Starstone 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 Board of Directors of StarStone Insurance Bermuda Limited

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 StarStone Insurance Bermuda Limited and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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Other Matter

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts in Note 6 to the basic financial statements 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

STARSTONE INSURANCE BERMUDA LIMITED
CONSOLIDATED BALANCE SHEETS
As at December 31, 2018 and 2017

	2018	2017
	(expressed in thousands of U.S. dollars except share and per share amounts)	
ASSETS		
Short-term investments, trading, at fair value	$ 5,738	$ 5,030
Fixed maturities, trading, at fair value	1,057,004	1,064,265
Equities, at fair value	21,535	—
Other investments, at fair value	280,970	264,053
Total investments	1,365,247	1,333,348
Cash and cash equivalents	170,258	135,988
Restricted cash and cash equivalents	60,118	51,011
Premiums receivable	482,092	371,689
Prepaid reinsurance premiums	244,716	241,837
Reinsurance recoverables	1,103,690	611,394
Due from affiliates	184,311	171,361
Deferred acquisition costs	66,613	45,262
Goodwill and intangible assets	75,648	76,149
Other assets	68,596	61,411
TOTAL ASSETS	**$ 3,821,289**	**$ 3,099,450**
LIABILITIES		
Losses and loss adjustment expenses	1,714,020	1,337,084
Unearned premiums	619,164	507,648
Reinsurance balances payable	629,902	368,107
Deposit liability	40,439	52,699
Deferred retroactive reinsurance gain	69,914	25,151
Due to affiliates	5,315	15,818
Accrued expenses and other payables	41,033	15,826
TOTAL LIABILITIES	**$ 3,119,787**	**$ 2,322,333**
SHAREHOLDER'S EQUITY		
Common shares - 1,000,000 shares, par value of $1.00	1,000	1,000
Additional paid-in capital	1,114,631	1,014,631
Accumulated deficit	(414,129)	(238,514)
TOTAL SHAREHOLDER'S EQUITY	**$ 701,502**	**$ 777,117**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 3,821,289**	**$ 3,099,450**

See accompanying notes to the consolidated financial statements.

STARSTONE INSURANCE BERMUDA LIMITED
CONSOLIDATED STATEMENTS OF EARNINGS
For the Years Ended December 31, 2018 and 2017

	2018	2017
	(expressed in thousands of U.S. dollars)	
INCOME		
Net premiums earned	$ 561,012	$ 459,950
Net investment income	33,672	25,655
Net realized and unrealized investment (losses) gains	(15,576)	18,663
Other (loss) income	(541)	1,205
	578,567	505,473
EXPENSES		
Net incurred losses and loss adjustment expenses	527,130	310,590
Acquisition costs	75,952	48,155
General and administrative expenses	153,527	135,532
Interest expense	2,500	1,902
Net foreign exchange losses	1,400	593
	760,509	496,772
(LOSS) EARNINGS BEFORE INCOME TAXES	(181,942)	8,701
Income tax benefit	6,327	988
NET (LOSS) EARNINGS	**$ (175,615)**	**$ 9,689**

See accompanying notes to the consolidated financial statements.

STARSTONE INSURANCE BERMUDA LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
For the Years Ended December 31, 2018 and 2017

	2018	2017
	(expressed in thousands of U.S. dollars)	
SHARE CAPITAL - COMMON SHARES		
Balance, beginning and end of year	$ 1,000	$ 1,000
ADDITIONAL PAID-IN CAPITAL		
Balance, beginning of year	1,014,631	1,030,631
Contribution of capital	100,000	—
Return of capital	—	(16,000)
Balance, end of year	$ 1,114,631	$ 1,014,631
ACCUMULATED DEFICIT		
Balance, beginning of year	$ (238,514)	$ (248,203)
Net (loss) earnings	(175,615)	9,689
Balance, end of year	$ (414,129)	$ (238,514)
TOTAL SHAREHOLDER'S EQUITY	**$ 701,502**	**$ 777,117**

See accompanying notes to the consolidated financial statements.

STARSTONE INSURANCE BERMUDA LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net (loss) earnings	$ (175,615)	$ 9,689
Adjustments to reconcile net (loss) earnings to cash flows used in operating activities:		
Realized and unrealized losses (gains) on investments	23,081	(17,934)
Depreciation and amortization	3,880	5,880
Sales and maturities of trading securities	523,352	846,014
Purchase of trading securities	(559,510)	(840,941)
Net (purchases) of short term investments	(746)	(3,402)
Changes in:		
Reinsurance balances recoverable	(492,296)	(46,239)
Prepaid reinsurance premiums	(2,879)	(24,692)
Deferred acquisition costs	(21,352)	(6,457)
Premiums receivable	(110,404)	(39,972)
Losses and loss adjustment expenses	376,936	107,541
Insurance and reinsurance balances payable	306,557	(19,103)
Unearned premiums	111,516	31,700
Due from / to affiliates	(23,454)	17,652
Accounts payable and accrued liabilities	12,951	(36,590)
Other	(9,290)	(2,582)
Net cash flows (used in) operating activities	(37,273)	(19,436)
INVESTING ACTIVITIES:		
Purchase of other investments	(147,782)	(94,107)
Sales of other investments	127,032	137,610
Other investing activities	—	(71,500)
Net cash flows (used in) provided by investing activities	(20,750)	(27,997)
FINANCING ACTIVITIES:		
Capital contribution (distribution)	100,000	(16,000)
Net cash flows provided by (used in) financing activities	100,000	(16,000)
Effect of exchange rate changes on foreign currency cash, cash equivalents and restricted cash	1,400	1,723
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	43,377	(61,710)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	186,999	248,709
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$ 230,376	$ 186,999
Reconciliation to Consolidated Balance Sheets:		
Cash and cash equivalents	170,258	135,988
Restricted cash and cash equivalents	60,118	51,011
Cash, cash equivalents and restricted cash	$ 230,376	$ 186,999

See accompanying notes to the consolidated financial statements.

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

1. DESCRIPTION OF BUSINESS

StarStone Insurance Bermuda Limited (the "Company") was incorporated on November 21, 2007 under the laws of Bermuda. The Company is a wholly owned subsidiary of Starstone Specialty Holdings Limited ("SSHL") which is, in turn, wholly owned by North Bay Holdings Limited ("North Bay"), an entity in which Enstar Group Limited ("Enstar") owns a 59.0% equity interest, with the Trident V funds ("Trident V") managed by Stone Point Capital LLC ("Stone Point") and also a shareholder of Enstar and Dowling Capital Partners ("Dowling") owning redeemable non-controlling interests of 39.3% and 1.7% respectively.

The Company is registered as a Class 4 insurer under the Insurance Act 1978, amendments thereto and related regulations (the "Insurance Act"). It underwrites commercial, professional, specialty insurance and reinsurance products to a global client base through the following wholly owned insurance subsidiaries:

- StarStone Specialty Insurance Company ("StarStone Specialty"), a US excess and surplus lines insurer,
- StarStone National Insurance Company ("StarStone National"), a US markets insurer,
- StarStone Insurance SE ("SISE") a Liechtenstein based European Specialty Insurer,
- StarStone Corporate Capital 1 Limited ("SCC1"), a company which provides capital supporting the underwriting activity of Lloyd's Syndicate 1301,
- StarStone Underwriting Limited ("SUL"), a company which manages Syndicate 1301.

The Company and its insurance subsidiaries have a financial strength rating of A- (Excellent) from AM Best. For business written through Lloyd's Syndicate 1301, Lloyd's is rated A (Excellent) by A.M. Best, AA- by Fitch Ratings and A+ by Standard and Poor's, with these ratings applying to all Lloyd's syndicates.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include our assets, liabilities and results of operations as of December 31, 2018 and 2017 and for the years ended December 31, 2018 and 2017. All intercompany transactions and balances have been eliminated.

The Company records its share of Syndicate 1301's assets, liabilities, revenues and expenses under US GAAP. The Company's share of Syndicate 1301's capacity changed from 39.3% in 2016 to 0% for the 2017 and 2018 years of account. Effective January 1, 2017, SCC1 allocated its capacity in Syndicate 1301 to SGL No. 1 Limited ("SGL 1") on the basis of a capacity lease agreement (the "SGL 1 Lease Agreement"). SGL 1, an affiliated corporate member, has 100% of the participation in Syndicate 1301 on the 2017 and 2018 years of account which it reinsures on a quota share and stop loss basis (the "SGL 1 Reinsurance Agreement") to the Company. The combined effect of the SGL 1 Lease Agreement and the SGL 1 Reinsurance Agreement is that the net result of SGL 1's participation in Syndicate 1301 capacity is allocated to the Company.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and 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. Our actual results could differ materially from our estimates. Accounting policies that we believe are most dependent on assumptions and estimates are considered to be our critical accounting policies and are related to the determination of:

- liability for losses and loss adjustment expenses ("LAE");
- reinsurance balances recoverable;

- gross and net premiums written and net premiums earned;
- impairment charges including impairments on goodwill and intangible assets; and
- fair value measurements of investments.

Significant Accounting Policies

(a) Premiums

Premiums written

Premiums written are earned on a pro-rata basis over the period the coverage is provided. Reinsurance premiums are recorded at the inception of the policy, are based upon contractual terms and, for certain business, are estimated based on underlying contracts or from information provided by insureds and/or brokers. Changes in reinsurance premium estimates are expected and may result in adjustments in future periods. Any subsequent differences arising on such estimates are recorded as premiums written in the period in which they are determined.

Certain contracts are retrospectively rated and provide for a final adjustment to the premium based on the final settlement of all losses. Premiums on such contracts are adjusted based upon contractual terms, and management judgment is involved with respect to the estimate of the amount of losses that we expect to incur. Additional premiums are recognized at the time loss thresholds specified in the contract are exceeded and are earned over the coverage period, or are earned immediately if the period of risk coverage has passed.

Premiums receivable

Premiums receivable represent amounts 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. We monitor the credit risk associated with premiums receivable, taking into consideration the impact of our contractual right to offset loss obligations or unearned premiums against premiums receivable. Amounts deemed uncollectible are charged to net earnings in the period they are determined. Changes in the estimates of premiums written will result in an adjustment to premiums receivable in the period they are determined.

Unearned premiums and prepaid reinsurance premiums

Unearned premiums represent the portion of premiums written that relate to the unexpired terms of policies in force. Premiums ceded are similarly pro-rated over the period the coverage is provided with the unearned portion being deferred as prepaid reinsurance premiums.

(b) Acquisition Costs

Acquisition costs, consisting principally of commissions and brokerage expenses and certain premium taxes and fees incurred at the time a contract or policy is issued and that vary with and are directly related to the successful efforts of acquiring new insurance contracts or renewing existing insurance contracts, are deferred and amortized over the period in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value by line of business based on the related unearned premiums, anticipated claims and claim expenses and anticipated investment income. A premium deficiency occurs if the sum of anticipated losses and loss adjustment expenses, unamortized acquisition costs and anticipated investment income exceed unearned premiums. A premium deficiency is recorded by charging any unamortized acquisition costs to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds unamortized acquisition costs then a liability is accrued for the excess deficiency.

(c) Losses and LAE

The reserves for unpaid reported losses and loss expenses are established by management based on reports from brokers, ceding companies and insureds and represent the estimated ultimate cost of events or conditions that have been reported to or specifically identified by us. The reserve for IBNR losses is established by us 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 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 earnings in the period in which they become known. Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves established in previous calendar years.

(d) Reinsurance Recoverable

Amounts billed to, and due from, reinsurers resulting from paid movements in the underlying business are calculated in accordance with the terms of the individual reinsurance contracts. Similarly, reinsurance balances recoverable related to our case reserves are calculated by applying the terms of any applicable reinsurance coverage to movements in the underlying case reserves. Our estimate of reinsurance balances recoverable related to IBNR reserves is recognized on a basis consistent with the underlying IBNR reserves.

Our reinsurance balances recoverable are presented net of a provision for uncollectible amounts, reflecting the amount deemed not collectible due to credit quality, collection problems due to the location of the reinsurer, contractual disputes with reinsurers over individual contentious claims, contract language or coverage issues.

The Company has ceded reinsurance agreements with affiliates of Enstar, as follows:

- With effect from January 1, 2014, the Company entered into a Loss Portfolio Transfer reinsurance contract (“LPT”) with Fitzwilliam Insurance Limited ("Fitzwilliam"), a wholly owned subsidiary of Enstar, through its Segregated Account 31 (“Fitzwilliam #31”), for all discontinued lines of business in relation to the 2013 and prior underwriting years.

