AXIS Specialty Limited

Consolidated Financial Statements and Independent Auditors' Report

December 31, 2017 and 2016

	Page No.
Independent Auditors' Report	2
Consolidated Balance Sheets as at December 31, 2017 and 2016	4
Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2017 and 2016	5
Consolidated Statements of Changes in Shareholder's Equity for the years ended December 31, 2017 and 2016	6
Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016	7
Notes to Consolidated Financial Statements	8 - 81

Deloitte.

Deloitte Ltd.
Corner House
20 Parliament Street
P.O. Box HM 1556
Hamilton HM FX
Bermuda

Tel: + 1 (441) 292 1500
Fax: + 1 (441) 292 0961
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of AXIS Specialty Limited
Hamilton, Bermuda

We have audited the accompanying consolidated financial statements of AXIS Specialty Limited (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AXIS Specialty Limited and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included in Note 6 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do no provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte Ltd.

April 27, 2018

AXIS SPECIALTY LIMITED
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016
(In thousands of U.S. dollars)

	2017	2016
Assets		
Investments:		
Fixed maturities, available for sale, at fair value	$ 7,215,974	$ 7,462,195
(Amortized cost 2017: $7,205,824, 2016: $7,544,579)		
Equity securities, available for sale, at fair value	70,761	261,773
(Cost 2017: $55,713, 2016: $236,371)		
Other investments, at fair value	624,391	729,554
Short-term investments, at amortized cost and fair value	10,183	117,246
Total investments	7,921,309	8,570,768
Cash and cash equivalents	253,801	433,688
Restricted cash and cash equivalents	129,117	95,322
Accrued interest receivable	45,734	49,971
Insurance and reinsurance premium balances receivable	256,825	248,429
Deferred acquisition costs	308,744	300,694
Due from affiliates	2,016,163	1,297,688
Prepaid reinsurance premiums	176,706	134,952
Reinsurance recoverable on unpaid and paid losses	477,087	207,242
Receivable for investments sold	10,375	—
Other assets	35,628	51,800
Total assets	$ 11,631,489	$ 11,390,554
Liabilities		
Reserve for losses and loss expenses	$ 5,771,966	$ 4,863,897
Unearned premiums	1,653,551	1,678,830
Insurance and reinsurance balances payable	329,681	220,601
Due to affiliate	—	368,877
Other liabilities	32,798	35,761
Payable for investments purchased	81,049	33,379
Total liabilities	7,869,045	7,201,345
Shareholder's Equity		
Common shares	1,200	1,200
(Authorized 50,000,000 common shares, par value $0.10		
Issued and outstanding 2017: 12,000,000; 2016: 12,000,000)		
Additional paid-in capital	2,114,237	2,114,237
Accumulated other comprehensive income (loss)	25,199	(56,982)
Retained earnings	1,621,808	2,130,754
Total shareholder's equity	3,762,444	4,189,209
Total liabilities and shareholder's equity	$ 11,631,489	$ 11,390,554

See accompanying notes to Consolidated Financial Statements.

AXIS SPECIALTY LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Years ended December 31, 2017 and 2016
(In thousands of U.S. dollars)

	2017	2016
Revenues		
Gross premiums written	$ 2,900,055	$ 2,742,457
Premiums ceded	(407,182)	(272,617)
Net premiums written	2,492,873	2,469,840
Change in net unearned premiums	67,033	9,412
Net premiums earned	2,559,906	2,479,252
Net investment income	264,377	239,027
Other insurance related income	3,643	1,656
Net realized investment gains (losses)		
Other-than-temporary impairment (OTTI) losses	(10,862)	(21,425)
Other realized investment gains (losses)	40,830	(41,885)
Total net realized investment gains (losses)	29,968	(63,310)
Total revenues	2,857,894	2,656,625
Expenses		
Net losses and loss expenses	2,008,974	1,402,701
Acquisition costs	813,338	813,634
General and administrative expenses	55,063	59,462
Foreign exchange losses (gains)	88,249	(113,170)
Interest expense	1,216	625
Total expenses	2,966,840	2,163,252
Net (loss) income	(108,946)	493,373
Other comprehensive income (loss):		
Available for sale investments:		
Unrealized investment gains arising during the year	117,632	18,354
Adjustment for re-classification of net realized investment (losses) gains and OTTI losses recognized in net income (nil tax)	(35,451)	63,205
Unrealized investment gains arising during the year, net of reclassification adjustment (nil tax)	82,181	81,559
Total other comprehensive income	82,181	81,559
Comprehensive (loss) income	$ (26,765)	$ 574,932

See accompanying notes to Consolidated Financial Statements.

AXIS SPECIALTY LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
Years ended December 31, 2017 and 2016
(In thousands of U.S. dollars)

	2017	2016
Common shares		
Balance at beginning and end of year	$ 1,200	$ 1,200
Additional paid-in capital		
Balance at beginning of year	2,114,237	2,114,237
Share-based compensation expense	2,579	3,415
Return of additional paid-in capital	(2,579)	(3,415)
Balance at end of year	2,114,237	2,114,237
Accumulated other comprehensive income (loss)		
Unrealized gains (losses) on available for sale investments:		
Balance at beginning of year	(56,982)	(138,541)
Unrealized gains arising during the year, net of reclassification adjustment	82,181	81,559
Balance at end of year	25,199	(56,982)
Retained earnings		
Balance at beginning of year	2,130,754	2,187,381
Net (loss) income	(108,946)	493,373
Dividends paid to parent	(400,000)	(550,000)
Balance at end of year	1,621,808	2,130,754
Total shareholder's equity	$ 3,762,444	$ 4,189,209

See accompanying notes to Consolidated Financial Statements.

AXIS SPECIALTY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016

(In thousands of U.S. dollars)

	2017	2016
Cash flows from operating activities:		
Net (loss) income	$ (108,946)	$ 493,373
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Net realized investment (gains) losses	(29,968)	63,310
Net realized and unrealized gains on other investments	(62,209)	(39,583)
Amortization of fixed maturities	26,518	41,537
Other amortization and depreciation	2,869	2,134
Share-based compensation expense, net of cash payments	2,579	3,415
Changes in:		
Accrued interest receivable	4,237	(1,109)
Insurance and reinsurance balances, net	100,684	100,734
Deferred acquisition costs	(8,050)	32,197
Due from affiliates	(504,372)	(480,047)
Prepaid reinsurance premiums	(41,754)	(99,869)
Reinsurance recoverable on unpaid and paid losses	(269,845)	(36,549)
Reserve for losses and loss expenses	908,069	(116,795)
Unearned premiums	(25,279)	90,456
Other items	(962)	(7,984)
Net cash (used in) provided by operating activities	(6,429)	45,220
Cash flows from investing activities:		
Purchases of:		
Fixed maturities	(5,626,310)	(6,043,017)
Equity securities	(93,192)	(36,539)
Other investments	(91,845)	(145,880)
Short-term investments	(24,015)	(140,360)
Proceeds from the sale of:		
Fixed maturities	4,560,243	5,321,403
Equity securities	336,018	55,727
Other investments	259,217	151,337
Short-term investments	15,966	10,941
Proceeds from the redemption of fixed maturities	1,388,962	948,466
Proceeds from the redemption of short-term investments	117,675	1,790
Change in restricted cash and cash equivalents	(33,795)	(12,094)
Net cash provided by investing activities	808,924	111,774
Cash flows from financing activities:		
Advances and payments on behalf of parent and ultimate parent companies	(616,683)	(598,978)
Short term advance from affiliate	(368,877)	368,877
Net cash used in financing activities	(985,560)	(230,101)
Effect of exchange rates changes on foreign currency cash and cash equivalents	3,178	779
(Decrease) increase in cash and cash equivalents	(179,887)	(72,328)
Cash and cash equivalents, beginning of year	433,688	506,016
Cash and cash equivalents, end of year	$ 253,801	$ 433,688

Non-cash operating and financing activities: The Company declared dividends of $400,000 in 2017 (2016: $550,000) and returned additional paid-in capital of $2,579 in 2017 (2016: $3,415). The dividends and returns of additional paid-in capital were net settled against balances due from AXIS Capital Holdings Limited, the Company’s ultimate holding company and AXIS Specialty Holdings Bermuda Limited, the Company's parent company .

See accompanying notes to Consolidated Financial Statements.

1. History

AXIS Specialty Limited (the "Company") was incorporated on November 8, 2001 under the laws of Bermuda. Pursuant to an exchange offer consummated on December 31, 2002, the Company became a wholly owned subsidiary of AXIS Capital Holdings Limited ("AXIS Capital", the "ultimate parent company"). On December 12, 2011, AXIS Capital assigned all of its shares of the Company to AXIS Specialty Holdings Bermuda Limited ("AXIS Specialty Holdings"). AXIS Specialty Holdings was incorporated under the laws of Bermuda on September 22, 2011 and is a wholly owned subsidiary of AXIS Capital.

The Company is licensed under the Bermuda Insurance Act 1978, amendments thereto and related regulations, to write general business as a Class 4 insurer and commenced operations on November 20, 2001, providing a broad range of insurance and reinsurance products on a worldwide basis.

The Company also provides reinsurance protection to other subsidiaries of AXIS Capital through quota share and stop loss agreements.

The Company formed a branch in Singapore (the "Branch") on June 19, 2008 and obtained a license on August 12, 2008 to carry on general insurance business in Singapore.

On February 5, 2015, AXIS Specialty Holdings contributed all of its shares of AXIS Bermuda Services Limited ("Bermuda Services") to the Company. Bermuda Services was repurposed as a special purpose investment company. On August 15, 2017, Bermuda Services was renamed AXIS Specialty Investments Limited ("Investments I").

On January 6, 2016, AXIS Specialty Holdings transferred all of its shares of AXIS Specialty Investments II Limited ("Investments II") to the Company. Investments II was repurposed as a special purpose investment company.

2. Significant Accounting Policies

Basis of Presentation and Consolidation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and include the results of operations and the financial position of the Branch, Investments I and Investments II. All transactions and balances between the Company, the Branch, Investments I and Investments II have been eliminated.

2. Significant Accounting Policies (continued)

Use of Estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes that the amounts included in the consolidated financial statements reflect its best estimates and assumptions, actual results could differ from those estimates. The Company's principal estimates include:

- reserve for losses and loss expenses;
- reinsurance recoverable on unpaid losses, including the provision for uncollectible amounts;
- gross and net premiums written and net premiums earned;
- other-than-temporary impairments ("OTTI") in the carrying value of available-for-sale securities; and
- fair value measurements for financial assets and liabilities.

Significant accounting policies are as follows:

a) Investments

Investments Available For Sale

Fixed maturities and equity securities classified as "available for sale" are reported at fair value at the balance sheet date (see Note 4 – Fair Value Measurements). The change in fair value (net unrealized gain (loss)) on available for sale investments, net of tax, is included as a separate component of accumulated other comprehensive income (loss) ("AOCI") in shareholder's equity.

Net investment income includes interest and dividend income and the amortization of market premiums and discounts and is presented net of investment expenses. Investment income is recognized when earned. Purchases and sales of investments are recorded on a trade-date basis and realized gains (losses) on sales of investments are determined based on the specific identification method.

The Company recognizes investment income from fixed maturities based on the constant effective yield method, which includes an adjustment for estimated principal repayments, if any. The effective yield used to determine the amortization for fixed maturities subject to prepayment risk (e.g. asset-backed, loan-backed and other structured securities) is recalculated and adjusted periodically based upon actual historical and/or projected future cash flows. The adjustments to the yield for highly-rated prepayable fixed maturities are accounted for using the retrospective method. The adjustments to the yield for other prepayable fixed maturities are accounted for using the prospective method.

On a quarterly basis, the Company assesses whether unrealized losses on available for sale investments represent impairments that are other than temporary. Several factors are considered in this assessment including, but not limited to:

2. Significant Accounting Policies (continued)

(i) the extent and duration of the decline;
(ii) the reason for the decline (e.g. credit spread widening, credit event, foreign exchange rate movements);
(iii) the historical and implied future volatility of the fair value;
(iv) the financial condition and near-term prospects of the issuer; and
(v) the collateral structure and credit support of the security, if applicable.

A fixed maturity is impaired if the fair value of the investment is below amortized cost. If a fixed maturity is impaired, additional analysis is performed to determine whether the impairment is temporary or other-than-temporary. For an impaired fixed maturity where the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before its anticipated recovery, the impairment is considered other than temporary. The full amount of the impairment is charged to net income and is included in net realized investment gains (losses). In instances where the Company intends to hold the impaired fixed maturity, the Company estimates the anticipated credit loss of the security and recognizes only this portion of the impairment in net income, with the remaining non-credit related balance of the impairment (i.e. related to interest rates, market conditions, etc.) recognized in AOCI.

The Company recognizes impairments on equity securities in an unrealized loss position when the Company does not have the ability and intent to hold the security for a reasonable period of time to allow for a full recovery. The full amount of the impairment is charged to net income and is included in net realized investment gains (losses).

Upon recognition of an OTTI charge, the new cost basis for the security is the previous amortized cost for a fixed maturity or cost for an equity security less the OTTI charge recognized in net income. The new cost basis is not adjusted for subsequent recoveries in fair value except for fixed maturities whereby the difference between the new cost basis and the expected cash flows is accreted on a quarterly basis to net investment income over the remaining life of the fixed maturity.

Other Investments

Other investments are recorded at fair value (see Note 4 – Fair Value Measurements), with both changes in fair value and realized investment gains (losses) reported in net investment income.

Short-Term Investments

Short-term investments primarily comprise highly-liquid debt securities with maturities greater than three months but less than one year from the date of purchase. These investments are carried at amortized cost, which approximates fair value.

b) Cash and Cash Equivalents

Cash equivalents include money-market funds, fixed interest deposits and reverse repurchase agreements placed with a maturity of under 90 days when purchased. Cash and cash equivalents are recorded at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities. At December 31, 2017, cash and cash equivalents included restricted cash of $129 million, primarily used as collateral in trusts securing obligations under reinsurance agreements.

2. Significant Accounting Policies (continued)

c) Premiums and Acquisition Costs

Premiums

Insurance premiums written are recorded in accordance with the terms of the underlying policies. Reinsurance premiums are recorded at the inception of the contract and are estimated based upon information received from ceding companies. For multi-year contracts where (re)insurance premiums are payable in annual installments, premiums are recorded at the inception of the contract based on management's best estimate of total premiums to be received. However, premiums are normally recognized on an annual basis for multi-year contracts where the cedant has the ability to unilaterally commute or cancel coverage within the term of the policy. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term.

Any subsequent differences arising on insurance and reinsurance premium estimates are recorded in the period they are determined.

(Re)insurance premiums are earned evenly over the period during which the Company is exposed to the underlying risk, which is generally one to two years with the exception of multi-year contracts. Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force.

Reinstatement premiums are recognized and earned at the time a loss event occurs, where the coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms. The accrual of reinstatement premiums is based on estimates of losses and loss adjustment expenses, which reflect management's judgment, as described in Note 2(d) – Losses and Loss Expenses below.

Premiums receivable balances are reviewed for impairment at least quarterly and an allowance is established for amounts considered uncollectible.

Acquisition Costs

Acquisition costs vary with and are directly related to the successful acquisition efforts of acquiring new or renewing existing (re)insurance contracts and consist primarily of fees and commissions paid to brokers and premium taxes. Premiums receivable are presented net of applicable acquisition costs when contract terms provide for the right of offset. Acquisition costs are shown net of commissions earned on ceded reinsurance. Net acquisition costs are deferred and charged to expense as the related premium is earned.

