Cavello Bay Reinsurance Limited
Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

Cavello Bay Reinsurance Limited

Index to the Consolidated Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of
Cavello Bay Reinsurance Limited

We have audited the accompanying consolidated financial statements of Cavello Bay Reinsurance Limited and its subsidiaries, which comprise the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

KPMG

Other Matter

U.S. generally accepted accounting principles require that certain disclosures related to short-duration contracts in Note 9 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 30, 2019

Cavello Bay Reinsurance Limited
CONSOLIDATED BALANCE SHEETS
As at December 31, 2018 and 2017

	2018		2017	
	(expressed in thousands of U.S. dollars, except share data)			
ASSETS				
Short-term investments, trading, at fair value	$	15,573	$	14,866
Fixed maturities, trading, at fair value		1,623,084		1,484,556
Funds held - directly managed		260,291		180,485
Equities, at fair value		28,727		1,923
Other investments, at fair value		481,011		240,461
Equity method investments		431,869		309,816
Total investments		2,840,555		2,232,107
Cash and cash equivalents		21,708		341,443
Restricted cash and cash equivalents		46,779		25,169
Reinsurance balances recoverable		60,611		61,577
Reinsurance balances recoverable, at fair value		456,158		542,224
Funds held by reinsured companies		318,306		159,138
Amounts due from related parties		215,440		127,096
Other assets		93,078		89,043
TOTAL ASSETS	$	4,052,635	$	3,577,797
LIABILITIES				
Losses and loss adjustment expenses	$	666,137	$	289,519
Losses and loss adjustment expenses, at fair value		1,616,076		1,794,669
Amounts due to related parties		110,173		7,551
Unearned premiums		3,598		3,615
Other liabilities		51,508		71,138
TOTAL LIABILITIES		2,447,492		2,166,492
SHAREHOLDER'S EQUITY				
Share capital - 120,000 common shares, par value of $1 each				
issued, fully paid and outstanding		120		120
Shares in ultimate holding company		(200,689)		—
Additional paid-in capital		1,445,609		1,122,258
Retained earnings		360,103		288,927
TOTAL SHAREHOLDER'S EQUITY		1,605,143		1,411,305
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$	4,052,635	$	3,577,797

See accompanying notes to the consolidated financial statements

Cavello Bay Reinsurance 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	$ 7,379	$ 3,599
Net investment income	66,301	41,766
Net realized and unrealized investment (losses) gains	(110,815)	21,767
Other income	19,817	4,002
TOTAL (LOSS) INCOME	(17,318)	71,134
EXPENSES		
Net incurred losses and loss adjustment expenses	(145,204)	(112,589)
General and administrative expenses	25,767	15,057
Net foreign exchange (gains)	(6,437)	(2,537)
TOTAL EXPENSES	(125,874)	(100,069)
NET EARNINGS BEFORE NET (LOSSES) EARNINGS FROM EQUITY METHOD INVESTMENTS	108,556	171,203
NET (LOSSES) EARNINGS FROM EQUITY METHOD INVESTMENTS	(37,380)	15,216
NET EARNINGS	$ 71,176	$ 186,419

See accompanying notes to the consolidated financial statements

Cavello Bay Reinsurance 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	$	120	$	120
SHARES IN ULTIMATE HOLDING COMPANY				
Balance, beginning of year	$	—	$	—
Acquired in merger		(200,689)		—
Balance, end of year	$	(200,689)	$	—
ADDITIONAL PAID-IN CAPITAL				
Balance, beginning of year	$	1,122,258	$	631,794
Contribution of capital		323,351		545,742
Return of capital		—		(55,278)
Balance, end of year	$	1,445,609	$	1,122,258
RETAINED EARNINGS				
Balance, beginning of year	$	288,927	$	102,508
Net earnings		71,176		186,419
Balance, end of year	$	360,103	$	288,927
TOTAL SHAREHOLDER'S EQUITY	**$**	**1,605,143**	**$**	**1,411,305**

See accompanying notes to the consolidated financial statements

Cavello Bay Reinsurance 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 earnings	$ 71,176	$ 186,419
Adjustments to reconcile net earnings to cash flows provided by (used in) operating activities:		
Net realized and unrealized losses (gains) on investments	110,815	(21,767)
Sales and maturities of trading securities	724,739	1,126,952
Purchases of trading securities	(1,028,070)	(2,690,979)
Net change in trading securities held on behalf of policyholders	—	25,597
Net losses (earnings) of equity method investments	37,380	(15,216)
Changes in:		
Funds held by reinsurance companies	(159,168)	56,435
Reinsurance balances recoverable	87,032	(597,023)
Other assets	(4,035)	(25,281)
Losses and loss adjustment expenses	198,025	1,705,655
Other liabilities	(19,630)	27,510
Unearned premiums	(17)	3,615
Amounts due from related parties	14,278	50,612
Net cash flows provided by / (used in) operating activities	32,525	(167,471)
INVESTING ACTIVITIES:		
Purchase of equity method investments	(144,800)	—
Purchase of other investments	(456,461)	(130,643)
Redemption of other investments	162,582	104,300
Net cash flows (used in) investing activities	(438,679)	(26,343)
FINANCING ACTIVITIES:		
Contribution of capital	108,029	490,464
Net cash flows provided by financing activities	108,029	490,464
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(298,125)	296,650
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	366,612	69,962
CASH, CASH EQUIVALENTS AND RESTICTED CASH, END OF YEAR	$ 68,487	$ 366,612
Reconciliation to Consolidated Balance Sheets:		
Cash and cash equivalents	$ 21,708	$ 341,443
Restricted cash and cash equivalents	46,779	25,169
Cash, cash equivalents and restricted cash	$ 68,487	$ 366,612

See accompanying notes to the consolidated financial statements

1. DESCRIPTION OF BUSINESS

Cavello Bay Reinsurance Limited (the "Company", "Cavello Bay", "we", "us" or "our") was incorporated under the laws of Bermuda on April 8, 2015. It is a wholly-owned subsidiary of Kenmare Holdings Ltd., ("Kenmare" or the "Parent") a company incorporated in Bermuda, on August 16, 2001. The ultimate parent company of Cavello Bay is Enstar Group Limited ("Enstar"), a company incorporated under the laws of Bermuda.

The Company is registered as a Class 3B reinsurer under the Insurance Act 1978 of Bermuda, amendments thereto and related regulations (the "Insurance Act").

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").

Basis of Consolidation
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. The Company is the sole shareholder of Chatsworth Limited, Inter Ocean Reinsurance (Ireland) Limited and Aerie Income LLC and owns 97% of the equity interest in Global Legacy Acquisition L.P. All intercompany transactions and balances have been eliminated on consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation as described in further detail in Note 3 to the consolidated financial statements. These reclassifications had no impact on net earnings.

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 on paid and unpaid losses;
- valuation allowances on reinsurance balances recoverable;
- impairment charges on deferred charge assets;
- gross and net premiums written and net premiums earned;
- fair value estimates associated with loss portfolio transfer reinsurance agreements for which we have elected the fair value option; and
- fair value measurements of investments.

Significant Accounting Policies

a. Investments, Cash and cash equivalents

Cash and cash equivalents

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 relates to holdings of both publicly traded as well as privately held equity securities. Our equity investments 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.

Other investments

Other investments include investments in a limited partnership fund and limited liability companies (collectively "private equities"), and fixed income funds, hedge funds, equity funds, private credit funds and collateralized loan obligation ("CLO") equity funds that carry their investments at fair value, as well as direct investments in 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 respective fund manager or administrator. Many of our fund investments publish net asset values on a daily basis and provide daily liquidity while others report on a monthly basis. Private equities typically report quarterly. The change in fair value is included in net realized and unrealized gains on investments and recognized in net earnings.

Equity method investments

Investments in which the Company has significant influence over the operating and financial policies of the investee are classified as equity method investments and are accounted for using the equity method of accounting. In applying the equity method of accounting, investments are initially recorded at cost and are subsequently adjusted based on the Company's proportionate share of net earnings or loss of the investee as well as distributions from the investee, if any. Adjustments are based on the most recently available financial information from the investee. Changes in the carrying value of such investments are recorded in our consolidated statements of earnings as earnings (losses) from equity method investments. Any decline in the value of our equity method investments considered by management to be other-than-temporary is reflected in our consolidated statements of earnings in the period in which it is determined.

b. Premiums

Premiums written

Reinsurance premiums written are earned on a pro-rata basis over the period the coverage is provided. Where prospective and retroactive provisions are included within a single reinsurance contract, where practicable, these provisions are accounted for separately. Practicability requires a reasonable basis for allocating the reinsurance premiums to the risks covered by the prospective and retroactive portions of the contract, considering all amounts paid or deemed to have been paid regardless of the timing of payment. If separate accounting for prospective and retroactive provisions included within a single reinsurance contract is impracticable, the contract is accounted for as a retroactive contract provided the conditions for reinsurance accounting are met.

For assumed reinsurance contracts, written premium is recognized based on estimates of ultimate premiums provided by the ceding companies. Initial estimates of written premium are recognized in the period in which the risks incept. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

c. Reinsurance Balances Recoverable on Paid and Unpaid Losses

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 the Company's case reserves are calculated by applying the terms of any applicable reinsurance coverage to movements in the underlying case reserves. The Company's estimate of reinsurance balances recoverable related to IBNR reserves is recognized on a basis consistent with the underlying IBNR reserves.

The Company's 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, or contractual disputes with reinsurers over individual contentious claims, contract language or coverage issues.

d. Retroactive reinsurance and Deferred Charge assets

Retroactive reinsurance policies provide indemnification of losses and LAE with respect to past loss events. We use the balance sheet accounting approach for assumed loss portfolio transfers ("LPTs"), whereby at the inception of the contract there are no premiums or losses recorded in earnings.

Deferred Charge Assets

If, at the inception of a retroactive reinsurance contract, the estimated undiscounted ultimate losses payable are in excess of the premiums received, a deferred charge asset is recorded for the excess. The premium consideration that we charge the ceding companies may be lower than the undiscounted estimated ultimate losses payable due to the time value of money. After receiving the premium consideration in full from our cedents at the inception of the contract, we invest the premium received over an extended period of time, thereby generating investment income. We expect to generate profits from these retroactive reinsurance policies when taking into account the premium received and expected investment income, less contractual obligations and expenses. Deferred charge assets, recorded in other assets, are amortized over the estimated claim payment period of the related contract with the periodic amortization reflected in earnings as a component of losses and LAE. Deferred charge assets amortization is adjusted at each reporting period to reflect new estimates of the amount and timing of remaining loss payments. Changes in the estimated amount and the timing of payments of unpaid losses may have an effect on the unamortized deferred charge assets and the amount of periodic amortization. Deferred charge assets are assessed at each reporting period for impairment. If the asset is determined to be impaired, it is written down in the period in which the determination is made.

