Group's available for sale portfolio as at December 31, 2018:

	As at December 31, 2018		
	0-12 months		
	Fair value	Gross unrealised losses	Number of securities
U.S. treasuries	$ 74,862	(87)	12
Agencies	1,670	(32)	4
Non-U.S. government	2,179	(11)	6
Corporate bonds	158,885	(566)	104
Asset-backed securities	56,355	(405)	41
Total	**$ 293,951**	**(1,101)**	**167**

A security is potentially impaired when its fair value is below its cost or amortised cost. The Group analyses its available for sale fixed income portfolios on an individual security basis for potential OTTI each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. The total OTTI expense for the twelve months ended December 31, 2018 was $nil (2017: $nil).

d) Pledged investments

At December 31, 2018, $187.7 million (2017: $274.4 million) of trading fixed income securities and $280.9 million (2017: $nil) of available-for-sale fixed income securities were on deposit with a custodian in respect to the Group's letter of credit facilities and trust accounts.

(Expressed in thousands of U.S. dollars)

3. Investments (continued)

e) Other investments, at fair value

As at December 31, 2018, the Group only held the investment in the York Fund. The limited partnership is invested in two funds - a multi-strategy hedge fund and credit hedge fund, both of which are managed by York. There are currently no outstanding commitments to the York Fund. The fair value of the York Fund at December 31, 2018 was $113.8 million (2017: $121.6 million). The Group has recorded its investment in the York Fund at reported net asset value. On December 31, 2018, the Group agreed future withdrawals from the Fidelis York Fund, L.P. scheduled during 2019.

As at December 31, 2018, all other hedge fund investments had been redeemed and received, no amount is outstanding (2017: $7.6 million).

f) Net investment return

The components of net investment return are as follows:

	2018	2017
Net interest and dividend income	$ 22,066	$ 6,250
Net realized gains/(losses) on fixed income securities, trading	(2,215)	5,390
Net realized losses on fixed income securities, available for sale	(334)	–
Net realized gains/(losses) on equity securities	(70)	16,079
Net realized gains/(losses) on other investments	356	(8,078)
Net realized losses on derivatives	(8,803)	(1,355)
Net realized gains on foreign exchange	9,621	1,773
Change in net unrealized losses on fixed income securities, trading	(680)	(6,789)
Change in net unrealized losses on equity securities	–	(19,902)
Change in net unrealized gains/(losses) on other investments	(7,862)	15,389
Change in net unrealized gains/(losses) on derivatives	8,139	(2,940)
Change in net unrealized gains/(losses) on foreign exchange	23	(192)
Investment expenses	(1,470)	(6,534)
Net investment return	**$ 18,771**	**$ (909)**

4. Fair value measurements

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

Fair value hierarchy

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

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets. The fair value is determined by multiplying the quoted price by the quantity held by the Group.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices (e.g. interest rates, yield curves, prepayment spreads, default rate, etc.) for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability or can be corroborated by observable market data.

- Level 3: Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement. Significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

4. Fair value measurements (continued)

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

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

Determination of fair value

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

Fixed income securities

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

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

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

- U.S. treasuries are bonds issued by the U.S. government. The significant inputs used to determine the fair value of these securities are based on quoted prices in active markets for identical assets and are therefore classified within Level 1.
- Agency securities consists of securities issued by U.S. and non-U.S. government sponsored agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, government development banks and other agencies which are not mortgage pass-through. The fair values of these securities are classified as Level 2.
- Non-U.S. government securities consist of bonds issued by non-U.S. governments and supranationals. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Corporate bonds consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. When available, significant inputs are used to determine the fair value of these securities and are based on quoted prices in active markets for identical assets. When not available, the fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. The fair values of these securities are classified as Level 2.
- Asset-backed securities consist of only investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment spreads and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Agency asset-backed securities consist of securities issued by mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

(Expressed in thousands of U.S. dollars)

4. Fair value measurements (continued)

Short-term investments

The Group's short-term investments consist of certificates of deposit, commercial paper and bonds with maturities of less than one year at the time of purchase. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

Derivative financial instruments

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

Other investments

The Group values its investment in the York limited partnership, discussed in note 3, at fair value, which is estimated based on the Group's share of the net asset value (NAV) as provided by the investment manager of the investment fund. The Group has elected to use the practical expedient method to record the fair value of the investment in the limited partnership at net asset value and has therefore not assigned levels to these investments in the fair value hierarchy.

