

AUDITED FINANCIAL STATEMENTS

**RenaissanceRe Specialty U.S. Ltd. and
Subsidiary**

December 31, 2018 and 2017

RenaissanceRe



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Report of Independent Auditors

TO THE BOARD OF DIRECTORS OF
RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY

We have audited the accompanying consolidated financial statements of RenaissanceRe Specialty U.S. Ltd., and subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in shareholder's equity, and cash flow for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of RenaissanceRe Specialty U.S. Ltd. and subsidiary at December 31, 2018 and 2017, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles U.S. generally accepted in the United States.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred and paid claims development prior to the most recent year and the average annual percentage payout of incurred claims disclosed on pages 25 through 39 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Ernst + Young Ltd.

Hamilton, Bermuda
April 26, 2019

RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
AT DECEMBER 31, 2018 AND 2017
(in thousands of United States Dollars)

	2018	2017
Assets		
Fixed maturity investments trading, at fair value - amortized cost \$1,514,199 at December 31, 2018 (2017 - \$1,349,766) (Notes 4 and 5)	\$ 1,508,119	\$ 1,348,565
Short term investments, at fair value (Notes 4 and 5)	176,171	72,438
Equity investments trading, at fair value (Notes 4 and 5)	96,508	100,712
Total investments	1,780,798	1,521,715
Cash and cash equivalents	52,793	38,990
Premiums receivable	269,706	267,408
Prepaid reinsurance premiums (Notes 6 and 8)	61,308	63,981
Reinsurance recoverable (Notes 6, 7 and 8)	525,091	594,319
Accrued investment income	8,127	9,323
Deferred acquisition costs	76,891	81,612
Due from affiliates, net (Note 8)	—	1,464
Receivable for investments sold	23,204	5,859
Other assets (Notes 5, 10 and 12)	26,460	19,919
Goodwill and other intangible assets (Note 3)	109,214	110,456
Total assets	\$ 2,933,592	\$ 2,715,046
 Liabilities and Shareholder's Equity		
Liabilities		
Reserve for claims and claim expenses (Note 7)	\$ 1,574,938	\$ 1,443,191
Unearned premiums	301,592	287,069
Reinsurance balances payable (Notes 6 and 8)	74,225	96,924
Due to affiliates, net (Note 8)	4,725	—
Payable for investments purchased	42,244	22,872
Accounts payable and accrued liabilities	9,171	8,918
Other liabilities (Notes 5 and 12)	11	4
Total liabilities	2,006,906	1,858,978
Shareholder's Equity (Note 9)		
Common shares: \$120.00 par value - 120,000 shares authorized; 1,000 shares issued and outstanding at December 31, 2018 (2017 - 1,000)	120	120
Additional paid-in capital	895,052	830,052
Retained earnings	31,514	25,896
Total shareholder's equity	926,686	856,068
Total liabilities and shareholder's equity	\$ 2,933,592	\$ 2,715,046

On behalf of the Board:



Director



Director

See accompanying notes to the consolidated financial statements

RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of United States Dollars)

	2018	2017
Revenues		
Gross premiums written	\$ 767,303	\$ 757,154
Net premiums written (Note 6)	\$ 601,826	\$ 440,519
Increase in net unearned premiums	(17,196)	(118,242)
Net premiums earned (Notes 6 and 8)	584,630	322,277
Net investment income (Note 4)	40,095	28,566
Net foreign exchange (losses) gains	(826)	954
Other (loss) income	(3,982)	2,491
Net realized and unrealized (losses) gains on investments (Note 4)	(22,698)	19,049
Total revenues	597,219	373,337
Expenses		
Net claims and claim expenses incurred (Notes 6, 7 and 8)	403,590	243,643
Acquisition expenses	154,594	92,163
Operational expenses (Note 8)	35,872	11,558
Corporate expenses (Note 8)	687	624
Amortization of other intangible assets (Note 3)	1,242	2,594
Total expenses	595,985	350,582
Income before taxes	1,234	22,755
Income tax benefit (expense) (Note 10)	4,384	(9,775)
Net income	\$ 5,618	\$ 12,980

See accompanying notes to the consolidated financial statements

RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of United States Dollars)

	2018	2017
Common shares	\$ 120	\$ 120
Additional paid-in capital		
Balance – January 1	830,052	830,052
Contribution of capital (Note 9)	65,000	—
Additional paid-in capital	895,052	830,052
Retained earnings		
Balance – January 1	25,896	12,916
Net income	5,618	12,980
Balance – December 31	31,514	25,896
<i>Total shareholder's equity</i>	\$ 926,686	\$ 856,068

See accompanying notes to the consolidated financial statements

RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of United States Dollars)

	2018	2017
<i>Cash flows provided by operating activities</i>		
Net income	\$ 5,618	\$ 12,980
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Amortization and accretion	1,083	14,262
Amortization of other intangible assets	1,243	2,594
Net realized and unrealized losses (gains) on investments	22,698	(19,049)
Change in:		
Premiums receivable	(2,298)	(60,995)
Prepaid reinsurance premiums	2,673	59,189
Reinsurance recoverable	69,228	(258,089)
Accrued investment income	1,196	398
Deferred acquisition costs	4,721	(11,998)
Reserve for claims and claim expenses	131,747	269,973
Unearned premiums	14,523	59,053
Reinsurance balances payable	(22,699)	(38,559)
Other, net	2,826	4,073
<i>Net cash provided by operating activities</i>	232,559	33,832
<i>Cash flows used in investing activities</i>		
Proceeds from sales and maturities of fixed maturity investments trading	1,940,111	1,139,563
Purchases of fixed maturity investments trading	(2,138,076)	(1,084,521)
Net (purchases) sales of short term investments	(82,998)	17,159
Net purchases of equity investments trading	(2,793)	(89,388)
<i>Net cash used in investing activities</i>	(283,756)	(17,187)
<i>Cash flows provided by financing activities</i>		
Contribution of capital	65,000	—
<i>Net cash provided by financing activities</i>	65,000	—
<i>Net increase in cash and cash equivalents</i>	13,803	16,645
<i>Cash and cash equivalents, beginning of period</i>	38,990	22,345
<i>Cash and cash equivalents, end of period</i>	\$ 52,793	\$ 38,990

See accompanying notes to the consolidated financial statements

RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(amounts in tables expressed in thousands of United States Dollars)

NOTE 1. ORGANIZATION

RenaissanceRe Specialty U.S. Ltd. (“RenaissanceRe Specialty U.S.”) is incorporated under the laws of Bermuda to provide property, casualty and specialty reinsurance on both a quota share and excess of loss basis. RenaissanceRe Specialty U.S. is a wholly-owned subsidiary of RenaissanceRe Finance Inc. (“RenaissanceRe Finance”), whose ultimate parent is RenaissanceRe Holdings Ltd. (“RenaissanceRe”). The consolidated financial statements of RenaissanceRe Specialty U.S. include the financial position and results of operations of its wholly-owned subsidiary, Renaissance Reinsurance U.S. Inc. (“Renaissance Reinsurance U.S.”).

RenaissanceRe Specialty U.S. is a Bermuda-domiciled Class 3B insurer that has made a submission to the Internal Revenue Service (“IRS”) to elect, pursuant to §953(d) of Internal Revenue Code of 1986 (the “Code”), to operate subject to United States (“U.S.”) federal income tax. Renaissance Reinsurance U.S. is a reinsurance company domiciled in the state of Maryland and provides property, casualty and specialty reinsurance coverages to insurers and reinsurers, primarily in the Americas.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States (“GAAP”) and include the accounts of RenaissanceRe Specialty U.S. and its wholly-owned subsidiary, which are collectively referred to herein as the “Company”. All significant intercompany accounts and transactions have been eliminated from these statements.

Use of Estimates in Financial Statements

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. The major estimates reflected in the Company’s consolidated financial statements include, but are not limited to, the reserve for claims and claim expenses; reinsurance recoverables, including allowances for reinsurance recoverables deemed uncollectible; estimates of written and earned premiums; fair value, including the fair value of investments; and the Company’s deferred tax valuation allowance.

Premiums and Related Expenses

Premiums are recognized as income, net of any applicable reinsurance coverage purchased, over the terms of the related contracts and policies. Premiums written are based on contract and policy terms and include estimates based on information received from both insureds and ceding companies. Subsequent differences arising on such estimates are recorded in the period in which they are determined. Unearned premiums represent the portion of premiums written that relate to the unexpired terms of contracts and policies in force. Amounts are computed by pro rata methods based on statistical data or reports received from ceding companies. Reinstatement premiums are estimated after the occurrence of a significant loss and are recorded in accordance with the contract terms based upon paid losses and case reserves. Reinstatement premiums are earned when written.

RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(amounts in tables expressed in thousands of United States Dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Acquisition costs are incurred when a contract or policy is issued and only the costs directly related to the successful acquisition of new and renewal contracts or policies are deferred and amortized over the same period in which the related premiums are earned. Acquisition costs are shown net of commissions and profit commission earned on ceded reinsurance, and consist principally of commissions, brokerage expenses and United States federal excise taxes incurred at the time a contract or policy is issued. Deferred policy acquisition costs are limited to their estimated realizable value based on the related unearned premiums. Anticipated claims and claim expenses, based on historical and current experience, and anticipated investment income related to those premiums are considered in determining the recoverability of deferred acquisition costs.

Claims and Claim Expenses

The reserve for claims and claim expenses includes estimates for unpaid claims and claim expenses on reported losses as well as an estimate of losses incurred but not reported ("IBNR"). The reserve is based on individual claims, case reserves and other reserve estimates reported by insureds and ceding companies as well as management estimates of ultimate losses. Inherent in the estimates of ultimate losses are expected trends in claim severity and frequency and other factors which could vary significantly as claims are settled. Also, during the past few years, the Company has increased its casualty and specialty reinsurance business, but does not have the benefit of a significant amount of its own historical experience in certain of these lines of business. Accordingly, the reserving for incurred losses in these lines of business could be subject to greater variability.

Ultimate losses may vary materially from the amounts provided 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, are reflected in the consolidated statements of operations in the period in which they become known and are accounted for as changes in estimates.

Reinsurance

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. If the Company determines that adjustments to earlier estimates are appropriate, such adjustments are recorded in the period in which they are determined. The Company evaluates the financial condition of its reinsurers through internal evaluation by senior management. Amounts recoverable from reinsurers are recorded net of a valuation allowance for estimated uncollectible recoveries.

Certain assumed and ceded reinsurance contracts that do not meet all of the criteria to be accounted for as reinsurance in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic *Financial Services - Insurance* have been accounted for at fair value under the fair value option in accordance with FASB ASC Topic *Financial Instruments*.

RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(amounts in tables expressed in thousands of United States Dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Investments, Cash and Cash Equivalents

Fixed Maturity Investments

Investments in fixed maturities are classified as trading and are reported at fair value. Investment transactions are recorded on the trade date with balances pending settlement reflected in the balance sheet as a receivable for investments sold or a payable for investments purchased. Net investment income includes interest and dividend income together with amortization of market premiums and discounts and is net of investment management and custody fees. The amortization of premiums and accretion of discounts for fixed maturity securities is computed using the effective yield method. For mortgage-backed securities and other holdings for which there is prepayment risk, prepayment assumptions are evaluated quarterly and revised as necessary. Any adjustments required due to the change in effective yield and maturities are recognized on a prospective basis through yield adjustments. Fair values of investments are based on quoted market prices, or when such prices are not available, by reference to broker or underwriter bid indications and/or internal pricing valuation techniques. The net unrealized appreciation or depreciation on fixed maturity investments trading is included in net realized and unrealized (losses) gains on investments in the consolidated statements of operations. Realized gains or losses on the sale of investments are determined on the basis of the first in first out cost method.

Short Term Investments

Short term investments, which are managed as part of the Company's investment portfolio and have a maturity of one year or less when purchased, are carried at fair value. The net unrealized appreciation or depreciation on short term investments is included in net realized and unrealized (losses) gains on investments in the consolidated statements of operations.

Equity Investments, Classified as Trading

Equity investments are accounted for at fair value in accordance with FASB ASC Topic *Financial Instruments*. Fair values are primarily priced by pricing services, reflecting the closing price quoted for the final trading day of the period. Net investment income includes dividend income and the net realized and unrealized appreciation or depreciation on equity investments is included in net realized and unrealized (losses) gains on investments in the consolidated statements of operations.

Cash and Cash Equivalents

Cash equivalents include money market instruments with a maturity of ninety days or less when purchased.

Derivatives

The Company may enter into derivative instruments such as futures, options, swaps, forward contracts and other derivative contracts in order to manage its foreign currency exposure, obtain exposure to a particular financial market or for yield enhancement. The Company accounts for its derivatives in accordance with FASB ASC Topic *Derivatives and Hedging*, which requires all derivatives to be recorded at fair value on the Company's consolidated balance sheet as either assets or liabilities, depending on their rights or obligations, with changes in fair value reflected in current earnings. The Company does not currently apply hedge accounting. The fair value of the Company's derivatives is estimated by reference to quoted prices or broker quotes, where available, or in the absence of quoted prices or broker quotes, the use of industry or internal valuation models.

RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(amounts in tables expressed in thousands of United States Dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Fair Value

The Company accounts for certain of its assets and liabilities at fair value in accordance with FASB ASC Topic *Fair Value Measurements and Disclosures*. The Company recognizes the change in unrealized gains and losses arising from changes in fair value in its consolidated statements of operations.

Business Combinations, Goodwill and Other Intangible Assets

The Company accounts for business combinations in accordance with FASB ASC Topic *Business Combinations*, and goodwill and other intangible assets that arise from business combinations in accordance with FASB ASC Topic *Intangibles - Goodwill and Other*. A purchase price that is in excess of the fair value of the net assets acquired arising from a business combination is recorded as goodwill, and is not amortized. Other intangible assets with a finite life are amortized over the estimated useful life of the asset. Other intangible assets with an indefinite useful life are not amortized.

Goodwill and other indefinite life intangible assets are tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. Finite life intangible assets are reviewed for indicators of impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable, and tested for impairment if appropriate. For purposes of the annual impairment evaluation, goodwill is assigned to the applicable reporting unit of the acquired entities giving rise to the goodwill.

The Company has established the beginning of the fourth quarter as the date for performing its annual impairment tests. The Company has the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. Under this option, the Company would not be required to calculate the fair value of a reporting unit unless the Company determines, based on its qualitative assessment, that it is more likely than not that a reporting unit's fair value is less than its carrying amount. If goodwill or other intangible assets are impaired, they are written down to their estimated fair value with a corresponding expense reflected in the Company's consolidated statements of operations.

In accordance with FASB ASC Topic *Business Combinations*, transactions between entities under common control are to be initially recognized at GAAP book value by the receiving entity at the transfer date and the financial statements of the receiving entity shall report the results of operations for the period in which the transfer occurs as though the transfer of net assets had occurred at the beginning of the earliest period presented. Financial statements and financial information presented for prior years shall be retrospectively adjusted to furnish comparative information. However, the comparative information shall only be adjusted for periods during which the entities were under common control.

Foreign Exchange

The Company's functional currency is the U.S. dollar. Revenues and expenses denominated in foreign currencies are revalued at the prevailing exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are remeasured at exchange rates in effect at the balance sheet date, which may result in the recognition of exchange gains or losses which are included in the determination of net income.

RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(amounts in tables expressed in thousands of United States Dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Taxation

Income taxes have been provided for in accordance with the provisions of FASB ASC Topic *Income Taxes*. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Company's assets and liabilities. Such temporary differences are primarily due to GAAP versus tax basis accounting differences related to insurance adjustments, intangible assets, investments, accrued expenses, along with net operating loss carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. Uncertain tax positions are also accounted for in accordance with FASB ASC Topic *Income Taxes*. Uncertain tax positions must meet a more-likely-than-not recognition threshold to be recognized.

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also provides guidance on accounting for certain contract costs and had also required new disclosures. ASU 2014-09 was to be effective for non-public business entities for fiscal years beginning after December 15, 2017, and interim periods beginning after December 15, 2018, however in July 2015, the FASB decided to defer by one year the effective dates of ASU 2014-09, and as a result, ASU 2014-09 will be effective for non-public business entities for fiscal years beginning after December 15, 2018. Early adoption is permitted only as of a fiscal year beginning after December 15, 2016, and interim periods within fiscal years beginning one year after the fiscal year in which an entity first applies the guidance in ASU 2014-09. ASU 2014-09 notably excludes the accounting for insurance contracts, leases, financial instruments and guarantees. The Company has early adopted ASU 2014-09 and it did not have a material impact on the Company's consolidated statements of operations and financial position.

RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(amounts in tables expressed in thousands of United States Dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in the consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, simplifies the impairment assessment of equity investments without readily determinable values by requiring a qualitative assessment to identify impairment, eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost, requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liabilities in accordance with the fair value option, requires the separate presentation of financial assets and financial liabilities by measurement category and for form of financial asset on the consolidated balance sheet or the accompanying notes to the financial statements and clarifies that the reporting organization should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the organization's other deferred tax assets. ASU 2016-01 is effective for public business entities in annual and interim periods beginning after December 15, 2017. For all other entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2018. All entities that are not public business entities may adopt the amendments in ASU 2016-01 earlier as of the fiscal years beginning after December 15, 2017. The adoption of ASU 2016-01 did not have a material impact on the Company's consolidated statements of operations and financial position.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). ASU 2016-15 clarifies the classification of receipts and payments in the statement of cash flows. ASU 2016-15 provides guidance related to (1) settlement and payment of zero coupon debt instruments, (2) contingent consideration, (3) proceeds from settlement of insurance claims, (4) proceeds from settlement of corporate and bank owned life insurance policies, (5) distributions from equity method investees, (6) cash receipts from beneficial interests obtained by a transferor, and (7) general guidelines for cash receipts and payments that have more than one aspect of classification. ASU 2016-15 is effective for public business entities for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. For all other entities, ASU 2016-15 is effective for fiscal years beginning after December 15, 2018. The Company has early adopted ASU 2016-15 and it did not have a material impact on the Company's consolidated statements of operations and financial position.

RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(amounts in tables expressed in thousands of United States Dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Recently Issued Accounting Pronouncements Not Yet Adopted

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 modifies the recognition of credit losses by replacing the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is applicable to financial assets such as loans, debt securities, trade receivables, off-balance sheet credit exposures, reinsurance receivables, and other financial assets that have the contractual right to receive cash. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The Company's invested assets are measured at fair value through net income, and therefore those invested assets would not be impacted by the adoption of ASU 2016-13. The Company has other financial assets, such as reinsurance recoverables, that could be impacted by the adoption of ASU 2016-13. ASU 2016-13 is effective for public business entities that are SEC filers for annual and interim periods beginning after December 15, 2019. For all other public business entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. For all other entities ASU 2016-13 is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's consolidated statements of operations and financial position.

Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). The ASU 2018-13 modifies the disclosure requirements of fair value measurements as part of the disclosure framework project with the objective to improve the effectiveness of disclosures in the notes to the financial statements. ASU 2018-13 allows for removal of the amount and reasons for transfer between Level 1 and Level 2 of the fair value hierarchy; the policy for transfers between levels; and the valuation processes for Level 3 fair value measurements. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's consolidated statements of operations and financial position.

NOTE 3. GOODWILL AND OTHER INTANGIBLE ASSETS

On March 2, 2015, RenaissanceRe acquired 100% of the outstanding common shares of Platinum Underwriters Holdings, Ltd. ("Platinum"), a previously publicly traded company listed on the New York Stock Exchange and headquartered in Bermuda. Platinum, through its wholly owned subsidiaries, provided property and casualty reinsurance coverage through reinsurance brokers to insurers and select reinsurers on a worldwide basis. In connection with an internal restructuring, effective July 1, 2015, Platinum was merged with RenaissanceRe, with RenaissanceRe continuing as the surviving company.

Also, in connection with the acquisition of Platinum, RenaissanceRe undertook an internal restructuring and as a result, effective March 2, 2015, Renaissance Reinsurance U.S., a wholly-owned subsidiary of Platinum formerly known as Platinum Underwriters Reinsurance Inc., became a wholly-owned subsidiary of RenaissanceRe Specialty U.S. The net assets of Renaissance Reinsurance U.S. were transferred to RenaissanceRe Specialty U.S. on March 2, 2015 at GAAP book value and accounted for as a business combination with an entity under common control.

**RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(amounts in tables expressed in thousands of United States Dollars)

As a result of the acquisition of Platinum, and subsequent internal restructuring, RenaissanceRe allocated goodwill and other intangible assets related to the acquisition of Platinum to Renaissance Reinsurance U.S. Consequently, Renaissance Reinsurance U.S. recognized \$29.1 million of identifiable finite lived intangible assets, \$8.4 million of identifiable indefinite lived intangible assets and \$94.4 million of goodwill primarily attributable to Platinum's assembled workforce and synergies expected to result upon integration of Platinum into RenaissanceRe's operations. These assets were transferred to RenaissanceRe Specialty U.S. in accordance with FASB ASC Topic *Business Combinations* for transactions between entities under common control. There were no adjustments to carried goodwill reflected in the below table during 2018 or 2017.

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NOTE 3. GOODWILL AND OTHER INTANGIBLE ASSETS, cont'd.

The following table shows an analysis of goodwill and other intangible assets:

	Goodwill	Other intangible assets	Total
Balance as of December 31, 2016			
Gross amount	\$ 94,399	\$ 37,472	\$ 131,871
Accumulated impairment losses and amortization	—	(18,821)	(18,821)
	<u>94,399</u>	<u>18,651</u>	<u>113,050</u>
Amortization	—	(2,594)	(2,594)
Balance as of December 31, 2017			
Gross amount	94,399	37,472	131,871
Accumulated impairment losses and amortization	—	(21,415)	(21,415)
	<u>94,399</u>	<u>16,057</u>	<u>110,456</u>
Amortization	—	(1,242)	(1,242)
Balance as of December 31, 2018			
Gross amount	94,399	37,472	131,871
Accumulated impairment losses and amortization	—	(22,657)	(22,657)
	<u>\$ 94,399</u>	<u>\$ 14,815</u>	<u>\$ 109,214</u>

The gross carrying value and accumulated amortization by major category of other intangible assets is shown below:

	Other intangible assets		
	Gross carrying value	Accumulated amortization and impairment losses	Total
<u>At December 31, 2018</u>			
Customer relationships	\$ 10,525	\$ (4,110)	\$ 6,415
Licenses	8,400	—	8,400
Value of business acquired	14,123	(14,123)	—
Software	2,285	(2,285)	—
Covenants not-to-compete	1,900	(1,900)	—
Trade names	239	(239)	—
	<u>\$ 37,472</u>	<u>\$ (22,657)</u>	<u>\$ 14,815</u>

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NOTE 3. GOODWILL AND OTHER INTANGIBLE ASSETS, cont'd.

The remaining useful life of intangible assets with finite lives ranges from 6 to eleven years, with a weighted-average amortization period of 7.4 years. Expected amortization of the other intangible assets is shown below:

2019	\$ 1,182
2020	1,136
2021	1,066
2022	980
2023	888
2024 and thereafter	1,163
Total remaining amortization expense	<u>6,415</u>
Indefinite lived	8,400
Total	<u><u>\$ 14,815</u></u>

NOTE 4. INVESTMENTS

Fixed Maturity Investments Trading

The following table summarizes the fair value of fixed maturity investments trading:

<u>At December 31,</u>	<u>2018</u>	<u>2017</u>
U.S. treasuries	\$ 604,283	\$ 375,451
Agencies	26,836	5,909
Municipal	—	503,307
Non-U.S. government	69,452	54,204
Non-U.S. government-backed corporate	7,476	12,632
Corporate	320,411	184,629
Agency mortgage-backed	145,596	52,835
Non-agency mortgage-backed	7,625	2,172
Commercial mortgage-backed	118,164	72,493
Asset-backed	208,276	84,933
Total fixed maturity investments trading	<u><u>\$ 1,508,119</u></u>	<u><u>\$ 1,348,565</u></u>

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NOTE 4. INVESTMENTS, cont'd.

Contractual maturities of fixed maturity investments trading are described in the following table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<u>At December 31, 2018</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in less than one year	\$ 94,001	\$ 92,931
Due after one through five years	828,087	825,035
Due after five through ten years	100,102	100,504
Due after ten years	10,078	9,988
Mortgage-backed	271,899	271,385
Asset-backed	210,032	208,276
Total	<u>\$ 1,514,199</u>	<u>\$ 1,508,119</u>

Equity Investments Trading

The following table summarizes the fair value of equity investments trading:

<u>At December 31,</u>	<u>2018</u>	<u>2017</u>
Financials	\$ 16,496	\$ 18,497
Communications and technology	30,943	30,528
Industrial, utilities and energy	17,584	20,362
Consumer	15,096	15,232
Healthcare	13,844	13,182
Basic materials	2,545	2,911
Total	<u>\$ 96,508</u>	<u>\$ 100,712</u>

Pledged Investments

At December 31, 2018, \$348.1 million (2017 - \$257.1 million) of cash and investments at fair value were on deposit with, or in trust accounts for the benefit of various counterparties, including with respect to RenaissanceRe's credit facilities. Of this amount, \$14.3 million (2017 - \$3.5 million) is on deposit with, or in trust accounts for the benefit of, U.S. state regulatory authorities.

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NOTE 4. INVESTMENTS, cont'd.