- On December 15, 2016, the Company entered into a continuous 35% quota share reinsurance contract with KaylaRe Ltd (“KaylaRe”) pursuant to which KaylaRe reinsures 35% of all business written by StarStone Specialty, StarStone National, SISE and business written through Syndicate 1301 for risks attaching from January 1, 2016, net of third party reinsurance in relation to the 2016 and subsequent underwriting years. With effect from January 1, 2018, StarStone Specialty and StarStone National terminated their quota share reinsurance arrangement with KaylaRe on a run-off basis. With effect from January 1, 2019, KaylaRe terminated its quota share reinsurance arrangement with SISE and Syndicate 1301 on a run-off basis.

- With effect from October 1, 2018, the Company entered into a reinsurance contract with Fitzwilliam through its Segregated Account 41 (“Fitzwilliam #41”), for specific lines of business covering all losses occurring on or prior to October 1, 2018. Through this reinsurance agreement, the Company ceded net loss and loss adjustment expense reserves of $208 million to Fitzwilliam #41 subject to a contractual limit of $283 million on a net paid basis.

(e) Investments, Cash and Cash Equivalents

Short-term investments and fixed maturity investments

Short-term investments comprise investments with a maturity greater than three months up to one year from the date of purchase. Fixed maturities comprise investments with a maturity of greater than one year from the date of purchase.

Short-term and fixed maturity investments classified as trading are carried at fair value, with realized and unrealized holding gains and losses included in net earnings and reported as net realized and unrealized gains and losses. The costs of short-term and fixed maturity investments are adjusted for amortization of premiums and accretion of discounts, recognized using the effective yield method and included in net investment income. For mortgage-backed and asset-backed investments, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and reviewed on a regular basis.

Investment purchases and sales are recorded on a trade-date basis. Realized gains and losses on the sale of investments are based upon specific identification of the cost of investments.

Equities

Investments in equities relate to holdings of publicly traded equity securities which are carried at fair value with realized and unrealized holding gains and losses included in net earnings and reported as realized and unrealized gains and losses.

Other investments, at fair value

Other investments include private equity funds which comprise investments in senior secured bank loans and collateralized commercial and residential mortgage backed securities, fixed income funds, balanced fund, as well as direct investments in collateralized loan obligation ("CLO") equities. These other investments are stated at fair value, which ordinarily will be the most recently reported net asset value as advised by the fund manager or administrator. Many of the fund investments publish net asset values on a daily or weekly basis and provide liquidity on a daily, weekly or monthly basis. Private equities typically report quarterly. The change in fair value is included in net realized and unrealized gains and losses on investments and recognized in net earnings.

Cash and cash equivalents

Cash equivalents includes all highly liquid debt instruments purchased with an original maturity of three months or less.

(f) Funds Held

Under funds held arrangements, the reinsured companies have retained funds that would otherwise have been remitted to the Company. The funds held balance is carried at cost within other assets on the consolidated balance sheets and is credited with premiums and investment income, with losses payable and acquisition costs being deducted. The investment returns on the funds held balance are recognized in net investment income and net unrealized gains in the statements of earnings, to the extent such investment income accrues to the Company. The funds held balance represents the aggregate of funds held at cost and the value of an embedded derivative. The embedded derivative relates to our contractual right to receive the return on the underlying investment portfolio economics.

The Company holds a funds withheld liability balance due to its affiliated reinsurers Fitzwilliam #31, Fitzwilliam #41 and KaylaRe included within reinsurance balances payable on the consolidated balance sheets. In relation to Fitzwilliam #31, and as further described in Note 5 "Reinsurance Recoverable", the Company retains the underlying investments within a segregated investment portfolio and credits the total return on the investments to the funds withheld balance owing to Fitzwilliam #31. In relation to KaylaRe and Fitzwilliam #41 the Company credits the funds withheld account with a rate of interest that is pegged to a benchmark rate plus a specified margin with such investment income accruing to KaylaRe and Fitzwilliam #41 as the reinsurer.

(g) Foreign Exchange

The Company's reporting currency is the U.S. dollar. Foreign currency assets and liabilities that are considered monetary items are translated at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are translated at transaction date exchange rates. The resultant foreign exchange gains and losses are recognized in net earnings.

(h) Income Taxes

Certain of our subsidiaries operate in jurisdictions where they are subject to taxation. Current and deferred income taxes are charged or credited to net income, or, in certain cases, to accumulated other comprehensive income, based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes accruable or realizable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the financial statements and those used in the various jurisdictional tax returns. When our assessment indicates that it is more likely than not that all or some portion of deferred income tax assets will not be realized, a valuation allowance is recorded against the deferred tax assets.

We recognize a tax benefit relating to uncertain tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. A liability is recognized for any tax benefit (along with any interest and penalty, if applicable) claimed in a tax return in excess of the amount allowed to be recognized in the financial statements under U.S. GAAP. Any changes in amounts recognized are recorded in the period in which they are determined.

(i) Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. We perform an initial valuation of our goodwill assets and assess goodwill for impairment on an annual basis. If, as a result of the assessment, we determine the value of our goodwill asset is impaired, goodwill is written down in the period in which the determination is made.

Intangible assets represent the fair values of Lloyd's syndicate capacity, customer relationships and U.S. insurance licenses. Definite-lived intangible assets are amortized over their estimated useful lives. We recognize the amortization of all intangible assets in our consolidated statements of earnings. Indefinite-lived intangible assets are not subject to amortization. The carrying values of intangible assets are reviewed for indicators of impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. Impairment is recognized if the carrying values of the intangible assets are not recoverable from their undiscounted cash flows and is measured as the difference between the carrying value and the fair value.

(j) Retroactive Reinsurance

Retroactive reinsurance policies provide indemnification of losses and LAE with respect to past loss events. We use the balance sheet accounting approach for assumed and ceded loss portfolio transfers, whereby at the inception of the contract there are no premiums or losses recorded in earnings. The initial gain, if applicable, is deferred and amortized into income over the settlement period. Subsequent gains are deferred and amortized into income over the settlement period while subsequent losses are charged to income immediately.

(k) Software Development Costs

Direct internal and external costs to acquire or develop internal-use software are capitalized only after the preliminary project stage has been completed, and when management has authorized and committed to funding the project and it is probable that the project will be completed and the software will be used to perform the functions intended. Capitalized costs related to internal-use software are amortized on a straight-line basis over their estimated useful lives. These capitalized costs are also assessed for impairment when impairment indicators exist.

New Accounting Standards Adopted in 2018

Accounting Standards Update ("ASU") 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

In February 2017, the FASB issued ASU 2017-05 to clarify the scope of the Board's guidance on the derecognition of nonfinancial assets as codified in ASC 610-20, as well as the accounting for partial sales of nonfinancial assets. The ASU conforms the derecognition of nonfinancial assets with the model for transactions in the revenue standard, ASC 606. The ASU clarifies that ASC 610-20 applies to the derecognition of all nonfinancial assets and in-substance nonfinancial assets. The ASU also requires an entity to derecognize the nonfinancial asset or in-substance nonfinancial asset in a partial sale transaction when (1) the entity ceases to have a controlling financial interest in a subsidiary pursuant to ASC 810, and (2) control of the asset is transferred in accordance with ASC 606. We adopted this guidance on January 1, 2018 and the adoption did not have any impact on our consolidated financial statements and disclosures.

ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU 2016-16, which requires immediate recognition of the tax consequences of many intercompany asset transfers other than inventory. We adopted this guidance on January 1, 2018 and the adoption did not have any impact on our consolidated financial statements and disclosures.

ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, which amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. We adopted this guidance on January 1, 2018 and the adoption did not have any impact on our consolidated financial statements and disclosures.

ASUs 2016-01 and 2018-03, Recognition and Measurement of Financial Instruments

In January 2016, the FASB issued ASU 2016-01, which amends the guidance on the classification and measurement of financial instruments. Although the ASU retains many of the current requirements, it significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities, and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments.

In February 2018, the FASB also issued ASU 2018-03, which clarifies that entities should use a prospective transition approach only for equity securities they elect to measure using the new measurement alternative. The amendments also clarify that an entity that voluntarily discontinues using the measurement alternative for an equity security without a readily determinable fair value must measure that security and all identical or similar investments of the same issuer at fair value. Under this guidance, this election is irrevocable and will apply to all future purchases of identical or similar investments of the same issuer. The amendments also clarify other aspects of ASU 2016-01 regarding how to apply the measurement alternative and the presentation requirements for financial liabilities measured under the fair value option. The adoption of this guidance was contingent on the adoption of ASU 2016-01.

We adopted ASU 2016-01 as amended by ASU 2018-03 on January 1, 2018 using the modified retrospective approach and that adoption did not have any impact on our consolidated financial statements and disclosures.

ASUs 2014-09, 2016-08, 2016-10 and 2016-12, Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU applies to all contracts with customers except those that are within the scope of other topics within the FASB's codification, including ASC 944 - *Financial Services - Insurance*, ASC 320 - *Investments - Debt Securities*, ASC 321 - *Investments - Equity Securities*, ASC 323 - *Investments - Equity Method and Joint Ventures* and ASC 825 - *Financial Instruments*. However, while contracts within the scope of ASC 944 are excluded from the scope of the ASU, certain insurance-related contracts are in scope, for example contracts under which service providers charge their customers fixed fees in exchange for an agreement to provide services for an uncertain future event. Certain of the ASU's provisions also apply to transfers of non-financial assets and include guidance on recognition and measurement. Subsequently, the FASB issued ASUs 2016-08, 2016-10 and 2016-12 that either made targeted amendments to or clarified the implementation of ASU 2014-09.

We adopted ASU 2014-09 and the related amendments on January 1, 2018 using the modified retrospective method with prior periods not being restated. The adoption of this guidance and the related amendments did not have a material impact on our consolidated financial statements and related disclosures, since substantially all of our revenues are from sources that are within the scope of other FASB topics, primarily ASC 944, ASC 320, ASC 321, ASC 323 and ASC 825, and therefore are excluded from the scope of the revenue recognition standard.

Recently Issued Accounting Pronouncements Not Yet Adopted

ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurements

In August 2018, the FASB issued ASU 2018-13, which amended the fair value measurement guidance in ASC 820 - *Fair Value Measurement*, by removing and modifying certain existing disclosure requirements, while also adding new disclosure requirements. The ASU is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted, with the amendments being applied either prospectively or retrospectively, as specified in the ASU. In addition, an entity may elect to early adopt the removal or modification of disclosures immediately and delay the adoption of the new disclosure requirements until the effective date. We are currently assessing the impact of adopting this guidance however we do not expect the new or modified disclosures to have a material impact on our consolidated financial statements.

ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, which gives entities the option to reclassify to retained earnings tax effects related to items in accumulated other comprehensive income ("AOCI") that are deemed stranded in AOCI as a result of the Tax Cuts and Jobs Act (the "Tax Act") enacted in the United States at the end of 2017. The amendments in this guidance eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. The ASU is effective for interim and annual reporting periods beginning after December 15, 2018 but early adoption is permitted in any interim or annual period for which financial statements have not yet been issued. Entities also have the option of applying the ASU either (1) in the period of adoption or (2) retrospectively to each period in which the income tax effects of the Tax Act related to items in AOCI, are recognized. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements and related disclosures.

ASUs 2016-13 and 2018-19, Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, which is codified in ASC 326, amending the guidance on the impairment of financial instruments and significantly changing how entities measure credit losses for most financial assets and certain other financial instruments including reinsurance balances recoverable on paid and unpaid losses that are not measured at fair value through net income. The ASU will replace the existing “incurred loss” approach, with an “expected loss” model for instruments measured at amortized cost and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount under the existing other-than-temporary impairment ("OTTI") model. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. The ASU is effective for interim and annual reporting periods beginning after December 15, 2020. In November 2018, the FASB also issued ASU 2018-19 covering targeted improvements to ASU 2016-13, which clarifies that receivables arising from operating leases are not within the scope of ASC 326-20 and that instead, the impairment of such receivables should be accounted for in accordance with ASC 842 - *Leases*.