The following table presents the financial instruments measured at fair value on a recurring basis as at December 31, 2018 and 2017:

	As at December 31, 2018			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed income securities				
U.S. treasuries	$ 260,568	$ –	$ –	$ 260,568
Agencies	–	5,139	–	5,139
Non-U.S. government	–	33,562	–	33,562
Corporate bonds	–	325,234	–	325,234
Asset-backed securities	–	110,265	–	110,265
Agency asset-backed securities	–	16,047	–	16,047
Total fixed income securities	**260,568**	**490,247**	–	**750,815**
Short-term investments				
Non-U.S. government	–	995	–	995
Asset-backed securities	–	575	–	575
Total short-term investments	–	1,570	–	1,570
Derivative assets	320	11,158	–	11,478
Total Assets	**$ 260,888**	**$ 502,975**	**$ –**	**$ 763,863**

	As at December 31, 2018			
Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative liabilities	$ (527)	$ –	$ –	$ (527)
Total Liabilities	**$ (527)**	**$ –**	**$ –**	**$ (527)**

There were no transfers into or out of Level 1 and Level 2 during 2018.

(Expressed in thousands of U.S. dollars)

4. Fair value measurements (continued)

Assets	As at December 31, 2017 Level 1	Level 2	Level 3	Total
Fixed income securities				
U.S. treasuries	$ 111,135	$ –	$ –	$ 111,135
Certificates of deposits	–	11,189	–	11,189
Commercial paper	–	5,498	–	5,498
Agencies	–	34,856	–	34,856
Agency asset-backed securities	–	44,996	–	44,996
Non-U.S. government	–	41,995	–	41,995
Corporate bonds	–	134,985	–	134,985
Asset-backed securities	–	41,958	–	41,958
Total fixed income securities	**111,135**	**315,477**	**–**	**426,612**
Short-term investments				
Commercial paper	–	85,272	–	85,272
Non-U.S. Government	–	180,871	–	180,871
Corporate bonds	–	138,480	–	138,480
Total short-term investments	**–**	**404,623**	**–**	**404,623**
Derivative assets	111	–	–	111
Total Assets	**$ 111,246**	**$ 720,100**	**$ –**	**$ 831,346**

Liabilities	As at December 31, 2017 Level 1	Level 2	Level 3	Total
Derivative liabilities	(69)	(1,212)	–	(1,281)
Total Liabilities	**$ (69)**	**$ (1,212)**	**$ –**	**$ (1,281)**

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

5. Investments pending settlement

The Group has receivables and payables from financials instruments sold and purchased from prime brokers and external managers which arise in the ordinary course of business. The Group is exposed to risk of loss from the inability of brokers to pay for purchases or to deliver the financial instruments pending transfer, in which case the Group would have to sell or purchase the financial instruments at prevailing market prices. Credit risk is reduced to the extent that an exchange or clearing organisation acts as a counterparty to the transaction and replaces the prime broker. As of December 31, 2018, the Group recognised a receivable of $3.4 million (2017: $7.9 million) and a payable of $3.1 million (2017: $nil) for trades pending settlement.