Anticipated losses and loss expenses, other costs and investment income related to these premiums are considered in assessing the recoverability of deferred acquisition costs. If deferred amounts are estimated to be unrecoverable, they are expensed. Compensation expenses for personnel involved in contract acquisition, as well as advertising costs, are expensed as incurred.

2. Significant Accounting Policies (continued)

d) Losses and Loss Expenses

Reserve for losses and loss expenses represents an estimate of the unpaid portion of the ultimate liability for losses and loss expenses for (re)insured events that have occurred at or before the balance sheet date. The balance reflects both claims that have been reported (“case reserves”) and claims that have been incurred but not yet reported ("IBNR"). These amounts are reduced for estimated amounts of salvage and subrogation recoveries.

Reserve for losses and loss expenses are reviewed on a quarterly basis. Case reserves are primarily established based on amounts reported from insureds and/or their brokers. Management estimates IBNR after reviewing detailed actuarial analyses and applying informed judgment regarding qualitative factors that may not be fully captured in the actuarial estimates. A variety of actuarial methods are utilized in this process, including the Expected Loss Ratio, Bornhuetter-Ferguson and Chain Ladder methods. The Company’s estimate is highly dependent on management’s judgment as to which method(s) are most appropriate for a particular accident year and class of business. The Company’s historical claims data is often supplemented with industry benchmarks when applying these methodologies.

Any adjustments to previous reserve for losses and loss expenses estimates are recognized in the period they are determined. While the Company believes that reserves for losses and loss expenses are adequate, this estimate requires significant judgment and new information, events or circumstances may result in ultimate losses that are materially greater or less than provided for in the Consolidated Balance Sheets.

e) Ceded Reinsurance

In the normal course of business, the Company purchases reinsurance protection to limit its ultimate losses from catastrophic events and to reduce loss aggregation risk. The premiums paid to reinsurers (i.e. premiums ceded) are expensed over the coverage period. Prepaid reinsurance premiums represent the portion of premiums ceded applicable to the unexpired term of the contracts in force. Reinstatement-related premiums ceded are recorded at the time a loss event occurs and coverage limits for the remaining life of a contract are reinstated under pre-defined contract terms; such premiums are expensed over the remaining risk period.

Reinsurance recoverable related to case reserves is estimated on a case-by-case basis by applying the terms of any applicable reinsurance coverage to individual case reserve estimates. The estimate of reinsurance recoverable related to IBNR reserves is generally developed as part of the loss reserving process.

Reinsurance recoverable is presented net of a provision for uncollectible amounts, reflecting the amount the Company believes will ultimately not be recovered due to reinsurer insolvency, contractual disputes and/or some other reason. The Company applies case-specific provisions against certain recoveries that are deemed unlikely to be collected in full. In addition, the Company uses a default analysis to estimate the provision for uncollectible amounts on the remainder of the balance.

The estimates of reinsurance recoverable and the associated provision require management’s judgment and are reviewed in detail on a quarterly basis. Any adjustments to amounts recognized in prior periods are reported in net losses and loss expenses in the Consolidated Statements of Operations for the period when the adjustments are identified.

2. Significant Accounting Policies (continued)

Retroactive Reinsurance

Retroactive reinsurance reimburses a ceding company for liabilities incurred as a result of past insurable events covered under contracts subject to the reinsurance. In certain instances, reinsurance contracts cover losses both on a prospective basis and on a retroactive basis and where practical the Company bifurcates the prospective and retrospective elements of these reinsurance contracts and accounts for each element separately. Initial gains in connection with retroactive reinsurance contracts are deferred and amortized into income over the settlement period while losses are recognized immediately. When changes in the estimated amount recoverable from the reinsurer or in the timing of receipts related to that amount occur, a cumulative amortization adjustment is recognized in earnings in the period of the change so that the deferred gain reflects the balance that would have existed had the revised estimate been available at the inception of the reinsurance transaction.

f) Foreign Currency Transactions

The functional currency of the Company is the U.S. dollar. Transactions in currencies other than the functional currency are measured in U.S. dollars at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are remeasured at exchange rates in effect at the balance sheet date while non-monetary assets and liabilities are converted at historical rates. Realized and changes in unrealized gains and losses from non-functional currencies are recognized in the Consolidated Statements of Operations, with the exception of those related to foreign-denominated available for sale investments. For these investments, exchange rate fluctuations represent an unrealized appreciation/ depreciation in the value of the securities and are included in the related component of AOCI.

g) Share-Based Compensation

Share-based compensation expense includes both share and cash-settled awards comprising of service and performance based awards. The fair value of the share service-based awards is measured at the grant date, with the associated expense recognized on a straight-line basis over the service period. The fair value of share performance-based awards is measured at the grant date based on pre-established targets relating to certain performance based measures achieved by AXIS Capital, with the associated expense recognized on a straight-line basis over the applicable performance and vesting period. The compensation expense for share performance-based awards is subject to a periodic review and adjustment taking into account actual performance of AXIS Capital. The fair value of the liability associated with service and performance based cash-settled awards is re-measured at each balance sheet date, with the effects recognized as an increase or decrease to share-based compensation expense for the period. Effective January 1, 2017, the Company made an accounting policy election to account for forfeitures when they occur.

2. Significant Accounting Policies (continued)

h) Derivative Instruments

The Company may enter into derivative instruments such as futures, options, interest rate swaps and foreign currency forward contracts as part of its overall foreign currency risk management strategy, to obtain exposure to a particular financial market or for yield enhancement. During 2013, the Company began to write derivative- based risk management products designed to address weather an commodity price risks, with the objective of generating profits on a portfolio basis.

Effective July 1, 2017, the Company no longer writes derivative-based risk management products which address weather risks. From time to time, the Company may also enter into (re)insurance contracts that meet the Financial Accounting Standards Board's ("FASB") definition of a derivative contract.

The Company measures all derivative instruments at fair value (see Note 4 – Fair Value Measurements) and recognizes them as either assets or liabilities in the Consolidated Balance Sheets. Subsequent changes in fair value and any realized gains or losses are recognized in the Consolidated Statements of Operations.

i) Income Tax

The Branch is subject to taxation. Current and deferred income taxes are charged or credited to net income, or in certain cases to AOCI, based upon enacted tax laws and rates applicable in Singapore in the period in which the tax becomes accruable or realizable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the Consolidated Balance Sheets and those used in the tax returns. When it is more likely than not that a portion of a deferred tax asset will not be realized in the foreseeable future, a valuation allowance against deferred tax assets is recorded. The Company recognizes the tax benefits of uncertain tax positions only when the position is more-likely-than-not to be sustained upon audit by the relevant taxing authorities.

j) New Accounting Standards Adopted in 2017

Short-Duration Contracts

Effective December 31, 2017, the Company adopted ASU 2015-09 "Financial Services - Insurance (Topic 944) - Disclosures About Short-Duration Contracts" issued by the FASB. ASU 2015-09 requires insurance entities to disclose for annual reporting periods additional information about the liability for unpaid claims and claim adjustment expenses, including: (1) incurred and paid claims development information by accident year, on a net basis, for the number of years for which claims incurred typically remain outstanding, not exceeding 10 years; (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for claims and claim adjustment expenses, with separate disclosure of reinsurance recoverable on unpaid claims for each period presented in the statement of financial position; (3) for each accident year presented of incurred claims development information, the total of incurred but not reported liabilities plus expected development on reported claims including the liability for unpaid claims and claim adjustment expenses, accompanied by a description of the reserving methodologies; (4) for each accident year presented of incurred claims development information, quantitative information about claim frequency (unless impracticable) accompanied by a qualitative description of methodologies used for determining claim frequency information; and (5) for all claims, the average annual percentage payout of incurred claims by age for all accident years presented. ASU 2015-09 also requires insurance entities to

2. Significant Accounting Policies (continued)

disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including the reasons for the change and the effects on the financial statements.

As this new guidance relates solely to disclosures, the adoption of ASU 2015-09 did not impact the Company's results of operations, financial condition or liquidity. The updated disclosures have been provided in Note 6 'Reserve for losses and loss expenses'

Stock Compensation - Improvements to Employee Share-Based Payment Accounting

Effective January 1, 2017, the Company adopted Accounting Standards Update ("ASU") 2016-09, "Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting" which simplifies several aspects of the accounting for share-based payments to employees including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance requires all excess tax benefits and tax deficiencies to be recognized in the income statement with the tax effects of exercised or vested awards to be treated as discrete items in the reporting period in which they occur. Excess tax benefits should be classified along with other income tax cash flows as an operating activity on the statement of cash flows. In addition, companies are required to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The guidance allows withholding up to the maximum statutory tax rates in the applicable jurisdictions to cover income taxes on share-based compensation awards without requiring liability classification. Cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The adoption of this guidance did not have a material impact on the Company's results of operations, financial condition and liquidity.

k) Recently Issued Accounting Standards Not Yet Adopted

Revenue From Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". This guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. 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. In August 2015, the FASB delayed the effective date by one year through the issuance of ASU 2015-14, "Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date". This guidance is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017. Accounting for insurance contracts is not within the scope of ASU 2014-09. The Company generates an insignificant amount of fee income, primarily from strategic capital partners, which is reported in other insurance related income (losses) in the Consolidated Statements of Operations and is within the scope of ASU 2014-09. The Company's current accounting policy to recognize fee income when the related services have been performed is consistent with the guidance in this ASU. As a result, the Company does not expect the adoption of this guidance to have a material impact on its results of operations, financial condition and liquidity.

2. Significant Accounting Policies (continued)

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01 "Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities" which requires:

- equity investments (except those accounted for under the equity method of accounting, investments that are consolidated or those that meet a practicability exception) 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 form of financial asset on the 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.

This guidance is effective for interim and annual reporting periods beginning after December 15, 2018 with early adoption permitted for certain of the amendments. The adoption of this guidance is expected to have a material impact on the Company's results of operations as changes in fair value of equity securities will be included in net income rather than other comprehensive income. At December 31, 2017, accumulated other comprehensive income included $15 million of net unrealized gains on equity securities, net of taxes.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" which provides a new comprehensive model for lease accounting. The guidance will require a lessee to recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of this guidance on its results of operations, financial condition and liquidity.

2. Significant Accounting Policies (continued)

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments" which replaces the "incurred loss" impairment methodology with an approach based on "expected losses" to estimate credit losses on certain types of financial instruments and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses. The guidance also provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. This guidance is effective for interim and annual periods beginning after December 15, 2020. Early adoption is permitted for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance on its results of operations, financial condition and liquidity.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments" which addresses diversity in practice in how eight specific cash receipts and cash payments should be presented and classified on the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The adoption of this guidance is not expected to impact the Company's results of operations, financial condition or liquidity.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230) - Restricted Cash" which addresses diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows. This guidance will require a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. Transfers between cash and cash equivalents and restricted cash and restricted cash equivalents will no longer be presented on the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The guidance will be adopted on a retrospective basis. As this guidance relates solely to financial statement disclosures, the adoption of ASU 2016-18 will not impact the Company's results of operations, financial condition and liquidity.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued ASU 2017-08 "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities" which shortens the amortization period for certain purchased callable debt securities held at a premium. This guidance is effective for interim and annual reporting periods, beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of this guidance on its results of operations, financial condition and liquidity.

2. Significant Accounting Policies (continued)

Stock Compensation - Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-09 "Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting" to provide clarity and reduce diversity in practice of applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. This ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The guidance states that an entity should account for the effects of a modification unless all the following are met:

1. the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified;
2. the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and
3. the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this update. This guidance is effective for interim and annual reporting periods, beginning after December 15, 2017, with early adoption permitted. The Company anticipates adopting this guidance effective January 1, 2018. The adoption of this guidance will not materially impact the Company's results of operations, financial condition or liquidity.

(In thousands of U.S. dollars)

3. Investments

a) Fixed Maturities and Equities

The amortized cost or cost and fair values of the Company's fixed maturities and equities at December 31, 2017 and 2016 are as follows:

	2017				
	Amortized Cost or Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Non-credit OTTI in AOCI (5)**
Fixed maturities:					
U.S. government and agency	$ 925,768	$ 899	$ (8,543)	$ 918,124	$ —
Non-U.S. government	315,801	10,649	(5,814)	320,636	—
Corporate debt	2,696,331	39,031	(15,715)	2,719,647	—
Agency RMBS(1)	1,712,657	5,362	(19,308)	1,698,711	—
CMBS(2)	554,423	2,673	(2,625)	554,471	—
Non-Agency RMBS	33,612	1,205	(791)	34,026	—
ABS(3)	868,355	3,719	(899)	871,175	—
Municipals(4)	98,877	932	(625)	99,184	—
Total fixed maturities	$ 7,205,824	$ 64,470	$ (54,320)	$ 7,215,974	$ —
Equity securities:					
Exchange-traded funds	$ 55,538	$ 13,757	$ —	$ 69,295	
Common stocks	175	1,372	(81)	1,466	
Total equity securities	$ 55,713	$ 15,129	$ (81)	$ 70,761	

(1) Residential mortgage-backed securities ("RMBS") originated by U.S. government-sponsored agencies.
(2) Commercial mortgage-backed securities ("CMBS").
(3) Asset-backed securities ("ABS") include debt tranched securities collateralized primarily by auto loans, student loans, credit cards, and other asset types. This asset class also includes collateralized loan obligations ("CLO") and collateralized debt obligations ("CDO").
(4) Municipals include bonds issued by states, municipalities, and political subdivisions.
(5) Represents the non-credit component of the OTTI losses, adjusted for subsequent sales, maturities and redemptions. It does not include the change in fair value subsequent to the impairment measurement date.

(In thousands of U.S. dollars)

3. Investments (continued)

	2016				
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit OTTI in AOCI [5]
Fixed maturities:					
U.S. government and agency	$ 1,131,290	$ 525	$ (18,239)	$ 1,113,576	$ —
Non-U.S. government	330,152	1,395	(35,486)	296,061	—
Corporate debt	3,041,552	30,874	(48,892)	3,023,534	—
Agency RMBS[1]	1,653,584	8,840	(22,153)	1,640,271	—
CMBS[2]	426,801	3,535	(2,566)	427,770	—
Non-Agency RMBS	43,918	1,048	(1,988)	42,978	—
ABS[3]	820,556	2,446	(1,886)	821,116	—
Municipals[4]	96,726	950	(787)	96,889	—
Total fixed maturities	$ 7,544,579	$ 49,613	$ (131,997)	$ 7,462,195	$ —
Equity securities:					
Exchange-traded funds	$ 236,371	$ 26,338	$ (936)	$ 261,773	
Total equity securities	$ 236,371	$ 26,338	$ (936)	$ 261,773	

(1) Residential mortgage-backed securities ("RMBS") originated by U.S. government-sponsored agencies.
(2) Commercial mortgage-backed securities ("CMBS").
(3) Asset-backed securities ("ABS") include debt tranched securities collateralized primarily by auto loans, student loans, credit cards, and other asset types. This asset class also includes collateralized loan obligations ("CLO") and collateralized debt obligations ("CDO").
(4) Municipals include bonds issued by states, municipalities, and political subdivisions.
(5) Represents the non-credit component of the OTTI losses, adjusted for subsequent sales, maturities and redemptions. It does not include the change in fair value subsequent to the impairment measurement date.

In the normal course of investing activities, the Company actively manages allocations to non-controlling tranches of structured securities (variable interests) issued by variable interest entities ("VIEs"). These structured securities include RMBS, CMBS and ABS and are included in the above table. Additionally, within its other investments portfolio, the Company also invests in limited partnerships (hedge funds, direct lending funds, private equity funds and real estate funds) and CLO equity tranched securities, which are all variable interests issued by VIEs (see Note 3(b)). For these variable interests, the Company does not have the power to direct the activities that are most significant to the economic performance of the VIEs and therefore is not the primary beneficiary of any of these VIEs. The maximum exposure to loss on these interests is limited to the amount of the investment. The Company has not provided financial or other support with respect to these structured securities other than its original investment.