Net Investment Income

The components of net investment income are as follows:

<u>Year ended December 31,</u>	<u>2018</u>	<u>2017</u>
Fixed maturity investments	\$ 36,880	\$ 28,012
Short term investments	2,951	1,306
Equity investments	2,043	1,453
Cash and cash equivalents	200	25
	<u>42,074</u>	<u>30,796</u>
Investment expenses	(1,979)	(2,230)
Net investment income	<u>\$ 40,095</u>	<u>\$ 28,566</u>

Net Realized and Unrealized (Losses) Gains on Investments

Net realized and unrealized (losses) gains on investments are as follows:

<u>Year ended December 31,</u>	<u>2018</u>	<u>2017</u>
Gross realized gains	\$ 2,105	\$ 4,092
Gross realized losses	(14,595)	(4,524)
Net realized losses on fixed maturity investments	(12,490)	(432)
Net unrealized (losses) gains on fixed maturity investments trading	(3,880)	7,869
Net realized and unrealized gains on investments-related derivatives	140	6
Net realized gains on equity investments trading	403	108
Net unrealized (losses) gains on equity investments trading	(6,871)	11,498
Net realized and unrealized (losses) gains on investments	<u>\$ (22,698)</u>	<u>\$ 19,049</u>

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NOTE 5. FAIR VALUE MEASUREMENTS

The use of fair value to measure certain assets and liabilities with resulting unrealized gains or losses is pervasive within the Company's consolidated financial statements. Fair value is defined under accounting guidance currently applicable to the Company to be the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date. The Company recognizes the change in unrealized gains and losses arising from changes in fair value in its consolidated statements of operations.

FASB ASC Topic *Fair Value Measurements and Disclosures* prescribes a fair value hierarchy that prioritizes the inputs to the respective valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to valuation techniques that use at least one significant input that is unobservable (Level 3). The three levels of the fair value hierarchy are described below:

- Fair values determined by Level 1 inputs utilize unadjusted quoted prices obtained from active markets for identical assets or liabilities for which the Company has access. The fair value is determined by multiplying the quoted price by the quantity held by the Company;
- Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, broker quotes and certain pricing indices; and
- Level 3 inputs are based all or in part on significant unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In these cases, significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the asset or liability.

In order to determine if a market is active or inactive for a security, the Company considers a number of factors, including, but not limited to, the spread between what a seller is asking for a security and what a buyer is bidding for the same security, the volume of trading activity for the security in question, the price of the security compared to its par value (for fixed maturity investments), and other factors that may be indicative of market activity.

There have been no material changes in the Company's valuation techniques, nor have there been any transfers between Level 1 and Level 2, or transfers into or out of Level 3, respectively, during the period represented by these consolidated financial statements.

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NOTE 5. FAIR VALUE MEASUREMENTS, cont'd.

Below is a summary of the assets that are measured at fair value on a recurring basis and also represents the carrying amount on the Company's consolidated balance sheets:

At December 31, 2018	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed maturity investments				
U.S. treasuries	\$ 604,283	\$ 604,283	\$ —	\$ —
Agencies	26,836	—	26,836	—
Non-U.S. government	69,452	—	69,452	—
Non-U.S. government-backed corporate	7,476	—	7,476	—
Corporate	320,411	—	320,411	—
Agency mortgage-backed	145,596	—	145,596	—
Non-agency mortgage-backed	7,625	—	7,625	—
Commercial mortgage-backed	118,164	—	118,164	—
Asset-backed	208,276	—	208,276	—
Total fixed maturity investments	1,508,119	604,283	903,836	—
Short term investments	176,171	—	176,171	—
Equity investments trading	96,508	96,508	—	—
Other assets and (liabilities) (1)	624	5	69	550
	<u>\$ 1,781,422</u>	<u>\$ 700,796</u>	<u>\$ 1,080,076</u>	<u>\$ 550</u>

At December 31, 2017	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed maturity investments				
U.S. treasuries	\$ 375,451	\$ 375,451	\$ —	\$ —
Agencies	5,909	—	5,909	—
Municipal	503,307	—	503,307	—
Non-U.S. government	54,204	—	54,204	—
Non-U.S. government-backed corporate	12,632	—	12,632	—
Corporate	184,629	—	184,629	—
Agency mortgage-backed	52,835	—	52,835	—
Non-agency mortgage-backed	2,172	—	2,172	—
Commercial mortgage-backed	72,493	—	72,493	—
Asset-backed	84,933	—	84,933	—
Total fixed maturity investments	1,348,565	375,451	973,114	—
Short term investments	72,438	—	72,438	—
Equity investments trading	100,712	100,712	—	—
Other assets and (liabilities) (1)	843	(4)	—	847
	<u>\$ 1,522,558</u>	<u>\$ 476,159</u>	<u>\$ 1,045,552</u>	<u>\$ 847</u>

(1) Included in other assets and liabilities at December 31, 2018 are assets of \$0.6 million related to the fair value of an assumed reinsurance contract and assets of \$0.1 million related to the fair value of derivative contracts (2017 - assets of \$0.8 million and liabilities of \$4 thousand, respectively). See "Note 12. Derivative Instruments" for additional information related to the fair value by type of contract, of derivatives entered into by the Company.

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NOTE 5. FAIR VALUE MEASUREMENTS, cont'd.

Level 1 and Level 2 Assets and Liabilities Measured at Fair Value

Fixed Maturity Investments

Fixed maturity investments included in Level 1 consist of the Company's investments in U.S. treasuries. Fixed maturity investments included in Level 2 are agencies, municipal, non-U.S. government, non-U.S. government-backed corporate, corporate, agency mortgage-backed, non-agency mortgage-backed, commercial mortgage-backed and asset-backed.

The Company's fixed maturity investments are primarily priced using pricing services, such as index providers and pricing vendors, as well as broker quotations. In general, the pricing vendors provide pricing for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilize market data and other observable inputs in matrix pricing models to determine month end prices. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, bids, offers, reference data and industry and economic events. Index pricing generally relies on market traders as the primary source for pricing; however, models are also utilized to provide prices for all index eligible securities. The models use a variety of observable inputs such as benchmark yields, transactional data, dealer runs, broker-dealer quotes and corporate actions. Prices are generally verified using third-party data. Securities which are priced by an index provider are generally included in the index.

In general, broker-dealers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers also determine valuations by observing secondary trading of similar securities. Prices obtained from broker quotations are considered non-binding, however they are based on observable inputs and by observing secondary trading of similar securities obtained from active, non-distressed markets.

The Company considers these broker quotations to be Level 2 inputs as they are corroborated with other market observable inputs. The techniques generally used to determine the fair value of the Company's fixed maturity investments are detailed below by asset class.

U.S. treasuries

Level 1 - At December 31, 2018, the Company's U.S. treasuries fixed maturity investments were primarily priced by pricing services and had a weighted average yield to maturity of 2.5% and a weighted average credit quality of AA (2017 - 1.9% and AA, respectively). When pricing these securities, the vendor services utilize daily data from many real time market sources, including active broker dealers. Certain data sources are regularly reviewed for accuracy to attempt to ensure the most reliable price source is used for each issue and maturity date.

Agencies

Level 2 - At December 31, 2018, the Company's agency fixed maturity investments had a weighted average yield to maturity of 3.2% and a weighted average credit quality of AA (2017 - 2.2% and AA, respectively). The issuers of the Company's agency fixed maturity investments primarily consist of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. Fixed maturity investments included in agencies are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The fair value of each security is individually computed using analytical models which incorporate option adjusted spreads and other daily interest rate data.

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NOTE 5. FAIR VALUE MEASUREMENTS, cont'd.

Municipal

Level 2 - At December 31, 2018, the Company did not have an allocation to municipal fixed maturity investments. At December 31, 2017, the Company's municipal fixed maturity investments had a weighted average yield to maturity of 2.2% and a weighted average credit quality of AA. The Company's municipal fixed maturity investments were primarily priced by pricing services. When evaluating these securities, the pricing services gathered information regarding the security from third party sources such as trustees, paying agents or issuers. Evaluations were updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also considered the specific terms and conditions of the securities, including any specific features which may have influenced risk. In certain instances, securities were individually evaluated using a spread over widely accepted market benchmarks.

Non-U.S. government

Level 2 - At December 31, 2018, the Company's non-U.S. government fixed maturity investments had a weighted average yield to maturity of 2.6% and a weighted average credit quality of AAA (2017 - 1.9% and AAA, respectively). The issuers of securities in this sector are non-U.S. governments and their respective agencies as well as supranational organizations. Securities held in these sectors are primarily priced by pricing services that employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high issuance credits. The pricing services then apply a credit spread for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets.

Non-U.S. government-backed corporate

Level 2 - At December 31, 2018, the Company's non-U.S. government-backed corporate fixed maturity investments had a weighted average yield to maturity of 2.9% and a weighted average credit quality of AA (2017 - 2.5% and AA, respectively). Non-U.S. government-backed fixed maturity investments are primarily priced by pricing services that employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high issuance credits. The pricing services then apply a credit spread to the respective curve for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets.

Corporate

Level 2 - At December 31, 2018, the Company's corporate fixed maturity investments principally consist of U.S. and international corporations and had a weighted average yield to maturity of 3.7% and a weighted average credit quality of A (2017 - 2.6% and A, respectively). The Company's corporate fixed maturity investments are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. In certain instances, securities are individually evaluated using a spread which is added to the U.S. treasury curve or a security specific swap curve as appropriate.

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NOTE 5. FAIR VALUE MEASUREMENTS, cont'd.

Agency mortgage-backed

Level 2 - At December 31, 2018, the Company's agency mortgage-backed fixed maturity investments included agency residential mortgage-backed securities with a weighted average yield to maturity of 3.4%, a weighted average credit quality of AA and a weighted average life of 7.0 years (2017 - 3.0%, AA and 6.1 years, respectively). The Company's agency mortgage-backed fixed maturity investments are primarily priced by pricing services using a mortgage pool specific model which utilizes daily inputs from the active to be announced market which is very liquid, as well as the U.S. treasury market. The model also utilizes additional information, such as the weighted average maturity, weighted average coupon and other available pool level data which is provided by the sponsoring agency. Valuations are also corroborated with daily active market quotes.

Non-agency mortgage-backed

Level 2 - The Company's non-agency mortgage-backed fixed maturity investments included non-agency prime and non-agency Alt-A residential mortgage-backed securities. At December 31, 2018, the Company's non-agency prime residential mortgage-backed fixed maturity investments had a weighted average yield to maturity of 3.8%, a weighted average credit quality of AA and a weighted average life of 5.6 years (2017 - 9.2%, non-investment grade and 6.7 years, respectively). At December 31, 2018, the Company's non-agency Alt-A fixed maturity investments had a weighted average yield to maturity of 3.8%, a weighted average credit quality of AAA and a weighted average life of 1.7 years (2017 - 2.6%, AAA and 3.0, respectively). Securities held in these sectors are primarily priced by pricing services using an option adjusted spread model or other relevant models, which principally utilize inputs including benchmark yields, available trade information or broker quotes, and issuer spreads. The pricing services also review collateral prepayment speeds, loss severity and delinquencies among other collateral performance indicators for the securities valuation, when applicable.

Commercial mortgage-backed

Level 2 - At December 31, 2018, the Company's commercial mortgage-backed fixed maturity investments had a weighted average yield to maturity of 3.4%, a weighted average credit quality of AAA and a weighted average life of 4.8 years (2017 - 2.8%, AAA and 4.6 years, respectively). Securities held in these sectors are primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bid and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services discount the expected cash flows for each security held in this sector using a spread adjusted benchmark yield based on the characteristics of the security.

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NOTE 5. FAIR VALUE MEASUREMENTS, cont'd.

Asset-backed

Level 2 - At December 31, 2018, the Company's asset-backed fixed maturity investments had a weighted average yield to maturity of 4.2%, a weighted average credit quality of AAA and a weighted average life of 3.0 years (2017 - 3.0%, AAA and 3.1, respectively). The underlying collateral for the Company's asset-backed fixed maturity investments primarily consists of student loans, credit card receivables, auto loans and other receivables. Securities held in these sectors are primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector.

Short Term Investments

Level 2 - At December 31, 2018, the Company's short term investments had a weighted average yield to maturity of 2.3% and a weighted average credit quality of AAA (2017 - 1.4% and AAA, respectively). The fair value of the Company's portfolio of short term investments is generally determined using amortized cost which approximates fair value and, in certain cases, in a manner similar to the Company's fixed maturity investments noted above.

Equity Investments, Classified as Trading

Level 1 - The fair value of the Company's portfolio of equity investments, classified as trading is primarily priced by pricing services, reflecting the closing price quoted for the final trading day of the period. When pricing these securities, the pricing services utilize daily data from many real time market sources, including applicable securities exchanges. All data sources are regularly reviewed for accuracy to attempt to ensure the most reliable price source was used for each security.

Other Assets and Liabilities

Derivatives

Level 1 - Other assets and liabilities include certain derivatives entered into by the Company. The fair value of these transactions includes certain exchange traded futures contracts which are considered Level 1.

Assumed reinsurance contracts

Level 3 - At December 31, 2018 the Company had a \$0.6 million net asset related to an assumed reinsurance contract accounted for at fair value, with the fair value obtained through the use of an internal valuation model. The inputs to the internal valuation model are principally based on indicative pricing obtained from independent brokers and pricing vendors for similarly structured marketable securities. The most significant unobservable inputs include prices for similar marketable securities and a liquidity premium. The Company considers the prices for similar securities to be unobservable, as there is little, if any market activity for these similar assets. In addition, the Company has estimated a liquidity premium that would be required if the Company attempted to effectively exit its position by executing a short sale of these securities. Generally, an increase in the prices for similar marketable securities or a decrease in the liquidity premium would result in an increase in the expected profit and ultimate fair value of this assumed reinsurance contract.