6. Cash and cash equivalents

	2018	2017
Cash at bank	$ 208,531	$ 160,620
Cash held with brokers/custodians	12,816	7,384
Cash held in money market funds	6,027	55,900
Certificate of deposits and commercial paper	–	58,025
Total cash and cash equivalents	**$ 227,374**	**$ 281,929**

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

7. Restricted cash and cash equivalents

The Group is required to maintain certain levels of cash in segregated accounts with prime brokers and derivative counterparties. The amount of restricted cash held by derivative counterparties is cash collateral to support the current value of any amounts that may be due to the counterparty based on the value of the underlying financial instrument.

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

(Expressed in thousands of U.S. dollars)

7. Restricted cash and cash equivalents (continued)

The following table presents the restricted cash and cash equivalents as at December 31, 2018 and 2017:

		2018		2017
Restricted cash held by prime brokers	$	5,737	$	505
Letters of Credit collateral		154,952		132,043
Trust fund		31,329		19,085
Credit card collateral		–		195
Total restricted cash and cash equivalents	**$**	**192,018**	**$**	**151,828**

8. Derivative financial instruments

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

The following tables identify the listing currency, fair value and notional amounts of derivative instruments included in the Consolidated Balance Sheets, categorised by primary underlying risk. Balances are presented on a gross basis:

	As at December 31, 2018				
	Listing currency (1)		**Notional amount of underlying instruments (2)**		**Fair value of net assets on derivatives**
Derivative assets by primary underlying risk					
Interest rate contracts					
Futures	USD	$	18,809	$	320
Insurance linked securities					
Catastrophe swap contracts	USD		10,000		10,000
Foreign exchange contracts					
Forwards (3)	AUD/CAD/EUR/GBP/JPY		39,087		1,158
Total derivatives assets		**$**	**67,896**	**$**	**11,478**

	As at December 31, 2018				
	Listing currency (1)		**Notional amount of underlying instruments (2)**		**Fair value of net obligations on derivatives**
Derivative liabilities by primary underlying risk					
Interest rate contracts					
Futures	USD	$	(76,008)	$	(527)
Total derivative liabilities		**$**	**(76,008)**	**$**	**(527)**

(1) AUD=Australian Dollar, CAD=Canadian Dollar, EUR=Euro, GBP=British Pound, JPY=Japanese Yen and USD=US Dollar.
(2) The absolute notional exposure represents the Group's derivative activity as of December 31, 2018, which is representative of the volume of derivatives held during the period.
(3) Contracts used to manage foreign currency risks in underwriting and non-investment operations.

(Expressed in thousands of U.S. dollars)

8. Derivative financial instruments (continued)

	As at December 31, 2017				
	Listing currency (1)		**Notional amount of underlying instruments (2)**		**Fair value of net assets on derivatives**
Derivative assets by primary underlying risk					
Interest rate contracts					
Futures	USD	$	23,327	$	111
Total interest rate contracts			23,327		111
Total derivatives assets		**$**	**23,327**	**$**	**111**

	As at December 31, 2017				
	Listing currency (1)		**Notional amount of underlying instruments (2)**		**Fair value of net obligations on derivatives**
Derivative liabilities by primary underlying risk					
Interest rate contracts					
Futures	USD	$	32,530	$	69
Total interest rate contracts			32,530		69
Foreign exchange contracts					
Forwards (3)	AUD/CAD/EUR/GBP/JPY		29,750		640
Forwards (4)	JPY		181,410		572
Total foreign exchange contracts			211,160		1,212
Total derivative liabilities		**$**	**243,690**	**$**	**1,281**

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

(Expressed in thousands of U.S. dollars)

8. Derivative financial instruments (continued)

The following table presents derivative instruments by major risk type, the Group's net realised gains/(losses) and change in net unrealised gains/(losses) relating to derivative trading activities for the years ended December 31, 2018 and 2017. Net realised gains/(losses) and net unrealised gains/(losses) related to derivatives are included in net investment return and net foreign exchange gains and losses in the Consolidated Income Statements.