Contractual Maturities

The contractual maturities of fixed maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In thousands of U.S. dollars)

3. Investments (continued)

	2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 193,752	$ 193,441	$ 158,774	$ 153,883
Due after one year through five years	2,359,250	2,362,132	2,448,383	2,410,987
Due after five years through ten years	1,322,466	1,331,982	1,702,186	1,681,229
Due after ten years	161,309	170,036	290,377	283,961
	4,036,777	4,057,591	4,599,720	4,530,060
Agency RMBS	1,712,657	1,698,711	1,653,584	1,640,271
CMBS	554,423	554,471	426,801	427,770
Non-Agency RMBS	33,612	34,026	43,918	42,978
ABS	868,355	871,175	820,556	821,116
Total	$ 7,205,824	$ 7,215,974	$ 7,544,579	$ 7,462,195

Gross Unrealized Losses

The following tables summarize fixed maturities and equities in an unrealized loss position at December 31, 2017 and 2016, and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

	2017					
	12 months or greater		Less than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities:						
U.S. government and agency	$ 101,834	$ (2,195)	$ 751,223	$ (6,348)	$ 853,057	$ (8,543)
Non-U.S. government	43,356	(4,611)	41,313	(1,203)	84,669	(5,814)
Corporate debt	191,507	(6,309)	1,024,974	(9,406)	1,216,481	(15,715)
Agency RMBS	510,319	(11,421)	851,672	(7,887)	1,361,991	(19,308)
CMBS	27,528	(678)	259,071	(1,947)	286,599	(2,625)
Non-Agency RMBS	7,299	(779)	4,197	(12)	11,496	(791)
ABS	19,372	(330)	198,733	(569)	218,105	(899)
Municipals	6,761	(214)	36,997	(411)	43,758	(625)
Total fixed maturities	$ 907,976	$ (26,537)	$ 3,168,180	$ (27,783)	$ 4,076,156	$ (54,320)
Equity securities:						
Common stocks	$ —	$ —	$ 1	$ (81)	$ 1	$ (81)
Total equity securities	$ —	$ —	$ 1	$ (81)	$ 1	$ (81)

(In thousands of U.S. dollars)

3. Investments (continued)

	2016					
	12 months or greater		Less than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities:						
U.S. government and agency	$ 54,051	$ (2,729)	$ 909,356	$ (15,510)	$ 963,407	$ (18,239)
Non-U.S. government	96,928	(26,434)	143,516	(9,052)	240,444	(35,486)
Corporate debt	154,698	(21,251)	1,238,180	(27,641)	1,392,878	(48,892)
Agency RMBS	62,328	(715)	1,102,249	(21,438)	1,164,577	(22,153)
CMBS	63,678	(436)	127,257	(2,130)	190,935	(2,566)
Non-Agency RMBS	11,566	(1,717)	7,193	(271)	18,759	(1,988)
ABS	246,978	(1,481)	134,968	(405)	381,946	(1,886)
Municipals	774	(29)	46,481	(758)	47,255	(787)
Total fixed maturities	$ 691,001	$ (54,792)	$ 3,709,200	$ (77,205)	$ 4,400,201	$ (131,997)
Equity securities:						
Exchange-traded funds	$ 4,959	$ (461)	$ 23,025	$ (475)	$ 27,984	$ (936)
Total equity securities	$ 4,959	$ (461)	$ 23,025	$ (475)	$ 27,984	$ (936)

Fixed Maturities

At December 31, 2017, 1,353 fixed maturities (2016: 1,297) were in an unrealized loss position of $54,320 (2016: $131,997) of which $5,509 (2016: $13,046) were related to securities below investment grade or not rated.

At December 31, 2017, 383 securities (2016: 286) had been in a continuous unrealized loss position for 12 months or greater and had a fair value of $907,976 (2016: $691,001). Following a credit impairment review, the Company concluded that these securities as well as the remaining securities in an unrealized loss position in the above table were temporarily impaired at December 31, 2017, and are expected to recover in value as the securities approach maturity. Further, at December 31, 2017, the Company did not intend to sell these securities in an unrealized loss position and it is more likely than not that it will not be required to sell these securities before the anticipated recovery of their amortized costs.

Equity Securities

At December 31, 2017, 1 security (2016:18) was in an unrealized loss position of $81 (2016: $936).

At December 31, 2017, there were no securities (2016: 3 securities) in a continuous unrealized loss position for 12 months or greater. Based on the Company's impairment review process and its ability and intent to hold these securities for a reasonable period of time sufficient for a full recovery, the Company concluded that the above equities in an unrealized loss position were temporarily impaired at December 31, 2017.

(In thousands of U.S. dollars)

3. Investments (continued)

b) Other Investments

The following tables provide a breakdown of the Company's investments in hedge funds, direct lending funds, real estate funds, private equity funds and CLO-Equities, together with additional information relating to the liquidity of each category:

	Fair Value		Redemption Frequency (if currently eligible)	Redemption Notice Period
At December 31, 2017				
Long/short equity funds	$ 38,470	6%	Annually	60 days
Event-driven funds	39,177	6%	Annually	45 days
Multi-strategy funds	212,707	34%	Quarterly, Semi-annually	60-95 days
Direct lending funds	197,212	32%	N/A	N/A
Private equity funds	68,812	11%	N/A	N/A
Real estate funds	36,600	6%	N/A	N/A
CLO-Equities	31,413	5%	N/A	N/A
Total other investments	$ 624,391	100%		
At December 31, 2016				
Long/short equity funds	$ 118,619	16%	Semi-annually, Annually	45-60 days
Event-driven funds	93,539	13%	Annually	45 days
Multi-strategy funds	227,469	31%	Quarterly, Semi-annually	60-95 days
Direct lending funds	134,650	18%	N/A	N/A
Private equity funds	81,223	11%	N/A	N/A
Real estate funds	13,354	2%	N/A	N/A
CLO-Equities	60,700	9%	N/A	N/A
Total other investments	$ 729,554	100%		

N/A - not applicable

The investment strategies for the above funds are as follows:

- *Long/short equity funds*: Seek to achieve attractive returns primarily by executing an equity trading strategy involving both long and short investments in publicly-traded equities.

- *Event-driven funds*: Seek to achieve attractive returns by exploiting situations where announced or anticipated events create opportunities.

- *Multi-strategy funds*: Seek to achieve above-market returns by pursuing multiple investment strategies to diversify risks and reduce volatility. This category includes funds of hedge funds which invest in a large pool of hedge funds across a diversified range of hedge fund strategies.

- *Direct lending funds*: Seek to achieve attractive risk-adjusted returns, including current income generation, by investing in funds which provide financing directly to borrowers.

3. Investments (continued)

- *Private equity funds*: Seek to achieve attractive risk-adjusted returns by investing in private transactions over the course of several years.

- *Real estate funds*: Seek to achieve attractive risk-adjusted returns by making and managing investments in real estate and real estate securities and businesses.

Two common redemption restrictions which may impact the Company's ability to redeem its hedge funds are gates and lockups. A gate is a suspension of redemptions which may be implemented by the general partner or investment manager of the fund in order to defer, in whole or in part, the redemption request in the event the aggregate amount of redemption requests exceeds a predetermined percentage of the fund's net assets which may otherwise hinder the general partner or investment manager's ability to liquidate holdings in an orderly fashion in order to generate the cash necessary to fund extraordinarily large redemption payouts. A lockup period is the initial amount of time an investor is contractually required to hold the security before having the ability to redeem. During 2017 and 2016, neither of these restrictions impacted the Company's redemption requests. At December 31, 2017, $38,470 (2016: $60,443), representing 13% (2016: 14%) of the Company's total hedge funds, relate to holdings where they are still within the lockup period. The expiry of these lockup periods range from March 2018 to March 2019.

At December 31, 2017, the Company has $136,968 (2016: $175,984) of unfunded commitments within the other investments portfolio relating to future investments in direct lending funds. Once the full amount of committed capital has been called by the General Partner of each of these funds, the assets will not be fully returned until the completion of the fund's investment term. These funds have investment terms ranging from 5-10 years and the General Partners of certain funds have the option to extend the term by up to 3 years.

At December 31, 2017, the Company has $7,500 (2016: $12,000) of unfunded commitments as a limited partner in a multi-strategy hedge fund. Once the full amount of committed capital has been called by the General Partner, the assets will not be fully returned until the completion of the funds' investment term. These funds have investment terms ranging from 2 years to the dissolution of the underlying fund.

At December 31, 2017, the Company has $114,011 (2016: $139,500) of unfunded commitments as a limited partner in funds which invest in real estate and real estate securities and businesses. These funds have investment terms ranging from 7 years to the dissolution of the underlying fund.

At December 31, 2017, the Company has $20,983 (2016: $23,873) of unfunded commitments as a limited partner in a private equity fund. The life of the fund is subject to the dissolution of the underlying funds. The Company expects the overall holding period to be over 10 years.

During 2015, the Company made a $50,000 commitment as a limited partner of a bank revolver opportunity fund. The fund is subject to an investment term of 7 years and the General Partners have the option to extend the term by up to 2 years. At December 31, 2017, this commitment remains unfunded. It is not anticipated that the full amount of this fund will be drawn.

During 2017, the Company made a $75,000 commitment as a limited partner of an open-ended commercial mortgage income fund. At December 31, 2017, this commitment remains unfunded.

(In thousands of U.S. dollars)

3. Investments (continued)

c) Net Investment Income

Net investment income for the years ended December 31, 2017 and 2016 was derived from the following sources:

	2017	2016
Fixed maturities	$ 204,560	$ 206,427
Other investments	63,328	40,956
Equity securities	4,522	5,662
Short-term investments	1,947	1,518
Cash and cash equivalents	1,705	2,634
Loans to affiliates	5,248	2,000
Gross investment income	281,310	259,197
Investment expenses	(16,933)	(20,170)
Net investment income	$ 264,377	$ 239,027

d) Net Realized Investment Gains (Losses)

The following table provides an analysis of net realized investment gains (losses) for the years ended December 31, 2017 and 2016:

	2017	2016
Gross realized gains		
Fixed maturities and short-term investments	$ 51,514	$ 56,700
Equities	61,681	2,760
Gross realized gains	113,195	59,460
Gross realized losses		
Fixed maturities and short-term investments	(64,147)	(111,215)
Equities	(93)	(1,059)
Gross realized losses	(64,240)	(112,274)
Net OTTI recognized in earnings	(10,862)	(21,425)
Changes in fair value of investment derivatives (1)	(8,125)	10,929
Net realized investment gains (losses)	$ 29,968	$ (63,310)

(1) Refer to Note 5 - Derivative Instruments

(In thousands of U.S. dollars)

3. Investments (continued)

The following table summarizes the OTTI recognized in earnings by asset class for the years ended December 31, 2017 and 2016:

	2017	2016
Fixed maturities:		
Non-U.S. government	$ 5,919	$ 3,471
Corporate debt	4,943	15,394
Fixed maturities	10,862	18,865
Equity securities:		
Exchange-traded funds	—	2,560
Equity securities	—	2,560
Total OTTI recognized in earnings	$ 10,862	$ 21,425

Fixed maturities

The following table provides a roll forward of the credit losses (“credit loss table”), before income taxes, for which a portion of the OTTI was recognized in AOCI for the years ended December 31, 2017 and 2016:

	2017	2016
Balance at beginning of year	$ 993	$ 993
Credit impairments recognized on securities not previously impaired	—	—
Additional credit impairments recognized on securities previously impaired	—	—
Change in timing of future cash flows on securities previously impaired	—	—
Intent to sell of securities previously impaired	—	—
Securities sold/redeemed/matured	—	—
Balance at end of year	$ 993	$ 993

Credit losses are calculated based on the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to the impairment. The following provides a summary of the credit loss activities by asset class for the above table as well as the significant inputs and the methodology used to estimate these credit losses.

3. Investments (continued)

U.S. Government, U.S. Agency and U.S. Agency RMBS:

Unrealized losses on securities issued or backed (either explicitly or implicitly) by the U.S. government are not analyzed for OTTI. The Company has concluded that the possibility of any credit losses on these securities is highly unlikely due to the explicit U.S. government guarantee on certain securities (e.g. Government National Mortgage Association ("GNMA") issuances) and, on others, the implicit guarantee that has been validated by past actions (e.g. U.S. government bailout of Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("FHLMC") during the 2008 credit crisis). Although these securities are not analyzed for credit losses, the securities are still evaluated for intention to sell and likely requirement to sell.

Non-U.S. Government:

Non-U.S. government obligations are evaluated for credit loss primarily through qualitative assessments of the likelihood of credit loss using information such as duration and severity of unrealized losses, as well as credit ratings and price volatility. At December 31, 2017, the Company's holdings in sovereign debt, including $36,340 (2016: $18,987) relating to the eurozone countries, were substantially all investment-grade securities. The gross unrealized losses of $5,814 at December 31, 2017 were due mainly to pricing and foreign exchange losses on emerging market debt. The Company concluded there were no credit losses anticipated for these securities at December 31, 2017. In 2017, the OTTI charges on non-U.S. government fixed maturities mainly related to unrealized foreign exchange losses on certain securities where forecasted recovery was uncertain.

Corporate Debt:

To estimate credit losses for corporate debt securities, projected cash flows are primarily driven by assumptions regarding the probability of default and the severity associated with those defaults. The default and loss severity rates are based on credit rating, credit analysis, industry analyst reports and forecasts, Moody's historical default data and any other data relevant to the recoverability of the security. In 2017, the OTTI charges on corporate debt securities were mainly related to significant loss severity, unrealized foreign exchange losses on certain securities where forecasted recovery was uncertain as well as the Company's intent to sell.

CMBS:

The Company's investments in CMBS are diversified and primarily rated AA or better. Based on discounted cash flows at December 31, 2017, the current level of subordination is sufficient to cover the estimated loan losses on the underlying collateral of the CMBS.

3. Investments (continued)

Non-Agency RMBS:

For non-agency RMBS, the Company's projected cash flows incorporated underlying data from widely accepted third-party data sources along with certain internal assumptions and judgments regarding the future performance of the security. These assumptions included the following: default, delinquency, loss severity and prepayment rates. The assumptions used to calculate the credit losses in 2017 have not changed significantly since December 31, 2016. At December 31, 2017, the fair value of the Company's non-agency RMBS was $34,026 (2016: $42,978), consisting primarily of $28,704 (2016: $34,614) of Prime and $4,133 (2016: $5,534) of Alt-A MBS. The Company concluded there are no credit losses anticipated for any of its non-agency RMBS at December 31, 2017, other than those already recorded.

ABS:

The Company's investments in ABS at December 31, 2017 consist mainly of CLO debt tranched securities ("CLO Debt") purchased primarily as new issues during 2015-2017. Of these new issues, primarily all had credit ratings of AA or better. The Company utilizes a scenario-based approach to reviewing the CLO Debt portfolio based on the current asset market price. The Company reviews subordination levels of securities to determine their ability to absorb credit losses of underlying collateral. If losses are forecast to be below the subordination level for the tranche held by the Company, the security is determined not to be impaired. The Company has concluded there are no credit losses anticipated for any of the CLO Debt holdings at December 31, 2017.