We expect to early adopt ASU 2016-13 and the related amendments on January 1, 2020 using the modified retrospective approach required by the standard. Upon adoption of the standard, for our reinsurance balances recoverable on paid and unpaid losses, the ASU will require us to determine a provision for credit losses associated with our reinsurers based on an “expected loss” approach which will likely differ from the provisions for uncollectible reinsurance balances recoverable on paid and unpaid losses that we have currently recorded, based on the “incurred loss” approach under existing guidance.

We are continuing to review all of our financial instruments as well as assets that are subject to credit risk, which at this point primarily relates to our reinsurance balances recoverable to determine the provisions for credit losses on the instruments and to quantify the impact of adopting the “expected loss” approach required by the ASU. While we anticipate an increase in our allowances for credit losses for the financial instruments and assets that are within the scope of the ASU given the objective of the new guidance, the magnitude of any increase will depend largely on the composition of our investment portfolio and the reinsurance balances recoverable, in addition to the prevailing economic conditions and forecasts at the time of our adoption of the ASU.

ASUs 2016-02, 2018-10 and 2018-11, Leases

In February 2016, the FASB issued ASU 2016-02, which is codified in ASC 842, amending the guidance on the classification, measurement and disclosure of leases for both lessors and lessees. The ASU requires lessees to recognize a right-of-use asset and an offsetting lease liability on the balance sheet and to disclose qualitative and quantitative information about leasing arrangements. Subsequently, in July 2018, the FASB issued ASU 2018-10, which clarifies how to apply certain aspects of ASC 842. The amendments in the ASU address a number of issues in the new leases guidance, including (1) the rate implicit in the lease, (2) impairment of the net investment in the lease, (3) lessee reassessment of lease classification, (4) lessor reassessment of lease term and purchase options, (5) variable payments that depend on an index or rate, and (6) certain transition adjustments.

In July 2018, the FASB also issued ASU 2018-11, which adds a transition option for all entities and a practical expedient only for lessors to ASU 2016-02. The transition option, which we elected on adoption of the guidance, allows entities to choose not to apply the new leases standard in the comparative periods they present in their financial statements in the year of adoption. Under the transition option, entities can instead opt to continue to apply the legacy guidance in ASC 840 - *Leases*, including its disclosure requirements, in the comparative periods presented in the year they adopt the new leases standard. This means that entities that elect this option will only provide annual disclosures for the comparative periods because ASC 840 does not require interim disclosures. Entities that elect this transition option will still be required to adopt the new leases standard using the modified retrospective transition method required by the standard, but they will recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. The practical expedient provides lessors with an option to not separate the non-lease components from the associated lease components when certain criteria are met and requires them to account for the combined component in accordance with the revenue recognition standard in ASC 606 if the associated non-lease components are the predominant components.

We adopted the new leasing standard and the related amendments on January 1, 2019 using the modified retrospective transition method as required by the standard, and based on the detailed analysis of our operating lease arrangements, we will recognize a right-of-use asset and an offsetting lease liability of approximately $20.0 million on our consolidated balance sheet, relating primarily to office space and facilities that we have leased to conduct our business operations.

3. INVESTMENTS

We hold trading portfolios of fixed maturity, short-term investments, equities and other investments, all carried at fair value.

Fixed Maturity Investments

Asset Types

The fair values of the underlying asset types of our short-term investments and fixed maturity investments, classified as trading were as follows as at December 31, 2018 and 2017:

	2018		
	Short-term investments	Trading	Total
U.S. government and agency	$ 3,746	$ 90,781	$ 94,527
U.K. government	—	8,461	8,461
Other government	—	1,876	1,876
Corporate	—	489,837	489,837
Municipal	—	26,338	26,338
Residential mortgage-backed	—	123,714	123,714
Commercial mortgage-backed	—	143,256	143,256
Asset backed	1,992	172,741	174,733
Total fixed maturity and short-term investments	$ 5,738	$ 1,057,004	$ 1,062,742

	2017		
	Short-term investments	Trading	Total
U.S. government and agency	$ 4,478	$ 88,993	$ 93,471
U.K. government	143	22,933	23,076
Other government	409	7,617	8,026
Corporate	—	445,247	445,247
Municipal	—	48,837	48,837
Residential mortgage-backed	—	116,661	116,661
Commercial mortgage-backed	—	122,078	122,078
Asset backed	—	211,899	211,899
Total fixed maturity and short-term investments	$ 5,030	$ 1,064,265	$ 1,069,295

Included within residential and commercial mortgage-backed securities as at December 31, 2018 were securities issued by U.S. governmental agencies with a fair value of $52.7 million (as at December 31, 2017: $51.8 million).

Contractual Maturities

The contractual maturities of our fixed maturity and short-term investments classified as trading are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

As of December 31, 2018	Amortized Cost	Fair Value	% of Total Fair Value
One year or less	$ 44,489	$ 43,706	4.1%
More than one year through two years	81,262	80,248	7.6%
More than two years through five years	320,007	314,493	29.6%
More than five years through ten years	172,647	169,444	15.9%
More than ten years	13,427	13,148	1.2%
Residential mortgage-backed	123,096	123,714	11.6%
Commercial mortgage-backed	143,640	143,256	13.5%
Asset backed	176,248	174,733	16.5%
	$ 1,074,816	$ 1,062,742	100.0%

Credit Ratings

The following table sets forth the credit ratings of our fixed maturity and short-term investments as of December 31, 2018:

	Amortized Cost	Fair Value	% of Total	AAA	AA	A	BBB	Non-Investment Grade	Not Rated
U.S. government and agency	$ 94,895	$ 94,527	8.9%	$ 94,467	$ 60	$ —	$ —	$ —	$ —
U.K Government	8,782	8,461	0.8%		8,461	—	—	—	—
Other government	2,026	1,876	0.2%	399	1,301	176	—	—	—
Corporate	499,597	489,837	46.1%	8,599	60,322	276,414	143,997	505	—
Municipal	26,532	26,338	2.5%	5,427	20,911	—	—	—	—
Residential mortgage-backed	123,096	123,714	11.6%	71,004	42,626	4,018	6,066	—	—
Commercial mortgage-backed	143,640	143,256	13.5%	45,433	16,687	41,757	38,713	150	516
Asset backed	176,248	174,733	16.4%	62,981	3,961	41,671	52,192	13,928	—
	$ 1,074,816	$ 1,062,742	100.0%	$ 288,310	$ 154,329	$ 364,036	$ 240,968	$ 14,583	$ 516

Equity Investment

The following table summarizes our equity investment carried at fair value as at December 31, 2018 and 2017:

	2018	2017
Publicly traded equity investment in common stock	$ 21,535	$ —

Other Investments, at fair value

The following table summarizes our other investments carried at fair value as of December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Euro fund	$ 73,485	$ —
Balanced fund	61,445	80,277
Global fixed income fund	55,979	37,894
High yield fixed income funds	46,428	106,414
Private equity funds	22,224	36,005
Hedge fund	19,534	—
Overseas deposits	1,875	3,112
CLO equities	—	351
	$ 280,970	$ 264,053

The valuation of our other investments is described in Note 4 - "Fair Value Measurements." The following is a description of the nature of each of these investment categories:

- The Euro fund, all of whose investors are Enstar subsidiaries and affiliates, comprises a position in a diversified fixed income fund and also direct holdings in fixed income and equity securities. The fund has regularly published prices and is redeemable weekly.
- The balanced fund, all of whose investors are Enstar subsidiaries and affiliates, comprises a number of positions in diversified fixed income, equity funds and also direct holdings in fixed income and equity securities. The fund has regularly published prices and is redeemable weekly.
- The global fixed income fund and high yield fixed income funds comprise a number of positions in diversified fixed income funds that are managed by third party managers. Underlying investments vary from high grade corporate bonds to non-investment grade senior secured loans and bonds, but are generally invested in liquid fixed income markets. These funds have regularly published prices. The funds have liquidity terms that vary from weekly to monthly.
- Private equity funds primarily consist of investments in the financial services industry. All of our investments in private equity funds are subject to restrictions on redemptions and sales that are determined by the governing documents and limit the Company's ability to liquidate those investments. These restrictions have been in place since the inception of the investments.
- The hedge fund invests in a wide range of instruments, including debt and equity securities, and utilizes various sophisticated strategies to achieve its objectives. The hedge fund is eligible for monthly redemption.
- Overseas deposits represent monies kept in overseas funds managed by Lloyd's. These funds are required in order to protect policyholders in overseas markets and enable the Syndicate to operate in those markets. Access to these funds is restricted and the Company cannot influence the investment strategy.
- CLO equities comprise investments in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. CLO equities denote direct investments by the Company in these securities.

As at December 31, 2018 the Company had unfunded commitments attributable to its other investments of $62.3 million.

Net Realized and Unrealized Gains (Losses)

Components of net realized and unrealized gains (losses) for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
Net realized losses on sale of fixed maturity securities	$ (3,339)	$ (2,459)
Net unrealized (losses) gains:		
Fixed maturity securities	(11,037)	6,487
Equity investments	3,075	—
Other investments	(3,922)	14,677
Total net unrealized (losses) gains on sale	(11,884)	21,164
Net realized (losses) and change in the fair value of embedded derivative:		
Net realized (losses) on fixed maturity securities	(382)	(98)
Change in fair value of embedded derivative	29	56
Net realized (losses) and change in the fair value of embedded derivative	(353)	(42)
Net realized and unrealized (losses) gains	$ (15,576)	$ 18,663

The net realized (losses) and change in the fair value of the embedded derivative relates to the total return on the assets retained by SGL 1 under the terms of the SGL 1 Reinsurance Agreement with the Company which is described in Note 2 to the consolidated financial statements. As of December 31, 2018, the Company has recorded an asset of $26.8 million (2017: $35.9 million) being the funds retained by SGL 1 under the terms of the SGL 1 Reinsurance Agreement and which is included within 'Other assets' in the consolidated balance sheets.

Net Investment Income

Major categories of net investment income for the years ended December 31, 2018 and 2017 are summarized as follows:

	2018	2017
Fixed maturity investments	$ 28,795	$ 23,829
Short-term investments and cash and cash equivalents	1,152	570
Equity investment	1,384	—
Interest income from affiliate	2,522	1,865
Funds Held	2,205	1,110
Gross investment income	36,058	27,374
Investment expenses	(2,386)	(1,719)
Net investment income	$ 33,672	$ 25,655

The interest income from affiliate of $2.5 million (2017: $1.9 million) relates to income from a loan advanced to Kenmare Holdings Ltd. as further described in Note 8 "Related Party Transactions".

Restricted Assets

We are required to maintain investments and cash and cash equivalents on deposit to support our insurance and reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. We also utilize trust accounts to collateralize business with our insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets in trusts as collateral are primarily highly rated fixed maturity securities.

The carrying value of our restricted assets as of December 31, 2018 and 2017, respectively, was as detailed below:

	2018	2017
Collateral in trust for third party agreements	$ 409,147	$ 458,093
Assets on deposit with regulatory authorities	135,085	118,959
Collateral for secured letter of credit facilities	37,385	38,037
Funds at Lloyd's	59,744	62,141
	$ 641,361	$ 677,230

4. FAIR VALUE MEASUREMENT

Fair value is defined as the price at which to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. We use a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The hierarchy is broken down into three levels as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

- Level 3 - Valuations based on unobservable inputs where there is little or no market activity. Unadjusted third party pricing sources or management's assumptions and internal valuation models may be used to determine the fair values.