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NOTE 5. FAIR VALUE MEASUREMENTS, cont'd.

Level 3 Assets Measured at Fair Value

Below is a summary of quantitative information regarding the significant unobservable inputs (Level 3) used in determining the fair value of assets measured at fair value on a recurring basis:

<u>At December 31, 2018</u>	<u>Fair Value (Level 3)</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Low</u>	<u>High</u>	<u>Weighted Average or Actual</u>
Assumed reinsurance contracts	\$ 550	Internal valuation model	Bond price	\$ 100.74	\$ 107.82	\$ 104.66
			Liquidity discount	n/a	n/a	1.3%

Below is a reconciliation of the beginning and ending balances, for the periods shown, of other assets measured at fair value on a recurring basis using Level 3 inputs. Interest and dividend income are included in net investment income and are excluded from the reconciliation.

	<u>Other assets</u>
Balance - January 1, 2017	\$ (574)
Total realized gains	
Included in other (loss) income	1,421
Balance - December 31, 2017	<u>\$ 847</u>

	<u>Other assets</u>
Balance - January 1, 2018	\$ 847
Total realized gains	
Included in other (loss) income	(297)
Balance - December 31, 2018	<u>\$ 550</u>

Financial Instruments Disclosed, But Not Carried, at Fair Value

The Company uses various financial instruments in the normal course of its business. The Company's insurance contracts are excluded from the fair value of financial instruments accounting guidance, unless the Company elects the fair value option, and therefore, are not included in the amounts discussed herein. The carrying values of cash and cash equivalents, accrued investment income, receivables for investments sold, certain other assets, payables for investments purchased, certain other liabilities, and other financial instruments not included herein approximated their fair values.

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NOTE 5. FAIR VALUE MEASUREMENTS, cont'd.

The Fair Value Option for Financial Assets

The Company has elected to account for certain financial assets at fair value using the guidance under FASB ASC Topic *Financial Instruments*, as the Company believes it represents the most meaningful measurement basis for these assets. Below is a summary of the balances the Company has elected to account for at fair value:

<u>At December 31,</u>	<u>2018</u>	<u>2017</u>
Other assets	\$ 550	\$ 847

Net unrealized losses related to the changes in the fair value of other liabilities recorded in other (loss) income was \$Nil for the year ended December 31, 2018 (2017 - \$Nil).

NOTE 6. REINSURANCE

The Company purchases reinsurance and other products to manage its risk portfolio and to reduce its exposure to large losses. The Company currently has in place contracts that provide for recovery of a portion of certain claims and claim expenses, generally in excess of various retentions or on a proportional basis. In addition to loss recoveries, certain of the Company's ceded reinsurance contracts provide for payments of additional premiums, for reinstatement premiums and for lost no-claims bonuses, which are incurred when losses are ceded to the respective reinsurance contracts. See "Note 8. Related Party Transaction and Major Customers" for information related to intercompany reinsurance agreements in place. The Company remains liable to the extent that any reinsurer fails to meet its obligations.

The following table sets forth the effect of reinsurance and retrocessional activity on net premiums written and earned and on net claims and claim expenses incurred:

<u>Year ended December 31,</u>	<u>2018</u>	<u>2017</u>
<u>Premiums written</u>		
Assumed	\$ 767,303	\$ 757,154
Ceded	(165,477)	(316,635)
Net premiums written	<u>\$ 601,826</u>	<u>\$ 440,519</u>
<u>Premiums earned</u>		
Assumed	\$ 752,780	\$ 698,101
Ceded	(168,150)	(375,824)
Net premiums earned	<u>\$ 584,630</u>	<u>\$ 322,277</u>
<u>Claims and claim expenses</u>		
Gross claims and claim expenses incurred	\$ 489,602	\$ 615,385
Claims and claim expenses recovered	(86,012)	(371,742)
Net claims and claim expenses incurred	<u>\$ 403,590</u>	<u>\$ 243,643</u>

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NOTE 6. REINSURANCE, cont'd.

At December 31, 2018, the Company's reinsurance recoverable balance was \$525.1 million (2017 - \$594.3 million). Of this amount, 37.6% is fully collateralized by the Company's reinsurers and the remaining 62.4% is recoverable from reinsurers rated A- or higher by major rating agencies (2017 - 24.8% and 75.2%, respectively). The reinsurers with the three largest balances accounted for 49.9%, 12.6% and 9.5%, respectively, of the Company's reinsurance recoverable balance at December 31, 2018 (2017 - 60.3%, 8.4% and 7.4%, respectively), with the largest reinsurance recoverable balance at each of December 31, 2018 and 2017 being with Renaissance Reinsurance. See "Note 8. Related Party Transaction and Major Customers" for information related to intercompany reinsurance agreements in place. The valuation allowance recorded against reinsurance recoverable was \$0.6 million at December 31, 2018 (2017 - \$0.8 million). The three largest company-specific components of the valuation allowance represented 19.1%, 19.1% and 15.8% of the Company's total valuation allowance at December 31, 2018 (2017 - 19.1%, 18.3% and 17.2%, respectively).

NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES

General Description

The Company believes the most significant accounting judgment made by management is its estimate of claims and claim expense reserves. Claims and claim expense reserves represent estimates, including actuarial and statistical projections at a given point in time, of the ultimate settlement and administration costs for unpaid claims and claim expenses arising from the insurance and reinsurance contracts the Company sells. The Company establishes its claims and claim expense reserves by taking claims reported to the Company by insureds and ceding companies, but which have not yet been paid ("case reserves"), adding estimates for the anticipated cost of claims incurred but not yet reported to the Company, or incurred but not enough reported to the Company (collectively referred to as "IBNR") and, if deemed necessary, adding costs for additional case reserves which represent the Company's estimates for claims related to specific contracts previously reported to the Company which it believes may not be adequately estimated by the client as of that date, or adequately covered in the application of IBNR.

The following table summarizes the Company's claims and claim expense reserves by main class of business, allocated between case reserves, additional case reserves and IBNR:

<u>At December 31, 2018</u>	<u>Case Reserves</u>	<u>Additional Case Reserves</u>	<u>IBNR</u>	<u>Total</u>
Property	\$ 94,892	\$ 5,129	\$ 102,045	\$ 202,066
Casualty and Specialty	381,192	13,650	978,030	1,372,872
Total	<u>\$ 476,084</u>	<u>\$ 18,779</u>	<u>\$ 1,080,075</u>	<u>\$ 1,574,938</u>
<u>At December 31, 2017</u>				
Property	\$ 50,530	\$ 8,886	\$ 140,334	\$ 199,750
Casualty and Specialty	369,676	21,151	852,614	1,243,441
Total	<u>\$ 420,206</u>	<u>\$ 30,037</u>	<u>\$ 992,948</u>	<u>\$ 1,443,191</u>

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

Activity in the liability for unpaid claims and claim expenses is summarized as follows:

<u>Year ended December 31,</u>	<u>2018</u>	<u>2017</u>
Net reserves as of January 1	\$ 848,872	\$ 836,988
Net incurred related to:		
Current year	433,946	285,016
Prior years	(30,356)	(41,373)
Total net incurred	<u>403,590</u>	<u>243,643</u>
Net paid related to:		
Current year	44,493	61,196
Prior years	157,020	171,093
Total net paid	<u>201,513</u>	<u>232,289</u>
Foreign exchange	(1,102)	530
Net reserves as of December 31	<u>1,049,847</u>	<u>848,872</u>
Reinsurance recoverable as of December 31	525,091	594,319
Gross reserves as of December 31	<u>\$ 1,574,938</u>	<u>\$ 1,443,191</u>

The Company's reserving methodology for each line of business uses a loss reserving process that calculates a point estimate for its ultimate settlement and administration costs for claims and claim expenses. The Company does not calculate a range of estimates and does not discount any of its reserves for claims and claim expenses. The Company uses this point estimate, along with paid claims and case reserves, to record its best estimate of additional case reserves and IBNR in its consolidated financial statements. Under GAAP, the Company is not permitted to establish estimates for catastrophe claims and claim expense reserves until an event occurs that gives rise to a loss.

Reserving for reinsurance claims involves other uncertainties, such as the dependence on information from ceding companies, the time lag inherent in reporting information from the primary insurer to the Company or to the Company's ceding companies, and differing reserving practices among ceding companies. The information received from ceding companies is typically in the form of bordereaux, broker notifications of loss and/or discussions with ceding companies or their brokers. This information may be received on a monthly, quarterly or transactional basis and normally includes paid claims and estimates of case reserves. The Company sometimes also receives an estimate or provision for IBNR. This information is often updated and adjusted from time to time during the loss settlement period as new data or facts in respect of initial claims, client accounts, industry or event trends may be reported or emerge in addition to changes in applicable statutory and case laws.

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

The Company's estimates of losses from large events are based on factors including currently available information derived from claims information from certain customers and brokers, industry assessments of losses from the events, proprietary models, and the terms and conditions of the Company's contracts. The uncertainty of the Company's estimates for large events is also impacted by the preliminary nature of the information available, the magnitude and relative infrequency of the events, the expected duration of the respective claims development period, inadequacies in the data provided to the relevant date by industry participants and the potential for further reporting lags or insufficiencies; and in certain large events, significant uncertainty as to the form of the claims and legal issues, under the relevant terms of insurance and reinsurance contracts. In addition, a significant portion of the net claims and claim expenses associated with certain large events can be concentrated with a few large clients and therefore the loss estimates for these events may vary significantly based on the claims experience of those clients. The contingent nature of business interruption and other exposures will also impact losses in a meaningful way, which may give rise to significant complexity in respect of claims handling, claims adjustment and other coverage issues, over time.

Given the magnitude of certain events, there can be meaningful uncertainty regarding total covered losses for the insurance industry and, accordingly, several of the key assumptions underlying the Company's loss estimates. Loss reserve estimation in respect of the Company's retrocessional contracts poses further challenges compared to directly assumed reinsurance. In addition, the Company's actual net losses from these events may increase if the Company's reinsurers or other obligors fail to meet their obligations.

Because of the inherent uncertainties discussed above, the Company has developed a reserving philosophy that attempts to incorporate prudent assumptions and estimates, and the Company has generally experienced favorable net development on prior accident years net claims and claim expenses in the last several years. However, there is no assurance that this favorable development on prior accident years net claims and claim expenses will occur in future periods.

The Company establishes a provision for unallocated loss adjustment expenses ("ULAE") when the related reserve for claims and claim expenses is established. ULAE are expenses that cannot be associated with a specific claim but are related to claims paid or in the process of settlement, such as internal costs of the claims function, and are included in the reserve for claims and claim expenses. The determination of the ULAE provision is subject to judgment.

The Company reevaluates its actuarial reserving techniques on a periodic basis. Typically, the quarterly review procedures include reviewing paid and reported claims in the most recent reporting period, reviewing the development of paid and reported claims from prior periods, and reviewing the Company's overall experience by underwriting year and in the aggregate. The Company monitors its expected ultimate claims and claim expense ratios and expected claims reporting assumptions on a quarterly basis and compares them to its actual experience. These actuarial assumptions are generally reviewed annually, based on input from the Company's actuaries, underwriters, claims personnel and finance professionals, although adjustments may be made more frequently if needed. Assumption changes are made to adjust for changes in the pricing and terms of coverage the Company provides, changes in industry results for similar business, as well as its actual experience to the extent the Company has enough data to rely on its own experience. If the Company determines that adjustments to an earlier estimate are appropriate, such adjustments are recorded in the period in which they are identified.

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

Incurred and Paid Claims Development and Reserving Methodology

The information provided herein about incurred and paid accident year claims development for the years ended prior to December 31, 2018 on a consolidated basis and by main class of business is presented as supplementary information. The Company applied a retrospective approach with respect to an acquisition, presenting all relevant historical information for all periods presented. In addition, included in the incurred claims and claim expenses and cumulated paid claims and claim expenses tables below is a reconciling item that represents the unamortized balance of fair value adjustments recorded in connection with an acquisition to reflect an increase in net claims and claim expenses due to the addition of a market based risk margin that represented the cost of capital required by a market participant to assume the net claims and claim expenses of the acquiree.

For incurred and paid accident year claims denominated in foreign currency, the Company used the current year-end balance sheet foreign exchange rate for all periods provided, thereby eliminating the effects of changes in foreign currency translation rates from the incurred and paid accident year claims development information included in the tables below.

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

The following table details the Company's consolidated incurred claims and claim expenses and cumulative paid claims and claim expenses as of December 31, 2018, net of reinsurance, as well as IBNR and ACR included within the net incurred claims amounts.