Equity Securities

There were no OTTI losses on equity securities in 2017. The OTTI losses on equity securities in 2016 are primarily due to the severity of their unrealized loss positions, for which the Company concluded the forecast recovery period was uncertain. The recognition of such losses does not necessarily indicate that sales will occur or that sales are imminent or planned. At December 31, 2017, the fair value of the Company's equities was $70,761 (2016: $261,773), which included $81 (2016: $936) of gross unrealized losses.

e) Restricted Investments

In order to support the Company's obligations in regulatory jurisdictions where it operates as a non-admitted carrier, the Company provides collateral in the form of assets held in trust and, to a lesser extent, letters of credit. Refer to Note 8 for further information on collateral requirements upon issuance of certain letters of credit. The fair value of the Company's restricted investments primarily relates to the items, as noted in the table below. Restricted investments primarily consist of high-quality fixed maturity and short-term investment securities.

(In thousands of U.S. dollars)

3. Investments (continued)

	2017	2016
Collateral in Trust for inter-company agreements	$ 3,153,051	$ 2,747,101
Collateral for secured letter of credit facilities	379,484	445,482
Collateral in Trust for third party agreements (1)	1,066,074	546,074
Total restricted investments	$ 4,598,609	$ 3,738,657

(1) Includes $746,818 (2016: $376,100) of fixed income securities and equities deposited directly with Lloyd's to support the underwriting capacity of AXIS Capital's Lloyd's Syndicate, AXIS Syndicate 1686.

f) Reverse Repurchase Agreements

At December 31, 2017, the Company held $37,400 (2016: $140,300) of reverse repurchase agreements. These loans are fully collateralized, are generally outstanding for a short period of time and are presented on a gross basis as part of cash and cash equivalents on the Company's Consolidated Balance Sheets. The required collateral for these loans is either cash or U.S. Treasuries at a minimum rate of 102% of the loan principal. Upon maturity, the Company receives principal and interest income. The Company monitors the estimated fair value of the securities loaned and borrowed on a daily basis with additional collateral obtained as necessary throughout the duration of the transaction.

4. Fair Value Measurements

Fair Value Hierarchy

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. U.S. GAAP prescribes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement. The hierarchy is broken down into three levels as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

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

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Company's own judgments about assumptions that market participants might use.

4. Fair Value Measurements (continued)

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment.

Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This may lead the Company to change the selection of its valuation technique (from market to cash flow approach) or may cause it to use multiple valuation techniques to estimate the fair value of a financial instrument. This circumstance could cause an instrument to be reclassified between levels within the fair value hierarchy.

Valuation Techniques

The valuation techniques, including significant inputs and assumptions generally used to determine the fair values of the Company's financial instruments as well as the classification of the fair values of its financial instruments in the fair value hierarchy are described in detail below.

Fixed Maturities

At each valuation date, the market approach valuation technique is used to estimate the fair value of the Company's fixed maturities portfolio, when possible. This market approach includes, but is not limited to, prices obtained from third party pricing services for identical or comparable securities and the use of "pricing matrix models" using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. Pricing from third party pricing services is sourced from multiple vendors, when available, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. When prices are unavailable from pricing services, non-binding quotes are obtained from broker-dealers who are active in the corresponding markets. The valuation techniques including significant inputs generally used to determine the fair values of the Company's fixed maturities by asset class as well as the classifications of the fair values of these securities in the fair value hierarchy are described in detail below.

U.S. Government and Agency

U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and mortgage pass-through agencies such as the FNMA, the FHLMC and the GNMA. As the fair values of U.S. Treasury securities are based on unadjusted market prices in active markets, the fair values of these securities are classified as Level 1. The fair values of U.S. government agency securities are determined using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads are observable market inputs, the fair values of U.S. government agency securities are classified as Level 2.

4. Fair Value Measurements (continued)

Non-U.S. Government

Non-U.S. government securities include bonds issued by non-U.S. governments and their agencies along with supranational organizations (collectively also known as sovereign debt securities). The fair values of these securities are based on prices obtained from international indices or valuation models that include inputs such as interest rate yield curves, cross-currency basis index spreads and country credit spreads for structures similar to the sovereign bond held in terms of issuer, maturity and seniority. As the significant inputs used to price these securities are observable market inputs, the fair values of non-U.S. government securities are classified as Level 2.

Corporate Debt

Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are generally determined using the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As the yields for the risk-free yield curve and the spreads are observable market inputs, the fair values of corporate debt securities are classified as Level 2. Where pricing is unavailable from pricing services, non-binding quotes are obtained from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, the fair value of these securities are classified as Level 3.

Agency RMBS

Agency RMBS consist of bonds issued by the FNMA, the FHLMC and the GNMA. The fair values of these securities are priced using a mortgage pool specific model which uses daily inputs from the active to be announced market and the spread associated with each mortgage pool based on vintage. As the significant inputs used to price these securities are observable market inputs, the fair values of Agency RMBS are classified as Level 2.

CMBS

CMBS include mostly investment-grade bonds originated by non-agencies. The fair values of these securities are determined using a pricing model which uses dealer quotes and other available trade information along with security level characteristics to determine deal specific spreads. As the significant inputs used to price these securities are observable market inputs, the fair values of CMBS are classified as Level 2. Where pricing is unavailable from pricing services, non-binding quotes are obtained from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, the fair values of these securities are classified as Level 3.

4. Fair Value Measurements (continued)

Non-Agency RMBS

Non-Agency RMBS include mostly investment-grade bonds originated by non-agencies. The fair values of these securities are determined using an option adjusted spread model or other relevant models, which use inputs including available trade information or broker quotes, prepayment and default projections based on historical statistics of the underlying collateral and current market data. As the significant inputs used to price these securities are observable market inputs, the fair values of Non-Agency RMBS are classified as Level 2.

ABS

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and CLO debt originated by a variety of financial institutions. The fair values of these securities are determined using a model which uses prepayment speeds and spreads sourced primarily from the new issue market. As the significant inputs used to price these securities are observable market inputs, the fair values of ABS are classified as Level 2. Where pricing is unavailable from pricing services, non-binding quotes are obtained from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, the fair values of these securities are classified as Level 3.

Municipals

Municipals comprises revenue and general obligation bonds issued by U.S. domiciled state and municipal entities. The fair values of these securities are determined using spreads obtained from the new issue market, trade prices and broker-dealers quotes. As the significant inputs used to price these securities are observable market inputs, the fair values of municipals are classified as Level 2.

Equity Securities

Equity securities include common stocks and exchange-traded funds. As the fair values of common stocks and exchange-traded funds are are based on unadjusted quoted market prices in active markets, the fair values of these securities are classified as Level 1.

Other Investments

Indirect investments in CLO-Equities are classified as Level 3 as the fair values of these securities are estimated using an income approach valuation technique (discounted cash flow model) due to the lack of observable and relevant trades in secondary markets. Direct investments in CLO-Equities are also classified as Level 3 as these securities are estimated using a liquidation valuation.

4. Fair Value Measurements (continued)

Short-Term Investments

Short-term investments primarily comprise highly liquid securities with maturities greater than three months but less than one year from the date of purchase. These securities are classified as Level 2 as these securities are not typically actively traded due to their approaching maturity, and, as such, their amortized cost approximates fair value.

Derivative Instruments

Derivative instruments include foreign currency forward contracts, exchange-traded interest rate swaps and commodity contracts that are customized to the Company's economic hedging strategies and trade in the over-the-counter derivative market. The fair values of these derivatives are determined using the market approach valuation technique based on significant observable market inputs from third party pricing vendors, non-binding broker-dealer quotes and/or recent trading activity. Accordingly, the fair values of these derivatives are classified as Level 2.

Other underwriting-related derivatives include insurance and reinsurance contracts that are required to be accounted for as derivatives. These derivative contracts are initially valued at cost which approximates fair value. In subsequent measurement periods, the fair values of these derivatives are determined using internally developed discounted cash flow models. As the significant inputs used to price these derivatives are unobservable, the fair value of these contracts are classified as Level 3.

Insurance-Linked Securities

Insurance-linked securities comprise an investment in a catastrophe bond. As pricing is unavailable from pricing services, non-binding quotes are obtained from broker-dealers to estimate the fair values of these securities. Pricing is generally unavailable where there is a low volume of trading activity and current transactions are not orderly. Accordingly, the fair values of these securities are classified as Level 3.

Cash Settled Awards

Cash settled awards comprise restricted stock units that form part of the Company's compensation program. Although the fair values of these awards are determined using observable quoted market prices in active markets, the restricted stock units are not actively traded. Accordingly, the fair values of these liabilities are classified as Level 2.

(In thousands of U.S. dollars)

4. Fair Value Measurements (continued)

The tables below present the financial instruments measured at fair value on a recurring basis at December 31, 2017 and 2016:

December 31, 2017	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair value based on NAV practical expedient	Total Fair Value
Asset					
Fixed maturities					
U.S government and agency	$ 880,922	$ 37,202	$ —	$ —	$ 918,124
Non U.S. government	—	320,636	—	—	320,636
Corporate debt	—	2,694,647	25,000	—	2,719,647
Agency RMBS	—	1,698,711	—	—	1,698,711
CMBS	—	554,471	—	—	554,471
Non-Agency RMBS	—	34,026	—	—	34,026
ABS	—	871,175	—	—	871,175
Municipals	—	99,184	—	—	99,184
	880,922	6,310,052	25,000	—	7,215,974
Equity securities					
Exchange-traded funds	69,294	—	—	—	69,294
Common stocks	1,467	—	—	—	1,467
	70,761	—	—	—	70,761
Other investments					
Hedge funds (1)	—	—	—	290,354	290,354
Direct lending funds	—	—	—	197,212	197,212
Private equity funds	—	—	—	68,812	68,812
Real estate funds	—	—	—	36,600	36,600
CLO-Equities	—	—	31,413	—	31,413
	—	—	31,413	592,978	624,391
Short-term investments	—	10,183	—	—	10,183
Derivative instruments (see Note 5)	—	1,412	—	—	1,412
Insurance-linked securities	—	—	25,090	—	25,090
Total Assets	$ 951,683	$ 6,321,647	$ 81,503	$ 592,978	$ 7,947,811
Liabilities					
Derivative instruments (see Note 5)	$ —	$ 1,320	$ 11,510	$ —	$ 12,830
Cash settled awards (see Note 12)	—	2,322	—	—	2,322
Total Liabilities	$ —	$ 3,642	$ 11,510	$ —	$ 15,152

(1) Includes long/short equity, multi-strategy and event-driven funds.

(In thousands of U.S. dollars)

4. Fair Value Measurements (continued)

December 31, 2016	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair value based on NAV practical expedient	Total Fair Value
Asset					
Fixed maturities					
U.S government and agency	$ 1,062,237	$ 51,339	$ —	$ —	$ 1,113,576
Non U.S. government	—	296,061	—	—	296,061
Corporate debt	—	2,986,742	36,792	—	3,023,534
Agency RMBS	—	1,640,271	—	—	1,640,271
CMBS	—	427,770	—	—	427,770
Non-Agency RMBS	—	42,978	—	—	42,978
ABS	—	803,652	17,464	—	821,116
Municipals	—	96,889	—	—	96,889
	1,062,237	6,345,702	54,256	—	7,462,195
Equity securities					
Exchange-traded funds	261,773	—	—	—	261,773
Common stocks	—	—	—	—	—
	261,773	—	—	—	261,773
Other investments					
Hedge funds [(1)]	—	—	—	439,627	439,627
Direct lending funds	—	—	—	134,650	134,650
Private equity funds	—	—	—	81,223	81,223
Real estate funds	—	—	—	13,354	13,354
CLO-Equities	—	—	60,700	—	60,700
	—	—	60,700	668,854	729,554
Short-term investments	—	117,246	—	—	117,246
Derivative instruments (see Note 5)	—	14,365	—	—	14,365
Insurance-linked securities	—	—	25,023	—	25,023
Total Assets	$ 1,324,010	$ 6,477,313	$ 139,979	$ 668,854	$ 8,610,156
Liabilities					
Derivative instruments (see Note 5)	$ —	$ 7,064	$ —	$ —	$ 7,064
Cash settled awards (see Note 12)	—	5,603	—	—	5,603
Total Liabilities	$ —	$ 12,667	$ —	$ —	$ 12,667

(1) Includes long/short equity, multi-strategy and event-driven funds.

During 2017 and 2016, there were no transfers between levels 1 and 2.

(In thousands of U.S. dollars)

4. Fair Value Measurements (continued)

Except for certain fixed maturities and insurance-linked securities which are priced using broker-dealer quotes (underlying inputs are not available), the following table quantifies the significant unobservable inputs used in estimating fair values at December 31, 2017 for investments classified as Level 3 in the fair value hierarchy.

		Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
Other investments - CLO-Equities	$	29,604	Discounted cash flow	Default rates	3.8%	3.8%
				Loss severity rate	35%	35%
				Collateral spreads	3.0%	3.0%
				Estimated maturity	7 years	7 years
	$	1,809	Liquidation value	Fair value of collateral	100%	100%
				Discount Margin	0.1% - 16.6%	2.8%
Derivatives - Other underwriting-related derivatives	$	(11,510)	Discounted cash flow	Discount rate	2.4%	2.4%

The CLO-Equities market continues to be relatively inactive with only a small number of transactions being observed, particularly as it relates to transactions involving the Company's CLO-Equities. Accordingly, the fair values of investments in CLO-Equities are determined using models. Given that all of the Company's direct investments in CLO-Equities are past their reinvestment period, there is uncertainty regarding the remaining time until maturity. As such, direct investments in CLO-Equities are estimated using a liquidation valuation. Indirect investments in CLO-Equities are valued using a discounted cash flow model prepared by an external manager.

The liquidation valuation is based on the fair values of the net underlying collateral which is determined by applying market discount margins by credit quality bucket. An increase (decrease) in the market discount margin would result in a decrease (increase) in value of the Company's CLO-Equities.

Regarding the discounted cash flow model, the default and loss severity rates are the most judgmental unobservable market inputs to which the valuation of CLO-Equities is most sensitive. A significant increase (decrease) in either of these significant inputs in isolation would result in lower (higher) fair value estimates for investments in CLO-Equities and, in general, a change in default rate assumptions will be accompanied by a directionally similar change in loss severity rate assumptions. Collateral spreads and estimated maturity dates are less judgmental inputs as they are based on the historical average of actual spreads and the weighted average life of the current underlying portfolios, respectively. A significant increase (decrease) in either of these significant inputs in isolation would result in higher (lower) fair value estimates for investments in CLO-Equities. In general, these inputs have no significant interrelationship with each other or with default and loss severity rates.

4. Fair Value Measurements (continued)

On a quarterly basis, the Company’s valuation process for CLO-Equities includes a review of the underlying collateral along with related discount margins by credit quality bucket used in the liquidation valuation and a review of the underlying cash flows and key assumptions used in the discounted cash flow model. The above significant unobservable inputs are reviewed and updated based on information obtained from secondary markets, including information received from the managers of the Company's CLO-Equities portfolio. In order to assess the reasonableness of the inputs that are used in the Company's models, a current understanding of the market conditions, historical results, as well as emerging trends that may impact future cash flows is maintained. In addition, the assumptions used by the Company in its models are updated through regular communication with industry participants and ongoing monitoring of the deals in which it participates (e.g. default and loss severity rate trends).

Other underwriting-related derivatives are initially valued at cost which approximates fair value. In subsequent measurement periods, the fair values of these derivatives are determined using internally developed discounted cash flow models which uses appropriate discount rates. The selection of an appropriate discount rate is judgmental and is the most significant unobservable input used in the valuation of these derivatives. A significant increase (decrease) in this input in isolation could result in a significantly lower (higher) fair value measurement for the derivative contracts. In order to assess the reasonableness of the inputs the Company uses in the discounted cash flow model, the Company maintains an understanding of current market conditions, historical results, as well as contract specific information that may impact future cash flows.