	2018		2017	
Derivatives	Net realised gains/(losses)	Change in net unrealised gains/(losses)	Net realised gains/(losses)	Change in net unrealised gains/(losses)
Interest rate contracts				
Futures	$ 657	$ (249)	$ (2,165)	$ 220
Options	–	–	(1,981)	1,337
Swaps	–	–	984	(428)
Total interest rate contracts	657	(249)	(3,162)	1,129
Foreign exchange contracts				
Forwards (1)	622	1,798	(283)	(1,000)
Forwards (2)	(9,460)	438	3,755	(4,193)
Futures	–	–	(2,746)	380
Options	–	–	(39)	(82)
Total foreign exchange contracts	(8,838)	2,236	687	(4,895)
Equity contracts				
Futures	–	–	5,196	218
Options	–	–	123	(297)
Swaps	–	–	(996)	(194)
Total equity contracts	–	–	4,323	(273)
Commodity and other contracts				
Futures	–	–	(3,486)	99
Total commodity and other contracts	–	–	(3,486)	99
Insurance linked securities				
Catastrophe swap contracts	–	7,950	–	–
	$ (8,181)	**$ 9,937**	**$ (1,638)**	**$ (3,940)**

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

(Expressed in thousands of U.S. dollars)

8. Derivative financial instruments (continued)

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

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

	As at December 31,2018			
		Gross amounts not offset in the balance sheet		
	Gross amounts of assets presented in the balance sheet	Financial instruments available for offset	Cash collateral received	Net amount of asset
Counterparty 1	$ 320	$ 320	$ –	$ –
Counterparty 2	1,158	–	–	1,158
Counterparty 3	10,000	–	–	10,000
	$ 11,478	$ 320	$ –	$ 11,158

	As at December 31, 2018			
		Gross amounts not offset in the balance sheet		
	Gross amounts of liabilities presented in the balance sheet	Financial instruments available for offset	Cash collateral pledged	Net amount of liability
Counterparty 1	$ 527	$ 320	$ 347	$ (140)
	$ 527	$ 320	$ 347	$ (140)

	As at December 31,2017			
		Gross amounts not offset in the balance sheet		
	Gross amounts of assets presented in the balance sheet	Financial instruments available for offset	Cash collateral received	Net amount of asset
Counterparty 1	$ 111	$ 70	$ –	$ 41
	$ 111	$ 70	$ –	$ 41

	As at December 31, 2017			
		Gross amounts not offset in the balance sheet		
	Gross amounts of liabilities presented in the balance sheet	Financial instruments available for offset	Cash collateral pledged	Net amount of liability
Counterparty 1	$ 70	$ 70	$ –	$ –
Counterparty 2	641	–	–	641
Counterparty 4	43	–	230	(187)
Counterparty 5	78	–	–	78
Counterparty 6	127	–	–	127
Counterparty 7	27	–	–	27
Counterparty 8	121	–	–	121
Counterparty 9	43	–	–	43
Counterparty 10	94	–	130	(36)
Counterparty 11	37	–	–	37
	$ 1,281	$ 70	$ 360	$ 851

(Expressed in thousands of U.S. dollars)

9. Reserves for losses and loss expenses

The following table presents a reconciliation of unpaid losses and loss expenses for the year ended December 31, 2018 and period ended December 31, 2017.

	2018	2017
Gross unpaid losses and loss expenses, beginning of year	$ 421,598	$ 98,698
Reinsurance recoverable on unpaid losses	(280,253)	(7,148)
Net unpaid losses and loss expenses, beginning of year	141,345	91,550
Net losses and loss expenses incurred in respect of losses occurring in		
Current year	117,043	108,793
Prior year	(41,705)	(21,187)
Total incurred	75,338	87,606
Net losses and loss expenses paid in respect of losses occurring in:		
Current year	(13,858)	(20,086)
Prior period	(37,811)	(18,671)
Total paid	(51,669)	(38,757)
Foreign exchange and other	(838)	946
Net unpaid losses and loss expenses, end of year	164,176	141,345
Reinsurance recoverable on unpaid losses	434,067	280,253
Gross unpaid losses and loss expenses, end of year	$ 598,243	$ 421,598

As a result of the changes in estimates of insured events in prior years, the 2018 reserves for losses and loss expenses net of reinsurance recoveries decreased by $41.7 million (2017: $21.2 million). Reserve releases have resulted from changes in reserving estimates across the reinsurance, specialty and bespoke pillars. The releases in 2018, in the reinsurance pillar have resulted from improvements in the 2017 Hurricane Harvey and California Wildfires estimates.