Fair Value Option

We have elected to apply the fair value option for certain LPT reinsurance transactions. This is an irrevocable election that applies to all balances under the insurance contract, including funds held assets, reinsurance balances recoverable, and the liability for losses and loss adjustment expenses.

An internal model is used to calculate the fair value of the liability for losses and loss adjustment expenses and the reinsurance balances recoverable asset. Note 5 - "Fair Value Measurements" describes the internal model, including the observable and unobservable inputs used in the model.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Losses and loss adjustment expenses

The liability for losses and LAE includes an amount determined from reported claims and an amount for losses incurred but not reported ("IBNR"), determined using a variety of actuarial methods including consideration of historical loss experience, expected loss and LAE ratios where historical loss experience is not available, and industry statistics. These estimates are continually reviewed and are necessarily subject to the impact of future changes in factors such as claim severity and frequency, changes in economic conditions including the impact of inflation, legal and judicial developments, and medical cost trends. While we believe that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided. Adjustments will be reflected as part of net increase or reduction in losses and LAE liabilities in the periods in which they become known. Premium and commission adjustments may be triggered by incurred losses, and any amounts are recorded in the same period that the related incurred loss is recognized.

Included in the liability for losses and LAE is an assumed provision for LAE relating to run-off costs projected to be incurred over the estimated duration of the run-off of certain assumed risks. This provision is assessed at each reporting date and provisions relating to future periods are adjusted to reflect any changes in estimates, including the impact of any acceleration of the run-off period that may be caused by commutations. Provisions relating to the current period together with any adjustment to future run-off provisions are included in net incurred losses and LAE in the consolidated statements of earnings.

f. Funds held by reinsured companies

Under funds held arrangements, the reinsured companies have retained funds that would otherwise have been remitted to the Company. The funds balance is carried at cost 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 consolidated statements of earnings, to the effect that such investment returns accrue to the Company.

g. Foreign Exchange

The Company's reporting currency is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rate in effect at the balance sheet date with the resulting foreign exchange gains and losses included in earnings in the consolidated statements of earnings. Non-monetary assets and liabilities are not revalued. Foreign currency revenues and expenses are translated at transaction date exchange rates.

h. Derivative Instruments

We utilize derivative instruments in our foreign currency risk management strategy and recognize all derivatives as either assets or liabilities in the consolidated balance sheet and carry them at the fair value of the specific instruments utilized. Changes in the fair value as well as realized gains or losses on derivative instruments are recognized in net earnings if they are not designated as qualifying hedging instruments or if the criteria for establishing a perfectly effective designated hedging relationship for any net investment hedges utilized, has not been met.

New Accounting Standards Adopted in 2018

Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-15, which amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. The adoption of this guidance 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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 Accounting Standard Codification ("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 2018-17, Targeted Improvements to Related Party Guidance for Variable Interest Entities

In October 2018, the FASB issued ASU 2018-17, which clarifies that when determining whether a decision making fee is a variable interest, a reporting entity should consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety, as currently required in U.S. GAAP. This amendment will (1) likely result in more decision makers not having a variable interest through their decision-making arrangements and (2) create alignment between determining whether a decision-making fee is a variable interest and determining whether a reporting entity within a related party group is the primary beneficiary of a variable interest entity ("VIE"). The ASU is effective for interim and annual reporting periods beginning after December 15, 2020, although early adoption is permitted. All entities are required to apply this guidance retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. While some of our subsidiaries are involved in certain investment arrangements for which they earn fees that are considered variable interests, they do not meet the primary beneficiary definition under the VIE guidance with respect to these arrangements. Therefore, we do not expect the adoption of this guidance to have a material impact on our consolidated financial statements and the related disclosures.

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

(Expressed in thousands of U.S. dollars, except share data)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. RECENT MERGERS AND SIGNIFICANT NEW BUSINESS

2018

During 2018, Brittany Insurance Company Ltd. ("Brittany"), whose ultimate parent company was Enstar, merged with and into the Company, with the Company continuing as the sole surviving entity. Since Brittany and the Company were both entities under common control prior to their merger, the pooling of interest method was used, and therefore the comparative financial statements have been presented as if the merger became effective at the beginning of the earliest period presented.

The table below summarizes the impact of the above merger on the Company's total assets, liabilities and shareholder's equity balances:

	Year ended December 31, 2017		
	As Previously Presented	Effect of Merger	Revised
Total assets	$ 3,541,114	$ 36,683	$ 3,577,797
Total liabilities	2,154,787	11,705	2,166,492
Shareholder's equity	1,386,327	24,978	1,411,305
Net Earnings	184,891	1,528	186,419

3. RECENT MERGERS AND SIGNIFICANT NEW BUSINESS (Continued)

Maiden Reinsurance Ltd. ("Maiden Re")

In connection with the acquisition of Maiden Reinsurance North America Inc. ("MRNA") by Enstar through its wholly-owned subsidiary Enstar Holdings (US), LLC, which closed on December 27, 2018, the Company entered into a novation and retrocession agreement with Maiden Re, a Bermuda domiciled company and previously an affiliate of MRNA, as further described below:

- Through the novation agreement, the Company assumed certain affiliate reinsurance agreements from Maiden Re through which Maiden Re had provided reinsurance coverage to MRNA. Pursuant to this novation agreement, the Company assumed total liabilities of $348.8 million in exchange for total assets of an equal amount from Maiden Re. The total liabilities assumed included losses and LAE reserves of $345.9 million while the assets received included a funds held balance of $141.7 million. With the novation agreement becoming effective concurrent with the acquisition of MRNA by Enstar, the balances assumed by the Company from Maiden Re became affiliated balances; and
- Through the retrocession agreement, the Company assumed from Maiden Re, the business that the latter had previously assumed from Motors Insurance Corporation ("Motors"), a Michigan domiciled company through a certain LPT and quota share reinsurance agreement. Pursuant to this retrocession agreement, the Company assumed total liabilities of $72.1 million in exchange for total assets of an equal amount from Maiden Re.

Allianz SE ("Allianz")

On October 1, 2018 the Company entered into a novation agreement with Fitzwilliam Insurance Limited ("Fitzwilliam"), an affiliated company, relating to certain exposures that Fitzwilliam had previously assumed from Allianz. Pursuant to this novation agreement, Cavello Bay assumed net reinsurance reserves of $77.6 million from Fitzwilliam in exchange for a premium consideration of the same amount which was retained by Allianz and its affiliates on a funds withheld basis.

Zurich Australian Insurance Limited ("Zurich Australia")

On February 23, 2018, the Company entered into a reinsurance agreement with Zurich Australia, a subsidiary of Zurich Insurance Group ("Zurich"), to reinsure its New South Wales Vehicle Compulsory Third Party ("CTP") insurance business. Under the agreement, which was effective as of January 1, 2018, the Company assumed gross loss reserves of AUD$359.4 million ($280.8 million) in exchange for consideration of AUD$343.9 million ($268.7 million). The Company elected the fair value option for this reinsurance contract and recorded an initial fair value adjustment of AUD$15.5 million ($12.1 million) on the assumed gross loss reserves. Refer to Note 5 - "Fair Value Measurements" for a description of the fair value process and the assumptions made pursuant to the fair value option election by the Company.

Following the initial reinsurance transaction, which transferred the economics of the CTP insurance business to Cavello Bay, the Company and Zurich Australia also completed a portfolio transfer of the CTP insurance business to Gordian Runoff Limited ("Gordian") an Enstar subsidiary, under Division 3A Part III of Australia's Insurance Act 1973 (Cth), effective December 31, 2018, which provided legal finality for Zurich Australia's obligations.

2017

During 2017, the following wholly-owned Enstar subsidiaries merged with and into the Company - Overseas Reinsurance Corporation Limited ("Overseas"), Point Bay Insurance Limited and Inter-Ocean Reinsurance Company Ltd., with the Company continuing as the sole surviving entity. Since all the merged subsidiaries and the Company were entities under common control prior to their merger with and into the Company, the pooling of interest method was used, and therefore the comparative financial statements were presented as if these mergers became effective at the beginning of the earliest period presented.

RSA Insurance Group Plc. ("RSA")

On February 7, 2017, Fitzwilliam, entered into an agreement to reinsure the U.K. employers' liability legacy business of RSA Insurance Group Plc. ("the RSA reserves") relating to 2005 and prior year business. On May 3, 2017, the Company entered into a novation agreement with Fitzwilliam relating to the RSA reserves pursuant to which it assumed gross insurance reserves of £1,031.3 million ($1,293.1 million) from Fitzwilliam. Net insurance reserves assumed under the novation agreement were £914.6 million ($1,147.1 million) and the reinsurance premium received from Fitzwilliam was £797.9 million ($1,000.7 million). The Company elected the fair value option for the assumed RSA reserves and recorded an initial fair value adjustment of $165.7 million

(Expressed in thousands of U.S. dollars, except share data)

3. RECENT MERGERS AND SIGNIFICANT NEW BUSINESS (Continued)

on the gross reserves and $149.2 million on the net reserves. Refer to Note 5 - "Fair Value Measurements" for a description of the fair value process and assumptions made pursuant to the fair value option election by the Company.

QBE Insurance Group Limited ("QBE")

On January 11, 2017, the Company entered into a transaction to reinsure multi-line property and casualty business of QBE. The Company assumed gross reinsurance reserves of approximately $1,019.0 million (net reserves of $447.0 million) relating to the portfolio, which primarily includes workers' compensation, construction defect, and general liability discontinued lines of business. The reinsurance premium received was $403.8 million, comprised of $227.6 million in restricted cash and $176.2 million in funds held. A portion of the premium received was pledged as collateral to a subsidiary of QBE and we also provided additional collateral. Enstar, our ultimate parent also provided a limited parental guarantee. We elected the fair value option for this reinsurance contract with QBE. The initial fair value adjustment was $180.0 million on the gross reserves and $43.2 million on the net reserves. Refer to Note 5 - "Fair Value Measurements" for a description of the fair value process and assumptions made pursuant to the fair value option election by the Company.

Clear Spring Property and Casualty Company ("Clear Spring")

Effective January 1, 2017, the Company entered into a quota share treaty with Clear Spring pursuant to which the Company reinsures 25.0% of all Workers Compensation business written by Clear Spring. Refer to Note 12 - "Related Party Transactions" for additional disclosures on the Company's quota share treaty with Clear Spring.

4. INVESTMENTS

We hold: (i) trading portfolios of fixed maturity investments and short-term investments, carried at fair value; (ii) equities carried at fair value; (iii) other investments carried at fair value; (iv) funds held - directly managed, carried at fair value; and (iv) equity method investments.