The following table presents changes in Level 3 for financial instruments measured at fair value on a recurring basis for the years ended December 31, 2017 and 2016:

(In thousands of U.S. dollars)

4. Fair Value Measurements (continued)

	Opening Balance	Transfer into Level 3	Transfer out of Level 3	Included in earrings (1)	Included in OCI (2)	Purchases	Sales	Settlement/ Distributions	Closing Balance	Change in unrealized investment gain/loss (3)
Year ended December 31, 2017										
Fixed maturities										
Corporate debt	$ 36,792	$ —	$ —	$ 149	$ (133)	$ —	$ (11,778)	$ (30)	$ 25,000	$ —
CMBS	—	—	—	—	—	—	—	—	—	—
ABS	17,464	—	(18,949)	—	1,485	—	—	—	—	—
	54,256	—	(18,949)	149	1,352	—	(11,778)	(30)	25,000	—
Other investments										
CLO-Equities	60,700	—	—	2,558	—	—	—	(31,845)	31,413	2,558
	60,700	—	—	2,558	—	—	—	(31,845)	31,413	2,558
Other assets										
Insurance-linked securities	25,023	—	—	67	—	—	—	—	25,090	67
	25,023	—	—	67	—	—	—	—	25,090	67
Total assets	$ 139,979	$ —	$ (18,949)	$ 2,774	$ 1,352	$ —	$ (11,778)	$ (31,875)	$ 81,503	$ 2,625
Other liabilities										
Derivative instruments	—	—	—	(962)	—	12,472	—	—	11,510	(962)
	—	—	—	(962)	—	12,472	—	—	11,510	(962)
Total liabilities	$ —	$ —	$ —	$ (962)	$ —	$ 12,472	$ —	$ —	$ 11,510	$ (962)
Year ended December 31, 2016										
Fixed maturities										
Corporate debt	$ —	$ 3,000	$ —	$ —	$ 133	$ 33,800	$ —	$ (141)	$ 36,792	$ —
CMBS	5,975	—	(2,516)	—	(145)	—	—	(3,314)	—	—
ABS	—	—	—	—	(917)	18,381	—	—	17,464	—
	5,975	3,000	(2,516)	—	(929)	52,181	—	(3,455)	54,256	—
Other investments										
CLO-Equities	27,257	36,378	—	18,976	—	—	—	(21,911)	60,700	18,976
	27,257	36,378	—	18,976	—	—	—	(21,911)	60,700	18,976
Other assets										
Insurance-linked securities	24,925	—	—	98	—	—	—	—	25,023	98
	24,925	—	—	98	—	—	—	—	25,023	98
Total assets	$ 58,157	$ 39,378	$ (2,516)	$ 19,074	$ (929)	$ 52,181	$ —	$ (25,366)	$ 139,979	$ 19,074
Other liabilities										
Derivative instruments	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—
Total liabilities	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

(1) Gains and losses included in earnings on fixed maturities are included in net realized investment gains (losses). Gains and (losses) included in earnings on other investments are included in net investment income. Gains and (losses) included in earnings on other underwriting-related derivatives are included in other insurance-related income.
(2) Gains and losses included in other comprehensive income ("OCI") on fixed maturities are included in unrealized gains (losses) arising during the period.
(3) Change in unrealized investment gain/(loss) relating to assets held at the reporting date.

4. Fair Value Measurements (continued)

The transfers into and out of fair value hierarchy levels reflect the fair value of the securities at the end of the reporting period.

Transfers into Level 3 from Level 2

There were no transfers into Level 3 from Level 2 made during 2017.

The transfers into Level 3 from Level 2 made during 2016 were primarily due to the lack of observable market inputs and multiple quotes from pricing vendors and broker-dealers for certain fixed maturities and as the result of a change in valuation methodology relating to the Company's CLO-Equities fund. An income approach valuation technique (discounted cash flow model) was used to estimate the fair value at December 31, 2016. As the Net Asset Value ("NAV") practical expedient is no longer used to determine fair value, the fair value of this fund is now categorized within the fair value hierarchy.

Transfers out of Level 3 into Level 2

The transfers into Level 2 from Level 3 made during 2017 and 2016 were primarily due to the availability of observable market inputs and quotes from pricing vendors on certain fixed maturities.

Measuring the Fair Value of Other Investments Using Net Asset Valuations

The fair values of hedge funds, direct lending funds, private equity funds and real estate funds are estimated using NAVs as advised by external fund managers or third party administrators. For these funds, NAVs are based on the manager's or administrator's valuation of the underlying holdings in accordance with the fund's governing documents and in accordance with U.S. GAAP.

If there is a reporting lag between the current period end and reporting date of the latest available fund valuation for any hedge fund, the Company estimates fair values by starting with the most recently available fund valuation and adjusting for return estimates as well as any subscriptions, redemptions and distributions that took place during the current period. Return estimates are obtained from the relevant fund managers. Accordingly, the Company does not typically have a reporting lag in fair value measurements of these funds. Historically, the Company's valuation estimates incorporating these return estimates have not significantly diverged from the subsequently received NAVs.

For direct lending funds, private equity funds, real estate funds and one of the Company's hedge funds, valuation statements are typically released on a three month reporting lag therefore the Company estimates the fair value of these funds by starting with the prior quarter-end fund valuations and adjusting for capital calls, redemptions, drawdowns and distributions. Return estimates are not available from the relevant fund managers for these funds. Accordingly, the Company typically has a reporting lag in its fair value measurements of these funds. In 2017, funds reported on a lag represented 58% (2016: 39%) of the total other investments balance.

The Company often does not have access to financial information relating to the underlying securities held within the funds, therefore management is unable to corroborate the fair values placed on the securities underlying the asset valuations provided by fund managers or fund administrators. In order to assess the reasonableness of the NAVs, the Company performs a number of monitoring procedures on a quarterly basis,

(In thousands of U.S. dollars)

4. Fair Value Measurements (continued)

to assess the quality of the information provided by fund managers and fund administrators. These procedures include, but are not limited to, regular review and discussion of each fund's performance with its manager, regular evaluation of fund performance against applicable benchmarks and the backtesting of the Company's fair value estimates against subsequently received NAVs. Backtesting involves comparing the Company's previously reported fair values for each fund against NAVs per audited financial statements (for year-end values) and final NAVs from fund managers and fund administrators (for interim values).

The fair values of hedge funds, direct lending funds, private equity funds and real estate funds are measured using the NAV practical expedient, therefore the fair values of these funds have not been categorized within the fair value hierarchy.

Financial Instruments Disclosed, But Not Carried, at Fair Value

The fair value of financial instruments accounting guidance also applies to financial instruments disclosed, but not carried, at fair value, except for certain financial instruments, including insurance contracts.

The carrying values of cash equivalents (including restricted amounts), accrued investment income, receivable for investments sold, certain other assets, payable for investments purchased and certain other liabilities approximated their fair values at December 31, 2017, due to their respective short maturities. As these financial instruments are not actively traded, their fair values are classified as Level 2.

5. Derivative Instruments

The balance sheet classification of derivatives recorded at fair value is shown in the following table. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated and is presented in the table to quantify the volume of derivative activities. Notional amounts are not reflective of credit risk.

None of the Company's derivative instruments are designated as hedges under current accounting guidance.

	December 31, 2017			December 31, 2016		
	Derivative Notional Amount	Asset Derivative Fair Value (1)	Liability Derivative Fair Value (1)	Derivative Notional Amount	Asset Derivative Fair Value (1)	Liability Derivative Fair Value (1)
Relating to investment portfolio:						
Foreign exchange forward contracts	$ 137,422	$ 10	$ 619	$ 195,979	$ 12,331	$ 87
Interest rate swaps	155,000	448	—	—	—	—
Relating to underwriting portfolio:						
Foreign exchange forward contracts	$ 517,755	$ 954	$ 701	$ 425,664	$ 2,034	$ 6,977
Commodity contracts	—	—	—	—	—	—
Other underwriting-related contracts	85,000	—	11,510	—	—	—
Total derivatives		$ 1,412	$ 12,830		$ 14,365	$ 7,064

(1) Asset and liability derivatives are classified within other assets and other liabilities on the Consolidated Balance Sheets.

(In thousands of U.S. dollars)

5. Derivative Instruments (continued)

Offsetting Assets and Liabilities

The Company's derivative instruments are generally traded under International Swaps and Derivatives Association master netting agreements, which establish terms that apply to all transactions. In the event of a bankruptcy or other stipulated event, master netting agreements provide that individual positions be replaced with a new amount, usually referred to as the termination amount, determined by taking into account market prices and converting into a single currency. Effectively, this contractual close-out netting reduces credit exposure from gross to net exposure. The table below presents a reconciliation of the gross derivative assets and liabilities to the net amounts presented in the Company's Consolidated Balance Sheets, with the difference being attributable to the impact of master netting agreements.

	December 31, 2017			December 31, 2016		
	Gross Amounts	Gross Amounts Offset	Net Amounts (1)	Gross Amounts	Gross Amounts Offset	Net Amounts (1)
Derivative assets	$ 4,465	$ (3,053)	$ 1,412	$ 19,355	$ (4,990)	$ 14,365
Derivative liabilities	$ 15,883	$ (3,053)	$ 12,830	$ 12,054	$ (4,990)	$ 7,064

(1) Net asset and liability derivatives are classified within other assets and other liabilities on the Consolidated Balance Sheets.

Refer to *Note 3 – Investments* for information on reverse repurchase agreements.

a) Relating to Investment Portfolio

Foreign Currency Risk

Within its investment portfolio the Company is exposed to foreign currency risk. Accordingly, the fair values for the investment portfolio are partially influenced by the change in foreign exchange rates. The Company may enter into foreign currency forward contracts to manage the effect of this foreign currency risk. These foreign currency hedging activities are not designated as specific hedges for financial reporting purposes.

Interest Rate Risk

The investment portfolio contains a large percentage of fixed maturities which exposes the Company to significant interest rate risk. As part of the overall management of this risk, the Company may use interest rate swaps.

b) Relating to Underwriting Portfolio

Foreign Currency Risk

The Company's underwriting portfolio is exposed to significant foreign currency risk. Foreign currency risk is managed by seeking to match foreign-denominated net liabilities under (re)insurance contracts with cash and investments denominated in such currencies. The Company may also use derivative instruments, specifically forward contracts and currency options, to economically hedge foreign currency exposures.

(In thousands of U.S. dollars)

5. Derivative Instruments (continued)

Commodity Risk

The Company's (re)insurance portfolio is exposed to commodity price risk. The Company may hedge a portion of this price risk by entering into commodity derivative contracts.

Other Underwriting-Related Risks

The Company enters into insurance and reinsurance contracts that are accounted for as derivatives. These insurance or reinsurance contracts provide indemnification to an insured or cedant as a result of a change in a variable as opposed to an identifiable insurable event. The Company considers these contracts to be part of its underwriting operations.

The total unrealized and realized gains (losses) recognized in earnings for derivatives not designated as hedges for the years ended December 31, 2017 and 2016 are shown in the following table:

	Location of Gain (Loss) Recognized In Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
		2017	2016
Derivatives not designated as hedging instruments			
Relating to investment portfolio:			
Foreign exchange forward contracts	Net realized investment gains (losses)	$ (6,935)	$ 10,929
Interest rate swaps	Net realized investment gains (losses)	(1,190)	—
Relating to underwriting portfolio:			
Foreign exchange forward contracts	Foreign exchange (losses) gains	15,985	(6,086)
Commodity contracts	Other insurance related income	—	(2,382)
Other underwriting-related contracts	Other insurance related income	1,476	—
Total		$ 9,336	$ 2,461

6. Reserve for Losses and Loss Expenses

Reserving Methodology

The reserving process begins with the collection and analysis of paid and incurred claim data for each of the Company's insurance and reinsurance operations. The data is then disaggregated by reserving class and further disaggregated by underwriting year (i.e. the year in which the contract generating the premium and losses incepted). Underwriting year information is used to analyze business and subsequently allocate reserves to the respective accident years. Reserve classes are selected to ensure that the underlying contracts have homogeneous loss development characteristics, while remaining large enough to make the estimation of trends credible. This data, in addition to industry benchmarks, serves as a key input to many of the methods employed by the Company's actuaries. The relative weights assigned to the Company's own historical loss data versus industry data vary according to the length of the development profile for the reserving class being evaluated. (See 'Net Incurred and Paid Claims Development Tables By Accident Year' below for further details by reserve class.)

The following tables reconcile reserve classes to the lines of business categories and the expected claim tails:

Insurance Operations

		Reported Lines of Business							
Reserve Classes	Tail	Property	Marine	Terrorism	Aviation	Credit and Political Risk	Professional Lines	Liability	Accident and Health
Property and Other	Short	X		X					X
Marine	Short		X						
Aviation	Short				X				
Credit and Political Risk	Medium					X			
Professional Lines	Medium						X		
Liability	Long							X	

Reinsurance Operations

Reserve Classes	Tail	Catastrophe	Property	Credit and Surety	Professional Lines	Motor	Liability	Engineering	Agriculture	Marine and Other
Property and Other	Short	X	X					X	X	X
Credit and Surety	Medium			X						
Professional Lines	Medium				X					
Motor	Long					X				
Liability	Long						X			

6. Reserve for Losses and Loss Expenses (continued)

Multiple actuarial methods are available to estimate ultimate losses. Each method has its own assumptions and its own advantages and disadvantages, with no single estimation method being better than the others in all situations and no one set of assumption variables being meaningful for all reserve classes. The relative strengths and weaknesses of the particular estimation methods when applied to a particular group of claims can also change over time.

The following is a brief description of the reserve estimation methods commonly employed by the Company's actuaries:

- Expected Loss Ratio Method ("ELR Method"): This method estimates ultimate losses for an accident year or underwriting year by applying an expected loss ratio to the earned or written premium for that year. Generally, expected loss ratios are based on one or more of (a) an analysis of historical loss experience to date, (b) pricing information and (c) industry data, adjusted as appropriate, to reflect changes in rates and terms and conditions. This method is insensitive to actual incurred losses for the accident year or underwriting year in question and is, therefore, often useful in the early stages of development when very few losses have been incurred. Conversely, the lack of sensitivity to incurred/paid losses for the accident year or underwriting year in question means that this method is usually inappropriate in later stages of an accident year or underwriting year's development.

- Loss Development Method (also referred to as the Chain Ladder Method or Link Ratio Method): This method assumes that the losses incurred/paid for each accident year or underwriting year at a particular development stage follow a relatively similar pattern. It assumes that on average, every accident year or underwriting year will display the same percentage of ultimate losses incurred/paid at the same point in time after the inception of that year. The percentages incurred/paid are established for each development stage (e.g. 12 months, 24 months, etc.) after examining historical averages from historical loss development data and/or external industry benchmark information. Ultimate losses are then estimated by multiplying the actual incurred/paid losses by the reciprocal of the established incurred/paid percentage. The strengths of this method are that it reacts to loss emergence/payments and that it makes full use of historical claim emergence/payment experience. However, this method has weaknesses when the underlying assumption of stable loss development/payment patterns is not valid. This could be the consequence of changes in business mix, claim inflation trends or claim reporting practices and/or the presence of large claims, amongst other things. Furthermore, this method tends to produce volatile estimates of ultimate losses where there is volatility in the underlying incurred/paid patterns. In particular, where the expected percentage of incurred/paid losses is low, small deviations between actual and expected claims can lead to very volatile estimates of ultimate losses. As a result, this method is often unsuitable at early development stages for an accident year or underwriting year.