Incurred claims and claim expenses, net of reinsurance											
Accident Year	For the year ended December 31,										At December 31, 2018
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR and ACR
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
2009	\$ 436,542	\$ 420,023	\$ 421,514	\$ 400,771	\$ 381,989	\$ 364,606	\$ 356,700	\$ 350,205	\$ 352,014	\$ 355,114	\$ 7,730
2010	—	314,611	329,749	322,538	296,719	282,073	271,265	265,541	262,148	263,912	11,805
2011	—	—	318,921	325,447	307,653	295,795	291,439	289,342	283,836	287,634	10,633
2012	—	—	—	291,067	286,642	282,640	279,341	275,033	287,499	295,072	20,196
2013	—	—	—	—	244,995	239,681	225,417	215,720	210,656	203,874	25,859
2014	—	—	—	—	—	255,839	255,976	248,090	227,302	220,593	39,687
2015	—	—	—	—	—	—	232,823	249,982	244,647	238,242	43,240
2016	—	—	—	—	—	—	—	187,424	179,248	187,172	75,102
2017	—	—	—	—	—	—	—	—	281,992	254,965	129,829
2018	—	—	—	—	—	—	—	—	—	430,990	325,007
Total										<u>\$ 2,737,568</u>	<u>\$ 689,088</u>
Cumulative paid claims and claim expenses, net of reinsurance											
Accident Year	For the year ended December 31,										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
2009	\$ 48,728	\$ 178,132	\$ 212,435	\$ 241,524	\$ 264,501	\$ 291,875	\$ 307,008	\$ 311,167	\$ 316,127	\$ 324,615	
2010	—	49,908	120,791	148,394	168,429	184,911	221,105	227,293	234,330	238,575	
2011	—	—	70,590	141,132	171,552	194,625	220,444	233,402	244,952	256,582	
2012	—	—	—	70,630	122,452	153,182	184,082	201,384	231,000	244,638	
2013	—	—	—	—	46,382	86,954	113,141	133,164	152,021	161,418	
2014	—	—	—	—	—	59,478	93,613	121,278	140,543	158,620	
2015	—	—	—	—	—	—	44,597	88,662	124,061	151,773	
2016	—	—	—	—	—	—	—	31,266	56,185	80,698	
2017	—	—	—	—	—	—	—	—	61,294	84,922	
2018	—	—	—	—	—	—	—	—	—	44,488	
Total										<u>\$ 1,746,329</u>	
											46,268
											8,454
											3,886
											<u>\$ 1,049,847</u>

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

Property Main Class of Business

Within the Property main class of business, the Company writes property catastrophe excess of loss reinsurance contracts to insure insurance and reinsurance companies against natural and man-made catastrophes. Under these contracts, the Company indemnifies an insurer or reinsurer when its aggregate paid claims and claim expenses from a single occurrence of a covered peril exceeds the attachment point specified in the contract, up to an amount per loss specified in the contract. The Company's most significant exposure is to losses from hurricanes, earthquakes and other windstorms, although the Company is also exposed to claims arising from other catastrophes, such as tsunamis, winter storms, freezes, floods, fires, tornadoes, explosions and acts of terrorism. The Company's predominant exposure under such coverage is to property damage. However, other risks, including business interruption and other non-property losses, may also be covered under the Company's catastrophe contracts when arising from a covered peril. The Company's coverages are offered on either a worldwide basis or are limited to selected geographic areas. Coverage can also vary from "all property" perils to limited coverage on selected perils, such as "earthquake only" coverage. The Company also enters into retrocessional contracts that provide property catastrophe coverage to other reinsurers or retrocedants. This coverage is generally in the form of excess of loss retrocessional contracts and may cover all perils and exposures on a worldwide basis or be limited in scope to selected geographic areas, perils and/or exposures. The exposures the Company assumes from retrocessional business can change within a contract term as the underwriters of a retrocedant may alter their book of business after the retrocessional coverage has been bound.

Also included in the Property main class of business is property per risk, property (re)insurance, binding facilities and regional U.S. multi-line reinsurance. The Company's predominant exposure under such coverage is to property damage. However, other risks, including business interruption and other non-property losses, may also be covered when arising from a covered peril. The Company's coverages are offered on either a worldwide basis or are limited to selected geographic areas. The exposures assumed from retrocessional business can change within a contract term as the underwriters of a retrocedant may alter their book of business after the retrocessional coverage has been bound. The Company offers these products principally through proportional coverage. In a proportional reinsurance arrangement (also referred to as quota share reinsurance or pro rata reinsurance), the reinsurer shares a proportional part of the original premiums and losses of the reinsured.

Claims and claim expenses in the Company's Property catastrophe class of business are generally characterized by loss events of low frequency and high severity. Initial reporting of paid and incurred claims in general, tends to be relatively prompt. The Company considers this business "short-tail" as compared to the reporting of claims for "long-tail" products, which tends to be slower. However, the timing of claims payment and reporting also varies depending on various factors, including: whether the claims arise under reinsurance of primary insurance companies or reinsurance of other reinsurance companies; the nature of the events (e.g., hurricanes, earthquakes or terrorism); the geographic area involved; post-event inflation which may cause the cost to repair damaged property to increase significantly from current estimates, or for property claims to remain open for a longer period of time, due to limitations on the supply of building materials, labor and other resources; complex policy coverage and other legal issues; and the quality of each client's claims management and reserving practices. Management's judgments regarding these factors are reflected in the Company's reserve for claims and claim expenses.

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

Reserving for most of the Company's Property catastrophe class of business generally does not involve the use of traditional actuarial techniques. Rather, claims and claim expense reserves are estimated by management after a catastrophe occurs by completing an in-depth analysis of the individual contracts which may potentially be impacted by the catastrophic event. The in-depth analysis generally involves: 1) estimating the size of insured industry losses from the catastrophic event; 2) reviewing reinsurance contract portfolios to identify contracts which are exposed to the catastrophic event; 3) reviewing information reported by customers and brokers; 4) discussing the event with customers and brokers; and 5) estimating the ultimate expected cost to settle all claims and administrative costs arising from the catastrophic event on a contract-by-contract basis and in aggregate for the event. Once an event has occurred, during the then current reporting period, the Company records its best estimate of the ultimate expected cost to settle all claims arising from the event. The Company's estimate of claims and claim expense reserves is then determined by deducting cumulative paid losses from its estimate of the ultimate expected loss for an event. The Company's estimate of IBNR is determined by deducting cumulative paid losses, case reserves and additional case reserves from its estimate of the ultimate expected loss for an event. Once the Company receives a valid notice of loss or payment request under a catastrophe reinsurance contract, it is generally able to process and pay such claims promptly.

Because the events from which claims arise under policies written within the Property catastrophe class of business are typically prominent, public occurrences such as hurricanes and earthquakes, the Company is often able to use independent reports as part of its loss reserve estimation process. The Company also reviews catastrophe bulletins published by various statistical reporting agencies to assist in determining the size of the industry loss, although these reports may not be available for some time after an event.

For smaller events including localized severe weather events such as windstorms, hail, ice, snow, flooding, freezing and tornadoes, which are not necessarily prominent, public occurrences, the Company initially places greater reliance on catastrophe bulletins published by statistical reporting agencies to assist in determining what events occurred during the reporting period than the Company does for large events. This includes reviewing catastrophe bulletins published by Property Claim Services for U.S. catastrophes. The Company sets its initial estimates of reserves for claims and claim expenses for these smaller events based on a combination of its historical market share for these types of losses and the estimate of the total insured industry property losses as reported by statistical reporting agencies, although management may make significant adjustments based on the Company's current exposure to the geographic region involved as well as the size of the loss and the peril involved. This approach supplements the Company's approach for estimating losses for larger catastrophes, which as discussed above, includes discussions with brokers and ceding companies and reviewing individual contracts impacted by the event. Approximately one year from the date of loss for these small events, the Company typically estimates IBNR for these events by using the paid Bornhuetter-Ferguson actuarial method. The loss development factors for the paid Bornhuetter-Ferguson actuarial method are selected based on a review of the Company's historical experience. There were no significant changes to the Company's paid loss development factors over the last three years.

In general, reserves for the Company's more recent reinsured catastrophic events are subject to greater uncertainty and, therefore, greater potential variability, and are likely to experience material changes from one period to the next. This is due to the uncertainty as to the size of the industry losses from the event, uncertainty as to which contracts have been exposed to the catastrophic event, uncertainty due to complex legal and coverage issues that can arise out of large or complex catastrophic events, and uncertainty as to the magnitude of claims incurred by the Company's customers. As the Company's claims age, more information becomes available and the Company believes its estimates become more certain.

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

For Property business exposed to relatively more attritional and frequent losses, in addition to catastrophe events, the Company employs standard actuarial techniques similar to those used in the Casualty and Specialty segment. Generally, estimates of ultimate losses are initially determined based on the loss ratio method applied to each Underwriting Year and to each class of business. The selected ultimate losses are determined by multiplying the initial expected loss ratio by the earned premium. The initial expected loss ratios are key inputs that involve management judgment and are based on a variety of factors, including: (1) our historical loss ratios and combined ratios adjusted for rate change and trend and (2) contract by contract expected loss ratios developed during our pricing process. These judgments take into account management's view of past, current and future factors that may influence ultimate losses, including: (1) market conditions, (2) changes in the business underwritten, (3) changes in timing of the emergence of claims and (4) other factors that may influence ultimate loss ratios and losses. Over time, as a greater number of claims are reported and the credibility of reported losses improves, actuarial estimates of IBNR are based on the Bornhuetter-Ferguson and the chain ladder techniques. The Bornhuetter-Ferguson technique utilizes actual reported losses, a loss development pattern and the initial expected loss ratio to determine an estimate of ultimate losses. We believe this technique is most appropriate when there are few reported claims and the underwriting year is immature. The chain ladder technique utilizes actual reported losses and a loss development pattern to determine an estimate of ultimate losses that is independent of the initial expected ultimate loss ratio and earned premium. We believe this technique is most appropriate when there are a large number of reported losses with significant statistical credibility and a relatively stable loss development pattern. The loss development pattern is a key input to these techniques. For these attritional and catastrophe exposed Property lines, loss development patterns are determined utilizing actuarial analysis, including management's judgment, and are based on historical patterns of reported incurred losses to us, as well as industry patterns. Information that may cause future loss development patterns to differ from historical loss development patterns is considered and reflected in the selected loss development patterns as appropriate. For these property classes, these patterns indicate that a substantial portion of the ultimate losses are reported within three years after the contract is effective.

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

The following table details the Company's Property main class of business incurred claims and claim expenses and cumulative paid claims and claim expenses as of December 31, 2018, net of reinsurance, as well as IBNR and ACR included within the net incurred claims amounts.

Incurred claims and claim expenses, net of reinsurance											At December 31, 2018
For the year ended December 31,											IBNR and ACR
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR and ACR
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
2009	\$ 59,285	\$ 42,842	\$ 40,764	\$ 39,221	\$ 38,511	\$ 38,163	\$ 38,045	\$ 37,977	\$ 37,990	\$ 38,590	\$ 2
2010	—	46,069	38,880	37,026	36,033	35,706	35,684	35,702	35,721	36,848	38
2011	—	—	61,627	54,214	52,850	51,516	50,475	50,138	50,186	50,590	77
2012	—	—	—	48,871	37,192	34,604	34,144	34,492	34,493	34,624	514
2013	—	—	—	—	34,594	33,308	32,659	28,928	28,612	28,203	69
2014	—	—	—	—	—	42,589	38,854	38,291	37,783	39,333	75
2015	—	—	—	—	—	—	36,650	36,721	35,344	42,608	82
2016	—	—	—	—	—	—	—	30,302	24,398	25,091	8,318
2017	—	—	—	—	—	—	—	—	103,572	78,191	16,842
2018	—	—	—	—	—	—	—	—	—	122,399	57,112
Total										<u>\$ 496,477</u>	<u>\$ 83,129</u>
Cumulative paid claims and claim expenses, net of reinsurance											
For the year ended December 31,											
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
2009	\$ 18,471	\$ 29,975	\$ 35,169	\$ 36,125	\$ 36,669	\$ 37,696	\$ 37,639	\$ 37,601	\$ 37,619	\$ 38,029	
2010	—	16,792	29,952	33,249	34,862	35,302	35,439	35,538	35,558	36,526	
2011	—	—	29,340	42,941	46,715	49,285	49,953	49,939	50,014	50,232	
2012	—	—	—	18,947	26,937	31,019	32,683	33,234	33,281	33,386	
2013	—	—	—	—	13,793	24,720	27,476	28,685	29,077	29,066	
2014	—	—	—	—	—	19,091	28,188	33,092	34,764	35,596	
2015	—	—	—	—	—	—	17,585	28,070	31,409	34,183	
2016	—	—	—	—	—	—	—	12,357	14,911	12,309	
2017	—	—	—	—	—	—	—	—	46,496	49,508	
2018	—	—	—	—	—	—	—	—	—	28,053	
Total										<u>\$ 346,888</u>	
											368
											1,333
											145
											<u>\$ 151,435</u>

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

Casualty and Specialty Main Class of Business

The Company offers its casualty and specialty reinsurance products principally on a proportional basis, and it also provides excess of loss coverage. The Company offers casualty and specialty reinsurance products to insurance and reinsurance companies and provides coverage for specific geographic regions or on a worldwide basis.

As with the Company's Property main class of business, its Casualty and Specialty main class of business reinsurance contracts can include coverage for relatively large limits or exposures. As a result, the Company's casualty and specialty reinsurance business can be subject to significant claims volatility. In periods of low claims frequency or severity, the Company's results will generally be favorably impacted while in periods of high claims frequency or severity the Company's results will generally be negatively impacted.