In addition, certain of our other investments are measured at fair value using net asset value ("NAV") per share (or its equivalent) as a practical expedient and are not classified within the three levels of the fair value hierarchy described above. We have categorized our assets and liabilities that are recorded at fair value on a recurring basis among levels based on the observability of inputs, or at fair value using NAV per share (or its equivalent) as follows:

	December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value Based on NAV as Practical Expedient**	**Total Fair Value**
Investments:					
Fixed maturity investments:					
U.S. government and agency	$ —	$ 94,527	$ —	$ —	$ 94,527
U.K. government	—	8,461	—	—	8,461
Other government	—	1,876	—	—	1,876
Corporate	—	489,837	—	—	489,837
Municipal	—	26,338	—	—	26,338
Residential mortgage-backed	—	123,714	—	—	123,714
Commercial mortgage-backed	—	139,525	3,731	—	143,256
Asset-backed	—	167,275	7,458	—	174,733
	$ —	$ 1,051,553	$ 11,189	$ —	$ 1,062,742
Equities:					
Publicly traded equity investments	$ —	$ 21,535	$ —	$ —	$ 21,535
	$ —	$ 21,535	$ —	$ —	$ 21,535
Other investments:					
Euro fund	$ —	$ 73,485	$ —	$ —	$ 73,485
Balanced fund	—	61,445	—	—	61,445
Global fixed income fund	—	55,979	—	—	55,979
High yield fixed income funds	—	46,428	—	—	46,428
Private equity funds	—	—	—	22,224	22,224
Hedge fund	—	—	—	19,534	19,534
Overseas deposits	—	1,875	—	—	1,875
	$ —	$ 239,212	$ —	$ 41,758	$ 280,970
Total Investments	$ —	$ 1,312,300	$ 11,189	$ 41,758	$ 1,365,247
Cash and cash equivalents	$ 57,865	$ 4,989	$ —	$ —	$ 62,854

	December 31, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
Investments:					
Fixed maturity investments:					
U.S. government and agency	$ —	$ 93,471	$ —	$ —	$ 93,471
U.K. government	—	23,076	—	—	23,076
Other government	—	8,026	—	—	8,026
Corporate	—	444,872	375	—	445,247
Municipal	—	48,837	—	—	48,837
Residential mortgage-backed	—	114,681	1,980	—	116,661
Commercial mortgage-backed	—	117,649	4,429	—	122,078
Asset-backed	—	207,044	4,855	—	211,899
	$ —	$ 1,057,656	$ 11,639	$ —	$ 1,069,295
Other investments:					
Euro fund	—	—	—	—	—
Balanced fund	—	80,277	—	—	80,277
Global fixed income funds	—	37,894	—	—	37,894
High yield fixed income funds	—	85,944	—	20,470	106,414
Private equity funds	—	—	—	36,005	36,005
Overseas deposits	—	3,112	—	—	3,112
CLO equities	—	—	351	—	351
	$ —	$ 207,227	$ 351	$ 56,475	$ 264,053
Total Investments	$ —	$ 1,264,883	$ 11,990	$ 56,475	$ 1,333,348
Cash and cash equivalents	$ 15,726	$ —	$ —	$ —	$ 15,726

Valuation Methodologies of Financial Instruments Measured at Fair Value

Fixed Maturity Investments

The fair values for all securities in the fixed maturity investments are independently provided by the investment accounting service providers, investment managers and investment custodians, each of which utilize internationally recognized independent pricing services. We record the unadjusted price provided by the investment accounting service providers, investment managers or investment custodians and validate this price through a process that includes, but is not limited to: (i) comparison of prices against alternative pricing sources; (ii) quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark); (iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing; and (iv) comparing the price to our knowledge of the current investment market. Our internal price validation procedures and review of fair value methodology documentation provided by independent pricing services have not historically resulted in adjustment in the prices obtained from the pricing service.

The independent pricing services used by the investment accounting service providers, investment managers and investment custodians obtain actual transaction prices for securities that have quoted prices in active markets. Where we utilize single unadjusted broker-dealer quotes, they are generally provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. 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 speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value. In addition, pricing services use valuation models, using observable data, such as an Option Adjusted Spread model, to develop prepayment and interest rate scenarios. The Option Adjusted Spread model is commonly used to estimate fair value for securities such as mortgage-backed and asset-backed securities.

The following describes the techniques generally used to determine the fair value of our fixed maturity investments by asset class:

- U.S. government and agency securities consist of securities issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. 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 as Level 2.
- Municipal securities consist primarily of bonds issued by U.S.-domiciled state and municipal entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2.
- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2. Where pricing is unavailable from pricing services, such as in periods of low trading activity or when transactions are not orderly, we obtain non-binding quotes from broker-dealers. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.
- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. 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, prepayment speeds and default rates. The fair values of these securities are classified as Level 2 if the significant inputs are market observable. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

Equities

Our investment in equity securities consists of an investment in a publicly traded company which however trades in an inactive market and, as a result has been classified as Level 2.

Other investments, at fair value

We have ongoing due diligence processes with respect to the other investments carried at fair value in which we invest and their managers. These processes are designed to assist us in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, we obtain the audited financial statements for funds annually, and regularly review and discuss the fund performance with the fund managers to corroborate the reasonableness of the reported NAV.

The use of NAV as an estimate of the fair value for investments in certain entities that calculate NAV is a permitted practical expedient. Due to the time lag in the NAV reported by certain fund managers we adjust the valuation for capital calls and distributions. Other investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. Other investments for which we do not use NAV as a practical expedient have been valued using prices from independent pricing services, investment managers and broker-dealers.

The following describes the techniques generally used to determine the fair value of our other investments:

- Our investments in the Euro fund, fixed income funds and balanced fund are valued based on a combination of prices from independent pricing services, external fund managers or third-party administrators. For the publicly available prices we have classified the investments as Level 2. For the non-publicly available prices we are using NAV as a practical expedient and therefore these have not been categorized within the fair value hierarchy.
- For our investments in private equity funds, we measure fair value by obtaining the most recently available NAV from the external fund manager or third-party administrator. The fair values of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.

- For our investments in the hedge fund, we measure fair value by obtaining the most recently available NAV as advised by the external fund manager or third-party administrator. The fair values of this investment is measured using the NAV as a practical expedient and therefore has not been categorized within the fair value hierarchy.
- We measure the fair value of our direct investment in CLO equities based on valuations provided by our external CLO equity manager. If the investment does not involve an external CLO equity manager, the fair value of the investment is valued based on valuations provided by the broker or lead underwriter of the investment (the "broker"). Our CLO equity investments have been classified as Level 3 due to the use of unobservable inputs in the valuation and the limited number of relevant trades in secondary markets.
- Overseas deposits represent monies kept in overseas funds managed by Lloyd's. These funds are required in order to protect policyholders in overseas markets and enable the Syndicate to operate in those markets. Access to these funds is restricted and the Company cannot influence the investment strategy. Our overseas deposits have been classified as Level 2 within the fair value hierarchy.

Level 3 Measurements and Changes in Leveling

Transfers into or out of levels are recorded at their fair values as of the end of the reporting period, consistent with the date of determination of fair value.

Investments

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the years ended December 31, 2018 and 2017:

	2018					
	Corporate	**Residential mortgage-backed**	**Commercial mortgage-backed**	**Asset-backed**	**Other Investments**	**Total**
Beginning fair value	$ 375	$ 1,980	$ 4,429	$ 4,855	$ 351	$ 11,990
Purchases	—	—	446	14,023	—	14,469
Sales	(375)	(85)	(892)	(15,409)	(270)	(17,031)
Total realized and unrealized gains (losses)	—	(27)	46	(1,487)	(81)	(1,549)
Transfers into Level 3 from Level 2	—	1,795		8,679	—	10,474
Transfers out of Level 3 into Level 2	—	(3,663)	(298)	(3,203)	—	(7,164)
Ending fair value	$ —	$ —	$ 3,731	$ 7,458	$ —	$ 11,189

	2017					
	Corporate	**Residential mortgage-backed**	**Commercial mortgage-backed**	**Asset-backed**	**Other Investments**	**Total**
Beginning fair value	$ —	$ —	$ 2,203	$ 4,188	$ 364	$ 6,755
Purchases	—	710	8,237	1,622	—	10,569
Sales	—	(37)	(690)	(8,390)	—	(9,117)
Total realized and unrealized gains (losses)	—	(15)	195	91	(13)	258
Transfers into Level 3 from Level 2	375	1,985	3,760	30,999	—	37,119
Transfers out of Level 3 into Level 2	—	(663)	(9,276)	(23,655)	—	(33,594)
Ending fair value	$ 375	$ 1,980	$ 4,429	$ 4,855	$ 351	$ 11,990

Net realized and unrealized gains (losses) related to our Level 3 investments summarized on the tables above are included in net realized and unrealized gains(losses) in our consolidated statements of earnings.

The securities transferred from Level 2 to Level 3 were transferred due to insufficient market observable inputs for the valuation of the specific investments. The transfers from Level 3 to Level 2 were based upon us obtaining market observable information regarding the valuations of the specific assets.

5. REINSURANCE RECOVERABLE

The Company has used retrocessional agreements to reduce its exposure to the risk of insurance and reinsurance assumed. The purchase of reinsurance does not legally discharge the Company from its primary gross liability and therefore the Company remains liable to the extent that its reinsurers do not meet their obligations under these reinsurance agreements. The Company continuously evaluates and monitors the concentration of its credit risk among its reinsurers and provisions are made for amounts considered potentially uncollectible. Reinsurers that are not considered to meet the Company's security requirements are required to provide collateral or a guarantee from a parent or group company with appropriate security.

Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

The effects of reinsurance on premiums written and earned for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Premiums Written:		
Direct	$ 691,675	$ 587,266
Assumed	429,460	307,894
Total Gross Premium Written	1,121,135	895,160
Ceded Premium Written	(450,223)	(430,259)
Net Premium Written	$ 670,912	$ 464,901
Premiums Earned:		
Direct	$ 638,853	$ 609,953
Assumed	369,714	255,753
Total Gross Premiums Earned	1,008,567	865,706
Ceded Premiums Earned	(447,555)	(405,756)
Net Premiums Earned	$ 561,012	$ 459,950

The following table provides the total reinsurance balances recoverable as of December 31, 2018 and 2017:

	2018	2017
Recoverable from reinsurers on unpaid:		
Outstanding losses	$ 573,293	$ 283,514
IBNR	502,319	300,295
Total reinsurance balances recoverable	1,075,612	583,809
Paid losses recoverable	28,078	27,585
	$ 1,103,690	$ 611,394

The following table summarizes our reinsurance balances recoverable by reinsurer and rating as appropriate, as of December 31, 2018 and 2017:

	2018	2017
Fitzwilliam #31	$ 104,856	$ 129,538
Fitzwilliam #41	258,268	—
KaylaRe	154,121	120,018
Reinsurers rated A+ or above by AM Best	360,895	137,054
Reinsurers rated A by AM Best	149,782	195,187
Reinsurers rated A- or below by AM Best	31,318	9,515
Reinsurers secured by collateral / guarantees	44,450	20,082
	$ 1,103,690	$ 611,394

Retroactive Reinsurance Arrangements

The Company has entered into a series of reinsurance agreements which have been accounted for on a retroactive basis. As further discussed within Note 2 - ″Significant Accounting Policies", in the event that the cumulative loss and allocated loss adjustment expenses ceded under the retroactive reinsurance agreements exceed the consideration paid, the resulting gain from such excess is deferred. A portion of the deferred gain is cumulatively recognized in earnings in the period such excess arises as if the revised estimate was available at the inception date of the contract.

The table below provides a consolidated reconciliation of the beginning and ending deferred gain arising on the retroactive reinsurance agreements for the years ended December 31, 2018 and 2017:

	2018			
	Fitzwilliam #31	KaylaRe	Fitzwilliam #41	Total
Balance as at January 1	$ 23,386	$ 1,765	$ —	$ 25,151
Retroactive reinsurance (loss) gain	(597)	—	49,634	49,037
Amortization of gain	(2,509)	(1,765)	—	(4,274)
Balance as at December 31	$ 20,280	$ —	$ 49,634	$ 69,914

	2017		
	Fitzwilliam #31	KaylaRe	Total
Balance as at January 1	$ 28,547	$ 2,015	$ 30,562
Retroactive reinsurance gain	5,427	905	6,332
Amortization of gain	(10,588)	(1,155)	(11,743)
Balance as at December 31	$ 23,386	$ 1,765	$ 25,151

Fitzwilliam #31:

In 2014, the Company completed an LPT with Fitzwilliam #31, under which all of the Company’s legacy discontinued liabilities were ceded to Fitzwilliam #31 under a retroactive reinsurance agreement. Under the terms of the LPT transaction, the Company ceded approximately $359.7 million of retrospective losses and loss adjustment expenses and $45.6 million of prepaid premiums net of acquisition costs in relation to future insurable losses. The $359.7 million of loss and allocated loss adjustment expense reserves ceded to Fitzwilliam #31 was net of $168.8 million of ceded loss and allocated loss adjustment expense reserves under existing third-party reinsurance contracts. Enstar and Trident have guaranteed the payment obligations of Fitzwilliam #31 up to the full aggregate reinsurance limit. The LPT agreement with Fitzwilliam #31 is on a funds withheld basis. The Company has established a segregated investment portfolio in relation to the LPT which is shown as part of investments within the consolidated balance sheet and has a fair value as at December 31, 2018 of $87.9 million (2017: $115.6 million). For the year ended December 31, 2018, a change in retroactive reinsurance loss of $0.6 million was recognized and $2.5 million of the deferred retroactive gain was amortized by the Company and recognized in earnings.