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

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

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

9. Reserves for losses and loss expenses (continued)

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

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

Initial expected loss ratio

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

Paid and incurred chain ladder

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

Paid and incurred Bornhuetter-Ferguson ("BF")

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

Benktander: Credible claims reserves

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

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

Case-by case

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

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

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

(Expressed in thousands of U.S. dollars)

9. Reserves for losses and loss expenses (continued)

There were no material changes made to the Group's methodology for calculating loss and loss adjustment reserves for the year ended December 31, 2018.

a) Loss development tables

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

Bespoke

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

	For the years ended December 31,				As of December 31, 2018	
Accident year	**2015 (Unaudited)**	**2016 (Unaudited)**	**2017 (Unaudited)**	**2018**	**Total of IBNR plus expected development on reported claims**	**Cumulative number of Reported claims**
2015	$ 406	$ 375	$ 221	$ 112	$ 122	–
2016		6,441	4,104	2,709	1,335	11
2017			11,707	8,394	6,373	47
2018				19,879	19,165	42
Total				**$ 31,094**	**$ 26,995**	

Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance

	For the years ended December 31,			
Accident year	**2015 (Unaudited)**	**2016 (Unaudited)**	**2017 (Unaudited)**	**2018**
2015	$ –	$ –	$ –	$ –
2016		6	556	1,260
2017			1,778	1,787
2018				136
Total				**$ 3,183**
Liabilities for claims and claims adjustment expenses, net of reinsurance				$ 27,911

(Expressed in thousands of U.S. dollars)

9. Reserves for losses and loss expenses (continued)

Specialty

Total Incurred claims and allocated claims adjustment expenses - net of reinsurance

	For the years ended December 31,				As of December 31, 2018	
Accident year	**2015 (Unaudited)**	**2016 (Unaudited)**	**2017 (Unaudited)**	**2018**	**Total of IBNR plus expected development on reported claims**	**Cumulative number of Reported claims**
2015	$ 2,192	$ 1,008	$ 231	$ 19	$ 19	4
2016		8,492	3,600	2,701	696	51
2017			7,636	5,240	3,715	47
2018				6,902	4,939	18
Total				**$ 14,862**	**$ 9,369**	

Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance

	For the years ended December 31,			
Accident year	**2015 (Unaudited)**	**2016 (Unaudited)**	**2017 (Unaudited)**	**2018**
2015	$ –	$ –	$ –	$ –
2016		–	35	1,474
2017			1	204
2018				14
Total				**$ 1,692**
Liabilities for claims and claim adjustment expenses, net of reinsurance				$ 13,170

(Expressed in thousands of U.S. dollars)

9. Reserves for losses and loss expenses (continued)

Reinsurance

Incurred claims and allocated claims adjustment expenses - net of reinsurance

	For the years ended December 31,				As of December 31, 2018	
Accident year	**2015 (Unaudited)**	**2016 (Unaudited)**	**2017 (Unaudited)**	**2018**	**Total of IBNR plus expected development on reported claims**	**Cumulative number of reported claims**
2015	$ 9,013	$ 7,271	$ 6,418	$ 4,255	$ 1,492	3
2016		69,858	57,059	50,453	29764	154
2017			87,986	59,076	18,012	491
2018				93,748	44,208	243
Total				**$ 207,532**	**$ 93,476**	

Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance

	For the years Ended December 31,			
Accident year	**2015 (Unaudited)**	**2016 (Unaudited)**	**2017 (Unaudited)**	**2018**
2015	$ –	$ 475	$ 2,746	$ 2,762
2016		2,317	9,356	17,996
2017			27,811	44,242
2018				24,133
				$ 89,076
Liabilities for claims and claim adjustment expenses, net of reinsurance				$ 118,456

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

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

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

(Expressed in thousands of U.S. dollars)

9. Reserves for losses and loss expenses (continued)

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

The table below reconciles the loss development information to the Group's reserves for losses and loss expenses as at December 31, 2018:

	December 31, 2018	December 31, 2017
Reserves for losses and loss expenses, net of reinsurance		
Bespoke	$ 27,911	$ –
Specialty	13,170	23,093
Reinsurance	118,456	114,211
Total reserves for losses and loss expenses, net of reinsurance	**159,537**	**137,304**
Reinsurance recoverable on unpaid claims		
Bespoke	78	–
Specialty	17,844	6,418
Reinsurance	416,145	273,835
Total reinsurance recoverable on unpaid claims	**434,067**	**280,253**
Unallocated claims adjustment expenses	4,639	4,041
Total gross liability for unpaid claims and claim adjustment expenses	**$ 598,243**	**$ 421,598**

Historical loss duration

The following table presents the Group's historical average annual percentage payout of loss and loss adjustment expenses incurred, net of reinsurance by age as of December 31, 2018.

	December 31, 2018 (Unaudited)		
Years	1	2	3
All lines	22%	19%	22%

The Group was incorporated on February 26, 2015, commenced underwriting in 2015. As a result, the Group has limited historical data and is unable to present a full cycle of claim payments.

(Expressed in thousands of U.S. dollars)

10. Reinsurance

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

A credit risk exists with ceded reinsurance to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance or retrocessional contracts. Allowances are established for amounts deemed uncollectible. No allowances have been made at December 31, 2018 (2017: $nil).

The following table summarizes the effect of reinsurance and retrocessional reinsurance on premiums written and earned and on net loss and loss expenses for the year ended December 31, 2018 and period ended December 31, 2017:

2018	**Premiums written**	**Premiums earned**	**Losses incurred**
Direct	$ 33,663	$ 7,668	$ 1,531
Assumed	492,996	393,565	338,675
Ceded	(173,653)	(173,213)	(264,868)
Net	$ 353,006	$ 228,020	$ 75,338

2017	**Premiums written**	**Premiums earned**	**Losses incurred**
Direct	$ 110,260	$ 50,137	$ 5,305
Assumed	314,035	250,826	385,951
Ceded	(127,815)	(109,531)	(303,650)
Net	$ 296,480	$ 191,432	$ 87,606

The Group evaluates the financial condition of its reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers. As at December 31, 2018, the reinsurance balance recoverable on unpaid losses and loss expenses was $434.1 million (2017: $280.2 million) and the reinsurance balance recoverable on paid losses was $50.0 million (2017: $19.3 million). All reinsurance premiums ceded and reinsurance recoverable are either fully collateralized or placed with reinsurers that are rated A- or greater by A.M. Best.

11. Variable Interest Entities

Within its investment portfolio, the Group has a holding in the York Fund, an investment in a VIE, for which it does not have the power to direct the activities that most significantly impact the York Fund performance. The Group records its investment in the York Fund at reported net asset value. This investment is included in other investments. At December 31, 2018, the carrying value of the Group's investment in the York Fund is $113.8 million (2017: $121.6 million) which is the maximum loss exposure to the Group.