Fixed Maturity Investments

Asset Types

The fair values of the underlying asset types comprising our short-term investments and fixed maturity investments, classified as trading, and the fixed maturity investments included within our funds held - directly managed balance were as follows as at December 31, 2018 and 2017:

	2018			
	Short-term investments	Fixed maturity investments	Funds Held - Directly Managed	Total
U.S. government and agency	$ —	$ 26,721	$ 56,267	$ 82,988
U.K. government	—	221,081	—	221,081
Other government	4,194	140,284	1,613	146,091
Corporate	11,379	1,026,750	149,629	1,187,758
Municipal	—	4,291	6,280	10,571
Residential mortgage-backed	—	101,973	3,252	105,225
Commercial mortgage-backed	—	83,234	27,350	110,584
Asset backed	—	18,750	8,365	27,115
Total fixed maturity and short-term investments	$ 15,573	$ 1,623,084	$ 252,756	$ 1,891,413

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

	2017			
	Short-term investments	**Fixed maturity investments**	**Funds Held - Directly Managed**	**Total**
U.S. government and agency	$ 3,981	$ 26,614	$ 54,812	$ 85,407
U.K. government	—	247,907	—	247,907
Other government	—	60,198	—	60,198
Corporate	10,885	1,015,433	100,691	1,127,009
Municipal	—	5,591	3,441	9,032
Residential mortgage-backed	—	23,444	—	23,444
Commercial mortgage-backed	—	65,813	12,272	78,085
Asset backed	—	39,556	3,985	43,541
Total fixed maturity and short-term investments	$ 14,866	$ 1,484,556	$ 175,201	$ 1,674,623

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 $93.5 million (as at December 31, 2017: $8.2 million). Included within corporate securities as at December 31, 2018 were senior secured loans of $0.1 million (as at December 31, 2017: $59.0 million).

Contractual Maturities

The contractual maturities of our short-term investments and fixed maturity investments, classified as trading, and the fixed maturity investments included within our funds held - directly managed balance 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 at December 31, 2018	**Amortized Cost**	**Fair Value**	**% of Total Fair Value**
One year or less	$ 69,229	$ 66,713	3.5%
More than one year through two years	130,579	121,877	6.5%
More than two years through five years	336,270	321,731	17.0%
More than five years through ten years	376,830	364,135	19.3%
More than ten years	807,332	774,033	40.9%
Residential mortgage-backed	104,714	105,225	5.6%
Commercial mortgage-backed	112,762	110,584	5.8%
Asset-backed	27,525	27,115	1.4%
	$ 1,965,241	$ 1,891,413	100.0%

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

Credit Ratings

The following table sets forth the credit ratings of our short-term investments and fixed maturity investments, classified as trading, and the fixed maturity investments included within our funds held - directly managed balance as at December 31, 2018:

	Amortized Cost	Fair Value	% of Total Investments	AAA Rated	AA Rated	A Rated	BBB Rated	Non-Investment Grade
U.S. government and agency	$ 83,660	$ 82,988	4.4%	$ 82,988	$ —	$ —	$ —	$ —
U.K. government	217,875	221,081	11.7%	—	221,081	—	—	—
Other government	155,332	146,091	7.7%	59,462	80,388	820	5,421	—
Corporate	1,252,733	1,187,758	62.8%	31,388	128,832	550,174	405,415	71,949
Municipal	10,640	10,571	0.6%	—	3,782	4,433	2,356	—
Residential mortgage-backed	104,714	105,225	5.6%	86,043	5,195	4,179	29	9,779
Commercial mortgage-backed	112,762	110,584	5.8%	98,850	1,477	3,440	6,817	—
Asset-backed	27,525	27,115	1.4%	13,492	11,944	1,679	—	—
	$ 1,965,241	$1,891,413	100.0%	$ 372,223	$ 452,699	$564,725	$ 420,038	$ 81,728
% of total fair value				19.7%	23.9%	29.9%	22.2%	4.3%

Equity Investments

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

	2018	2017
Publicly traded equity investments in common and preferred stocks	$ 17	$ 1,923
Privately held equity investments in common and preferred stocks	28,710	—
	$ 28,727	$ 1,923

Our publicly traded equity investments in common and preferred stocks predominantly trade on the major exchanges and are managed by our external advisors.

Our privately held equity investments in common and preferred stocks are direct investments in companies that we believe offer attractive risk adjusted returns and/or offer other strategic advantages. Each investment has its own unique terms and conditions and some have restrictions imposed on their disposal. Since there is no active market for these investments, they are considered to be illiquid.

Other Investments, at fair value

The following table summarizes our other investments carried at fair value:

	December 31, 2018	December 31, 2017
Private equity funds	$ 82,990	$ 47,802
Fixed income funds	125,387	97,163
Hedge fund	87,668	—
Equity funds	121,652	—
CLO equities	37,128	40,895
CLO equity fund	—	1,096
Balanced fund	7,194	53,505
Private Credit Funds	10,388	—
Others	8,604	—
	$ 481,011	$ 240,461

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

The valuation of our other investments is described in Note 5 - "Fair Value Measurements". Due to a lag in the valuations of certain funds reported by the managers, we may record changes in valuation with up to a three-month lag. We regularly review and discuss fund performance with the fund managers to corroborate the reasonableness of the reported net asset values and to assess whether any events have occurred within the lag period that would affect the valuation of the investments. The following is a description of the nature of each of these investment categories:

- *Private equity funds* invest primarily 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 our ability to liquidate those investments. These restrictions have been in place since the inception of the investments.
- *Fixed income funds* comprised of 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 junior and senior tranches of collateralized loan obligations. One of the funds has regularly published prices and is redeemable weekly. Another fund, with a market value of $68.6 million, is not currently eligible for redemption.
- The *hedge fund* comprised of long/short positions in equity securities. The hedge fund has an imposed lock-up period of up to three years and redemption terms of 60 days.
- *Equity funds* invest in a diversified portfolio of U.S. and non-US publicly-traded equity securities. The funds have liquidity terms that vary from daily up to quarterly.
- *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.
- *CLO equity fund* is comprised of a fund that invests primarily in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. The fund fully paid down during 2018.
- The *balanced fund,* all of whose investors are Enstar subsidiaries and affiliates, comprises a number of positions in diversified fixed income and equity funds, and also direct holdings in fixed income and equity securities. The fund has regularly published prices and is redeemable weekly.
- *Private credit funds* invest in direct senior or collateralized loans. The investments are subject to restrictions on redemption and sales that are determined by the governing documents and limit our ability to liquidate our positions in the funds.
- *Others* comprise of a real estate debt fund that invests primarily in European commercial real estate equity and call options on equity.

As at December 31, 2018 we had unfunded commitments of $32.1 million to private equity funds.

Equity Method Investments

The table below shows our equity method investments as of December 31, 2018:

	2018			2017		
	Investment	**Ownership %**	**Carrying Value**	**Investment**	**Ownership %**	**Carrying Value**
KaylaRe Holdings Ltd.	$ 314,381	48.2%	$ 286,257	$ 300,000	48.2%	$ 309,816
Enhanzed Reinsurance Ltd.	94,800	47.4%	94,800	—	—%	—
Citco III Limited	50,000	31.9%	50,812	—	—%	—
	$ 459,181		$ 431,869	$ 300,000		$ 309,816

Refer to Note 12 - "Related party Transactions" for further disclosures regarding our investments in KaylaRe Holdings Ltd. ("KaylaRe Holdings"), Enhanzed Reinsurance Ltd. ("Enhanzed Re") and Citco III Limited ("Citco").

As of December 31, 2018, we had unfunded commitments of $128.0 million relating to our investment in Enhanzed Re.

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

Funds Held

Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to our reinsurance subsidiaries. We either have (i) funds held by reinsured companies, which are carried at amortized cost and on which we receive a fixed crediting rate, or (ii) funds held - directly managed, which are carried at fair value and on which we receive the underlying return on the portfolio. The investment returns on both categories of funds held are recognized in net investment income and net realized and unrealized gains (losses). The funds held balance is credited with investment income and losses payable are deducted.

Funds held - Directly Managed

Funds held - directly managed, where we receive the underlying return on the investment portfolio, are carried at fair value, either because we elected the fair value option at the inception of the reinsurance contract, or because it represents the aggregate of funds held at amortized cost and the fair value of an embedded derivative. The embedded derivative relates to our contractual right to receive the return on the underlying investment portfolio supporting the reinsurance contract. We include the estimated fair value of these embedded derivatives in the consolidated balance sheets with the host contract in order to reflect the expected settlement of these features with the host contract. The change in the fair value of the embedded derivative is included in net unrealized gains (losses). The following table summarizes the components of the funds held - directly managed as of December 31, 2018 and 2017:

	2018	2017
Fixed maturity investments, trading	$ 252,756	$ 175,201
Other assets	7,535	5,284
	$ 260,291	$ 180,485

The following table summarizes the fixed maturity investment components of funds held - directly managed as of December 31, 2018 and 2017:

	2018			2017		
	Funds held - Directly Managed - Fair Value Option	Funds held - Directly Managed - Variable Return	Total	Funds held - Directly Managed - Fair Value Option	Funds held - Directly Managed - Variable Return	Total
Fixed maturity investments, at amortized cost	$ 179,670	$ 77,185	$ 256,855	$ 174,227	$ —	$ 174,227
Net unrealized (losses) gains:						
Change in fair value - fair value option accounting	(2,733)	—	(2,733)	974	—	974
Change in fair value - embedded derivative accounting	—	(1,366)	(1,366)	—	—	—
Fixed maturity investments within funds held - directly managed, at fair value	$ 176,937	$ 75,819	$ 252,756	$ 175,201	$ —	$ 175,201

Funds Held by Reinsured Companies

Funds held by reinsured companies, where we receive a fixed crediting rate, are carried at cost on our consolidated balance sheets. As of December 31, 2018 and 2017, we had funds held by reinsured companies of $318.3 million and $159.1 million, respectively.