KaylaRe

The Company recorded a deferred retroactive reinsurance gain arising from its quota share treaty with KaylaRe which was entered into on December 15, 2016 but became effective from January 1, 2016. For the year ended December 31, 2018, $1.8 million of this deferred retroactive reinsurance gain was amortized by the Company and recognized in earnings.

Fitzwilliam #41

Effective October 1, 2018, the Company entered into a reinsurance agreement with Fitzwilliam #41, under which $208.0 million of loss reserves, in excess of an attachment point of $97.0 million, were reinsured in respect of all losses occurring on or prior to October 1, 2018.

From inception of the contract on October 1, 2018 to December 31, 2018, the amounts ceded under the agreement increased by $49.6 million, which was fully deferred. There was no amortization of the retroactive gain through earnings for the year ended December 31, 2018 as the ceded paid recoveries under the contract have not yet exceeded the attachment point. The deferred amount will be recognized in earnings in future periods in proportion to recoveries made by the Company under the agreement. Enstar and Trident have guaranteed the payment obligations of Fitzwilliam #41 up to the full aggregate reinsurance limit.

6. LOSS AND LOSS ADJUSTMENT EXPENSES

The liability for losses and LAE, also referred to as loss reserves, represents our gross estimates before reinsurance for unpaid reported losses and losses that have been incurred but not reported ("IBNR"). We recognize an asset for the portion of the liability that we expect to recover from reinsurers. LAE reserves include allocated loss adjustment expenses ("ALAE"), and unallocated loss adjustment expenses ("ULAE"). ALAE are linked to the settlement of an individual claim or loss, whereas ULAE are based on our estimates of future costs to administer the claims. IBNR represents reserves for losses and LAE that have been incurred but not yet reported to us. This includes amounts for unreported claims, development on known claims and reopened claims.

The following table summarizes the liability for losses and LAE as of December 31, 2018 and 2017:

	2018	2017
Outstanding losses	$ 853,069	$ 662,624
IBNR	831,364	649,715
ULAE	29,587	24,745
Losses and LAE	1,714,020	1,337,084
Deferred retroactive reinsurance gain	69,914	25,151
Total losses and LAE and deferred retroactive reinsurance gain	$ 1,783,934	$ 1,362,235

The table below provides a consolidated reconciliation of the beginning and ending liability for losses and LAE for the years ended December 31, 2018 and 2017:

	2018	2017
Loss and loss adjustment expenses	$ 1,337,084	$ 1,229,543
Less: reinsurance recoverable on unpaid losses	(583,809)	(530,723)
Deferred gain on retroactive reinsurance	25,151	30,562
Net balance as at January 1	778,426	729,382
Net incurred losses and LAE:		
Current year	406,028	341,628
Prior periods	76,339	(25,628)
Movement in the deferred gain on retroactive reinsurance contracts	44,763	(5,411)
Total net incurred losses and LAE	527,130	310,589
Net losses paid:		
Current year	(119,439)	(54,867)
Prior periods	(269,236)	(252,926)
Total net paid losses	(388,675)	(307,793)
Assumed business	10,268	31,393
Ceded business	(208,634)	—
Effect of exchange rate movement	(10,193)	14,855
Net unpaid losses and LAE reserves as at December 31	638,408	753,275
Plus: reinsurance recoverables on unpaid losses as at December 31	1,075,612	583,809
Losses and loss adjustment expenses	1,714,020	1,337,084
Deferred gain on retroactive reinsurance	69,914	25,151
Gross balance as at December 31	$ 1,783,934	$ 1,362,235

Net change in incurred losses and LAE reserves comprises of, (1) the movement during the year in specific case reserve liabilities as a result of claims settlements or changes advised to us by our policyholders and attorneys, less changes in case reserves recoverable advised by us to our reinsurers as a result of the settlement or movement of assumed claims, and (2) the net change in IBNR which represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

For the year ended December 31, 2018, the Company recorded an overall net increase in ultimate losses and loss adjustment expense liabilities of $527.1 million. Current year loss activity was $406 million in 2018, driven in part by an accumulation of large losses in the current year which impacted our international property, construction, marine cargo and marine hull and war lines of business. The Company recorded net adverse prior period reserve development of $76.3 million primarily due to U.S. healthcare, excess casualty, marine, aviation and construction lines of business. The assumed business of $10.3 million relates to additional business assumed after the reinsurance to close of the 2015 and prior year of account for our participation within Syndicate 1301. The ceded business of $208.6 million represents the initial cession with Fitzwilliam #41 which has been accounted for on a retroactive basis as further discussed in Note 5 - "Reinsurance Recoverable".

For the year ended December 31, 2017, the Company recorded an overall net increase in ultimate losses and loss adjustment expense liabilities of $310.6 million. The Company recorded a net favorable prior period reserve development of $25.6 million primarily due to lower than expected incurred loss development related to worker's compensation and US excess casualty lines of business. The current year net incurred loss and LAE amount of $341.6 million includes $53.4 million of net incurred losses in respect of the large catastrophe events that occurred in the third quarter of 2017 relating to hurricanes Harvey, Irma and Maria. The assumed business of $31.4 million relates to additional business assumed after the reinsurance to close of the 2014 and prior year of account for our participation within Syndicate 1301.

Loss Development Information

Methodology for Establishing Loss Reserves

The liability for losses and LAE includes an amount determined from reported claims and an amount based on historical loss experience and industry statistics for IBNR using a variety of actuarial methods. Our loss reserves cover multiple lines of business, which include casualty, marine, property, aerospace and workers' compensation. Management, through our loss reserving committee, considers the reasonableness of loss reserves recommended by our actuaries, including actual loss development during the year.

Case reserves are recognized for known claims (including the cost of related litigation) when sufficient information has been reported to us to indicate the involvement of a specific insurance policy. We use considerable judgment in estimating losses for reported claims on an individual claim basis based upon our knowledge of the circumstances surrounding the claim, the severity of the injury or damage, the jurisdiction of the occurrence, the potential for ultimate exposure, the type of loss, and our experience with the line of business and policy provisions relating to the particular type of claim. The reserves for unpaid reported losses and LAE are established by management based on reports from brokers, ceding companies and insureds and represent the estimated ultimate cost of events or conditions that have been reported to, or specifically identified, by us. We also consider facts currently known and the current state of the law and coverage litigation.

IBNR reserves are established by management based on actuarially determined estimates of ultimate losses and loss expenses. We use generally accepted actuarial methodologies to estimate ultimate losses and LAE and those estimates are reviewed by our management. In addition, the routine settlement of claims, at either below or above the carried advised loss reserves, updates historical loss development information to which actuarial methodologies are applied, often resulting in revised estimates of ultimate liabilities. On an annual basis, we engage an independent actuarial firm to review the estimates of ultimate losses developed by our actuaries, for reasonableness.

Within the annual loss reserve studies produced by our actuaries, our assumed exposures are separated into homogeneous reserving categories for the purpose of estimating IBNR. Each reserving category contains either direct insurance or assumed reinsurance reserves and groups relatively similar types of risks and exposures (for example, casualty, property, workers compensation) and lines of business written (for example, marine, aviation, non-marine). Based on the exposure characteristics and the nature of available data for each individual reserving category, a number of methodologies are applied. Recorded reserves for each category are selected from the actuarial indications produced by the various methodologies after consideration of exposure characteristics, data limitations and strengths and weaknesses of each method applied. This approach to estimating IBNR has been consistently adopted in the annual loss reserve studies for each period presented.

The estimation of unpaid claim liabilities at any given point in time is subject to a high degree of uncertainty for a number of reasons. A significant amount of time can lapse between the assumption of risk, the occurrence of a loss event, the reporting of the event to an insurance or reinsurance company and the ultimate payment of the claim on the loss event. Our actuarial methodologies include industry benchmarking which, under certain methodologies, compares the trend of our loss development to that of the industry. To the extent that the trend of our loss development compared to the industry changes in any period, it is likely to have an impact on the estimate of ultimate liabilities. Unpaid claim liabilities for property and casualty exposures in general are impacted by changes in the legal environment, jury awards, medical cost trends and general inflation. Certain estimates for unpaid claim liabilities involve considerable uncertainty due to significant coverage litigation, and it can be unclear whether past claim experience will be representative of future claim experience. Ultimate values for such claims cannot be estimated using reserving techniques that extrapolate losses to an ultimate basis using loss development factors, and the uncertainties surrounding the estimation of unpaid claim liabilities are not likely to be resolved in the near future. In addition, reserves are established to cover loss development related to both known and unasserted claims. Consequently, our subsequent estimates of ultimate losses and LAE, and our liability for losses and LAE, 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 earnings in the period in which they become known. Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves established in previous calendar years.

Disclosures of Incurred and Paid Loss Development, IBNR, Claims Counts and Payout Percentages

The loss development tables disclosed below, sets forth our historic incurred and paid loss development by accident year through December 31, 2018, net of reinsurance, as well as the cumulative number of reported claims, IBNR balances, and other supplementary information. All the lines of business related to the Company have been included within the loss development disclosures below, namely, Casualty, Marine, Property, Aerospace and Workers' Compensation with the exception of the legacy discontinued liabilities which have been fully ceded to Fitzwilliam #31, as described in Note 5 "Reinsurance Recoverable", as the Company has no net liability with respect to these reserves.

Cumulative Number of Reported Claims

Reported claim counts, on a cumulative basis, are provided as supplemental information to each incurred loss development table by accident year. The claim frequency information is determined at the claimant level for the exposures within the Company's lines of business disclosed within the loss development tables below. Our claims system assigns a unique claim identifier to each reported claim we receive. Each unique claim identifier is deemed to be a single claim, irrespective of whether the claim remains open or has been closed with or without payment. For certain insurance facilities and business produced or managed by managing general agents, coverholders and third party administrators where the underlying claims data is reported to us in an aggregated format, the information necessary to provide cumulative claims frequency is not available. In such cases, we typically record a "block" claim in our system. This also applies to a small amount of assumed reinsurance business that we write where, similarly, the underlying claims data is reported to us in an aggregated format. In such instances, each assumed reinsurance contract is deemed a single claim.

Summary of Liability for Losses and LAE by Line of Business

The following table provides a breakdown of the Company's liability for losses and LAE reserves by line of business, including the LPT with Fitzwilliam #31, as of December 31, 2018 and 2017. The reinsurance agreement with Fitzwilliam #41 has a $97 million attachment point, as further described in Note 5 - "Reinsurance Recoverable", and therefore the Company retains certain exposures relating to this business which are included within the losses and LAE reserves related to the Casualty, Marine, Property, Aerospace and Workers' Compensation lines of business reflected on the table below.

	2018					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
Casualty	$ 164,498	$ 334,679	$ 499,177	$ 101,700	$ 209,423	$ 311,123
Marine	185,084	182,453	367,537	93,789	40,460	134,249
Property	306,065	123,157	429,222	52,970	20,757	73,727
Aerospace	67,203	40,416	107,619	7,755	6,551	14,306
Workers' Compensation	49,373	110,082	159,455	27,333	57,692	85,025
LPT with Fitzwilliam #31	80,846	40,577	121,423	—	—	—
Total	$ 853,069	$ 831,364	$ 1,684,433	$ 283,547	$ 334,883	$ 618,430
ULAE			29,587			19,978
Total			**$ 1,714,020**			**$ 638,408**

	2017					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
Casualty	$ 139,200	$ 282,789	$ 421,989	$ 98,070	$ 188,518	$ 286,588
Marine	130,962	118,375	249,337	94,115	69,828	163,943
Property	208,777	89,963	298,740	115,147	39,280	154,427
Aerospace	63,703	25,534	89,237	40,564	16,519	57,083
Workers' Compensation	48,118	82,024	130,142	31,212	41,920	73,132
LPT with Fitzwilliam #31	71,864	51,030	122,894	—	—	—
Total	$ 662,624	$ 649,715	$ 1,312,339	$ 379,108	$ 356,065	$ 735,173
ULAE			24,745			18,102
Total			**$ 1,337,084**			**$ 753,275**

Incurred and Paid Loss Development by Line of Business

The following tables set forth information about incurred and paid loss development information for all of the Company's lines of business as at December 31, 2018. The information on the incurred losses and loss expenses and cumulative paid losses and loss expenses as of December 31, 2018 is presented net of reinsurance. The information related to incurred and paid loss development for the years ended December 31, 2014 through 2017 is presented as supplementary information and is therefore unaudited. The information in the incurred and paid loss development tables below is presented on a prospective basis from the date of the acquisition of the Company by Enstar, Trident V and Dowling through SSHL as described in Note 1 - "Description of Business" since providing pre-acquisition incurred and paid losses by accident year for years prior to 2014 was determined to be impracticable due to significant data limitations.