- Bornhuetter-Ferguson Method ("BF Method"): This method can be seen as a combination of the ELR and Loss Development Methods, under which the Loss Development Method is given progressively more weight as an accident year or underwriting year matures. The main advantage of the BF Method is that it provides a more stable estimate of ultimate losses than the Loss Development Method at earlier stages of development, while remaining more sensitive to emerging loss development than the ELR Method. In addition, the BF Method allows for the incorporation of external market information through the use of expected loss ratios, whereas the Loss Development Method does not incorporate such information.

6. Reserve for Losses and Loss Expenses (continued)

As part of the loss reserve review process, the Company's actuaries employ the estimation method(s) that they believe will produce the most reliable estimate of ultimate losses, at that particular evaluation date, for each reserve class and accident year or underwriting year combination. Often, this is a blend (i.e. weighted average) of the results of two or more appropriate actuarial methods. These ultimate loss estimates are generally utilized to evaluate the adequacy of ultimate loss estimates for previous accident or underwriting years, as established in the prior reporting period. For the initial estimate of the current accident or underwriting year, the available claim data is typically insufficient to produce a reliable estimate of ultimate losses. As a result, initial estimates for an accident or underwriting year are generally based on the ELR Method for longer tailed lines and a BF Method for shorter tailed lines. The initial ELR for each reserve class is established collaboratively by actuaries, underwriters and management at the start of the year as part of the planning process, taking into consideration prior accident years' or underwriting years' experience and industry benchmarks, adjusted after considering factors such as exposure trends, rate differences, changes in contract terms and conditions, business mix changes and other known differences between the current year and prior accident or underwriting years. The initial expected loss ratios for a given accident or underwriting year may be modified over time if the underlying assumptions, such as loss development or premium rate changes, differ from the original assumptions.

The use of the above actuarial methods requires the Company to make certain explicit assumptions, the most significant of which are: (1) expected loss ratios and (2) loss development patterns.

In earlier years, significant reliance was placed on industry benchmarks in establishing expected loss ratios and loss development patterns. Over time, more reliance has been placed on historical loss experience in establishing these ratios and patterns where the Company believes the weight of its own actual experience has become sufficiently credible for consideration. In establishing expected loss ratios for the insurance operations, consideration is given to a number of other factors, including exposure trends, rate adequacy on new and renewal business, ceded reinsurance costs, changes in claims emergence and underwriters' view of terms and conditions in the market environment. For the reinsurance operations, expected loss ratios are based on a contract-by-contract review, which considers information provided by clients together with estimates provided by underwriters and actuaries about the impact of changes in pricing, terms and conditions and coverage. Market experience of some classes of business as compiled and analyzed by an independent actuarial firm has also been considered, as appropriate. The weight given to experience differs for each of the three claim tails.

Short-tail business generally includes exposures for which losses are usually known and paid within a relatively short period of time after the underlying loss event has occurred. The majority of development for an accident year or underwriting year is expected to be recognized in the subsequent one to three years. The key actuarial assumptions for short-tail business in early accident years were primarily developed with reference to industry benchmarks for both expected loss ratios and loss development patterns. As the Company's own historical loss experience amassed, it gained credibility and became relevant for consideration in establishing these key actuarial assumptions. As a result, the Company gradually increased the weighting assigned to its own historical experience in selecting the expected loss ratios and loss development patterns utilized to establish estimates of ultimate losses for an accident year. Due to the relatively short reporting and settlement patterns for short-tail business, more weight is generally placed upon experience-based methods and other qualitative considerations in establishing reserves for both recent and more mature accident years.

6. Reserve for Losses and Loss Expenses (continued)

Medium-tail business generally has claim reporting and settlement periods longer than those of short-tail reserve classes. For the Company's earliest accident and underwriting years, initial key actuarial expected loss ratio and loss development assumptions were established utilizing industry benchmarks. Due to the longer claim tail, the length of time required to develop its own credible loss history for use in the reserve process is greater for medium-tail business than for short-tail business. As a result, the number of years where the Company has relied heavily on industry benchmarks to establish its key actuarial assumptions is greater for medium-tail business.

The claim tails for long-tail business, in contrast to short and medium-tail business, is expected to be notably longer, as claims are often reported and ultimately paid or settled years, or even decades, after the related loss events occur. As a general rule, estimates of accident year or underwriting year ultimate losses for long-tail business are notably more uncertain than those for short and medium-tail business. To date, key actuarial assumptions for long-tail business have been derived extensively from industry benchmarks supplemented with the Company's own historical experience. Given the Company's relatively short operating history in comparison to the development tail for this business, the Company does not believe that its own historical loss development for long-tail business has amassed an appropriate volume to serve as a fully credible input into the key actuarial assumptions previously outlined. While industry benchmarks that the Company believes reflect the nature and coverage of its business are considered, actual loss experience may differ from the benchmarks based on industry averages. Due to the length of the development tail for this business, reserve estimates for most accident years and underwriting years are predominantly based on the BF or ELR method and the consideration of qualitative factors.

The Company cannot estimate losses from widespread catastrophic events, such as hurricanes and earthquakes, using the traditional actuarial methods described above. Rather, loss reserves for such events are estimated by management in collaboration with actuaries, claim handlers and underwriters after a catastrophe occurs by completing an in-depth analysis of individual contracts which may potentially be impacted by the catastrophic event. This in-depth analysis may rely on several sources of information, including:

- estimates of the size of insured industry losses from the catastrophic event and the Company's corresponding market share;
- a review of portfolio of contracts performed to identify those contracts which may be exposed to the catastrophic event;
- a review of modeled loss estimates based on information previously reported by customers and brokers, including exposure data obtained during the underwriting process;
- discussions of the impact of the event with customers and brokers; and
- catastrophe bulletins published by various independent statistical reporting agencies.

A blend of these information sources is generally used to arrive at aggregate estimates of the ultimate losses arising from the catastrophic event. In subsequent reporting periods, changes in paid and incurred losses in relation to each significant catastrophe are reviewed and adjustments are made to estimates of ultimate losses for each event if there are developments that are different from previous expectations. Adjustments are recorded in the period in which they are identified.

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

The Company's reserving process involves the collaboration of underwriting, claims, actuarial, legal, ceded reinsurance and finance departments, includes various segmental committee meetings and culminates with the approval of a single point best estimate by the Company's Group Reserving Committee, which comprises senior management. In selecting this best estimate, management considers actuarial estimates and applies informed judgment regarding qualitative factors that may not be fully captured in these actuarial estimates. Such factors include, but are not limited to: the timing of the emergence of claims, volume and complexity of claims, social and judicial trends, potential severity of individual claims and the extent of internal historical loss data versus industry information. While these qualitative factors are considered in arriving at the point estimate, no specific provisions for qualitative factors are established.

Reserve Roll-Forward

The following table presents a reconciliation of the beginning and ending gross reserve for losses and loss expenses and net reserve for unpaid losses and loss expenses for the years ended December 31, 2017 and 2016:

	2017	2016
Gross reserve for losses and loss expenses, beginning of year	$ 4,863,897	$ 4,980,692
Less: reinsurance recoverable on unpaid losses, beginning of year	(189,970)	(147,502)
Net reserve for unpaid losses and loss expenses, beginning of year	4,673,927	4,833,190
Net incurred losses and loss expenses related to:		
Current year	2,186,227	1,584,966
Prior years	(177,253)	(182,265)
	2,008,974	1,402,701
Net paid losses and loss expenses related to:		
Current year	(433,163)	(286,681)
Prior years	(1,096,373)	(1,231,887)
	(1,529,536)	(1,518,568)
Foreign exchange and other	223,885	(43,396)
Net reserve for unpaid losses and loss expenses, end of year	5,377,250	4,673,927
Reinsurance recoverable on unpaid losses, end of year	394,716	189,970
Gross reserve for losses and loss expenses, end of year	$ 5,771,966	$ 4,863,897

The Company writes business with loss experience generally characterized as low frequency and high severity in nature, which can result in volatility in its financial results. During 2017 and 2016, respectively, the Company recognized aggregate net losses and loss expenses of $614,676 and $144,226 in relation to catastrophe and weather-related events.

Net losses and loss expenses incurred include net favorable prior period reserve development of $177,253 and $182,265 for the years ended December 31, 2017 and 2016, respectively. Prior year reserve development arises from changes to losses and loss expense estimates related to loss events that occurred in previous calendar years.

6. Reserve for Losses and Loss Expenses (continued)

The net favorable prior period reserve development for both years originates from insurance and reinsurance operations on business both written directly by the Company and assumed from affiliates. The majority of the net favorable prior year reserve development for both years is related to short-tail reserve classes. Net favorable prior year reserve development for motor, liability, professional lines and credit and surety reinsurance reserve classes as well as insurance professional lines reserve classes also contributed in 2017.

Short-tail business includes the underlying exposures in the property and other, marine and aviation reserve classes within the insurance operations and the property and other reserve class within the reinsurance operations. Development from these classes contributed $51,420 to the total net favorable prior year reserve development in 2017 and $122,090 in 2016 and primarily reflected the recognition of better than expected loss emergence.

Medium-tail business consists primarily of professional insurance and reinsurance reserve classes, credit and political risk insurance reserve class, and credit and surety reinsurance reserve class. The reinsurance professional reserve class business experienced net favorable prior year development of $24,185 in 2017 and $17,331 in 2016 reflecting the generally favorable experience on earlier accident years as the Company continued to transition to more experience based methods. As the loss experience has generally been better than expected, this resulted in the recognition of net favorable prior year reserve development. In 2017, the insurance professional reserve class recorded net favorable prior year development of $15,123 driven by overall better than expected development. The reinsurance credit and surety reserve class recorded net favorable prior year reserve development of $25,301 in 2017 and $6,739 in 2016, reflecting the recognition of generally better than expected loss emergence.

Long-tail business consists primarily of motor and liability reserve classes. The reinsurance liability and motor reserve classes contributed $67,018 to net favorable prior year reserve development in 2017 and $42,053 in 2016. The net favorable prior year reserve development for the reinsurance liability reserve class primarily reflected the progressively increased weight given by management to the generally favorable emerging loss experience on earlier accident years. The net favorable prior year reserve development of the motor reserve class related to favorable loss emergence trends on several classes of business spanning multiple accident years. This favorable development was partially offset by adverse development in the insurance liability reserve class, related primarily to reserve strengthening within the excess casualty book.

The December 31, 2017 net reserve for losses and loss expenses includes estimated amounts for numerous catastrophe events. The Company cautions that the magnitude and/or complexity of losses arising from certain of these events, in particular Hurricanes Harvey, Irma and Maria, the two earthquakes in Mexico and the wildfires in Northern and Southern California in 2017, inherently increases the level of uncertainty and, therefore, the level of management judgment involved in arriving at the estimated net reserves for losses and loss expenses. As a result, the Company's actual losses for these events may ultimately differ materially from its current estimates.

6. Reserve for Losses and Loss Expenses (continued)

Net Incurred and Paid Claims Development Tables By Accident Year

The following tables present net incurred and paid claims development by accident year, total incurred-but-not-reported liabilities plus expected development on reported claims, cumulative reported claims frequency and claims duration for each reserve class. The development triangles are presented on an accident year basis for both the insurance and reinsurance operations. The Company does not discount unpaid losses and loss expense reserves.

Non-U.S. dollar denominated loss data is converted to U.S. dollar at the rates of exchange in effect at the balance sheet date for material underlying currencies. Fluctuations in currency exchange rates may cause material shifts in loss development. Reserves for losses and loss expenses, disclosed in the Consolidated Balance Sheets, are also revalued using the exchange rate at the balance sheet date.

To the extent that the Company enters into a disposition, the effects of the disposition are reported on a retrospective basis by removing the balances associated with the disposed of business.

There are many considerations in establishing loss reserves and an attempt to evaluate loss reserves using solely the data presented in these tables could be misleading. The Company cautions against mechanical application of standard actuarial methodologies to project ultimate losses using data presented in this disclosure.

Insurance Operations

The reporting of cumulative claims frequency for the reserve classes within the insurance operations has been measured by counting the number of unique claim references including claim references assigned to nil and nominal case reserves. Claim references are grouped by claimant by loss event for each class of business. For certain insurance facilities and business produced by managing general agents where underlying data is reported to the Company in an aggregated format, the information necessary to provide cumulative claims frequency is not available therefore reporting of claims frequency is deemed to be impracticable.

Insurance Property and Other

This reserve class includes property, terrorism and accident and health lines of business.

The property line of business provides physical loss or damage, business interruption and machinery breakdown cover for virtually all types of property, including commercial buildings, residential premises, construction projects and onshore energy installations. This line of business includes both primary and excess risks, some of which are catastrophe-exposed.

The terrorism line of business provides cover for physical damage and business interruption of an insured following an act of terrorism and includes kidnap & ransom, and crisis management insurance.

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

The accident and health line of business includes accidental death, travel insurance and specialty health products for employer and affinity groups, as well as accident and health reinsurance for catastrophic or per life events on a quota share and/or excess of loss basis, with aggregate and/or per person deductibles. The accident and health line of business has contributed an increasing portion of the premium earned within this reserve class since 2010 with a large increase in reported claims observed from 2012. In particular, an increase in limited benefits medical business written in 2017 has resulted in a significant increase in reported claims observed in that year.

In general, reporting and payment patterns are relatively short-tailed although they can be volatile due to the incidence of catastrophe events.

Insurance Property and Other

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										At December 31, 2017	
	For the Years Ended December 31,											
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2008	$ 186,671	$ 155,241	$ 150,835	$ 144,997	$ 133,362	$ 132,469	$ 129,859	$ 128,913	$ 128,341	$ 127,835	$ 798	1,573
2009		67,281	55,551	50,128	45,819	44,273	43,052	43,279	43,038	43,202	672	1,483
2010			100,563	89,531	85,527	70,471	67,630	67,173	66,926	66,656	534	2,310
2011				225,285	209,465	196,306	185,210	182,868	181,378	181,588	1,189	3,737
2012					267,389	277,667	265,190	252,553	249,798	245,884	4,949	27,701
2013						255,223	251,199	233,614	230,750	230,370	3,218	51,238
2014							275,197	271,568	258,677	247,472	3,450	60,151
2015								220,147	216,990	207,932	6,790	43,790
2016									314,674	347,379	26,695	66,488
2017										567,550	197,990	237,332
									Total	$ 2,265,868		

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Insurance Property and Other

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017
2008	$ 43,852	$ 85,167	$ 97,520	$ 105,060	$ 123,717	$ 125,334	$ 126,896	$ 126,508	$ 126,472	$ 126,167
2009		16,015	31,633	36,430	38,841	39,505	40,272	41,941	42,182	42,391
2010			26,121	47,683	52,791	60,693	63,644	63,802	63,629	63,667
2011				46,611	119,991	157,823	175,377	174,592	174,603	174,816
2012					58,746	157,249	197,861	210,688	215,795	219,613
2013						72,210	182,165	210,678	218,299	225,809
2014							96,772	200,212	235,204	238,974
2015								71,528	163,898	185,402
2016									101,705	263,521
2017										182,753
									Total	1,723,113
All outstanding liabilities before 2008, net of reinsurance										2,361
Liabilities for claims and claim adjustment expenses, net of reinsurance										$ 545,116

Insurance Property and Other

Average annual percentage payout of incurred claims by age, net of reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
32.7%	40.2%	12.8%	6.2%	4.3%	1.0%	1.2%	0.1%	0.3%	(0.2)%

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Insurance Marine

This reserve class includes the marine line of business which provides cover for traditional marine classes, including offshore energy, cargo, liability, recreational marine, fine art, specie as well as hull and war. Offshore energy includes physical damage, business interruption, operators extra expense and liability coverage for all aspects of offshore upstream energy, from exploration and construction through the operation and distribution phases. The complex nature of claims arising under marine policies tends to result in reporting and payment patterns that are longer than those of the property and other class. Exposure to natural perils such as windstorm and earthquake can result in volatility.