(Expressed in thousands of U.S. dollars, except share data)

4. INVESTMENTS (Continued)

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	$ 44,478	$ 24,290
Short-term investments and cash and cash equivalents	1,721	2,224
Funds held - directly managed	5,373	3,280
Other investments	12,644	8,214
Interest income from affiliate	3,732	4,460
Gross investment income	67,948	42,468
Investment expenses	(1,647)	(702)
Net investment income	$ 66,301	$ 41,766

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 gains (losses) on sale:		
Fixed maturity securities, trading	$ (3,116)	$ 632
Equity securities	(611)	—
Funds held- directly managed	(133)	37
Total net realized (losses) gains on sale	(3,860)	669
Net unrealized (losses) gains:		
Fixed maturity securities, trading	(54,890)	12,945
Fixed maturity securities in funds held - directly managed portfolios	(3,875)	974
Equity securities	(908)	353
Other investments	(47,282)	6,826
Total net unrealized (losses) gains	(106,955)	21,098
Net realized and unrealized (losses) gains	$ (110,815)	$ 21,767

Restricted Assets

We utilize trust accounts to collateralize business with our insurance and reinsurance counterparties. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. Collateral generally takes the form of assets held in trust, letters of credit or funds held. The assets used as collateral are primarily highly rated fixed maturity securities. The carrying value of our restricted assets, including restricted cash of $46.8 million and $25.2 million as of December 31, 2018 and 2017, respectively, was as follows:

	2018	2017
Collateral in trust for third party agreements	$ 1,650,261	$ 1,511,349
Collateral for secured letter of credit facilities	12,362	11,737
	$ 1,662,623	$ 1,523,086

5. FAIR VALUE MEASUREMENTS

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 investments 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:

(Expressed in thousands of U.S. dollars, except share data)

5. FAIR VALUE MEASUREMENTS (Continued)

	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	$ —	$ 82,988	$ —	$ —	$ 82,988
U.K. government	—	221,081	—	—	221,081
Other government	—	146,091	—	—	146,091
Corporate	—	1,186,549	1,209	—	1,187,758
Municipal	—	10,571	—	—	10,571
Residential mortgage-backed	—	105,225	—	—	105,225
Commercial mortgage-backed	—	110,584	—	—	110,584
Asset-backed	—	27,115	—	—	27,115
	—	1,890,204	1,209	—	1,891,413
Other assets included within funds held-directly managed	—	7,535	—	—	7,535
Equities:					
Publicly traded equity investments	—	17	—	—	17
Privately held equity investments	—	—	28,710	—	28,710
	—	17	28,710	—	28,727
Other investments:					
Private equity funds	—	—	—	82,990	82,990
Fixed income funds	—	56,555	—	68,832	125,387
Hedge funds	—	—	—	87,668	87,668
Equity funds	—	—	—	121,652	121,652
CLO equities	—	—	37,128	—	37,128
CLO equity funds	—	—	—	—	—
Balanced Fund		7,194			7,194
Private credit funds	—	—	—	10,388	10,388
Others	—	578	—	8,026	8,604
	—	64,327	37,128	379,556	481,011
Total Investments	$ —	$ 1,962,083	$ 67,047	$ 379,556	$ 2,408,686
Cash and cash equivalents	$ 28,282	$ 99	$ —	$ —	$ 28,381
Reinsurance balances recoverable:	$ —	$ —	$ 456,158	$ —	$ 456,158
Other Assets:					
Derivative Instruments	$ —	$ 2,968	$ —	$ —	$ 2,968
	$ —	$ 2,968	$ —	$ —	$ 2,968
Losses and LAE:	$ —	$ —	$ 1,616,076	$ —	$ 1,616,076

(Expressed in thousands of U.S. dollars, except share data)

5. FAIR VALUE MEASUREMENTS (Continued)

	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	$ —	$ 85,407	$ —	$ —	$ 85,407
U.K Government		247,907			247,907
Non-U.S. government	—	60,198	—	—	60,198
Corporate	—	1,087,319	39,690	—	1,127,009
Municipal	—	9,032	—	—	9,032
Residential mortgage-backed	—	23,444	—	—	23,444
Commercial mortgage-backed	—	78,085	—	—	78,085
Asset-backed	—	43,541	—	—	43,541
	$ —	$ 1,634,933	$ 39,690	$ —	$ 1,674,623
Other assets included within funds held- directly managed	$ —	$ 5,284	$ —	$ —	$ 5,284
Equities:					
Publicly traded equity investments	$ 203	$ 1,720	$ —	$ —	$ 1,923
	$ 203	$ 1,720	$ —	$ —	$ 1,923
Other investments:					
Private equity funds	$ —	$ —	$ —	$ 47,802	$ 47,802
Fixed income funds	—	97,163	—	—	97,163
CLO equities	—	—	40,895	—	40,895
CLO equity funds	—	—	—	1,096	1,096
Balanced fund	—	53,505	—	—	53,505
	$ —	$ 150,668	$ 40,895	$ 48,898	$ 240,461
Total Investments	$ 203	$ 1,792,605	$ 80,585	$ 48,898	$ 1,922,291
Cash and cash equivalents	$ 6,884	$ 2,994	$ —	$ —	$ 9,878
Reinsurance balances recoverable:	$ —	$ —	$ 542,224	$ —	$ 542,224
Other Assets:					
Derivative Instruments	$ —	$ 176	$ —	$ —	$ 176
	$ —	$ 176	$ —	$ —	$ 176
Losses and LAE:	$ —	$ —	$ 1,794,669	$ —	$ 1,794,669
Other Liabilities:					
Derivative Instruments	$ —	$ 3,890	$ —	$ —	$ 3,890
	$ —	$ 3,890	$ —	$ —	$ 3,890

5. FAIR VALUE MEASUREMENTS (Continued)

Valuation Methodologies of Financial Instruments Measured at Fair Value

Fixed Maturity Investments

The fair values for all securities in the fixed maturity investments and funds held - directly managed portfolios 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 services.

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 other such 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, including the investments underlying the funds held - directly managed:

- 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.
- 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.
- 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.
- 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.

5. FAIR VALUE MEASUREMENTS (Continued)

Equities

Our investments in equities consist of a combination of publicly and privately traded investments. Our publicly traded equity investments in common and preferred stocks predominantly trade on the major exchanges and are managed by our external advisors. We use an internationally recognized pricing service to estimate the fair values of our publicly traded equities. We have categorized our publicly traded equity investments other than preferred stock as Level 1 investments because the fair values of these investments are based on unadjusted quoted prices in active markets for identical assets.The fair value estimates of our investments in publicly traded preferred stock are based on observable market data and, as a result, have been categorized as Level 2.

Our privately held equity investments in common and preferred stocks are direct investments in companies that we believe offer attractive risk adjusted returns and/or offer other strategic advantages. Each investment has its own unique terms and conditions and some have restrictions imposed on their disposal. Since there is no active market for these investments, they are considered to be illiquid. The Company uses a combination of cost, internal models, reported values from co-investors/managers and observable inputs, such as capital raises and capital transactions between new and existing shareholders to calculate the fair value of the privately held equity investments. The fair value estimates of our investments in privately held equity securities are based on unobservable market data and, as a result, have been categorized as Level 3. As of December 31, 2018, we have used cost as our estimate of fair value for some of our privately held equity investments, given that only a short period of time has lapsed since the investments were made.

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 net asset values ("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:

- 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.
- Our investments in fixed income funds, equity funds and balanced funds 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 hedge funds, 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 these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.
- Included within others is our investment in a real estate debt fund for which we measure fair value by obtaining the most recently available NAV from the external fund manager or third-party administrator. The fair value 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 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.

  In providing valuations, the CLO equity manager and brokers use observable and unobservable inputs. Of the significant

5. FAIR VALUE MEASUREMENTS (Continued)

unobservable market inputs used, the default and loss severity rates involve the most judgment and create the most sensitivity. A significant increase or decrease in either of these significant inputs in isolation would result in lower or higher fair value estimates for direct investments in CLO equities and, in general, a change in default rate assumptions will be accompanied by a directionally similar change in loss severity rate assumptions. Collateral spreads and estimated maturity dates are less subjective inputs because they are based on the historical average of actual spreads and the weighted-average life of the current underlying portfolios, respectively. A significant increase or decrease in either of these significant inputs in isolation would result in higher or lower fair value estimates for direct investments in CLO equities. In general, these inputs have no significant interrelationship with each other or with default and loss severity rates.

On a quarterly basis, we receive the valuations from the external CLO manager and brokers and then review the underlying cash flows and key assumptions used by them. We review and update the significant unobservable inputs based on information obtained from secondary markets. These inputs are our responsibility and we assess the reasonableness of the inputs (and if necessary, update the inputs) through communicating with industry participants, monitoring of the transactions in which we participate (for example, to evaluate default and loss severity rate trends), and reviewing market conditions, historical results, and emerging trends that may impact future cash flows.

If valuations from the external CLO equity manager or brokers are not available, we use an income approach based on certain observable and unobservable inputs to value these investments. An income approach is also used to corroborate the reasonableness of the valuations provided by the external manager and brokers. Where an income approach is followed, the valuation is based on available trade information, such as expected cash flows and market assumptions on default and loss severity rates. Other inputs used in the valuation process include asset spreads, loan prepayment speeds, collateral spreads and estimated maturity dates.

- For our investments in the CLO equity funds, we measure fair value by obtaining the most recently available NAV as advised by the external fund manager or third party administrator. The fair value of these investments is measured using the NAV as a practical expedient and therefore has not been categorized within the fair value hierarchy.
- For our investments in private credit funds, we measure fair value by obtaining the most recently available NAV from the external fund manager or third-party administrator. The fair value of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy

Insurance Contracts - Fair Value Option

The Company uses an internal model to calculate the fair value of the liability for losses and loss adjustment expenses and reinsurance balances recoverable assets for certain retroactive reinsurance contracts where we have elected the fair value option. The fair value was calculated as the aggregate of discounted cash flows plus a risk margin. The discounted cash flow approach uses (i) estimated nominal cash flows based upon an appropriate payment pattern developed in accordance with standard actuarial techniques and (ii) a discount rate based upon a high quality rated corporate bond plus a credit spread for non-performance risk. The model uses corporate bond rates across the yield curve depending on the estimated timing of the future cash flows and specific to the currency of the risk. The risk margin was calculated using the present value of the cost of capital. The cost of capital approach uses (i) projected capital requirements, (ii) multiplied by the risk cost of capital representing the return required for non-hedgeable risk based upon the weighted average cost of capital less investment income and (iii) discounted using the weighted average cost of capital.

Derivative Instruments

The fair values of our foreign currency exchange contracts, as described in Note 6 - "Derivative Instruments" are classified as Level 2. The fair values are based upon prices in active markets for identical contracts.

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

(Expressed in thousands of U.S. dollars, except share data)

5. FAIR VALUE MEASUREMENTS (Continued)

a recurring basis using Level 3 inputs during the years ended December 31, 2018 and 2017:

	2018					
	Corporate	Commercial mortgage-backed	Asset-backed	Privately-held Equities	Other Investments	Total
Beginning fair value	$ 39,690	$ —	$ —	$ —	$ 40,895	$ 80,585
Purchases	6,761	—	16,376	27,016	11,491	61,644
Sales	(57,677)	—	(16,162)	—	—	(73,839)
Total realized and unrealized (losses) gains	(274)	—	(214)	(18)	(15,258)	(15,764)
Transfer into Level 3 from Level 2	13,389	—	—	1,712	—	15,101
Transfer out of Level 3 into Level 2	(680)	—	—	—	—	(680)
Ending fair value	$ 1,209	$ —	$ —	$ 28,710	$ 37,128	$ 67,047

	2017					
	Corporate	Commercial mortgage-backed	Asset-backed	Privately-held Equities	Other Investments	Total
Beginning fair value	$ 46,553	$ —	$ —	$ —	$ 44,069	$ 90,622
Purchases	22,779	828	670	—	—	24,277
Sales	(29,554)	—	(2,462)	—	—	(32,016)
Total realized and unrealized gains (losses)	(522)	(3)	11	—	(3,174)	(3,688)
Transfer into Level 3 from Level 2	17,790	—	1,781	—	—	19,571
Transfer out of Level 3 into Level 2	(17,356)	(825)	—	—	—	(18,181)
Ending fair value	$ 39,690	$ —	$ —	$ —	$ 40,895	$ 80,585

Net realized and unrealized gains related to Level 3 assets in the table above are included in net realized and unrealized (losses) gains 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 assets. The transfers from Level 3 to Level 2 were based upon us obtaining market observable information regarding the valuations of the specific assets.