Casualty

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Years Ended December 31,					As of December 31, 2018	
Accident Year	**2014 (Unaudited)**	**2015 (Unaudited)**	**2016 (Unaudited)**	**2017 (Unaudited)**	**2018**	**IBNR***	**Cumulative Number of Claims**
2008 and Prior	$ 60,044	$ 60,046	$ 60,119	$ 60,041	$ 60,077	$ —	2,080
2009	20,026	20,085	20,085	20,089	20,261	3	463
2010	16,173	17,320	17,406	18,085	18,103	171	728
2011	20,969	25,275	25,633	24,861	24,516	466	2,034
2012	56,901	48,179	43,901	40,082	39,191	978	3,121
2013	72,918	66,628	77,630	76,072	72,535	4,801	4,974
2014	91,491	92,600	92,857	90,459	85,871	10,882	5,694
2015		104,603	111,262	110,453	113,391	19,555	4,698
2016			101,688	98,948	103,413	26,653	4,363
2017				95,720	109,050	49,497	4,613
2018					126,444	96,417	2,982
				Total	$ 772,852	$ 209,423	35,750

* Total of IBNR plus expected development on reported losses.

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Years Ended December 31,				
Accident Year	**2014 (Unaudited)**	**2015 (Unaudited)**	**2016 (Unaudited)**	**2017 (Unaudited)**	**2018**
2008 and Prior	$ 60,044	$ 60,046	$ 60,119	$ 60,041	$ 60,077
2009	20,026	20,085	20,085	20,089	20,261
2010	15,113	17,320	17,406	18,085	18,103
2011	15,605	20,945	23,612	24,176	24,516
2012	18,348	29,436	32,625	33,873	36,372
2013	23,056	30,400	50,018	54,570	60,273
2014	5,737	21,884	37,575	50,740	64,658
2015		8,121	27,389	49,136	68,363
2016			3,655	32,787	60,090
2017				6,073	33,203
2018					15,813
				Total	461,729
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance					$ 311,123

The reconciliation of incurred and paid loss development to the liability for unpaid losses and LAE as presented in the tables above for the year ended December 31, 2018 is set forth below:

	2018
Liabilities for unpaid losses and allocated LAE, net of reinsurance	$ 311,123
Reinsurance recoverable on unpaid losses	188,054
Gross liability for unpaid losses and LAE	$ 499,177

The following is unaudited supplementary information for average annual historical duration of claims:

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Casualty	6.7%	20.9%	17.0%	20.6%	12.5%	8.3%	1.9%	1.3%	— %	0.5%

Marine

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Years Ended December 31,				As of December 31, 2018		
Accident Year	2014 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018	IBNR*	Cumulative Number of Claims
2008 and Prior	$ 16,526	$ 16,557	$ 16,600	$ 16,620	$ 16,644	$ —	1,361
2009	10,420	10,321	10,294	10,307	10,308	—	629
2010	22,356	19,282	19,123	19,185	18,992	205	1,026
2011	29,616	27,854	27,430	27,469	27,712	392	1,953
2012	48,187	51,686	51,341	50,073	50,641	292	2,414
2013	62,952	55,068	52,846	53,780	55,628	78	2,210
2014	50,259	53,650	48,624	55,074	49,385	211	3,931
2015		71,122	70,134	79,611	72,194	1,227	5,605
2016			64,404	60,353	54,971	4,240	6,679
2017				87,721	72,087	12,227	7,799
2018					86,642	21,588	6,302
				Total	$ 515,204	$ 40,460	39,909

* Total of IBNR plus expected development on reported losses.

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Years Ended December 31,				
Accident Year	2014 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018
2008 and Prior	$ 16,518	$ 16,557	$ 16,600	$ 16,620	$ 16,644
2009	10,298	10,309	10,291	10,298	10,308
2010	16,307	18,337	18,415	18,386	18,450
2011	24,366	25,419	26,392	26,639	26,748
2012	38,547	42,684	44,509	45,294	45,742
2013	29,186	38,324	42,405	44,863	46,921
2014	10,930	24,933	32,463	36,908	42,560
2015		10,883	30,685	50,222	56,305
2016			10,774	33,305	44,654
2017				16,156	43,980
2018					28,643
				Total	$ 380,955
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance					$ 134,249

The reconciliation of incurred and paid loss development to the liability for unpaid losses and LAE as presented in the tables above for the year ended December 31, 2018 is set forth below:

		2018
Liabilities for unpaid losses and allocated LAE, net of reinsurance	$	134,249
Reinsurance recoverable on unpaid losses		233,288
Gross liability for unpaid losses and LAE	$	367,537

The following is unaudited supplementary information for average annual historical duration of claims:

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Marine	17.1%	27.1%	17.8%	7.8%	5.7%	4.8%	0.5%	0.1%	0.2%	0.1%

Property

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Years Ended December 31,					As of December 31, 2018	
Accident Year	2014 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018	IBNR*	Cumulative Number of Claims
2008 and Prior	$ 84,812	$ 84,652	$ 84,265	$ 84,500	$ 81,210	$ —	1,835
2009	28,360	27,824	28,297	28,550	31,398	—	1,060
2010	74,412	72,959	71,600	71,661	70,995	—	1,561
2011	90,707	89,271	89,305	88,991	87,578	—	1,612
2012	65,516	61,422	60,420	61,350	56,061	—	1,495
2013	77,944	64,848	64,509	63,673	58,865	—	1,956
2014	58,855	43,619	42,917	43,308	36,919	—	2,077
2015		78,721	76,362	70,132	66,140	—	5,580
2016			73,497	79,149	68,844	—	6,710
2017				105,384	84,664	1,160	7,766
2018					95,496	19,597	4,383
				Total	$ 738,170	$ 20,757	36,035

* Total of IBNR plus expected development on reported losses.

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Years Ended December 31,				
Accident Year	**2014 (Unaudited)**	**2015 (Unaudited)**	**2016 (Unaudited)**	**2017 (Unaudited)**	**2018**
2008 and Prior	$ 84,362	$ 84,594	$ 84,265	$ 84,278	$ 80,906
2009	27,693	27,731	28,088	28,325	31,398
2010	68,605	71,491	71,600	71,661	70,995
2011	86,986	88,197	88,697	88,944	87,578
2012	47,879	51,935	54,072	55,027	56,061
2013	30,763	46,146	50,932	52,982	58,865
2014	5,470	18,727	31,426	34,347	36,919
2015		10,410	28,582	55,204	64,268
2016			23,110	48,876	62,024
2017				24,623	64,500
2018					50,929
				Total	$ 664,443
				Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	$ 73,727

The reconciliation of incurred and paid loss development to the liability for unpaid losses and LAE as presented in the tables above for the year ended December 31, 2018 is set forth below:

	2018
Liabilities for unpaid losses and allocated LAE, net of reinsurance	$ 73,727
Reinsurance recoverable on unpaid losses	355,495
Gross liability for unpaid losses and LAE	$ 429,222

The following is unaudited supplementary information for average annual historical duration of claims:

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Property	21.9%	30.3%	27.1%	8.5%	3.6%	3.9%	0.5%	—%	—%	2.8%

Aerospace

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Years Ended December 31,					As of December 31, 2018	
Accident Year	**2014 (Unaudited)**	**2015 (Unaudited)**	**2016 (Unaudited)**	**2017 (Unaudited)**	**2018**	**IBNR***	**Cumulative Number of Claims**
2008 and Prior	$ —	$ —	$ —	$ —	$ —	$ —	—
2009	—	—	—	—	—	—	—
2010	18,516	18,144	18,454	18,956	18,594	—	572
2011	58,771	57,244	57,668	58,102	57,518	—	2,188
2012	55,720	55,418	56,261	56,214	55,421	2	2,410
2013	72,065	70,148	70,475	74,847	72,502	2	2,549
2014	65,227	53,549	53,563	52,342	46,821	6	2,830
2015		66,347	69,500	72,503	66,345	72	2,922
2016			30,663	35,030	30,041	438	2,783
2017				18,945	14,500	25	2,809
2018					29,118	6,006	1,682
				Total	$ 390,860	$ 6,551	20,745

* Total of IBNR plus expected development on reported losses.

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Years Ended December 31,				
Accident Year	**2014 (Unaudited)**	**2015 (Unaudited)**	**2016 (Unaudited)**	**2017 (Unaudited)**	**2018**
2008 and Prior	$ —	$ —	$ —	$ —	$ —
2009	—	—	—	—	—
2010	15,471	16,615	17,218	18,274	18,558
2011	53,812	55,170	55,850	56,427	57,020
2012	45,950	49,381	52,191	53,668	54,859
2013	50,856	59,845	63,417	68,735	72,502
2014	17,307	31,165	38,439	40,686	44,024
2015		32,375	52,180	60,813	63,986
2016			10,173	24,821	28,604
2017				6,699	14,500
2018					22,501
				Total	$ 376,554
	Total outstanding liabilities for unpaid losses and LAE, net of reinsurance				$ 14,306

The reconciliation of incurred and paid loss development to the liability for unpaid losses and LAE as presented in the tables above for the year ended December 31, 2018 is set forth below:

	2018
Liabilities for unpaid losses and allocated LAE, net of reinsurance	$ 14,306
Reinsurance recoverable on unpaid losses	93,313
Gross liability for unpaid losses and LAE	$ 107,619

The following is unaudited supplementary information for average annual historical duration of claims:

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Aerospace	35.9%	31.7%	11.2%	4.6%	4.9%	3.6%	2.1%	3.3%	1.5%	—%

Workers' Compensation

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Years Ended December 31,					As of December 31, 2018	
Accident Year	2014 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018	IBNR*	Cumulative Number of Claims
2008 and Prior	$ —	$ —	$ —	$ —	$ —	$ —	—
2009	—	—	—	—	—	—	—
2010	—	—	—	—	—	—	—
2011	—	—	—	—	—	—	—
2012	—	—	—	—	—	—	—
2013	—	—	—	—	—	—	—
2014	15,607	17,199	18,290	15,662	15,202	1,755	1,062
2015		54,977	55,505	50,103	47,338	6,620	2,517
2016			52,997	45,464	48,568	12,393	2,489
2017				28,025	25,491	11,702	2,079
2018					35,944	25,222	2,303
				Total	$ 172,543	$ 57,692	10,450

* Total of IBNR plus expected development on reported losses.

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	For the Years Ended December 31,				
Accident Year	2014 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018
2008 and Prior	$ —	$ —	$ —	$ —	$ —
2009	—	—	—	—	—
2010	—	—	—	—	—
2011	—	—	—	—	—
2012	—	—	—	—	—
2013	—	—	—	—	—
2014	1,491	6,079	9,279	11,431	12,242
2015		6,361	20,194	30,439	35,311
2016			6,458	19,695	27,996
2017				3,560	8,781
2018					3,188
				Total	$ 87,518
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance					$ 85,025

The reconciliation of incurred and paid loss development to the liability for unpaid losses and LAE as presented in the tables above for the year ended December 31, 2018 is set forth below:

		2018
Liabilities for unpaid losses and allocated LAE, net of reinsurance	$	85,025
Reinsurance recoverable on unpaid losses		74,430
Gross liability for unpaid losses and LAE	$	159,455

The following is unaudited supplementary information for average annual historical duration of claims:

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Workers' Compensation	11.9%	26.8%	19.9%	12.2%	5.3%	—%	—%	—%	—%	—%

7. GOODWILL AND INTANGIBLE ASSETS

The following table represents a reconciliation of the beginning and ending goodwill and other intangible assets as of December 31, 2018 and 2017.