More recently, the Company has accepted a wider range of proportional risks, facilitating the Company's efforts to expand its product offerings. While the Company remains focused on underwriting discipline, and seeks to remain focused on opportunities amenable to stochastic representation and supported by strong data and analytics, the Company's expanded casualty and specialty product suite may pose new, unmodelled or unforeseen risks for which the Company may not be adequately compensated and may also result in a higher level of attritional claims and claim expenses and the potential for reserve development, either adverse or favorable.

The Company's processes and methodologies in respect of loss estimation for the coverages offered through its Casualty and Specialty main class of business differ from those used for its Property catastrophe class of business. For example, the Company's casualty and specialty coverages are more likely to be impacted by factors such as long-term inflation and changes in the social and legal environment, which the Company believes gives rise to greater uncertainty in its reserves for claims and claim expenses. The Company believes this makes its Casualty and Specialty main class of business reserving subject to greater uncertainty than its Property main class of business.

The Company calculates multiple point estimates for claims and claim expense reserves using a variety of actuarial reserving techniques for many, but not all, of its classes of business for each underwriting year within the Casualty and Specialty main class of business. The Company does not believe that these multiple point estimates are, or should be considered a range. Rather, the Company considers each class of business and determines the most appropriate point estimate for each underwriting year based on the characteristics of the particular class including: (1) loss development patterns derived from historical data; (2) the credibility of the selected loss development pattern; (3) the stability of the loss development patterns; (4) how developed the underwriting year is; and (5) the observed loss development of other underwriting years for the same class. The Company also considers other relevant factors, including: (1) historical ultimate loss ratios; (2) the presence of individual large losses; and (3) known occurrences that have not yet resulted in reported losses. The Company makes determinations of the most appropriate point estimate of loss for each class based on an evaluation of relevant information and do not ascribe any particular portion of the estimate to a particular factor or consideration. In addition, the Company believes that a review of individual contract information improves the loss estimates for some classes of business.

When developing claims and claims expense reserves for the Company's Casualty and Specialty main class of business, it considers several actuarial techniques such as the expected loss ratio method, the Bornhuetter-Ferguson actuarial method and the paid and reported chain ladder actuarial method.

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

For classes of business and underwriting years where the Company has limited historical claims experience, estimates of ultimate losses that are not related to a specific event are generally initially determined based on the loss ratio method applied to each underwriting year and to each class of business. Unless the Company has credible claims experience or unfavorable development, it generally selects an ultimate loss based on its initial view of the loss. The selected ultimate losses are determined by multiplying the initial expected loss ratio by the earned premium. The initial expected loss ratios are key inputs that involve management judgment and are based on a variety of factors, including: (1) contract by contract expected loss ratios developed during the Company's pricing process; (2) historical loss ratios and combined ratios adjusted for rate change and trend; and (3) industry benchmarks for similar business. These judgments take into account management's view of past, current and future factors that may influence ultimate losses, including: (1) market conditions; (2) changes in the business underwritten; (3) changes in timing of the emergence of claims; and (4) other factors that may influence ultimate loss ratios and losses.

The determination of when reported losses are sufficient and credible to warrant selection of an ultimate loss ratio different from the initial expected loss ratios also requires judgment. The Company generally makes adjustments for reported loss experience indicating unfavorable variances from initial expected loss ratios sooner than reported loss experience indicating favorable variances. This is because the reporting of losses in excess of expectations tends to have greater credibility than an absence or lower than expected level of reported losses. Over time, as a greater number of claims are reported and the credibility of reported losses improves, actuarial estimates of IBNR are typically based on the Bornhuetter-Ferguson actuarial method or the reported chain ladder actuarial method.

The Bornhuetter-Ferguson method allows for greater weight to be applied to expected results in periods where little or no actual experience is available, and, hence, is less susceptible to the potential pitfall of being excessively swayed by one year or one quarter of actual paid and/or reported loss data, compared to the chain ladder actuarial method. The Bornhuetter-Ferguson method uses the initial expected loss ratio to estimate IBNR, and it assumes that past experience is not fully representative of the future. As the Company's reserves for claims and claim expenses age, and actual claims experience becomes available, this method places less weight on expected experience and places more weight on actual experience. This experience, which represents the difference between expected reported claims and actual reported claims, is reflected in the respective reporting period as a change in estimate. The utilization of the Bornhuetter-Ferguson method requires the Company to estimate an expected ultimate claims and claim expense ratio and select an expected loss reporting pattern. The Company selects its estimates of the expected ultimate claims and claim expense ratios as described above and selects its expected loss reporting patterns by utilizing actuarial analysis, including management's judgment, and historical patterns of paid losses and reporting of case reserves to the Company, as well as industry loss development patterns. The estimated expected claims and claim expense ratio may be modified to the extent that reported losses at a given point in time differ from what would be expected based on the selected loss reporting pattern.

The reported chain ladder actuarial method utilizes actual reported losses and a loss development pattern to determine an estimate of ultimate losses that is independent of the initial expected ultimate loss ratio and earned premium. The Company believes this technique is most appropriate when there are a large number of reported losses with significant statistical credibility and a relatively stable loss development pattern. Information that may cause future loss development patterns to differ from historical loss development patterns is considered and reflected in the Company's selected loss development patterns as appropriate. For certain reinsurance contracts, historical loss development patterns may be developed from ceding company data or other sources.

In addition, certain specialty coverages may be impacted by natural and man-made catastrophes. The Company estimates reserves for claim and claim expenses for these losses after the event giving rise to these losses occurs, following a process that is similar to its Property main class of business described above.

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

The following table details the Company's Casualty and Specialty main class of business incurred claims and claim expenses and cumulative paid claims and claim expenses as of December 31, 2018, net of reinsurance, as well as IBNR and ACR included within the net incurred claims amounts.

Incurred claims and claim expenses, net of reinsurance											
Accident Year	For the year ended December 31,										At December 31, 2018
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR and ACR
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
2009	\$ 377,257	\$ 377,181	\$ 380,750	\$ 361,550	\$ 343,478	\$ 326,443	\$ 318,655	\$ 312,228	\$ 314,024	\$ 316,524	\$ 7,728
2010	—	268,542	290,869	285,512	260,686	246,367	235,581	229,839	226,427	227,064	11,767
2011	—	—	257,294	271,233	254,803	244,279	240,964	239,204	233,650	237,044	10,556
2012	—	—	—	242,196	249,450	248,036	245,197	240,541	253,006	260,448	19,682
2013	—	—	—	—	210,401	206,373	192,758	186,792	182,044	175,671	25,790
2014	—	—	—	—	—	213,250	217,122	209,799	189,519	181,260	39,612
2015	—	—	—	—	—	—	196,173	213,261	209,303	195,634	43,158
2016	—	—	—	—	—	—	—	157,122	154,850	162,081	66,784
2017	—	—	—	—	—	—	—	—	178,420	176,774	112,987
2018	—	—	—	—	—	—	—	—	—	308,591	267,895
Total										<u>\$ 2,241,091</u>	<u>\$ 605,959</u>
Cumulative paid claims and claim expenses, net of reinsurance											
Accident Year	For the year ended December 31,										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
2009	\$ 30,257	\$ 148,157	\$ 177,266	\$ 205,399	\$ 227,832	\$ 254,179	\$ 269,369	\$ 273,566	\$ 278,508	\$ 286,586	
2010	—	33,116	90,839	115,145	133,567	149,609	185,666	191,755	198,772	202,049	
2011	—	—	41,250	98,191	124,837	145,340	170,491	183,463	194,938	206,350	
2012	—	—	—	51,683	95,515	122,163	151,399	168,150	197,719	211,252	
2013	—	—	—	—	32,589	62,234	85,665	104,479	122,944	132,352	
2014	—	—	—	—	—	40,387	65,425	88,186	105,779	123,024	
2015	—	—	—	—	—	—	27,012	60,592	92,652	117,590	
2016	—	—	—	—	—	—	—	18,909	41,274	68,389	
2017	—	—	—	—	—	—	—	—	14,798	35,414	
2018	—	—	—	—	—	—	—	—	—	16,435	
Total										<u>\$ 1,399,441</u>	
											Outstanding liabilities from accident year 2008 and prior, net of reinsurance
											45,900
											Adjustment for unallocated claim expenses
											7,121
											Unamortized fair value adjustments recorded in connection with an acquisition
											3,741
											<u>\$ 898,412</u>

RENAISSANCERE SPECIALTY U.S. LTD. AND SUBSIDIARY
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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

Prior Year Development of the Reserve for Net Claims and Claim Expenses

The Company's estimates of claims and claim expense reserves are not precise in that, among other things, they are based on predictions of future developments and estimates of future trends and other variable factors. Some, but not all, of the Company's reserves are further subject to the uncertainty inherent in actuarial methodologies and estimates. Because a reserve estimate is simply an insurer's estimate at a point in time of its ultimate liability, and because there are numerous factors that affect reserves and claims payments that cannot be determined with certainty in advance, the Company's ultimate payments will vary, perhaps materially, from its estimates of reserves. If the Company determines in a subsequent period that adjustments to its previously established reserves are appropriate, such adjustments are recorded in the period in which they are identified. On a net basis, the Company's cumulative favorable or unfavorable development is generally reduced by offsetting changes in its reinsurance recoverables, as well as changes to loss related premiums such as reinstatement premiums, all of which generally move in the opposite direction to changes in the Company's ultimate claims and claim expenses.

The following table details the Company's prior year development by main class of business of its liability for unpaid claims and claim expenses:

<u>Year ended December 31,</u>	2018	2017
	(Favorable) adverse development	(Favorable) adverse development
Property	\$ (17,683)	\$ (8,099)
Casualty and Specialty	(12,673)	(33,274)
Total favorable development of prior accident years net claims and claim expenses	<u>\$ (30,356)</u>	<u>\$ (41,373)</u>

Changes to prior year estimated claims reserves increased the Company's net income by \$30.4 million during 2018 (2017 - \$41.4 million), excluding the consideration of changes in reinstatement, adjustment or other premium items, profit commissions and income tax.

The net favorable development on prior accident years net claims and claim expenses of \$30.4 million for 2018 was principally the result of \$22.8 million of net decreases in the estimated ultimate losses associated with Hurricanes Harvey, Irma and Maria, the Mexico City Earthquake, the wildfires in California during the fourth quarter of 2017 and certain losses associated with aggregate loss contracts. In addition, the Company experienced net favorable development on prior accident years net claims and claim expenses due to the application of the Company's actuarial reserving methodology with attritional net claims and claim expenses reported coming in lower than expected on prior accident years events and net favorable development on prior accident years net claims and claim expenses of \$7.9 million associated with actuarial assumption changes.

The net favorable development on prior accident years net claims and claim expenses of \$41.4 million for 2017 was principally the result of the application of the Company's actuarial reserving methodology with attritional net claims and claim expenses reported coming in lower than expected on prior accident years events and net favorable development of \$5.8 million associated with actuarial assumption changes.

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Reserve for Claims and Claim Expenses

The reconciliation of the net incurred and paid claims development tables to the reserve for claims and claim expenses in the consolidated balance sheet is as follows:

<u>At December 31, 2018</u>	
<u>Net reserve for claims and claim expenses</u>	
Property	\$ 151,435
Casualty and Specialty	898,412
Total net reserve for claims and claim expenses	<u>1,049,847</u>
<u>Reinsurance recoverable</u>	
Property	\$ 50,631
Casualty and Specialty	474,460
Total reinsurance recoverable	<u>525,091</u>
Total gross reserve for claims and claim expenses	<u><u>\$ 1,574,938</u></u>

Historical Claims Duration

The following is unaudited supplementary information about average historical claims duration by main class of business:

<u>At December 31, 2018</u>	<u>Average annual percentage payout of incurred claims by age, net of reinsurance (number of years)</u>									
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
Property	44.5%	22.0%	8.4%	4.6%	1.5%	0.6%	0.1%	0.2%	1.3%	1.1%
Casualty and Specialty	13.7%	21.1%	12.1%	9.9%	8.3%	9.4%	4.4%	2.9%	1.5%	2.6%

Claims Frequency

Each of the Company's main classes of business are broadly considered to be assumed reinsurance, where multiple claims are often aggregated, perhaps multiple times through retrocessional reinsurance, before ultimately being ceded to the Company. In addition, the nature, size, terms and conditions of contracts entered into by the Company changes from one accident year to the next and the quantum of contractual or policy limits, and accordingly the potential amount of claims and claim expenses associated with a reported claim, can range from nominal, to significant. These factors can impact the amount and timing of the claims and claim expenses to be recorded and accordingly, developing claim frequency information is highly subjective and is not prepared or utilized for internal purposes. In addition, the Company does not have direct access to claim frequency information underlying certain of its proportional contracts given the nature of that business. As a result, the Company does not believe providing claim frequency information is practicable as it relates to its proportional contracts.