(Expressed in thousands of U.S. dollars, except share data)

5. FAIR VALUE MEASUREMENTS (Continued)

Insurance Contracts - Fair Value Option

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

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Liability for losses and LAE	Reinsurance balances recoverable	Net	Liability for losses and LAE	Reinsurance balances recoverable	Net
Beginning fair value	$ 1,794,669	$ 542,224	$ 1,252,445	$ —	$ —	$ —
Assumed business	268,658	—	268,658	1,924,829	551,253	1,373,576
Incurred losses and LAE:						
Reduction in estimates of ultimate losses	(136,534)	(50,687)	(85,847)	(94,257)	(1,848)	(92,409)
Reduction in unallocated LAE	(17,082)	—	(17,082)	(22,303)	—	(22,303)
Changes in fair value:	10,595	16,969	(6,374)	38,442	22,354	16,088
Total incurred losses and LAE	(143,021)	(33,718)	(109,303)	(78,118)	20,506	16,088
Paid losses	(223,156)	(45,679)	(177,477)	(136,735)	(39,250)	(97,485)
Effect of exchange rate movements	(81,074)	(6,669)	(74,405)	84,693	9,715	74,978
Ending fair value	$ 1,616,076	$ 456,158	$ 1,159,918	$ 1,794,669	$ 542,224	$ 1,367,157

Changes in fair value related to Level 3 assets and liabilities in the table above are included in net incurred losses and LAE in our consolidated statements of earnings.

Below is a summary of the quantitative information regarding the significant observable and unobservable inputs used in the internal model to determine fair value on a recurring basis as at December 31, 2018 and 2017:

Valuation Technique	Unobservable (U) and Observable (O) Inputs	2018	2017
		Weighted Average	Weighted Average
Internal model	Corporate bond yield (O)	A rated	A rated
Internal model	Credit spread for non-performance risk (U)	0.2%	0.2%
Internal model	Risk cost of capital	5.1%	5%
Internal model	Weighted average cost of capital (U)	8.5%	8.5%
Internal model	Duration - liability (U)	9.86 years	11.41 years
Internal model	Duration - reinsurance balances recoverable (U)	10.21 years	11.66 years

The fair value of the liability for losses and LAE and reinsurance balances recoverable may increase or decrease due to changes in the corporate bond rate, the credit spread for non-performance risk, the risk cost of capital, the weighted average cost of capital and the estimated payment pattern as described below:

- An increase in the corporate bond rate or credit spread for non-performance risk would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable. Conversely, a decrease in the corporate bond rate or credit spread for non-performance risk would result in an increase in the fair value of the liability for losses and LAE and reinsurance balances recoverable
- An increase in the weighted average cost of capital would result in an increase in the fair value of the liability for losses and LAE and reinsurance balances recoverable. Conversely, a decrease in the weighted average cost of capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable.
- An increase in the risk cost of capital would result in an increase in the fair value of the liability for losses and LAE and reinsurance balances recoverable. Conversely, a decrease in the risk cost of capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable.

(Expressed in thousands of U.S. dollars, except share data)

5. FAIR VALUE MEASUREMENTS (Continued)

- An acceleration of the estimated payment pattern would result in an increase in the fair value of the liability for losses and LAE and reinsurance balances recoverable. Conversely, a deceleration of the estimated payment pattern would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable.
- In addition, the estimate of the capital required to support the liabilities is based upon current industry standards for capital adequacy. If the required capital per unit of risk increases, then the fair value of the liability for losses and LAE and reinsurance balances recoverable would increase. Conversely, a decrease in required capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable.

6. DERIVATIVE INSTRUMENTS

Derivatives Not Designated or Not Qualifying as Hedging Instruments

From time to time, we may utilize foreign currency forward contracts as part of our overall foreign currency risk management strategy or to obtain exposure to a particular financial market, as well as for yield enhancement in non-qualifying hedging relationships.

The following table presents the gross notional amounts, estimated fair values recorded within other assets and liabilities and the amounts included in net earnings related to our non-qualifying foreign currency forward exchange rate hedging relationships as at December 31, 2018 and 2017.

	December 31, 2018			
		Fair Value		2018
	Gross Notional Amount	Assets	Liabilities	Gains on non-qualifying hedges included in earnings
Foreign exchange forward - AUD	$ 40,849	$ 1,308	$ —	$ 4,624
Foreign exchange forward - GBP	276,588	1,661	—	20,831
Total non-qualifying hedges	$ 317,438	$ 2,968	$ —	$ 25,455

	December 31, 2017			
		Fair Value		2017
	Gross Notional Amount	Assets	Liabilities	Losses on non-qualifying hedges charged to earnings
Foreign exchange forward - AUD	$ 57,028	$ —	$ 1,002	$ (1,002)
Foreign exchange forward - GBP	142,002	176	2,888	(3,793)
Total non-qualifying hedges	$ 199,030	$ 176	$ 3,890	$ (4,795)

7. REINSURANCE BALANCES RECOVERABLE

Our assumed portfolios of insurance and reinsurance run-off liabilities, prior to their acquisition by the Company, as well as the entities under common control prior to their mergers with and into the Company, used retrocessional agreements to reduce their exposure to the risk of insurance and reinsurance assumed.

The fair value adjustments, determined on acquisition of insurance and reinsurance subsidiaries, are based on the estimated timing of loss and LAE recoveries and an assumed interest rate equivalent to a risk free rate for securities with similar duration to the acquired reinsurance balances recoverable plus a spread to reflect credit risk, and are amortized over the estimated recovery period,

(Expressed in thousands of U.S. dollars, except share data)

7. REINSURANCE BALANCES RECOVERABLE (Continued)

as adjusted for accelerations in timing of payments as a result of commutation settlements. The determination of the fair value adjustments on the retroactive reinsurance contracts for which we have elected the fair value option is described in Note 5 - "Fair Value Measurements".

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

	2018	2017
Recoverable from reinsurers on unpaid:		
Outstanding losses	$ 338,795	$ 389,634
IBNR	233,844	290,106
Fair value adjustments - fair value option	(113,800)	(131,983)
Total reinsurance reserves recoverable	458,839	547,757
Paid losses recoverable	57,930	56,044
	$ 516,769	$ 603,801
Reconciliation to consolidated balance sheet:		
Reinsurance balances recoverable	$ 60,611	$ 61,577
Reinsurance balances recoverable - fair value option	456,158	542,224
Total	$ 516,769	$ 603,801

The decrease of $87 million in reinsurance balances recoverable on paid and unpaid losses was primarily as a result of cash collections made as well as reserve reductions during the year ended December 31, 2018.

Provision for Uncollected Reinsurance Recoverables

We evaluate and monitor concentration of credit risk among our reinsurers. Provisions are made for amounts considered potentially uncollectible. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

The following table shows our reinsurance balances recoverable by rating of reinsurer and our provisions for uncollectible reinsurance balances recoverable ("provisions for bad debt") as at December 31, 2018 and 2017.

	2018			
	Gross	Provisions for Bad Debt	Net	Provisions as a % of Gross
Reinsurers rated A- or above	$ 370,417	$ (13,783)	$ 356,634	3.7%
Reinsurers rated below A-, secured	137,590	—	137,590	—%
Reinsurers rated below A-, unsecured	29,987	(7,442)	22,545	24.8%
Total	$ 537,994	$ (21,225)	$ 516,769	3.9%

	2017			
	Gross	Provisions for Bad Debt	Net	Provisions as a % of Gross
Reinsurers rated A- or above	$ 379,973	$ (12,310)	$ 367,663	3.2%
Reinsurers rated below A-, secured	113,769	—	113,769	—%
Reinsurers rated below A-, unsecured	129,030	(6,661)	122,369	5.2%
Total	$ 622,772	$ (18,971)	$ 603,801	3.0%

(Expressed in thousands of U.S. dollars, except share data)

8. OTHER ASSETS

The following table summarizes our other assets as at December 31, 2018 and 2017:

	2018	2017
Centurion loan	$ 15,424	$ 18,025
Deferred charge	6,014	5,854
Investment in insolvent debts	14,116	23,856
Pre-funding to third party administrators	13,118	14,759
Receivables for unsettled trades	23,429	8,604
Accrued interest receivable	19,480	17,709
Derivative instruments	1,308	176
Other	189	60
Total	$ 93,078	$ 89,043

9. 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 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 loss 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 at December 31, 2018 and 2017:

	2018	2017
Outstanding losses	$ 1,067,900	$ 899,017
IBNR	1,406,019	1,378,877
Fair value adjustments - fair value option	(303,913)	(314,748)
ULAE	112,207	121,042
Total	$ 2,282,213	$ 2,084,188
Reconciliation to Consolidated Balance Sheet:		
Losses and loss adjustment expenses	$ 666,137	$ 289,519
Losses and loss adjustment expenses at fair value	1,616,076	1,794,669
Total	$ 2,282,213	$ 2,084,188

The overall increase in the liability for losses and LAE between December 31, 2017 and December 31, 2018 was primarily attributable to the assumed reinsurance agreements with Maiden Re, Allianz and Zurich Australia, the latter for which we elected the fair value option, as described in Note 3 - "Recent Mergers and Significant New Business"

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

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
Balance as at January 1	$ 2,084,188	$ 378,532
Less: reinsurance reserves recoverable	547,757	6,342
Less: deferred charges on retroactive reinsurance	5,854	7,255
Net balance as at January 1	1,530,577	364,935
Net incurred losses and LAE:		
Current year	2,449	2,383
Prior periods	(147,653)	(114,972)
Total net incurred losses and LAE	(145,204)	(112,589)
Net losses paid:		
Current year	(137)	(152)
Prior periods	(245,947)	(186,439)
Total net paid losses	(246,084)	(186,591)
Effect of exchange rate movement	(83,257)	30,075
Assumed business	761,328	1,434,747
Net balance as at December 31	1,817,360	1,530,577
Plus: reinsurance reserves recoverable	458,839	547,757
Plus: Deferred charges on retroactive reinsurance	6,014	5,854
Balance as at December 31	$ 2,282,213	$ 2,084,188

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 reduction in ultimate losses and loss adjustment expense liabilities of $145.2 million. This overall net reduction was primarily attributable to favourable development of $147.7 million related to prior year estimates comprised of a reduction in net ultimate losses of $128.6 million, a reduction in provisions for unallocated LAE of $18.4 million, partially offset by an increase in provisions for bad debt of $0.2 million and change in fair value of $4.8 million relating to our assumed retroactive reinsurance agreements with Zurich Australia, which was assumed during the year, RSA and QBE, all of which we have elected the fair value option. The current year net increase of $2.4 million in net incurred losses and LAE was attributable to the quota share treaty with Clear Spring. Refer to Note 3 - "Recent Mergers and Significant New Business" for a description of the business assumed during the year.