Insurance Marine

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										At December 31, 2017	
	For the Years Ended December 31,											
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2008	$ 75,024	$ 75,797	$ 72,402	$ 71,787	$ 66,389	$ 61,643	$ 58,676	$ 58,337	$ 58,109	$ 58,139	$ 321	516
2009		57,513	52,966	50,112	46,776	41,074	39,501	38,151	37,194	37,100	440	477
2010			45,908	46,991	44,683	36,147	34,548	32,359	31,437	30,217	611	472
2011				66,477	58,362	54,162	49,634	49,309	49,424	50,968	1,247	603
2012					66,659	60,299	50,544	52,594	53,335	55,292	10,947	700
2013						60,058	75,712	72,637	73,277	61,459	3,673	733
2014							44,968	33,665	36,325	33,162	6,474	799
2015								116,802	103,444	101,047	13,715	915
2016									63,995	58,051	16,002	1,372
2017										54,876	37,225	1,772
									Total	$ 540,311		

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Insurance Marine

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31,									
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017
2008	$ 10,921	$ 36,694	$ 48,402	$ 53,939	$ 54,734	$ 57,527	$ 57,602	$ 57,660	$ 57,724	$ 57,726
2009		11,844	21,650	28,268	30,665	32,117	32,549	34,246	34,477	34,749
2010			11,845	18,499	21,196	28,108	29,983	30,515	31,211	28,590
2011				19,469	32,185	40,868	43,452	44,941	45,494	48,433
2012					6,769	27,632	32,072	35,331	35,933	37,698
2013						13,492	32,084	40,284	46,429	48,327
2014							4,251	10,760	19,301	19,310
2015								15,233	39,077	78,247
2016									8,350	22,128
2017										6,516
									Total	381,724
						All outstanding liabilities before 2008, net of reinsurance				7,761
						Liabilities for claims and claim adjustment expenses, net of reinsurance				$ 166,348

Insurance Marine

Average annual percentage payout of incurred claims by age, net of reinsurance									
Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
21.7%	28.1%	18.7%	8.6%	3.1%	2.4%	3.2%	(2.7)%	0.4%	—%

Insurance Aviation

This reserve class includes the aviation line of business which provides hull and liability, and specific war covers primarily for passenger airlines but also for cargo operations, general aviation operations, airports, aviation authorities, security firms and product manufacturers. The claims reporting pattern varies by insurance coverage provided. Losses arising from war or terrorism and damage to hulls of aircraft are generally reported quickly compared with liability claims which involve passengers and third parties which generally exhibit longer reporting and payment patterns. To date, the claims reported to the Company have predominantly related to damage to hulls, therefore reporting and payment patterns have typically exhibited a relatively short tail.

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Insurance Aviation

Accident Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, 2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	At December 31, 2017 — Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2008	$ 13,901	$ 11,733	$ 8,304	$ 8,136	$ 8,058	$ 6,949	$ 5,785	$ 5,706	$ 5,850	$ 5,726	$ 40	187
2009		15,072	12,617	16,939	16,603	15,472	15,168	14,278	13,603	13,386	64	317
2010			11,903	11,012	10,741	9,310	8,399	8,354	8,400	8,208	116	521
2011				16,585	14,286	11,904	8,926	8,021	6,901	6,865	201	734
2012					12,057	10,108	10,299	8,284	7,334	7,280	317	874
2013						14,890	15,517	14,396	14,463	14,764	535	1,027
2014							19,267	21,603	22,377	19,685	964	1,324
2015								22,331	21,570	22,433	2,384	1,917
2016									21,235	24,167	3,880	1,692
2017										37,962	9,447	1,177
									Total	$ 160,476		

Insurance Aviation

Accident Year	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, 2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017
2008	$ 481	$ 2,008	$ 2,942	$ 3,523	$ 4,073	$ 4,345	$ 4,521	$ 5,127	$ 5,384	$ 5,449
2009		1,853	3,159	6,332	11,877	12,922	13,267	13,229	12,851	12,831
2010			1,008	3,975	6,060	6,619	7,269	7,383	7,825	7,913
2011				605	2,605	4,241	4,741	5,260	5,503	5,718
2012					876	2,664	3,853	5,593	6,439	6,651
2013						4,271	6,869	9,103	10,727	12,779
2014							3,843	7,327	10,467	12,252
2015								6,091	11,961	15,456
2016									7,399	13,717
2017										11,637
									Total	104,403
	All outstanding liabilities before 2008, net of reinsurance									1,567
	Liabilities for claims and claim adjustment expenses, net of reinsurance									$ 57,640

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Insurance Aviation

Average annual percentage payout of incurred claims by age, net of reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
19.2%	23.8%	19.0%	15.7%	9.7%	3.0%	2.8%	3.0%	2.2%	1.1%

Insurance Credit and Political Risk

This reserve class includes the credit and political risk line of business which provides credit and political risk insurance products for banks, commodity traders, corporations and multilateral and export credit agencies. Cover is provided for a range of risks including sovereign default, credit default, political violence, currency inconvertibility and non-transfer, expropriation, aircraft non-repossession and contract frustration due to political events.

The credit insurance coverage is primarily for lenders seeking to mitigate the risk of non-payment from their borrowers. In order to claim compensation under a credit insurance contract, the insured (most often a bank) cannot assign, without our prior agreement, the insured contract (most often a loan) to any third party and is normally obliged to hold a material portion of insured asset on their own books, unhedged and uninsured. Claims for this business tend to be characterized by their severity risk, as opposed to their frequency risk. Claim reporting and payment patterns are anticipated to be volatile. Under the notification provisions of credit insurance policies issued by the Company, it anticipates being advised of an insured event within a relatively short time period. As a result, the Company generally estimates ultimate losses based on a contract-by-contract analysis which considers the contracts' terms, the facts and circumstances of underlying loss events and qualitative input from claims managers.

Insurance Credit and Political Risk

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										At December 31, 2017	
	For the Years Ended December 31,											
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2008	$ 47,919	$ 56,164	$ 42,698	$ 39,706	$ 39,747	$ 39,765	$ 39,794	$ 39,628	$ 38,551	$ 38,851	$ —	9
2009		238,443	300,777	321,966	331,654	331,745	332,033	332,039	336,332	336,419	2,040	24
2010			54,865	54,056	54,339	55,562	55,869	55,137	61,880	80,458	12,869	6
2011				54,207	47,523	47,560	48,152	48,310	45,003	33,541	5,905	4
2012					30,124	14,052	12,105	12,257	10,290	35	4	4
2013						23,894	24,320	9,766	9,795	14,856	6,576	1
2014							36,191	66,698	64,005	64,867	8,851	6
2015								27,020	29,727	26,880	3,571	2
2016									46,838	43,566	19,777	1
2017										17,975	15,516	2
									Total	$ 657,448		

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Insurance Credit and Political Risk

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017
2008	$ —	$ 63,358	$ 39,762	$ 39,772	$ 39,578	$ 39,578	$ 38,851	$ 38,851	$ 38,851	$ 38,851
2009		92,615	341,235	343,005	342,980	338,338	342,283	342,282	342,329	338,116
2010			50,000	77,238	82,548	96,050	91,072	91,233	91,438	91,485
2011				32,788	37,205	27,636	27,636	27,636	27,636	27,636
2012					—	—	—	—	30	31
2013						745	2,235	3,726	5,216	11,769
2014							1,924	38,645	58,456	56,016
2015								—	23,309	23,309
2016									—	23,789
2017										—
									Total	611,002
All outstanding liabilities before 2008, net of reinsurance										(1,475)
Liabilities for claims and claim adjustment expenses, net of reinsurance										$ 44,971

Insurance Credit and Political Risk

Average annual percentage payout of incurred claims by age, net of reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
19.5%	54.7%	(5.2)%	3.3%	20.3%	0.9%	(0.4)%	—%	(0.7)%	—%

Insurance Professional Lines

This reserve class includes the professional line of business which provides directors' and officers' liability, errors and omissions liability, employment practices liability, fiduciary liability, crime, professional indemnity, cyber and privacy insurance, medical malpractice and other financial insurance related covers for commercial enterprises, financial institutions and not-for-profit organizations. This business is predominantly written on a claims-made basis. Typically this reserve class is anticipated to exhibit medium to long tail claim reporting and payment patterns.

With respect to key actuarial assumptions, the Company is progressively giving more weight to its own experience when establishing expected loss ratios and selected loss development patterns, though it continues to consider industry benchmarks. Loss reporting patterns for professional lines business tend to be volatile, causing instability in actuarial indications based on incurred loss data until an accident year matures for a number of years. Consequently, initial loss reserves for an accident year are generally based upon an ELR method and the consideration of relevant qualitative factors. As accident years mature, the Company increasingly gives more weight to methods that reflect its actual experience until its selections are based almost exclusively on experience-based methods. The Company evaluates the appropriateness of the transition to experience-based methods at the reserve class level, commencing this transition when it believes

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

that its incurred loss development is sufficient to produce meaningful actuarial indications. The rate at which the Company transitions fully to sole reliance on experience-based methods can vary, depending on its assessment of the stability and relevance of such indications. For some professional lines in the insurance segment, the Company also relies upon the evaluation of the open claim inventory in addition to the commonly employed actuarial methods when establishing reserves.

Insurance Professional Lines

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										At December 31, 2017	
	For the Years Ended December 31,											
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2008	$ 147,798	$ 167,543	$ 169,642	$ 185,732	$ 184,702	$ 194,573	$ 211,550	$ 213,802	$ 212,598	$ 213,418	$ 4,977	4,558
2009		140,087	142,807	143,514	143,792	151,208	139,603	141,721	131,315	138,436	9,516	5,882
2010			133,468	136,415	135,267	120,354	106,292	93,121	114,637	105,765	17,195	5,669
2011				180,353	181,493	189,705	186,075	189,589	197,246	199,056	28,430	7,211
2012					189,401	212,815	212,793	209,704	202,857	206,158	42,198	8,279
2013						220,723	226,793	228,937	208,256	203,377	58,116	9,371
2014							233,807	232,572	237,837	220,986	92,325	9,650
2015								215,348	213,976	218,510	110,156	9,862
2016									199,955	202,246	125,099	10,728
2017										199,628	172,092	9,984
									Total	$1,907,580		

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Insurance Professional Lines

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017
2008	$ 2,803	$ 12,584	$ 41,409	$ 80,350	$ 105,818	$ 119,088	$ 133,484	$ 157,278	$ 171,559	$ 172,113
2009		893	11,361	23,905	36,840	51,227	56,525	66,599	96,858	104,681
2010			3,975	14,177	29,402	43,157	52,117	57,437	63,732	66,298
2011				3,403	17,052	39,897	57,947	87,860	137,674	160,859
2012					4,080	22,936	54,283	98,949	125,187	137,049
2013						9,251	38,819	71,215	96,766	117,386
2014							12,537	40,108	71,473	104,409
2015								11,839	36,022	73,818
2016									8,914	40,017
2017										10,324
									Total	986,954
All outstanding liabilities before 2008, net of reinsurance										16,742
Liabilities for claims and claim adjustment expenses, net of reinsurance										$ 937,368

Insurance Professional Lines

Average annual percentage payout of incurred claims by age, net of reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
3.5%	10.1%	13.9%	14.1%	11.4%	9.2%	7.9%	11.8%	6.2%	0.3%

Insurance Liability

This reserve class includes the liability line of business which primarily targets primary and low/mid-level excess and umbrella commercial liability risks in the U.S. wholesale markets in addition to primary and excess of loss employers, public, and products liability predominately in the U.K. Target industry sectors include construction, manufacturing, transportation and trucking and other services. The delay between the writing of a contract, notification and subsequent settlement of a claim in respect of that contract results in claim reporting and payment patterns that are typically long tail in nature. A consequence of the claim development tail is that this line of business is particularly exposed, amongst a number of uncertainties, to the potential for unanticipated levels of claim inflation relative to that assumed when the contracts were written. Factors influencing claim inflation on this class can include, but are not limited to, underlying economic and medical inflation, judicial inflation, mass tort and changing social trends.

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Insurance Liability

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31,

Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	At December 31, 2017: Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims	At December 31, 2017: Cumulative Number of Reported Claims
2008	$ 44,607	$ 42,991	$ 43,539	$ 43,917	$ 44,098	$ 43,584	$ 58,134	$ 58,537	$ 61,353	$ 47,745	$ 6,208	3,790
2009		34,796	36,058	39,222	39,595	43,758	45,760	54,563	53,469	53,782	5,911	2,777
2010			47,534	53,373	57,085	56,831	56,911	55,481	62,997	63,084	6,897	2,206
2011				39,881	41,189	48,700	49,703	47,590	46,800	46,010	10,488	1,788
2012					41,229	41,033	41,146	37,651	34,617	42,365	16,863	1,240
2013						56,636	57,666	56,905	50,494	56,652	14,216	1,562
2014							57,387	65,803	68,566	66,603	22,112	2,440
2015								68,558	66,301	75,005	35,208	3,317
2016									63,261	67,205	46,695	3,811
2017										72,845	66,101	2,519
									Total	$ 591,296		

Insurance Liability

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31,

Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017
2008	$ 433	$ 3,818	$ 8,690	$ 13,370	$ 18,142	$ 23,162	$ 25,328	$ 27,099	$ 30,253	$ 38,903
2009		337	2,322	6,674	17,173	19,737	24,469	25,862	45,815	46,307
2010			519	8,017	15,548	31,514	35,255	37,790	40,635	53,586
2011				1,382	5,322	10,183	23,249	27,108	31,571	34,203
2012					824	2,804	7,776	15,161	18,669	23,073
2013						1,212	16,412	21,456	25,831	37,496
2014							724	9,419	25,023	35,870
2015								2,724	11,090	20,878
2016									3,290	12,144
2017										2,346
									Total	304,806
							All outstanding liabilities before 2008, net of reinsurance			22,212
							Liabilities for claims and claim adjustment expenses, net of reinsurance			$ 308,702

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Insurance Liability

Average annual percentage payout of incurred claims by age, net of reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
2.2%	11.1%	12.2%	17.8%	9.7%	8.7%	4.3%	20.4%	3.8%	18.1%

Reinsurance Operations

The presentation of net incurred and paid claims development tables by accident year for the reinsurance operations is challenging due to the need to allocate loss information related to proportional treaties to the appropriate accident years. Information related to proportional treaty reinsurance contracts is generally submitted to the Company using quarterly bordereau reporting by underwriting year, with a supplemental listing of large losses. The large losses can be allocated to the corresponding accident years accurately. However, the remaining losses can generally only be allocated to accident years based on estimated premiums earned and loss reporting patterns. To the extent management's assumptions and allocation procedures differ from the actual loss development patterns, the actual loss development may differ materially from the net incurred and paid claims development presented in the tables below.

The reporting of cumulative claims frequency for this reserve classes within the reinsurance operations is deemed to be impracticable. The information necessary to provide cumulative claims frequency for these reserve classes is not available to the Company.

Reinsurance Property and Other

This reserve class includes property, catastrophe, engineering, agriculture, as well as marine and other lines of business.