	Goodwill	Insurance Licenses	Syndicate Capacity	Customer & Broker Relationships	Total
Balance as at January 1, 2017	$ 30,400	$ 19,900	$ 24,600	$ 1,649	$ 76,549
Amortization	—	—	—	(400)	(400)
Balance as at December 31, 2017	$ 30,400	$ 19,900	$ 24,600	$ 1,249	$ 76,149
Amortization	—	—	—	(501)	(501)
Balance as at December 31, 2018	$ 30,400	$ 19,900	$ 24,600	$ 748	$ 75,648

Goodwill

In 2010, the Company acquired Glacier Insurance AG and the Direct and Facultative book of Glacier Reinsurance AG (collectively "Glacier") and recorded $30.4 million of goodwill. During the year ended December 31, 2018, we completed an impairment assessment of the recorded goodwill amount and concluded that no impairment was warranted.

Intangible assets with an indefinite life

In 2009 the Company acquired StarStone Specialty and recorded intangible assets of $11.8 million at the acquisition date. In 2010, the Company acquired StarStone National and recorded $8.1 million of intangible assets at the acquisition date. In both cases, the acquired assets consisted of insurance licenses which have an indefinite life.

In 2012, the Company recorded $24.6 million of syndicate capacity as a result of the acquisition of SCC1. The intangible asset acquired consists of syndicate capacity which represents the authorization to write insurance and reinsurance business at Lloyd's in London.

Intangible assets with a definite life

In 2010, as part of the Glacier acquisition, an intangible asset of $5.0 million was recognized in respect of customer and broker relationships. In 2012, management subsequently reassessed the nature of this intangible asset and determined that its useful life was ten years. The estimated amortization expense related to this intangible asset for each of the next two succeeding years is $0.5 million in 2019 and $0.2 million in 2020, following which it will be fully amortized.

8. RELATED PARTY TRANSACTIONS

The Company has entered into certain reinsurance transactions with affiliated companies and also earns fees or incurs costs related to various administrative services that are either provided to, or obtained from entities related through common control. Some of the Company's investment portfolios are also managed by affiliated entities as described further below.

Fitzwilliam # 31 and Fitzwilliam #41
In 2014, the Company entered into an LPT with Fitzwilliam #31 and in 2018 entered into a reinsurance agreement with Fitzwilliam #41. Both Fitzwilliam #31 and Fitzwilliam #41 are segregated account entities whose preferred shares are held by North Bay, the sole shareholder of SSHL and are managed by Fitzwilliam, a wholly owned subsidiary of Enstar. Our consolidated statement of earnings for the years ended December 31, 2018 and 2017 included the following amounts:

	2018	2017
Amounts under Fitzwilliam #31 LPT:		
Ceded premium earned	4,741	(1,429)
Net incurred losses and LAE	(4,075)	5,416
Acquisition costs	1,975	994
Investment income on assets supporting the LPT	(3,198)	(17,838)

Our consolidated balance sheet as at December 31, 2018 and 2017 includes the following balances in relation to Fitzwilliam #31:

	2018	2017
Amounts under Fitzwilliam #31 LPT:		
Reinsurance recoverables	104,856	129,538
Ceded unearned premium	1,633	4,988
Ceded deferred acquisition costs	1,086	1,582
Funds held	87,862	115,564

Our consolidated balance sheet as at December 31, 2018 includes the following balances in relation to Fitzwilliam #41:

	2018
Amounts under Fitzwilliam #41 reinsurance agreement:	
Reinsurance recoverables	258,268
Funds held	208,634

See Note 5 'Reinsurance Recoverable' for more details.

Cavello Bay
Effective August 5, 2016, the Company entered into a reinsurance agreement with The Coca Cola Company ("TCCC") and Cavello Bay, a wholly-owned subsidiary of Enstar, to assume 100% of certain TCCC liabilities for deductible/retention exposures in respect of TCCC's policies placed with external reinsurers' for the periods between 1986 through 1996, 1997 through 2001 and 2002 through 2010. The Company subsequently retroceded 100% of the risks that it assumed from TCCC to Cavello Bay. Since both the reinsurance agreement with TCCC and the retrocession agreement with Cavello did not meet the U.S. GAAP risk transfer criteria, they were subjected to deposit accounting by the Company. As of December 31, 2018, the deposit asset and liability with Cavello Bay and TCCC respectively, was $40.4 million (2017: $52.7 million).

SGL 1
SGL 1 has reinsured its participation in Syndicate 1301 through the SGL 1 Reinsurance Agreement with the Company. Our consolidated statement of earnings for the years ended December 31, 2018 and 2017 included the following amounts:

	2018	2017
Amounts under SGL 1 assuming Reinsurance Agreement:		
Net premiums earned	181,033	134,892
Net incurred losses and LAE	180,966	94,802
Net acquisition costs	33,089	4,612

Our consolidated balance sheet as at December 31, 2018 and 2017 includes the following balances:

	2018	2017
Amounts under SGL 1 assuming Reinsurance Agreement:		
Premiums receivable	206,963	134,794
Deferred acquisition costs	15,979	16,959
Net unearned premiums	87,350	73,560
Net losses and loss adjustment expenses	241,618	168,700

KaylaRe

As detailed further in Note 2 "Significant Accounting Policies", the Company has a continuous 35% quota share reinsurance contract with KaylaRe. The Company has investment assets to support the quota share agreement on a funds withheld basis. KaylaRe pays Enstar Limited, a wholly owned subsidiary of Enstar, 3% of the net written premiums assumed under this continuous quota share contract as a servicing fee, 75% of which is then paid to the Company. Our consolidated statement of earnings for the years ended December 31, 2018 and 2017 included the following amounts, inclusive of the amounts ceded via the SGL 1 Reinsurance Agreement:

	2018	2017
Amounts under KaylaRe quota share:		
Ceded premium earned	(208,504)	(233,940)
Net incurred losses and LAE	183,555	177,745
Acquisition costs	78,985	99,476

Our consolidated balance sheet as at December 31, 2018 and 2017 includes the following balances, inclusive of the amounts ceded via the SGL 1 Reinsurance Agreement:

	2018	2017
Amounts under KaylaRe quota share:		
Reinsurance recoverables	255,575	184,690
Ceded prepaid reinsurance premiums	87,053	116,356
Ceded deferred acquisition costs	29,365	36,070
Funds held	227,337	226,518

Kenmare Holdings Ltd.

In 2018 and 2017, Kenmare Holdings Limited ("Kenmare"), an affiliated company which is wholly owned by Enstar, posted cash and investments to Lloyd's of London to collateralize the Company's exposure to the business it assumes from SGL 1 under the SGL 1 Reinsurance and Leasing Agreements, which in effect assigned the Company's participation in Syndicate 1301's stamp capacity to SGL 1 as described in Note 1 to the consolidated financial statements. The Company in turn loaned funds to Kenmare equal to the cash and investments posted to Lloyd's of London to collateralize the Company's exposure to the business it assumes from SGL 1 as described above. As at December 31, 2018, the balance owed by Kenmare to the Company under this funding agreement was $121.2 million (2017: $116.4 million).

Enstar Affiliates

The Company incurs costs related to administrative services provided by Enstar (EU) Limited and Enstar (US) Inc., which are both affiliated companies. Our consolidated statement of earnings and consolidated balance sheets for the years ended December 31, 2018 and 2017 and as at December 31, 2018 and 2017 respectively, included the following amounts in respect of these administrative services:

	2018	2017
Administrative services costs:		
Enstar (EU) Limited	47,168	22,269
Enstar (US) Inc.	51,851	46,035
Outstanding balances - administrative services:		
Enstar (EU) Limited	751	4,251
Enstar (US) Inc.	2,415	1,721

Stone Point

As at December 31, 2018, the Company had investments in funds, which are included within other investments that are either affiliated with entities owned by the Trident V funds or with Stone Point. Our consolidated statement of earnings and consolidated balance sheets for the years ended December 31, 2018 and 2017 and as at December 31, 2018 and 2017 respectively, included the following amounts in respect of these investments:

	2018	2017
Other investments, at fair value	49,038	110,367
Net unrealized (losses) gains	(2,243)	7,905

The Company also had a separate account managed by Eagle Point Credit Management, which is an affiliate of entities owned by the Trident V funds. Our consolidated statement of earnings and consolidated balance sheets for the years ended December 31, 2018 and 2017 and as at December 31, 2018 and 2017 respectively, included the following amounts in respect of these investments:

	2018	2017
Other investments, at fair value	37,931	98,025
Management fees	224	227

The Company also had an investment in a registered investment company affiliated with entities owned by Trident. Our consolidated statement of earnings and consolidated balance sheets for the years ended December 31, 2018 and 2017 and as at December 31, 2018 and 2017 respectively, included the following amounts in respect of these investments:

	2018	2017
Other investments, at fair value	21,535	—
Net unrealized gains	4,459	—

In addition, the Company is invested in a fund, which is included within other investments, that is managed by Sound Point Capital, an entity in which Mr. James D. Carey, who is a director of Enstar, has an indirect minority ownership interest and serves as a director. Our consolidated statement of earnings and consolidated balance sheet for the years ended December 31, 2018 and 2017 and as at December 31, 2018 and 2017 included the following amounts in respect of these investments:

	2018	2017
Other investments, at fair value	19,535	20,470
Net unrealized (losses) gains	(936)	1,649

Patcham Investment Funds Plc ("Patcham Funds")

The Company also invests in Patcham Funds, as part of a group investment pool with other companies related through common control. These funds are managed by a wholly-owned subsidiary of Enstar. Our consolidated statement of earnings and consolidated balance sheets for the years ended December 31, 2018 and 2017 and as at December 31, 2018 and 2017 respectively, included the following amounts in respect of these investments:

	2018	2017
Patcham fixed income fund	55,979	37,894
Patcham balanced fund	61,445	80,277
Patcham euro fund	73,485	—
Net unrealized (losses) gains	(3,179)	5,871

Clear Spring Property and Casualty Company

Effective January 1, 2017, Enstar sold Seabright Insurance Company ("SeaBright Insurance") and its licenses to Delaware Life Insurance Company ("Delaware Life"), a subsidiary of Guggenheim Partners, LLC. Following the sale, SeaBright Insurance was renamed Clear Spring Property and Casualty Company ("Clear Spring"). Clear Spring was subsequently capitalized with $56.0 million of equity, with Enstar retaining a 20% indirect equity interest in Clear Spring.

Effective January 1, 2017, StarStone National entered into a Quota Share Treaty with Clear Spring pursuant to which Clear Spring reinsures 33.3% of core Workers Compensation business written by StarStone National. Our consolidated statements of earnings for the year ending December 31, 2018 and 2017 includes the following transactions between StarStone National and Clear Spring:

	2018	2017
Amounts under Clear Spring quota share:		
Ceded premiums earned	(29,520)	(14,256)
Net incurred losses and LAE	18,143	9,533
Acquisition costs	7,035	6,718

Our consolidated balance sheet as at December 31, 2018 and 2017 includes the following balances related to transactions between StarStone National and Clear Spring:

	2018	2017
Amounts under Clear Spring quota share:		
Reinsurance recoverables	23,718	9,053
Prepaid reinsurance premiums	13,821	13,747
Ceded reinsurance payable	14,153	13,964
Ceded deferred acquisition costs	3,233	3,187

9. INCOME TAXATION

The Company is incorporated under the laws of Bermuda and is therefore subject to Bermuda law with respect to taxation. Under current law, the company is not taxed on any Bermuda income or capital gains taxes and has received an undertaking from the Bermuda Minister of Finance that, in the event of any Bermuda income or capital gains taxes being imposed, it will be exempt from those taxes until 2035.

The Company has foreign operating subsidiaries and branch operations principally located in the United States, United Kingdom, and Continental Europe that are subject to federal, foreign state and local taxes in those jurisdictions.