For the year ended December 31, 2017, the Company recorded an overall net reduction in ultimate losses and loss adjustment expense liabilities of $112.6 million. This overall net reduction was primarily attributable to favourable development of $115.0 million related to prior year estimates comprised of a reduction in net ultimate losses of $139.4 million, a reduction in provisions for unallocated LAE of $14.8 million, partially offset by an increase in provisions for bad debt of $19.6 million and change in fair value of $18.4 million relating to our assumed retroactive reinsurance agreements with RSA and QBE completed in 2017 for which we elected the fair value option. The current year net increase of $2.4 million in net incurred losses and LAE was attributable to the quota share treaty with Clear Spring which became effective on January 1, 2017. Refer to Note 3 - "Recent Mergers and Significant New Business" for a description of the business assumed during the year.

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

Loss Development Information

Methodology for Establishing 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 workers' compensation, general casualty, and asbestos. Management, through our loss reserving committees, 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 reserve, updates historical loss development information to which actuarial methodologies are applied often, resulting in revised estimates of ultimate liabilities. On an annual basis, independent actuarial firms are retained by management to provide their estimates of ultimate losses and to review the estimates developed by our actuaries, for reasonableness.

Within the annual loss reserve studies produced by either our actuaries or independent 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, asbestos, casualty) and lines of business written (for example, general casualty and workers compensation). 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 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 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

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

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. The loss development disclosures included within the tables below are presented by acquisition year, if significant, by line of business within that acquisition year. The lines of business disclosed include Asbestos, Workers' Compensation and Motor.

For each acquisition year and/or line of business for which loss development tables have been provided below, the disclosure approach and format adopted reflects the following:

- The incurred loss development tables include both reported case reserves and IBNR liabilities, as well as cumulative paid losses;
- Both the incurred and cumulative paid loss development tables include allocated LAE (i.e. claims handling costs allocated to specific individual claims) but exclude unallocated LAE (i.e. the costs associated with internal claims staff and third party administrators as well as consultants that cannot be allocated to specific individual claims);
- The fair value adjustments related to business acquisitions are excluded from the loss development tables; however the undiscounted incurred losses, cumulative paid losses and allocated LAE related to business acquisitions are included in the loss development tables;
- The fair value adjustments related to retroactive reinsurance agreements for which we have elected the fair value option are excluded from the loss development tables; however the undiscounted incurred losses, cumulative paid losses and allocated LAE related to retroactive reinsurance agreements for which we have elected the fair value option are included in the loss development tables;
- The amounts relating to the amortization of deferred charge assets are excluded from the loss development tables;
- The amounts relating to the increase (reduction) in provisions for unallocated LAE are excluded from the loss development tables;
- The amounts included within the loss development tables for the years ended December 31, 2009 through to December 31, 2017, as well as the historical average annual percentage payout ratios as of December 31, 2018, are presented as supplementary information and are therefore unaudited;
- All data presented within the loss development tables is net of reinsurance recoveries, excluding provisions for uncollectible reinsurance recoverables;
- The IBNR reserves included within each incurred loss development table by accident year, reflect the net IBNR recorded as of December 31, 2018, including expected development on reported losses; and
- All information for both acquisitions and retroactive reinsurance agreements is presented prospectively. As the reserves are effectively re-underwritten at the date the reserves are acquired or assumed, we believe that the historical pre-acquisition loss development is not relevant to the subsequent loss experience arising on these acquired or assumed reserves under our management. In addition, the information required to prepare the loss development disclosures on a retrospective basis is not always available to us due to data limitation issues and therefore a mixed approach would result in loss development tables that are not entirely reflective of the actual loss development of our acquired or assumed loss reserves.

The historical amounts disclosed within the loss development tables for all lines of business presented below are on a constant-currency basis, which is achieved by using constant foreign exchange rates between periods in the loss development tables, and translating prior period amounts denominated in currencies other than the U.S. dollar, which is our reporting currency, using the closing exchange rates as at December 31, 2018.

The impact of this exchange rate conversion is to show the change between periods exclusive of the effect of exchange rate fluctuations, which would otherwise distort the change in incurred losses and the cash flow patterns associated with those incurred losses shown within the loss development tables. The change in net incurred losses shown within the loss development tables will, however, differ from other U.S. GAAP disclosures of incurred current and prior period reserve development amounts, which include the effect of exchange rate fluctuations.

Establishing an estimate for loss reserves involves various assumptions and judgments, therefore, the information contained within the loss development disclosures only allows readers or users of our consolidated financial statements to understand, at the summary

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

level presented in the development tables, the change over time in our reported incurred loss estimates as well as the nature and patterns of the cash flows associated with those estimates. We, therefore, believe that the information provided within the loss development tables disclosed below is of limited use for independent analysis or application of standard actuarial estimations, and any results obtained from doing so should be interpreted with caution.

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 for the exposures included within our asbestos, workers' compensation and motor lines of business includes direct and assumed open and closed claims by accident year at the claimant level. Reported claims that are closed without a payment are included within our cumulative number of reported claims because we typically incur claim adjustment expenses on them prior to their closure. The claim count numbers exclude counts related to claims within policy deductibles where the insured is responsible for the payment of losses within the deductible layer. Individual claim counts related to certain assumed reinsurance contracts such as excess-of-loss and quota share treaties are not available to us, and the losses arising from these treaties have been treated as single claims for the purposes of determining claim counts. Therefore, each treaty year within the reinsurance contract is deemed a single claim because the detailed underlying individual claim information is generally not reported to us by our cedents.

The following table provides a breakdown of the gross and net losses and LAE reserves, consisting of Outstanding Loss Reserves ("OLR") and IBNR by line of business, and fair value adjustments and ULAE as at December 31, 2018 and 2017:

	2018					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
Asbestos	$ 114,373	$ 729,063	$ 843,436	$ 101,030	$ 635,362	$ 736,392
General casualty	95,945	84,163	180,108	88,255	76,910	165,165
Workers compensation/personal accident	389,675	329,861	719,536	223,022	179,016	402,038
Marine, aviation and transit	69,624	30,805	100,429	43,686	33,796	77,482
Motor	274,913	127,926	402,839	157,347	125,292	282,639
Other latent	87,699	44,006	131,705	80,503	61,647	142,150
Other	35,670	60,196	95,866	35,261	60,153	95,414
Total	$ 1,067,899	$ 1,406,020	2,473,919	$ 729,104	$ 1,172,176	1,901,280
Fair value adjustments - fair value option			(303,913)			(190,113)
Deferred charge on retroactive reinsurance			—			(6,014)
ULAE			112,207			112,207
Total			**$ 2,282,213**			**$ 1,817,360**

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

	2017					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
Asbestos	$ 120,229	$ 851,117	$ 971,346	$ 100,280	$ 764,157	$ 864,437
General casualty	103,418	64,183	167,601	89,373	54,187	143,560
Workers compensation/personal accident	355,067	336,113	691,180	152,447	153,193	305,640
Marine, aviation and transit	72,154	40,775	112,929	59,765	36,641	96,406
Motor	131,927	5,284	137,211	10,357	3,573	13,930
Other latent	102,728	38,263	140,991	85,014	34,783	119,797
Other	13,494	43,141	56,635	12,147	42,236	54,383
Total	$ 899,017	$ 1,378,876	2,277,894	$ 509,383	$ 1,088,770	1,598,153
Fair value adjustments - fair value option			(314,748)			(182,764)
Deferred charge on retroactive reinsurance			—			(5,854)
ULAE			121,042			121,042
Total			**$ 2,084,188**			**$ 1,530,577**

In addition to the breakdown of our reserves by line of business we also monitor our reserves by acquisition year. The acquisition year is the year in which the net reserves were acquired via a business acquisition or assumed via a retroactive reinsurance agreement. By analyzing the loss development tables by acquisition year on a prospective basis, the impact of the take-on positions from year to year does not distort the loss development tables.

The following table provides a summary of our net loss reserves, prior to provisions for bad debt, fair value adjustments, deferred charge assets and ULAE as of December 31, 2018, by year of acquisition and by significant line of business:

	Acquisition Year											
	2008 and Prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Asbestos	$ 17,728	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 5,035	$ 676,570	$ 25,929	$ 725,262
Environmental	4,953	—	—	—	—	—	—	—	—	3,529	28,478	36,960
General casualty	4,704	—	—	—	—	—	—	—	265	93,014	66,870	164,853
Workers' compensation/ personal accident	10,762	—	—	—	—	—	—	45,741	60,623	68,870	210,262	396,258
Marine, aviation and transit	924	—	—	—	—	—	—	—	—	75,303	259	76,486
Construction defect	—	—	—	—	—	—	—	—	—	28,102	—	28,102
Professional indemnity/ Directors & Officers	—	—	—	—	—	—	—	—	—	—	42	42
Motor	—	—	—	—	—	—	—	—	1,050	3,715	277,874	282,639
Property	—	—	—	—	—	—	—	—	—	2,633	15,995	18,628
All Other	2,640	—	882	—	—	—	—	3,893	—	135,952	8,648	152,015
Total	$ 41,711	$ —	$ 882	$ —	$ —	$ —	$ —	$ 49,634	$ 66,973	$1,087,688	$634,357	$ 1,881,245

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

The table below reconciles the net loss reserves, prior to provisions for bad debt, fair value adjustments, deferred charge assets and ULAE as of December 31, 2018, by significant line of business to the line of business table presented above:

	2018		
	Total Net Reserves per all Acquisition Years	Provision for Bad Debt	Total Net Reserves
Asbestos	$ 725,262	$ 11,130	$ 736,392
Environmental	36,960	40	37,000
General casualty	164,853	312	165,165
Workers' compensation/personal accident	396,258	—	396,258
Marine, aviation and transit	76,486	996	77,482
Construction defect	28,102	—	28,102
Professional indemnity/Directors & Officers	42	—	42
Motor	282,639	—	282,639
Property	18,628	—	18,628
All Other	152,015	1,779	153,794
Total	1,881,245	14,257	1,895,502
Live Business	5,778	—	5,778
Total	$ 1,887,023	$ 14,257	$ 1,901,280

Combined loss development tables have been provided below for businesses acquired and reinsurance contracts incepting during the years ended December 31, 2017 and 2018, which were the acquisition years with material losses and LAE reserves balances as of December 31, 2018. In addition, the asbestos line of business within the 2017 acquisition year and the workers' compensation and motor lines of business within the 2018 acquisition year were deemed to be significant and likewise the related loss development tables have also been provided below.

Our run-off business is unique within the insurance industry in that we are continuously acquiring legacy reserves primarily through retroactive reinsurance agreements or through business acquisitions, and adding them to our existing exposures. Accordingly, it would not be appropriate to extrapolate redundancies or deficiencies into the future from the loss development tables provided below. Acquired and assumed reserves arising from business acquisitions and retroactive reinsurance agreements are presented on a full prospective basis.