(Expressed in thousands of U.S. dollars)

12. Commitments and contingencies

a) Lease commitments

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

Years Ended December 31:		
2019	$	1,137
2020		1,137
2021		1,137
2022		1,137
2023		663
Thereafter		–
Total	**$**	**5,211**

Operating lease expense was $1.2 million for the year ended December 31, 2018 (2017: $1.2 million).

b) Letter of credit facilities

As at the December 31, 2018, the Group had the following letter of credit facilities:

- A Standby Letter of Credit Facility Agreement with Lloyds Bank plc ("Lloyds"), under which Lloyds committed to make available to the Group a letter of credit facility in the amount of $150.0 million. The letter of credit facility was renewed on December 20, 2017 and is available until December 31, 2019. Letters of credit can be issued under the facility for the purposes of 1) the provision of Funds at Lloyds and 2) supporting insurance and reinsurance obligations. As of December 31, 2018, there were letters of credit outstanding under this facility totaling $45.1 million (2017: $101.2 million), secured by collateral in the amount of $99.8 million (2017: $163.9 million).

- A Master Agreement for the Issuance of Payment Instruments with Citibank NA London Branch ("Citibank"), under which Citibank committed to make available a letter of credit facility in the amount of $250.0 million. The letter of credit facility was renewed on December 24, 2018 and the facility is available until December 31, 2019. As of December 31, 2018, there were letters of credit outstanding under this facility totaling $141.1 million (2017: $123.6 million), secured by collateral in the amount of $154.7 million (2017: $131.8 million).

- A Letter of Credit Facility Agreement with Barclays Bank PLC ("Barclays"), under which Barclays committed to make available a letter of credit facility in the amount of $100.0 million. The letter of credit facility was renewed on August 16, 2018 and is available until August 16, 2019. The facility is extendable for a further two years, subject to Barclays' approval. The letters of credit can be issued to support reinsurance agreements, insurance agreements or regulatory requirements. As of December 31, 2018, there were letter of credit outstanding under this facility totaling $97.6 million (2017: $91.8 million), secured by collateral in the amount of $116.5 million (2017: $110.6 million).

c) Legal proceedings

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

d) Concentration of credit risk

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

(Expressed in thousands of U.S. dollars)

12. Commitments and contingencies (continued)

During the period ended December 31, 2018, gross premiums written generated from or placed by the below companies individually accounted for more than 10% of the Group's gross premiums written, as follows:

(Percentage of gross premiums written)	2018	2017
Aon plc	44%	35%
Marsh & McLennan Companies	21%	25%
Miller Insurance Services Ltd	1%	14%
Others	34%	18%

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

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

13. Related party transactions

For the year ended December 31, 2018, the Group ceded reinsurance premiums of $12.6 million (2017: $nil), of which $7.7 million was earned in the year (2017: $nil) and ceded losses of $21.0 million (2017: $nil) to Socium. In addition, Socium paid commissions of $1.0 million (2017: $nil) to the Group during 2018. At December 31, 2018, the amount of reinsurance recoverable on unpaid and paid losses was $21.0 million (2017: $nil) and the amount of ceded reinsurance payable included in insurance and reinsurance balances payable was $5.1 million (2017: $nil) in the Consolidated Balance Sheets. All transactions were conducted at market rates consistent with negotiated arms-length contracts.

The Company has a quota share intergroup reinsurance arrangement with FUL, under which FUL cedes 50% of net premiums retained after third party and Socium cessions to the Company.

During the year, the Group received income for various marketing and administrative services provided to companies under common control. Fees received for these services were $8.5 million (2017: $6.3 million).

During the year, the Group incurred expenses for various marketing and administrative services received from companies under common control. Fees incurred for these services were $7.2 million (2017: $5.2 million).

The amount due from affiliates at December 31, 2018 is $10.8 million (2017: $8.8 million). The amount due to affiliates at December 31, 2018 is $5.7 million (2017: $8.9 million).

Related party balances are due on demand and carry no interest.

14. Subsequent events

Subsequent events have been evaluated up to and including April 25, 2019, the date of issuance of these consolidated financial statements.

On February 27, 2019, the Group's Board approved a distribution of $86.0 million.