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NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

Notwithstanding the factors noted above, the Company has developed claims frequency information associated with its excess of loss reinsurance contracts. As each accident year develops, the Company would expect the cumulative number of reported claims to increase in certain of its excess of loss reinsurance contracts, most notably in its Casualty and Specialty main class of business. In determining claims frequency for its excess of loss reinsurance contracts, the Company has made the following assumptions:

- Claims below the insured layer of a contract are excluded;
- If an insured loss event results in claims associated with a number of layers of a contract, the Company would consider this to be a single claim; and
- If an insured loss event results in claims associated with a number of the Company's operating subsidiaries, the Company considers each operating subsidiary to have a reported claim.

The following table details the Company's cumulative number of reported claims for its excess of loss reinsurance contracts allocated by main class of business:

Accident Year	At December 31, 2018	
	Cumulative number of reported claims	
	Property	Casualty and Specialty
2009	573	907
2010	518	796
2011	635	776
2012	389	609
2013	385	495
2014	376	532
2015	337	501
2016	402	495
2017	620	391
2018	500	80

NOTE 8. RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS

Amounts due to and from affiliates are non-interest bearing and payable on demand, or in accordance with the contractual terms of reinsurance-related transactions.

Guarantees and Capital Agreements

Effective July 1, 2015, each of RenaissanceRe Specialty U.S. and Renaissance Reinsurance U.S. entered into an amended net worth maintenance agreement with RenaissanceRe, whereby capital support of \$1.0 billion is available from RenaissanceRe. The capital support from RenaissanceRe maintains total shareholder's equity of RenaissanceRe Specialty U.S. and Renaissance Reinsurance U.S. equal to \$500.0 million and \$400.0 million, respectively, and under no circumstances shall RenaissanceRe be obligated to contribute in excess of \$1.0 billion in the aggregate under the amended net worth maintenance agreement. All other terms and conditions of the original net worth maintenance agreement remain unchanged. The full \$1.0 billion remained available under the amended net worth maintenance agreement at December 31, 2018.

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NOTE 8. RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS, cont'd.

Reinsurance-Related Transactions

RenaissanceRe Specialty U.S. has entered into an agency agreement with RenaissanceRe Underwriting Managers U.S. LLC ("RUMUS") whereby RUMUS is authorized to bind reinsurance on behalf of the Company. The Company reimburses RUMUS for costs and expenses incurred in connection with this agency agreement. During the year ended December 31, 2018, fees incurred under this agency agreement were \$6 thousand (2017 - \$0.1 million).

RenaissanceRe Specialty U.S. had entered into a reinsurance agreement with Renaissance Reinsurance Ltd. ("Renaissance Reinsurance"), a wholly-owned subsidiary of RenaissanceRe. The reinsurance agreement was previously with RenaissanceRe Specialty Risks Ltd. ("RenaissanceRe Specialty Risks"), however, effective October 1, 2016, RenaissanceRe Specialty Risks merged with Renaissance Reinsurance, with Renaissance Reinsurance being the surviving entity. The Company remains liable to the extent that Renaissance Reinsurance fails to meet its obligations under the reinsurance agreement. Effective December 31, 2017, this reinsurance agreement with Renaissance Reinsurance was cancelled on a cutoff basis. During 2018, net earned premiums ceded and net claims and claim expenses recovered under this agreement were \$0.2 million and \$2.5 million, respectively (2017 - \$7.0 million and \$4.5 million, respectively). At December 31, 2018, outstanding reinsurance recoverable under this agreement were \$29.3 million (2017 - \$36.1 million), ceded reinsurance balances for this agreement were \$Nil (2017 - \$Nil) and premiums receivable were \$4.3 million (2017 - premiums receivable were \$2.3 million).

Renaissance Reinsurance U.S. had entered into reinsurance agreements with Renaissance Reinsurance. These reinsurance agreements were previously with Platinum Underwriters Bermuda, Ltd. ("Platinum Bermuda"), which was acquired by RenaissanceRe as part of the acquisition of Platinum on March 2, 2015, and RenaissanceRe Specialty Risks. Renaissance Reinsurance U.S. had existing reinsurance agreements with Platinum Bermuda prior to the acquisition of Platinum by RenaissanceRe on March 2, 2015. Effective October 1, 2016, Platinum Bermuda and RenaissanceRe Specialty Risks merged with Renaissance Reinsurance, with Renaissance Reinsurance being the surviving entity. The Company remains liable to the extent that Renaissance Reinsurance fails to meet its obligations under the reinsurance agreements. Effective December 31, 2017, these reinsurance agreements with Renaissance Reinsurance were cancelled on a cutoff basis. During 2018, net earned premiums ceded and net claims and claim expenses recovered under these agreements were \$0.7 million and negative \$4.4 million, respectively (2017 - \$202.6 million and \$187.8 million, respectively). At December 31, 2018, outstanding reinsurance recoverable under these agreements were \$232.9 million (2017 - \$322.4 million), ceded reinsurance balances for these agreements were \$Nil (2017 - \$Nil) and premiums payable were \$6.8 million (2017 - \$14.1 million).

Other Items

Under the terms of various administration agreements, the Company reimbursed RenaissanceRe Services Ltd. for administrative services, office lease, investment and certain employee benefit plans on the basis of directly identifiable costs plus an allocation of other expenses. During 2018, net allocated costs and expenses to the Company under these administration agreements were \$16.3 million (2017 - \$10.9 million).

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NOTE 8. RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS, cont'd.

Major Customers

During 2018, the Company received 60.6% (2017 - 74.0%) of its gross premiums assumed from three reinsurance brokers. Subsidiaries and affiliates of Marsh, AON and Willis Towers Watson accounted for approximately 33.8%, 16.4% and 10.4%, respectively, of the Company's gross premiums assumed in 2018 (2017 - 35.9%, 21.4% and 16.7%, respectively).

NOTE 9. SHAREHOLDER'S EQUITY

During 2018, the Company's parent, RenaissanceRe Finance contributed additional paid in capital of \$65.0 million which was settled in cash during the year.

NOTE 10. TAXATION

Under current Bermuda law, RenaissanceRe Specialty U.S. is not subject to any income or capital gains taxes in Bermuda. In the event that such taxes are imposed, RenaissanceRe Specialty U.S. would be exempted from any such tax until March 2035 pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966, and Amended Act of 1987 and 2011, respectively. As discussed in "Note 1. Organization", RenaissanceRe Specialty U.S., a Bermuda-domiciled reinsurer, has made a submission to the IRS to elect, pursuant to §953(d) of the Code, to operate subject to U.S. federal income tax. Renaissance Reinsurance U.S. is a U.S. reinsurance company domiciled in the state of Maryland. Both entities will file as members of the RenaissanceRe Finance and subsidiaries consolidated income tax return for the year ended December 31, 2018.

The Company is included in the consolidated federal income tax return of RenaissanceRe Finance. Under this agreement, federal income taxes are charged to operations based upon amounts estimated to be payable as a result of separate company tax return calculations. In the event that the sum of payments from all members of the RenaissanceRe Finance consolidated tax group exceeds the consolidated tax liability for any tax period as a result of any losses or tax credits of one or more member, RenaissanceRe Finance shall pay to each member having the losses or credits, its allocable portion of such excess. Intercompany tax payments of \$8.7 million were made during 2018 (2017 - refunds of \$2.5 million).

Income tax benefit (expense) is comprised as follows:

<u>Year ended December 31, 2018</u>	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Total income tax (expense) benefit	\$ (6,506)	\$ 10,890	\$ 4,384
<u>Year ended December 31, 2017</u>			
Total income tax benefit (expense)	\$ 3,677	\$ (13,452)	\$ (9,775)

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NOTE 10. TAXATION, cont'd.

The Company's expected income tax provision has been calculated as the pre-tax income multiplied by the U.S. federal corporate statutory tax rate of 21%. A reconciliation of the difference between the provision for income taxes and the expected tax provision is as follows:

<u>Year ended December 31,</u>	<u>2018</u>	<u>2017</u>
Expected income tax expense	\$ (259)	\$ (7,964)
Effect of change in tax rate	—	(11,981)
Royalty fees	3,256	6,426
Tax exempt income	811	3,407
U.S. base erosion and anti-abuse tax	(967)	—
Other	1,543	337
Income tax benefit (expense)	<u>\$ 4,384</u>	<u>\$ (9,775)</u>

As a result of the reduction in the U.S. corporate tax rate from 35% to 21% effective January 1, 2018 pursuant to the Tax Cuts and Jobs Act of 2017, the Company recorded a partial write-down of its U.S. deferred tax asset of \$12.0 million in 2017. This adjustment is included in the effect of change in tax rate in the table above.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

<u>Year ended December 31,</u>	<u>2018</u>	<u>2017</u>
Deferred tax assets		
Reserve for claims and claim expenses	\$ 17,489	\$ 14,135
Unearned premiums	10,112	9,440
Accrued expenses	2,896	1,838
Tax loss carryforward	13,334	11,410
Investments	80	—
	<u>43,911</u>	<u>36,823</u>
Deferred tax liabilities		
Deferred acquisition expenses	(11,800)	(12,343)
Investments	—	(2,876)
Amortization and depreciation	(3,249)	(3,633)
	<u>(15,049)</u>	<u>(18,852)</u>
Net deferred tax asset before valuation allowance	<u>28,862</u>	<u>17,971</u>
Valuation allowance	—	—
Net deferred tax asset	<u>\$ 28,862</u>	<u>\$ 17,971</u>

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NOTE 10. TAXATION, cont'd.

The Company's deferred tax asset relates primarily to GAAP versus tax basis accounting differences related to insurance adjustments, intangible assets, investments and accrued expenses, along with net operating loss carryforwards. The Company's valuation allowance assessment is based on all available information including projections of future GAAP taxable income. The Company has determined it is more likely than not that it will be able to recover its deferred tax asset.

The Company has net operating loss carryforwards of \$63.5 million at December 31, 2018 (2017 - \$54.3 million). The net operating loss carryforwards will begin to expire in 2033.

The Company has unrecognized tax benefits of \$Nil as of December 31, 2018 (2017 - \$Nil). Interest and penalties related to unrecognized tax benefits, would be recognized in income tax expense. At December 31, 2018, interest and penalties accrued on unrecognized tax benefits was \$Nil (2017 - \$Nil).

Income tax returns filed for tax years 2015 through 2017 are open for examination by the Internal Revenue Service. The Company does not expect the resolution of these open years to have a significant impact on its results from operations and financial condition.

NOTE 11. STATUTORY REQUIREMENTS

RenaissanceRe Specialty U.S. and Renaissance Reinsurance U.S. are subject to insurance laws and regulations in Bermuda and the U.S., respectively. These regulations include certain restrictions on the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the respective regulatory authorities.

The statutory capital and surplus, required minimum statutory capital and surplus and unrestricted net assets of the Company's regulated insurance operations are detailed below:

<u>At December 31,</u>	<u>RenaissanceRe Specialty U.S. (1)</u>		<u>Renaissance Reinsurance U.S. (2)</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Statutory capital and surplus	\$ 926,685	\$ 745,589	\$ 506,874	\$ 523,384
Required statutory capital and surplus	90,346	75,175	307,057	306,375
Unrestricted net assets	156,040	150,421	31,228	24,109

(1) RenaissanceRe Specialty U.S.'s actual capital and surplus is based on its statutory financial statements and required statutory capital and surplus is based on the minimum solvency margin ("MSM"). Unrestricted net assets represents the amount of shareholders' equity that is permitted to be distributed in light of the statutory restrictions noted above, and the definition of distributable reserves and certain legal restrictions per the Companies Act.

(2) Renaissance Reinsurance U.S.'s unrestricted net assets represents its ordinary dividend capacity.

The difference between statutory financial statements and statements prepared in accordance with GAAP varies by jurisdiction; however, the primary difference is that for the Company's regulated entities the statutory financial statements generally do not reflect goodwill and intangible assets. Also, in the U.S., fixed maturity investments are generally recorded at amortized cost, deferred income tax is charged directly to equity and acquisition costs are charged to operations as the related premium is written.

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NOTE 11. STATUTORY REQUIREMENTS, cont'd.

RenaissanceRe Specialty U.S.

RenaissanceRe Specialty U.S. is subject to insurance laws and regulations in Bermuda. These regulations include certain restrictions on the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the BMA. Under the Insurance Act 1978, amendments thereto and related regulations of Bermuda (collectively, the "Insurance Act"), RenaissanceRe Specialty U.S. to maintain certain measures of solvency and liquidity, including its MSM, defined as the prescribed minimum amount by which the value of the assets of RenaissanceRe Specialty U.S. must exceed the value of its liabilities, the breach of which represents an unacceptable level of risk and triggers the strongest supervisory actions.

In addition, RenaissanceRe Specialty U.S. is required to maintain statutory capital and surplus at a level equal to or in excess of its enhanced capital requirement ("ECR") which is established by reference to the Bermuda Solvency Capital Requirement (the "BSCR") model. The BSCR is a mathematical model designed to give the BMA robust methods for determining an insurer's capital adequacy. The ECR is equal to the greater of the MSM or required capital calculated by reference to the BSCR. The BMA has embedded the Economic Balance Sheet ("EBS") framework in the Bermuda legislative and regulatory regime. The EBS is an input to the BSCR which determines RenaissanceRe Specialty U.S.'s ECR. The EBS regime prescribes the use of financial statements prepared in accordance with GAAP as the basis on which statutory financial statements are prepared, and those statutory financial statements form the starting basis for the EBS.