The following tables set forth information about incurred and paid loss development, total IBNR reserves and cumulative loss frequency for businesses acquired and reinsurance contracts incepting during the years ended December 31, 2018 and 2017. In addition, we have also presented loss development tables for the significant lines of business within those acquisition years. The accident year information related to incurred and paid loss development for the year ended December 31, 2017 as well as the historical average annual percentage payout ratios as of December 31, 2018 is presented within the loss development tables below as supplementary information and is therefore unaudited.

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

2017 Acquisition Year

Business Acquired and Contracts Incepting in the Year Ended December 31, 2017

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

		For the Years Ended December 31,		As of December 31, 2018	
Accident Year	Total Net Reserves Acquired	2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	$ 1,275,255	$ 1,209,971	$ 1,147,736	$ 723,587	3,640
2009	35,550	34,637	32,734	12,788	1
2010	32,422	28,127	18,750	6,598	1
2011	40,247	29,029	25,206	8,367	1
2012	41,834	33,651	30,368	8,099	1
2013	34,860	29,527	27,570	5,545	1
2014	31,244	18,701	15,391	3,306	1
2015	7,592	5,278	5,479	982	1
2016	267	(99)	(78)	58	1
2017	—	174	—	—	1
2018	—		—	—	—
	$ 1,499,271		$ 1,303,156	$ 769,330	3,649

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

	For the Years Ended December 31,	
Accident Year	2017 (unaudited)	2018
2008 and Prior	$ 71,709	$ 144,690
2009	7,088	11,284
2010	4,287	7,352
2011	4,125	9,237
2012	10,348	15,320
2013	9,509	15,616
2014	6,482	8,720
2015	1,361	3,313
2016	(56)	(64)
2017	4	—
2018		—
		$ 215,468
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance		$ 1,087,688

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

Asbestos

Business Acquired and Contracts Incepting in the Year Ended December 31, 2017 - Asbestos

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

		For the Years Ended December 31,		As of December 31, 2018	
Accident Year	Total Net Reserves Acquired	2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	$ 850,541	$ 811,584	$ 731,420	$ 586,599	2,963
2009	—	—	—	—	—
2010	—	—	—	—	—
2011	—	—	—	—	—
2012	—	—	—	—	—
2013	—	—	—	—	—
2014	—	—	—	—	—
2015	—	—	—	—	—
2016	—	—	—	—	—
2017	—	—	—	—	—
2018	—		—	—	—
	$ 850,541		$ 731,420	$ 586,599	2,963

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

	For the Years Ended December 31,	
Accident Year	2017 (unaudited)	2018
2008 and Prior	$ 19,733	$ 54,850
2009	—	—
2010	—	—
2011	—	—
2012	—	—
2013	—	—
2014	—	—
2015	—	—
2016	—	—
2017	—	—
2018		—
		$ 54,850
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance		$ 676,570

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

2018 Acquisition Year

Business Acquired and Contracts Incepting in the Year Ended December 31, 2018

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

		For the Year Ended December 31,	As of December 31, 2018	
Accident Year	**Total Net Reserves Acquired**	**2018**	**IBNR**	**Cumulative Number of Claims**
2008 and Prior	$ 170,558	$ 170,183	$ 85,819	10,762
2009	15,888	16,188	6,247	282
2010	22,935	20,842	5,983	161
2011	34,734	32,781	11,336	80
2012	46,971	44,947	16,538	60
2013	61,363	56,477	20,799	75
2014	93,086	87,243	34,131	134
2015	113,666	110,968	43,300	228
2016	86,687	88,627	38,832	171
2017	75,387	75,525	47,092	1
2018	1,936	1,936	1,075	—
	$ 723,211	$ 705,717	$ 311,152	11,954

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

	For the Year Ended December 31,
Accident Year	**2018**
2008 and Prior	$ 3,241
2009	887
2010	4,020
2011	3,792
2012	7,907
2013	8,670
2014	17,146
2015	19,370
2016	6,275
2017	52
2018	—
	$ 71,360
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	$ 634,357

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

Workers' Compensation

Business Acquired and Contracts Incepting in the Year Ended December 31, 2018 - Workers' Compensation

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

		For the Year Ended December 31,	As of December 31, 2018	
Accident Year	Total Net Reserves Acquired	2018	IBNR	Cumulative Number of Claims
2008 and Prior	$ 86,364	$ 86,364	$ 23,724	3,780
2009	10,103	10,103	4,516	167
2010	11,291	11,291	4,142	171
2011	16,112	16,112	7,458	167
2012	8,910	8,910	4,245	166
2013	7,780	7,780	4,085	402
2014	13,547	13,547	7,099	644
2015	14,697	14,697	8,911	791
2016	19,807	19,807	13,073	886
2017	21,279	21,279	15,813	993
2018	646	646	560	885
	$ 210,536	$ 210,536	$ 93,626	9,052

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

	For the Year Ended December 31,
Accident Year	2018
2008 and Prior	$ 274
2009	—
2010	—
2011	—
2012	—
2013	—
2014	—
2015	—
2016	—
2017	—
2018	—
	$ 274
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	$ 210,262

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

Motor

Business Acquired and Contracts Incepting in the Year Ended December 31, 2018 - Motor

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

		For the Year Ended December 31,	As of December 31, 2018	
Accident Year	Total Net Reserves Acquired	2018	IBNR	Cumulative Number of Claims
2008 and Prior	$ 116,739	$ 12,721	$ 4,804	359
2009	8,350	3,972	1,066	112
2010	10,740	7,830	864	161
2011	12,793	14,426	2,915	197
2012	15,006	23,196	5,512	219
2013	24,974	41,807	13,485	477
2014	40,941	67,018	23,135	778
2015	53,210	87,415	30,077	1,019
2016	47,887	54,572	19,597	1,057
2017	33,143	33,333	21,711	994
2018	1,218	1,218	705	885
	$ 365,001	$ 347,508	$ 123,871	6,258

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

	For the Year Ended December 31,
Accident Year	2018
2008 and Prior	$ 1,518
2009	887
2010	4,020
2011	3,792
2012	7,907
2013	8,670
2014	17,146
2015	19,370
2016	6,275
2017	49
2018	—
	$ 69,634
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	$ 277,874

(Expressed in thousands of U.S. dollars, except share data)

9. LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

Annual Historical Duration of Claims

The following is unaudited supplementary information, which presents the annual percentage payout since the year of acquisition, by year of acquisition and by significant line of business within each acquisition year:

	Annual Percentage Payout of Incurred Losses since Year of Acquisition, Net of Reinsurance	
Year of Acquisition	**Year 1**	**Year 2**
2017 - All lines of business	8.8%	7.7%
2017 - Asbestos	2.7%	4.8%
2018 - All lines of business	10.1%	
2018 - Workers' compensation	0.1%	
2018 - Motor	20.0%	

10. PREMIUMS WRITTEN AND EARNED

The following table provide a summary of net premium written and earned for the year ended December 31, 2018 and 2017.

	2018		2017	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
Gross	$ 7,701	$ 7,717	$ 7,363	$ 3,786
Ceded	(302)	(338)	(362)	(187)
Net	$ 7,399	$ 7,379	$ 7,001	$ 3,599

11. SHAREHOLDER'S EQUITY

Share Capital

The authorized share capital of the Company at December 31, 2018 consisted of 120,000 voting common shares, of par value $1 per share, all of which are issued, fully paid and outstanding.

Shares in Ultimate Holding Company

During the year ended December 31, 2018, the Company acquired $200.7 million in Preferred Shares in Enstar, the Company's ultimate parent.

Additional paid-in capital

As at December 31, 2018 and 2017 the Company had additional paid-in capital of $1,445.6 million and $1,122.3 million respectively.

During the year ended December 31, 2018, the Company made no distributions to its Parent. For the year ended December 31, 2017, the Company made distributions of $55.3 million to its Parent, via non-cash distribution of various outstanding loan balances due from affiliated companies.

(Expressed in thousands of U.S. dollars, except share data)

12. RELATED PARTY TRANSACTIONS

Transactions with Enstar's Subsidiaries

Reinsurance Agreements with affiliates

The table below summarizes the outstanding liabilities under reinsurance agreements between the Company and its affiliates as of December 31, 2018 and 2017:

	2018	2017
Outstanding liabilities under reinsurance agreements:		
Clarendon	$ 48,500	$ 135,500
StarStone	40,400	$ 52,700
River Thames	24,100	25,600
MRNA	345,900	—
Gordian	139,500	—

Loans

The tables below summarize the outstanding principal and accrued interest balances between the Company and its affiliates as of December 31, 2018 and 2017:

December 31, 2018	Relationship	Interest Rate	Principal	Accrued Interest	Total
Loans Receivable:					
BH Acquisition	Affiliate	3.00%	24,400	700	25,100
KaylaRe	Affiliate	4.23%	155,960	600	156,560
Loans Payable:					
Kenmare	Parent	3.92%	94,200	200	94,400

December 31, 2017	Relationship	Interest Rate	Principal	Accrued Interest	Total
Loans Receivable:					
Kenmare	Parent	3.00%	98,900	3,500	102,400

Investments

The Company invests in Patcham Investment Funds Plc ("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 and are included in other investments at fair value.

(Expressed in thousands of U.S. dollars, except share data)

12. RELATED PARTY TRANSACTIONS (Continued)

The table below summarizes the Company's investments in the Patcham Funds carried on its consolidated balance sheet as at December 31, 2018 and 2017 as well as the net unrealized gains (losses) included in its consolidated statements of earnings for the years ended December 31, 2018 and 2017:

	2018	2017
Patcham fixed income fund	$ 56,600	$ 97,200
Patcham balanced fund	7,200	53,500
Net unrealized gains (losses)	(700)	6,300

Investments in and Transactions with Equity Method Investees

The table below shows our equity method investments carried on the consolidated balance sheet, as at December 31, 2018 and 2017:

	2018	2017
Investment in KaylaRe Holdings	$ 286,257	$ 309,816
Investment in Citco	80,812	—
Investment in Enhanzed Re	94,800	—

KaylaRe

On May 14, 2018, Enstar, our ultimate parent completed a transaction to acquire all of the outstanding shares and warrants of KaylaRe Holdings, that we did not already own. Following the completion of this transaction, KaylaRe Holdings became a wholly owned subsidiary of Enstar although the Company still continues to account for its 48.2% direct ownership of KaylaRe Holdings' shares as an equity method investment as noted in Note 4 - "Investments".