The following table illustrates our current and deferred income tax benefit by foreign and domestic jurisdictions for the years ended December 31, 2018 and 2017:

	2018	2017
Current:		
Domestic	$ —	$ —
Foreign	(2,305)	(1,978)
	(2,305)	(1,978)
Deferred:		
Domestic	$ —	$ —
Foreign	(4,022)	990
	(4,022)	990
Total income tax (benefit)	$ (6,327)	$ (988)

The actual income tax rate differs from the amount computed by applying the effective rate of 0% under Bermuda law to earnings before income taxes as shown in the following reconciliation for the years ended December 31, 2018 and 2017:

	2018	2017
(Loss) Earnings before income tax	$ (181,942)	$ 8,701
Bermuda income taxes at statutory rate	—	—
Foreign income tax rate differential	(3,560)	6,282
Change in valuation allowance	(156)	(19,208)
U.S. base erosion and anti-abuse tax	773	—
Effect of change in foreign U.S. tax rate	(1,426)	12,214
Other	(1,958)	(276)
Total income tax (benefit)	$ (6,327)	$ (988)

Deferred tax assets and liabilities reflect the tax effect of the differences between the financial reporting and income tax bases of assets and liabilities. Significant components of the deferred tax assets and deferred tax liabilities relating to our operations were as follows:

	2018	2017
Deferred tax assets:		
Net operating loss carryforwards	$ 34,893	$ 30,277
Insurance reserves	3,314	2,010
Unearned premiums	6,767	1,388
Lloyd's underwriting losses taxable in future periods	3,809	6,166
Other deferred tax assets	5,025	7,247
Gross deferred tax assets	$ 53,808	$ 47,088
Less valuation allowance	(32,623)	(32,561)
Deferred tax assets	$ 21,185	$ 14,527
Deferred tax liabilities:		
Intangible assets	(9,961)	(7,325)
Net deferred tax asset	$ 11,224	$ 7,202

As of December 31, 2018, we had net operating loss carry forwards that could be available to offset future taxable income, as follows:

Tax Jurisdiction	Loss Carryforwards	Tax effect	Expiration
Operating Loss Carryforwards:			
United States	$ 75,684	$ 15,894	2030-2038
United Kingdom	110,000	18,999	None

Impact of U.S. Tax Reform

On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act resulted in a reduction of the U.S. Federal Tax rate to 21% from 35%, effective for tax years beginning after December 31, 2017. Consequently, we recorded a $12.2 million write down of our U.S. deferred tax asset in 2017.

As of December 31, 2018, we completed our accounting for the tax effects for the enactment of the Tax Act however, the United States Treasury may continue to issue regulations that could have a material financial statement impact on our effective tax rate in future periods.

Assessment of Valuation Allowance on Deferred Tax Assets

As of both December 31, 2018 and 2017, we had deferred tax asset valuation allowances of $32.6 million related to foreign subsidiaries.

The realization of deferred tax assets is dependent on generating sufficient taxable income in future periods in which the tax benefits are deductible or creditable. Taxes are determined and assessed jurisdictionally by legal entity or by filing group. Certain jurisdictions require or allow combined or consolidated tax filings. We have estimated future taxable income of our foreign subsidiaries and provided a valuation allowance in respect of those assets where we do not expect to realize a benefit. We have considered all available evidence using a "more likely than not" standard in determining the amount of the valuation allowance. Our assessment weighs both positive and negative evidence and considers the extent to which the evidence can be objectively verified. We consider the following evidence: (i) net earnings or losses in recent years; (ii) the future sustainability and likelihood of positive net earnings of our subsidiaries; (iii) the carryforward periods of tax losses including the effect of reversing temporary differences; and (iv) tax planning strategies.

The Company classifies all interest and penalties related to uncertain tax positions as income tax expense (benefit). As of December 31, 2018 and 2017, the Company recognized no expenses or liabilities for tax related interest and penalties in its consolidated statements of earnings and consolidated balance sheets, respectively. The Company had no unrecognized tax benefits relating to uncertain tax positions as of December 31, 2018 and 2017.

Our operating subsidiaries may be subject to audit by various tax authorities and may have different statutes of limitations expiration dates. Tax authorities may propose adjustments to our income taxes. Listed below are the tax years that remain subject to examination by major tax jurisdiction as of December 31, 2018:

Major Tax Jurisdiction	Open Tax Years
United States	2015-2018
United Kingdom	2015-2018

10. SHAREHOLDER'S EQUITY

Share Capital

As at December 31, 2018 and 2017 the authorised share capital was 1,000,000 ordinary shares of par value $1 per share, all of which are issued and outstanding.

Additional paid-in capital

As at December 31, 2018 and 2017 the Company had additional paid-in capital of $1,114.6 million and $1,014.6 million respectively. During the year ended December 31, 2018, the Company received $100.0 million of additional paid-in capital from SSHL, its immediate parent company.

11. STATUTORY REQUIREMENTS

The Company relies on dividends and other distributions from its insurance subsidiaries to provide cash flow to meet ongoing cash requirements, including any future debt service payments and other expenses, and to pay dividends, if any, to its shareholder. The ability of the insurance subsidiaries to pay dividends or other distributions is subject to the laws and regulations applicable to each jurisdiction, as well as the insurance subsidiaries' need to maintain capital requirements adequate to maintain their insurance and reinsurance operations and their financial strength ratings issued by independent rating agencies.

The statutory capital and surplus amounts for the years ended December 31, 2018 and 2017 for our subsidiaries based in Bermuda, the United States and Liechtenstein were as detailed below. The Bermuda requirements are calculated at the consolidated Bermuda group level.

	As at December 31, 2018		
	Bermuda	U.S.	Liechtenstein
Required Statutory Capital and Surplus	$ 276,241	$ 72,082	$ 71,605
Actual Statutory Capital and Surplus	$ 749,525	$ 156,963	$ 205,551

	As at December 31, 2017		
	Bermuda	U.S.	Liechtenstein
Required Statutory Capital and Surplus	$ 273,780	$ 52,440	$ 78,703
Actual Statutory Capital and Surplus	$ 775,051	$ 146,723	$ 225,458

Bermuda

The Company is registered under the Insurance Act 1978 of Bermuda and related regulations, as amended (the "Insurance Act"). The Insurance Act imposes certain solvency and liquidity standards, auditing and reporting requirements and grants the Bermuda Monetary Authority ("BMA") powers to supervise, investigate, require information and the production of documents and intervene in the affairs of insurance companies.

Under the Insurance Act, the Company is either required to or is prohibited from doing the following:

- Maintain certain solvency and liquidity standards which includes maintaining a minimum liquidity ratio whereby the value of relevant assets must not be less than 75% of the amount of relevant liabilities. The minimum solvency margin is determined as a percentage of either net reserves for losses and LAE or premiums.
- Maintain a minimum statutory capital and surplus (Enhanced Capital Requirement or "ECR") at least equal to the greater of a minimum solvency margin or the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR is calculated based on a standardized risk-based capital model.
- Prohibited from declaring or paying any dividends if it were in breach of its minimum solvency margin or liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio.
- Prohibited, without the prior approval of the BMA, from reducing by 15% or more its total statutory capital as set out in its previous year's statutory financial statements.

The Company in aggregate exceeded its minimum solvency requirements by $473 million as of December 31, 2018 (2017: $495 million) and was in compliance with its liquidity requirements.

United States

As defined by the regulations of the state of Delaware, the maximum amount of dividends that can be paid by StarStone National and StarStone Specialty to shareholders, without prior approval of the Insurance Commissioner, is subject to certain restrictions. Dividends are not considered to be extraordinary and may be paid out of earned surplus without prior approval if during the preceding twelve month period the dividends declared and paid do not exceed the greater of (1) 10% of surplus as regards policyholders for the prior year or (2) prior year's net income excluding realized capital gains. As of December 31, 2018, our U.S. subsidiaries exceeded their required levels of risk-based capital by $84.9 million (2017: $94.3 million).

United Kingdom - Lloyd's

As of December 31, 2018, we participated in the Lloyd's market through our interests in Syndicate 1301. The underwriting capacity of a member of Lloyd's is supported by providing Funds at Lloyd's. Business plans, including maximum underwriting capacity, for Lloyd's syndicates requires annual approval by the Lloyd's Franchise Board, which may require changes to any business plan or additional capital to support underwriting plans.

The Lloyd's market has applied the Solvency II internal model under Lloyd's supervision, and our Lloyd's operations are required to meet Solvency II standards.

Liechtenstein

The Company's European insurance subsidiary SISE is based in Liechtenstein and is regulated by the Financial Market Authority Liechtenstein ("FMA"). Under the Liechtenstein Insurance Regulations, SISE is required to meet certain minimum capital and surplus requirements. To satisfy these requirements, SISE was required to maintain a minimum level of statutory capital of $71.6 million at December 31, 2018 (2017: $78.7 million) which was met.

12. COMMITMENTS AND CONTINGENCIES

Operating Leases

We lease office space under operating leases. The following is a schedule of future minimum rental payments on non-cancelable leases as of December 31, 2018:

		2018
2019	$	3,349
2020		3,000
2021		2,632
2022		1,550
2023		1,399
2024 and beyond		7,966
Total	$	19,896

Concentration of Credit Risk

We believe that there are no significant concentrations of credit risk associated with our cash and cash equivalents, fixed maturity investments, or other investments. Cash, cash equivalents and fixed maturity investments are managed pursuant to guidelines that follow prudent standards of diversification and limit the allowable holdings of a single issue and issuers. Other investments are managed pursuant to guidelines that emphasize diversification and liquidity. Pursuant to these guidelines, we manage and monitor risk across a variety of investment funds and vehicles, markets and counterparties. We are also subject to custodial credit risk on our fixed maturity and equity investments, which we manage by diversifying our holdings amongst large financial institutions that are highly regulated.

We have exposure to credit risk on certain of our assets pledged to ceding companies under insurance contracts. In addition, we are potentially exposed should any insurance intermediaries be unable to fulfill their contractual obligations with respect to payments of balances owed to and by us.

Credit risk exists in relation to our insurance and reinsurance balances recoverable. We remain liable to the extent that counterparties do not meet their contractual obligations and, therefore, we evaluate and monitor concentration of credit risk among our insurers and reinsurers.

We limit the amount of credit exposure to any one counterparty and none of our counterparty credit exposures, excluding U.S. government instruments, exceeded 10% of shareholders' equity as of December 31, 2018. Our credit exposure to the U.S. government was $147.8 million as at December 31, 2018.

Banking Facilities

In July 2009, the Company entered into a multi-currency revolving Letter of Credit facility with Barclays Bank Plc. to be applied in the issuance of Letters of Credit to support its reinsurance business. The commitment under the facility is for $35.0 million (2017: $35.0 million) and as at the end of the year, Letters of Credit with a value of $27.3 million (2017: $24.7 million) have been issued. This facility is collateralized by eligible assets of the Company in the form of cash and investments held in a trust account. The terms of the facility require that certain financial covenants be met through the filing of compliance certificates.

Lloyd's Syndicates

The Company's Lloyd's Operations included in the consolidated financial statements represent its participation in Syndicate 1301, through its affiliate SGL 1. Syndicate 1301's stamp capacity was £215.9 million or approximately $275.2 million for the 2018 underwriting year (£195.0 million or approximately $263.7 million for the 2017 underwriting year). Stamp capacity is a measure of the amount of premiums a Lloyd's syndicate is authorized to write based on a business plan approved by the Council of Lloyd's. The Syndicate stamp capacity is expressed net of commission as is standard at Lloyd's. The Syndicate premiums recorded in the Company's financial statements are gross of commission.

The Company posts cash and investments to Lloyd's of London to collateralize the business it assumes from SGL 1 under the SGL 1 Reinsurance and Leasing Agreements, which in effect assigned the Company's participation in Syndicate 1301's stamp capacity to SGL 1 as described in Note 1 to the consolidated financial statements.

At December 31, 2018, the Company posted investments with a total fair value of $58.8 million (2017: $60.9 million) with Lloyd's of London to support its capital requirements with respect to SCC1's participation in Syndicate 1301's capacity which has since been assigned to SGL 1.

If Syndicate 1301 increases it's stamp capacity and the Company directly, or through its affiliate SGL 1, participates in the additional stamp capacity, or if Lloyd's changes the capital requirements, the Company may be required to supply additional cash collateral acceptable to Lloyd's. If the Company is unwilling or unable to provide additional acceptable collateral, it will be required to reduce its participation in the stamp capacity, whether directly or through its affiliate SGL 1.

Other Commitments

The Company and its affiliates have been undertaking a program of business process and system change. It aims to simplify and standardize processes, improve business agility and scalability, improve operational efficiency, reduce risk, and provide more timely and accurate management information. In relation to this program, there are capitalized software assets of $11.4 million as at December 31, 2018 (2017: $13.3 million) which are held by an affiliate for which the Company has a commitment to assume.

13. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 25, 2019, which is the date the financial statements were available to be issued.

With effect from January 1, 2019, SISE and Syndicate 1301 terminated their continuous 35% quota share reinsurance contract with KaylaRe on a run-off basis.