Underlying the BSCR is the belief that all insurers should operate on an ongoing basis with a view to maintaining their capital at a prudent level in excess of the minimum solvency margin otherwise prescribed under the Insurance Act. Alternatively, under the Insurance Act, insurers may, subject to the terms of the Insurance Act and to the BMA's oversight, elect to utilize an approved internal capital model to determine regulatory capital. In either case, ECR shall at all times equal or exceed the Class 3B insurer's minimum solvency margin and may be adjusted in circumstances where the BMA concludes that the insurer's risk profile deviates significantly from the assumptions underlying its ECR or the insurer's assessment of its risk management policies and practices used to calculate ECR applicable to it.

Under the Insurance Act, RenaissanceRe Specialty U.S. is defined as a Class 3B insurer. Class 3B insurers are prohibited from declaring or paying any dividends if in breach of the required minimum solvency margin or minimum liquidity ratio (the "Relevant Margins") or if the declaration or payment of such dividend would cause the insurer to fail to meet the Relevant Margins. Where an insurer fails to meet its Relevant Margins on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the prior approval of the BMA. Further, Class 3B insurers are prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the BMA an affidavit stating that it will continue to meet its Relevant Margins. Class 3B insurers must obtain the BMA's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's statutory financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to the solvency requirements under the Companies Act 1981, amendments thereto of Bermuda (the "Companies Act") which apply to all Bermuda companies. In addition, an insurer engaged in general business is also required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. The BMA has established a target capital level ("TCL") which is set at 120% of the ECR. While RenaissanceRe Specialty U.S. is not required to maintain statutory capital and surplus at this level, it serves as an early warning tool for the BMA, and failure to meet the TCL may result in additional reporting requirements or increased regulatory oversight. RenaissanceRe Specialty U.S. has completed its 2018 BSCR, which must be filed with the BMA on or before April 30, 2019, and exceeds the target level of required statutory capital and surplus.

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NOTE 11. STATUTORY REQUIREMENTS, cont'd.

Renaissance Reinsurance U.S.

Renaissance Reinsurance U.S. is subject to statutory accounting principles as defined by the National Association of Insurance Commissioners (the "NAIC"). The NAIC uses a risk-based capital ("RBC") model to monitor and regulate the solvency of licensed life, health, and property and casualty insurance and reinsurance companies. Renaissance Reinsurance U.S. is domiciled in Maryland, which has adopted the NAIC's model law.

Laws and regulations in the U.S. establish minimum capital adequacy levels and grant regulators the authority to take specific actions based on the level of impairment. Based on Maryland's adoption of the RBC model of the NAIC, the first level at which action is required is the Company Action Level ("CAL") RBC. If Renaissance Reinsurance U.S.'s total adjusted capital is less than CAL RBC (but greater than Regulatory Action Level ("RAL") RBC), then Renaissance Reinsurance U.S. must file an RBC plan with the Maryland Insurance Commissioner (the "Commissioner"). If Renaissance Reinsurance U.S.'s total adjusted capital is less than RAL RBC, then the Commissioner must take certain regulatory actions.

Under Maryland insurance law, Renaissance Reinsurance U.S. must notify the Commissioner within five business days after the declaration of any dividend or distribution, other than an extraordinary dividend or extraordinary distribution, and notify the Commissioner at least ten days prior to the payment or distribution thereof. The Commissioner has the right to prevent payment of such a dividend or such a distribution if the Commissioner determines, in the Commissioner's discretion, that after the payment thereof, the policyholders' surplus of Renaissance Reinsurance U.S. would be inadequate or could cause Renaissance Reinsurance U.S. to be in a hazardous financial condition. Renaissance Reinsurance U.S. must give at least 30 days prior notice to the Commissioner before paying an extraordinary dividend or making an extraordinary distribution. Extraordinary dividends and extraordinary distributions are dividends or distributions which, together with any other dividends and distributions paid during the immediately preceding twelve-month period, would exceed the lesser of:

- 10% of the insurer's statutory policyholders' surplus (as determined under statutory accounting principles) as of December 31 of the prior year; or
- the insurer's net investment income excluding realized capital gains (as determined under statutory accounting principles) for the twelve-month period ending on December 31 of the prior year and pro rata distributions of any class of the insurer's securities, plus any amounts of net investment income (subject to the foregoing exclusions) in the three calendar years prior to the preceding year which have not been paid out as dividends.

At December 31, 2018, Renaissance Reinsurance U.S. had an ordinary dividend capacity of \$31.2 million which can be paid in 2019.

Renaissance Reinsurance U.S. is required to file statutory basis financial statements with the Maryland Insurance Administration, as its domestic regulator, with the NAIC and with insurance regulators in certain other states where it is licensed, authorized or accredited to do business. The operations of Renaissance Reinsurance U.S. are subject to examination by those state insurance regulators at any time. Renaissance Reinsurance U.S. has completed its 2018 statutory basis financial statements, which were filed with the NAIC before the deadline of March 1, 2019. Renaissance Reinsurance U.S. exceeded the CAL.

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NOTE 12. DERIVATIVE INSTRUMENTS

From time to time, the Company may enter into derivative instruments such as futures, options, swaps, forward contracts and other derivative contracts primarily to manage its foreign currency exposure, obtain exposure to a particular financial market or for yield enhancement. The Company's derivative instruments can be exchange traded or over-the-counter, with over-the-counter derivatives generally traded under International Swaps and Derivatives Association master agreements, which establish the terms of the transactions entered into with the Company's derivative counterparties. In the event a party becomes insolvent or otherwise defaults on its obligations, a master agreement generally permits the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' marked-to-market values so that a single sum in a single currency will be owed by, or owed to, the non-defaulting party.

Effectively, this contractual close-out netting reduces credit exposure from gross to net exposure. Where the Company has entered into master netting agreements with counterparties, or the Company has the legal and contractual right to offset positions, the derivative positions are generally netted by counterparty and are reported accordingly in other assets and other liabilities.

The tables below show the gross and net amounts of recognized derivative assets and liabilities at fair value, including the location on the consolidated balance sheets of the Company's principal derivative instruments:

Derivative Assets						
<u>At December 31, 2018</u>	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet	Balance Sheet Location	Collateral	Net Amount
Interest rate futures	\$ 16	\$ 11	\$ 5	Other assets	\$ —	\$ 5
Interest rate swaps	69	—	69	Other assets	—	69
Total	<u>\$ 85</u>	<u>\$ 11</u>	<u>\$ 74</u>		<u>\$ —</u>	<u>\$ 74</u>
Derivative Liabilities						
<u>At December 31, 2018</u>	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet	Balance Sheet Location	Collateral Pledged	Net Amount
Interest rate futures	\$ 11	\$ 11	\$ —	Other liabilities	\$ —	\$ —
Interest rate swaps	—	—	—	Other liabilities	—	—
Total	<u>\$ 11</u>	<u>\$ 11</u>	<u>\$ —</u>		<u>\$ —</u>	<u>\$ —</u>

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NOTE 12. DERIVATIVE INSTRUMENTS, cont'd.

	Derivative Assets					
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet	Balance Sheet Location	Collateral	Net Amount
<u>At December 31, 2017</u>						
Interest rate futures	\$ 5	\$ 5	\$ —	Other assets	\$ —	\$ —
Total	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ —</u>		<u>\$ —</u>	<u>\$ —</u>
	Derivative Liabilities					
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet	Balance Sheet Location	Collateral Pledged	Net Amount
<u>At December 31, 2017</u>						
Interest rate futures	\$ 9	\$ 5	\$ 4	Other liabilities	\$ 4	\$ —
Total	<u>\$ 9</u>	<u>\$ 5</u>	<u>\$ 4</u>		<u>\$ 4</u>	<u>\$ —</u>

The location and amount of the gain recognized in the Company's consolidated statements of operations related to the Company's principal derivative instruments are shown in the following table:

	Location of gain recognized on derivatives	Amount of gain recognized on derivatives	
		2018	2017
<u>Year ended December 31,</u>			
Interest rate futures	Net realized and unrealized (losses) gains on investments	\$ 71	\$ 6
Interest rate swaps	Net realized and unrealized (losses) gains on investments	69	—
Total		<u>\$ 140</u>	<u>\$ 6</u>

Interest Rate Derivatives

The Company uses interest rate futures and swaps within its portfolio of fixed maturity investments to manage its exposure to interest rate risk, which may result in increasing or decreasing its exposure to this risk.

Interest Rate Futures

The Company uses interest rate futures within its portfolio of fixed maturity investments to manage its exposure to interest rate risk, which may result in increasing or decreasing its exposure to this risk. At December 31, 2018, the Company had \$23.6 million of notional long positions and \$4.7 million of notional short positions of primarily Eurodollar, U.S. treasury and non-U.S. treasury futures contracts (2017 - \$76.5 million and \$72.2 million, respectively). The fair value of these derivatives is determined using exchange traded prices.

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NOTE 12. DERIVATIVE INSTRUMENTS, cont'd.

Interest Rate Swaps

During 2018, the Company entered into interest rate swaps. The fair value of interest rate swaps is determined using the relevant exchange traded price where available or a discounted cash flow model based on the terms of the contract and inputs, including, where applicable, observable yield curves. At December 31, 2018, the Company had \$13.5 million of notional positions paying a fixed rate and \$Nil receiving a fixed rate denominated in U.S. dollar swap contracts.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

Instruments which potentially subject the Company to concentration of credit risk consist principally of investments, cash and cash equivalents, premiums receivable and reinsurance balances. The Company limits the amount of credit exposure to any one financial institution and, except for the Company's investment in U.S. treasuries and money market securities, none of the Company's investments exceeded 10% of shareholder's equity at December 31, 2018. See "Note 6. Reinsurance" and "Note 7. Reserve for Claims and Claim Expenses" for information with respect to reinsurance recoverable.

Letters of Credit and Other Commitments

RenaissanceRe, the Company's ultimate parent, maintains a standby letter of credit facility with Wells Fargo, National Association (the "Wells Fargo Facility") which, as of December 31, 2018, provides for a secured, uncommitted facility under which letters of credit may be issued from time to time for certain of RenaissanceRe's operating subsidiaries and joint ventures, including the Company (the "Applicants"). The Applicants may draw down from the Wells Fargo Facility as required, so long as they provide eligible collateral and there are no specific allocations of the facility to the Applicants. At December 31, 2018, RenaissanceRe had \$86.9 million of letters of credit with effective dates on or before December 31, 2018 outstanding under the Facility (2017 - \$106.8 million), of which \$54.5 million relates to the Company (2017 - \$54.5 million). The letters of credit are secured by cash and investments of similar amounts.

In addition, RenaissanceRe, the Company's ultimate parent, maintains a bilateral letter of credit facility (the "Bilateral Facility") which, as of December 31, 2018, provides a commitment to make available to certain of its operating subsidiaries and joint ventures (the "Bilateral Facility Participants") an aggregate amount of up to \$300.0 million. The Bilateral Facility is scheduled to expire on December 31, 2020. The Bilateral Facility Participants may draw down from the Bilateral Facility as required, so long as they provide eligible collateral and there are no specific allocations of the facility to Bilateral Facility Participants. At December 31, 2018, RenaissanceRe had \$243.7 million of letters of credit with effective dates on or before December 31, 2018 outstanding under the Bilateral Facility (2017 - \$197.3 million), of which \$184.0 million relates to the Company (2017 - \$131.1 million). The letters of credit are secured by cash and investments of similar amounts.

Indemnifications and Warranties

In the ordinary course of its business, the Company may enter into contracts or agreements that contain indemnifications or warranties. Future events could occur that lead to the execution of these provisions against the Company. Based on past experience, management currently believes that the likelihood of such an event is remote.

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NOTE 13. COMMITMENTS AND CONTINGENCIES, cont'd.

Litigation

The Company is subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on reinsurance treaties or contracts or direct surplus lines insurance policies. In the Company's industry, business litigation may involve allegations of underwriting or claims-handling errors or misconduct, employment claims, regulatory actions or other disputes. The Company may also directly or indirectly be subject to its claims litigation involving, among other things, disputed interpretations of policy coverages. In addition, the Company may from time to time engage in litigation or arbitration related to claims for payment in respect of ceded reinsurance, including disputes that challenge the Company's ability to enforce its underwriting intent. Such matters could result, directly or indirectly, in providers of protection not meeting their obligations to the Company or not doing so on a timely basis. The Company may also be subject to other disputes from time to time, relating to operational or other matters distinct from insurance or reinsurance related claims. Any litigation or arbitration, or regulatory process, contains an element of uncertainty, and the value of an exposure or a gain contingency related to a dispute is difficult to estimate accordingly. Currently, the Company believes that no individual litigation or arbitration to which the Company is presently a party is likely to have a material adverse effect on the Company's financial condition, business or results of operations.

NOTE 14. SUBSEQUENT EVENTS

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2018, through April 26, 2019, the date the consolidated financial statements were available to be issued.