Our investment in the shares of KaylaRe Holdings, carried in equity method investments on our consolidated balance sheet, as of December 31, 2018 and 2017was as follows:

	2018	2017
Investment in KaylaRe Holdings	$ 286,257	$ 309,816

Citco

In June 2018, the Company made a $50.0 million indirect investment in the shares of Citco III Limited ("Citco"), a fund administrator with global operations. Pursuant to an investment agreement and in consideration for participation therein, a related party of Hillhouse Capital Management, Ltd. ("Hillhouse Capital") provided investment support to the Company. In a private transaction that preceded our co-investment opportunity, certain Citco shareholders, including the Trident Funds ("Trident") managed by Stone Point Capital LLC ("Stone Point"), agreed to sell all or a portion of their interests in Citco. As of December 31, 2018, Trident owned approximately 3.4% of the equity interest in Citco. Mr. James D. Carey who serves on the board of Enstar, our ultimate parent, in relation to Stone Point's investment in Enstar which is discussed further below, currently serves as an observer to the board of directors of Citco in connection with Trident's investment therein.

Our indirect investment in the shares of Citco, carried in equity method investments on our consolidated balance sheet, as of December 31, 2018 was as follows:

	2018
Investment in Citco	$ 50,812

(Expressed in thousands of U.S. dollars, except share data)

12. RELATED PARTY TRANSACTIONS (Continued)

Enhanzed Re

Enhanzed Re is a joint venture between Enstar, Allianz and Hillhouse Capital that was capitalized in December 2018. Enhanzed Re is a Bermuda-based Class 4 and Class E reinsurer and will reinsure life, non-life run-off, and property and casualty insurance business, initially sourced from Allianz and Enstar. Enstar, Allianz and Hillhouse Capital affiliates have made equity investment commitments in aggregate of $470.0 million to Enhanzed Re. The Company, Allianz and an affiliate of Hillhouse own 47.4%, 24.9% and 27.7%, respectively, of the equity interest in Enhanzed Re. As of December 31, 2018, the Company contributed $94.8 million of its total capital commitment to Enhanzed Re while $128.0 million remained uncalled.

Enstar Limited, a wholly-owned subsidiary of Enstar acts as the (re)insurance manager for Enhanzed Re, Hillhouse Capital acts as its primary investment manager while an affiliate of Allianz provides investment management services. Enhanzed Re intends to initially write business from affiliates of its operating sponsors, Allianz and Enstar. It will seek to underwrite business to maximize diversification by risk and geography.

Our investment in the common shares of Enhanzed Re, carried in equity method investments on our consolidated balance sheet, as of December 31, 2018 was as follows:

	2018
Investment in Enhanzed Re	$ 94,800

Clear Spring

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 and subsequently capitalized with $56.0 million of equity, with Enstar retaining a 20% indirect equity interest in Clear Spring.

Effective January 1, 2017, StarStone 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. The treaty was terminated as of December 31, 2018.
Clear Spring has in turn entered into a quota share treaty with the Company also effective January 1, 2017, pursuant to which the Company reinsures 25.0% of all Workers Compensation business that Clear Spring assumes from StarStone. During the year ended December 31, 2018, Clear Spring ceded to the Company $3.6 million of premium earned, $1.2 million of net incurred losses and LAE and $1.7 million of acquisition costs under the quota share agreement.

Stone Point

Through several private transactions occurring from May 2012 to July 2012 and an additional private transaction that closed on May 2018, investment funds managed by Stone Point have acquired an aggregate of 1,635,986 of the Voting Ordinary Shares, constituting approximately 9.1% of the outstanding Voting Ordinary Shares of Enstar, our ultimate parent.

As of December 31, 2018, the Company had the following relationships with Stone Point and its affiliates:

- Investments in funds, which are included within other investments, that are either affiliated with entities owned by Trident or with Stone Point;
- A separate account managed by PRIMA Capital Advisors, which is an affiliate of entities owned by Trident;
- Investments in CLO equity securities, which are included within other investments and that are managed by Sound Point Capital, an entity in which Mr. Carey, who is a director of Enstar, has an indirect minority ownership interest and serves as a director;
- Investments in funds managed by Sound Point Capital which are carried within other investments;
- A separate account managed by Sound Point Capital with respect to which we incurred management fees; and
- During the fourth quarter of 2018, we invested $25.0 million in Mitchell International, Inc. a claims software provider for workers' compensation and auto insurance business, as a co-investor alongside Stone Point.

(Expressed in thousands of U.S. dollars, except share data)

12. RELATED PARTY TRANSACTIONS (Continued)

The table below summaries the related party balances with Stone Point and its affiliated entities included in our consolidated balance sheets as of December 31, 2018 and 2017:

	2018	2017
Investments in funds managed by Stone Point	$ 97,900	$ 18,200
Separate account managed by PRIMA Capital Advisors	10,500	10,200
Investments in CLO equity securities managed by Sound Point Capital	13,400	900
Investments in funds manged by Sound Point Capital	10,400	—
Separate account managed by Sound Point Capital	1,100	63,600

The table below presents the amounts included in our statements of earnings for the years ended December 31, 2018 and 2017 relating to our related party transactions with Stone Point and its affiliated entities:

	2018	2017
Net unrealized gains on funds managed by Stone Point	$ 800	$ 2,300
Net unrealized losses on CLO equity securities managed by Sound Point Capital	(2,300)	(1,100)
Interest income on CLO equity securities managed by Sound Point Capital	2,400	2,100
Net unrealized gains on funds managed by Sound Point Capital	400	—
Management fees on separate account managed by Sound Point Capital	200	300

Hillhouse Capital

Investment funds managed by Hillhouse Capital collectively own approximately 9.7% of Enstar's voting ordinary shares. These funds also own non-voting ordinary shares and warrants to purchase additional non-voting ordinary shares, which together with their voting ordinary shares, represent an approximate 17.1% economic interest in Enstar. In February 2017, Jie Liu, a Partner of Hillhouse Capital, was appointed to the Board of Enstar, Cavello's ultimate parent company.

The Company had investments in funds managed directly and indirectly by Hillhouse Capital which as of December 31, 2018 had a fair value of $202.3 million. We incurred fees of approximately $5.5 million, included within net unrealized gains (losses), for the year ended December 31, 2018.

13. TAXATION

The company is incorporated under the laws of Bermuda and is therefore subject to Bermuda law with respect to taxation. Under the current Bermuda law, the Company is not required to pay taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Bermuda government that, in the event of income or capital gains taxes being imposed, the Company will be exempted from such taxes until the year 2035.

14. STATUTORY REQUIREMENTS

The Company is registered as a Class 3B reinsurer under the Insurance Act which 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:

- Required to 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.
- Required to 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 used to measure the risk associated with assets, liabilities and premiums.
- 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 prior year's statutory financial statements.
- Prohibited, without obtaining the prior written approval of the BMA, from writing any "long-term business", as such expression is understood in the Insurance Act.

As of December 31, 2018, the Company met all the requirements that it is subject to under the Insurance Act.

15. COMMITMENTS AND CONTINGENCIES

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. Amounts recoverable from reinsurers are described in Note 7 - "Reinsurance Balances Recoverable".

We are also subject to credit risk in relation to funds held by reinsured companies. Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to the Company. The funds may be placed into trust or be subject to other security arrangements. The funds held balance is credited with investment income and losses payable are deducted. We are subject to credit risk if the reinsured company is unable to honor the value of the funds held balances, such as in the event of insolvency. However, we generally have the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by us to the reinsured for losses payable and other amounts contractually due. We routinely monitor the creditworthiness of reinsured companies with whom we have funds held arrangements. We have a significant funds held concentration of $176.9 million to an Enstar affiliate.

We limit the amount of credit exposure to any one counterparty and none of our counterparty credit exposures, excluding U.K. Government instruments and the counterparties noted above, exceeded 10% of shareholders' equity as of December 31, 2018. Our credit exposure to the U.K. government was $222.7 million as at December 31, 2018.

15. COMMITMENTS AND CONTINGENCIES (Continued)

Legal Proceedings

We are, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation and arbitration regarding claims. Estimated losses relating to claims arising in the ordinary course of business, including the anticipated outcome of any pending arbitration or litigation are included in the liability for losses and LAE in our consolidated balance sheets. In addition to claims litigation, we may be subject to other lawsuits and regulatory actions in the normal course of business, which may involve, among other things, allegations of underwriting errors or omissions, employment claims or regulatory activity. We do not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material effect on our business, results of operations or financial condition. We anticipate that, similar to the rest of the insurance and reinsurance industry, we will continue to be subject to litigation and arbitration proceedings in the ordinary course of business, including litigation generally related to the scope of coverage with respect to asbestos and environmental and other claims.

Unfunded Investment Commitments

As at December 31, 2018, we had unfunded commitments of $32.1 million and $128.0 million to private equity funds and equity method investments, respectively.

Significant New Business

We have entered into certain reinsurance agreements that are expected to become effective subsequent to December 31, 2018 as detailed on Note 16 - "Subsequent Events".

16. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 30, 2019, the date the financial statements were issued.

Zurich

On April 16, 2019, the Company entered into a reinsurance transaction with Zurich, pursuant to which we reinsured certain of Zurich's U.S. asbestos and environmental liability insurance portfolios. The Company will assume approximately $0.5 billion of gross reserves in the transaction, relating to 1986 and prior year business. Completion of the transaction, which is expected to occur in the first half of 2019, is subject to, among other things, regulatory approvals and satisfaction of various other customary closing conditions.

Maiden Re

On March 1, 2019, the Company entered into a Master Agreement with Maiden Holdings, Ltd. ("Maiden Holdings") and Maiden Re. Under the Master Agreement, the Company and Maiden Re agreed to enter into an Adverse Development Cover Reinsurance Agreement (“ADC Agreement”) pursuant to which Maiden Re will cede and the Company will reinsure 100% of the liability of Maiden Re, as reinsurer, under Maiden Re’s two existing quota share agreements with certain insurance companies owned directly or indirectly by AmTrust Financial Services, Inc. (“AmTrust”) for losses incurred on or prior to December 31, 2018 in excess of a $2.44 billion retention, as such figure may be adjusted based upon Maiden Re’s final year end reserves for the underlying business, up to a $675 million limit. The premium payable by Maiden Re to the Company under the ADC Agreement is $500 million. Completion of the transaction is subject to, among other things, regulatory approvals and satisfaction of various closing conditions. The Master Agreement contains customary representations, warranties, covenants and other closing conditions. The transaction is expected to close in the first half of 2019.

Amerisure Mutual Insurance Company ("Amerisure")

On February 15, 2019, the Company entered into a loss portfolio transfer reinsurance agreement with Amerisure and Allianz Risk Transfer (Bermuda) Limited (“ART Bermuda”). In the transaction, Amerisure has agreed to cede, and each of the Company and ART Bermuda has agreed to severally assume, a 50% quota share of the construction defect losses incurred by Amerisure and certain of its subsidiaries on or before December 31, 2012. At closing, Amerisure would pay the Company and ART Bermuda an aggregate premium of $125.0 million, which would be adjusted for a broker commission and paid claims and recoveries from April 1, 2018. The Company would assume $60.0 million of net reserves in the transaction. The transaction closed on April 11, 2019 following the receipt of all the required regulatory approvals as well as the satisfaction of all the closing conditions.