The catastrophe line of business provides protection for most catastrophic losses that are covered in the underlying policies written by the Company's cedants. The exposure in the underlying policies is principally property exposure but also covers other exposures including workers compensation, personal accident and life. The principal perils in this portfolio are hurricane and windstorm, earthquake, flood, tornado, hail and fire. In some instances, terrorism may be a covered peril or the only peril. The Company underwrites catastrophe reinsurance business principally on an excess of loss basis.

The property line of business provides protection for property damage and related losses resulting from natural and man-made perils contained in underlying personal and commercial policies. While the predominant exposure is to property damage, other risks, including business interruption and other non-property losses, may also be covered when arising from a covered peril. While the most significant exposures typically relate to losses from windstorms, tornadoes and earthquakes, the Company is also exposed to other perils such as freezes, riots, floods, industrial explosions, fires, hail and a number of other loss events. The Company underwrites property reinsurance business on both a proportional and excess of loss basis.

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

The agriculture line of business provides protection for risks associated with the production of food and fiber on a global basis for primary insurance companies writing multi-peril crop insurance, crop hail, and named peril covers, as well as custom risk transfer mechanisms for agricultural dependent industries with exposures to crop yield and/or price deviations. The Company underwrites agriculture reinsurance business on both a proportional and aggregate stop loss basis.

The engineering line of business provides protection for all types of construction risks and risks associated with erection, testing and commissioning of machinery and plants during the construction stage. This line of business also includes coverage for losses arising from operational failures of machinery, plant and equipment and electronic equipment as well as business interruption.

The marine and other line of business includes marine, aviation and personal accident reinsurance.

In general, reporting and payment patterns are relatively short-tailed and can be volatile due to the incidence of catastrophe events such as hurricanes and earthquakes.

Reinsurance Property and Other

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										At December 31, 2017
	For the Years Ended December 31,										Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	
2008	$ 631,138	$ 536,744	$ 553,279	$ 532,902	$ 521,033	$ 510,449	$ 497,418	$ 492,949	$ 491,923	$ 492,113	$ —
2009		299,523	247,884	212,572	200,433	194,230	176,564	171,404	172,997	170,415	1,024
2010			567,392	558,449	527,689	542,628	546,179	541,009	533,100	531,455	4,392
2011				1,034,921	1,047,086	1,048,664	1,012,800	998,501	973,903	972,197	7,846
2012					430,971	403,503	390,829	363,904	349,746	344,896	5,082
2013						364,836	343,883	319,808	303,921	299,294	3,125
2014							308,126	317,210	304,646	296,180	43,326
2015								284,855	267,817	267,949	20,586
2016									325,878	323,840	61,108
2017										698,991	351,816
									Total	$ 4,397,330	

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Reinsurance Property and Other

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017
2008	$ 150,125	$ 297,175	$ 417,815	$ 468,503	$ 480,986	$ 484,784	$ 484,711	$ 488,628	$ 488,899	$ 489,515
2009		49,666	111,638	138,689	154,942	163,962	163,311	165,345	166,874	165,556
2010			105,484	287,482	373,654	401,841	445,506	473,682	498,750	504,041
2011				233,548	532,846	729,333	827,740	858,532	931,175	944,959
2012					82,419	202,751	267,803	287,436	299,348	307,340
2013						45,651	166,294	252,315	274,407	281,718
2014							50,667	172,726	220,539	234,153
2015								40,557	137,354	202,287
2016									63,984	169,990
2017										131,189
									Total	3,430,748
All outstanding liabilities before 2008, net of reinsurance										5,400
Liabilities for claims and claim adjustment expenses, net of reinsurance										$ 971,982

Reinsurance Property and Other

Average annual percentage payout of incurred claims by age, net of reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
21.3%	35.2%	20.6%	7.6%	4.2%	3.1%	1.8%	0.9%	(0.4)%	0.1%

Reinsurance Credit and Surety

This reserve class includes the credit and surety line of business which provides reinsurance of trade credit insurance products and includes both proportional and excess of loss structures. The underlying insurance indemnifies sellers of goods and services in the event of a payment default by the buyer of those goods and services. The Company provides credit insurance cover to mortgage guaranty insurers and government sponsored entities. Coverages for losses arising from a broad array of surety bonds issued by insurers to satisfy regulatory demands or contract obligations in a variety of jurisdictions around the world are also offered.

Initial and most recent underwriting year loss projections are generally based on the ELR method, with consideration given to qualitative factors. Given that there is a quicker and more stable reporting pattern for trade credit business, the Company generally commences the transition to experience-based methods sooner for trade credit business than for the surety business.

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Reinsurance Credit and Surety

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31,

Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	At December 31, 2017 Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims
2008	$ 64,794	$ 86,567	$ 80,581	$ 79,545	$ 80,449	$ 79,509	$ 76,475	$ 75,543	$ 75,220	$ 74,060	$ 927
2009		106,254	91,189	79,716	79,353	79,086	74,149	71,986	71,674	70,443	1,368
2010			87,663	75,516	71,254	69,059	66,113	60,473	59,452	58,009	3,914
2011				85,507	76,712	76,316	82,073	80,299	73,748	72,323	5,606
2012					115,892	109,925	112,138	109,797	103,303	97,026	8,815
2013						121,302	113,350	107,500	104,836	100,899	13,349
2014							98,699	100,908	106,792	104,246	20,028
2015								117,856	123,649	119,695	25,930
2016									104,230	104,104	36,122
2017										93,025	51,666
									Total	$ 893,830	

Reinsurance Credit and Surety

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31,

Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017
2008	$ 15,680	$ 52,759	$ 53,618	$ 65,099	$ 66,455	$ 68,286	$ 69,965	$ 70,534	$ 70,838	$ 70,488
2009		23,526	56,888	58,530	60,420	63,333	65,272	65,486	65,475	65,798
2010			21,208	37,130	45,638	45,987	47,378	48,358	49,500	50,276
2011				13,994	37,220	50,083	55,909	58,967	60,637	62,313
2012					36,389	62,894	73,105	77,218	79,718	81,033
2013						24,151	56,797	67,743	72,769	78,000
2014							26,730	46,040	64,530	71,354
2015								24,727	61,341	74,913
2016									31,633	54,822
2017										24,511
									Total	633,508
					All outstanding liabilities before 2008, net of reinsurance					7,482
					Liabilities for claims and claim adjustment expenses, net of reinsurance					$ 267,804

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Reinsurance Credit and Surety

Average annual percentage payout of incurred claims by age, net of reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
27.5%	32.0%	10.8%	6.1%	3.4%	2.1%	1.7%	0.7%	0.5%	(0.5)%

Reinsurance Professional Lines

This reserve class includes the professional line of business which provides cover for directors' and officers' liability, employment practices liability, medical malpractice, professional indemnity, environmental liability and miscellaneous errors and omissions insurance risks. The underlying business is predominantly written on a claims-made basis. Business is written on both a proportional and excess of loss basis. Typically, this reserve class is anticipated to exhibit medium to long-tail claim reporting and payment patterns.

With respect to key actuarial assumptions, the Company is progressively giving more weight to its own experience when establishing expected loss ratios and selected loss development patterns, though it continues to consider industry benchmarks. Loss reporting patterns for professional lines business tend to be volatile, causing instability in actuarial indications based on incurred loss data until an accident year matures for a number of years. Consequently, initial loss reserves for an accident year or underwriting year are generally based upon an ELR method and the consideration of relevant qualitative factors. As accident and underwriting years mature, the Company increasingly gives more weight to methods that reflect its actual experience until its selections are based almost exclusively on experience-based methods. The Company evaluates the appropriateness of the transition to experience-based methods at the reserve class level, commencing this transition when it believes that its incurred loss development is sufficient to produce meaningful actuarial indications. The rate at which the Company transitions fully to sole reliance on experience-based methods can vary, depending on its assessment of the stability and relevance of such indications.

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Reinsurance Professional Lines

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										At December 31, 2017
	For the Years Ended December 31,										Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	
2008	$ 93,602	$ 96,961	$ 96,552	$ 94,422	$ 93,481	$ 91,117	$ 91,117	$ 92,620	$ 91,900	$ 89,982	$ 3,663
2009		110,760	110,653	112,974	114,301	109,555	110,455	102,607	99,646	95,047	6,127
2010			110,228	110,250	110,876	112,429	112,791	103,312	98,190	93,002	13,101
2011				106,827	106,920	107,412	111,822	110,391	109,714	103,973	26,945
2012					110,917	114,183	117,213	118,245	117,412	112,641	39,535
2013						110,972	113,436	113,981	113,000	112,756	53,966
2014							115,498	115,294	115,106	115,008	44,891
2015								111,877	112,113	113,625	64,533
2016									98,669	99,489	70,775
2017										68,405	62,140
									Total	$ 1,003,928	

Reinsurance Professional Lines

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31,									
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017
2008	$ 183	$ 3,402	$ 11,221	$ 25,692	$ 36,848	$ 48,033	$ 56,604	$ 64,902	$ 70,571	$ 74,062
2009		452	4,291	16,259	32,104	43,093	56,569	66,981	72,366	75,419
2010			884	6,066	15,814	26,372	39,246	54,857	63,165	66,862
2011				753	5,956	15,368	29,300	43,202	52,711	61,356
2012					397	5,572	15,661	27,929	44,517	56,094
2013						541	6,413	16,022	33,594	42,078
2014							1,184	6,924	25,444	38,618
2015								1,640	7,055	21,883
2016									1,071	10,491
2017										1,446
									Total	448,309
	All outstanding liabilities before 2008, net of reinsurance									18,011
	Liabilities for claims and claim adjustment expenses, net of reinsurance									$ 573,630

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Reinsurance Professional Lines

Average annual percentage payout of incurred claims by age, net of reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
0.9%	5.3%	10.9%	13.7%	12.2%	12.6%	9.4%	6.3%	4.8%	3.9%

Reinsurance Motor

This reserve class includes the motor line of business which provides cover to insurers for motor liability and motor property damage losses arising from any one occurrence. A loss occurrence can involve one or many claimants where the ceding insurer aggregates the claims from the occurrence.

The Company offers traditional proportional and non-proportional reinsurance as well as structured solutions predominantly relating to European exposures. The business written on a proportional basis has expanded significantly since 2010 and now represents the majority of the premium written within this line of business. Most of the premium relates to a relatively small number of large United Kingdom ("U.K.") and, to a lesser extent, Greek quota share treaties. The motor proportional class generally has a significantly shorter reported and payment pattern relative to the motor non-proportional class.

The motor non-proportional business consists of standard excess of loss contracts written for cedants in several European countries with most of the premium related to two major markets, U.K. and France. Since 2009/2010, an increasing number of large bodily injury settlements in the U.K. market were settled using indexed annuities (Periodical Payment Orders "PPOs"). This led to a materially longer development tail on the older accident years for the U.K. non-proportional motor book. This also resulted in a move towards generally lower treaty attachment points and the inclusion of capitalization clauses on a number of U.K. motor treaties to help mitigate the lengthening of the development tail on more recent accident years. Despite the trend toward a greater number of claims settlements using PPOs, there has been a trend towards generally quicker and more adequate reporting of losses in recent years.

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Reinsurance Motor

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										At December 31, 2017
	For the Years Ended December 31,										Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	
2008	$ 55,644	$ 59,294	$ 58,745	$ 60,775	$ 58,548	$ 57,861	$ 54,337	$ 49,598	$ 46,276	$ 46,917	$ 15,687
2009		64,515	63,011	69,120	70,640	72,250	72,976	66,184	61,612	63,386	15,790
2010			78,372	84,783	85,347	84,569	79,734	75,698	68,130	65,440	18,314
2011				120,794	123,834	126,912	131,505	128,461	121,468	113,114	25,299
2012					139,922	132,966	123,766	117,856	113,865	106,442	19,486
2013						127,604	126,521	117,559	110,100	107,390	19,531
2014							143,007	145,343	141,544	139,177	18,002
2015								173,882	171,909	174,934	27,954
2016									191,551	207,130	41,415
2017										260,325	127,132
									Total	$ 1,284,255	

Reinsurance Motor

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31,									
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017
2008	$ 2,320	$ 4,778	$ 4,969	$ 5,932	$ 7,118	$ 9,066	$ 11,173	$ 11,678	$ 12,923	$ 13,442
2009		2,114	5,351	6,321	7,515	10,220	15,022	16,834	20,436	22,986
2010			5,554	9,987	14,391	17,155	19,867	23,206	25,756	26,583
2011				15,955	34,708	46,268	54,498	59,797	64,497	68,153
2012					22,295	41,462	52,976	60,669	65,744	68,922
2013						25,955	42,007	53,136	61,064	65,556
2014							33,169	58,302	73,863	80,317
2015								44,163	73,121	89,177
2016									46,453	82,169
2017										53,321
									Total	570,626
						All outstanding liabilities before 2008, net of reinsurance				100,177
						Liabilities for claims and claim adjustment expenses, net of reinsurance				$ 813,806

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Reinsurance Motor

Average annual percentage payout of incurred claims by age, net of reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
16.8%	13.2%	7.6%	5.0%	4.1%	4.8%	3.6%	2.7%	3.4%	1.1%

Reinsurance Liability

This reserve class includes the liability line of business which provides cover to insurers of standard casualty business, excess and surplus casualty business and specialty casualty programs. The primary focus of the underlying business is general liability, although workers' compensation and auto liability are also covered.

Claim reporting and payment patterns are typically long-tail in nature and, therefore, subject to increased uncertainty surrounding future loss development. In particular, claims can be subject to inflation from a number of sources including, but not limited to, economic and medical inflation, judicial inflation and changing social trends.

Reinsurance Liability

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										At December 31, 2017
	For the Years Ended December 31,										Total of Incurred-But-Not-Reported Liabilities Plus Expected Development on Reported Claims
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	
2008	$ 81,209	$ 81,215	$ 81,645	$ 81,971	$ 79,931	$ 76,985	$ 62,214	$ 59,222	$ 51,267	$ 45,282	$ 5,272
2009		109,186	110,604	116,885	114,080	118,433	134,393	126,168	116,693	110,177	14,565
2010			105,903	103,111	112,702	114,198	126,899	120,410	114,003	104,025	18,226
2011				102,155	102,462	104,684	116,327	121,001	118,007	117,655	20,200
2012					90,825	88,821	91,033	93,257	93,878	91,991	25,564
2013						94,722	96,209	99,509	100,457	100,445	42,124
2014							108,567	109,829	110,616	108,678	50,175
2015								115,618	115,765	116,214	68,548
2016									121,816	124,463	87,745
2017										118,730	99,711
									Total	$ 1,037,660	

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Reinsurance Liability

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017
2008	$ 1,225	$ 5,419	$ 11,791	$ 16,262	$ 19,134	$ 22,396	$ 26,988	$ 27,765	$ 30,012	$ 33,223
2009		1,116	11,503	30,252	35,958	46,859	66,996	80,677	83,491	87,015
2010			1,305	9,349	28,438	39,240	52,757	61,104	68,652	75,253
2011				2,608	13,145	24,415	42,953	55,469	66,318	72,941
2012					1,838	6,479	14,360	29,980	39,962	51,744
2013						3,104	11,503	26,710	35,120	44,886
2014							3,671	14,452	24,413	35,944
2015								3,697	13,879	27,935
2016									5,675	17,384
2017										5,573
									Total	451,898
All outstanding liabilities before 2008, net of reinsurance										22,611
Liabilities for claims and claim adjustment expenses, net of reinsurance										$ 608,373

Reinsurance Liability

Average annual percentage payout of incurred claims by age, net of reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
2.8%	8.5%	13.0%	11.0%	10.1%	11.1%	8.9%	3.5%	4.1%	7.1%

(In thousands of U.S. dollars)

6. Reserve for Losses and Loss Expenses (continued)

Reconciliation of Development Tables to Consolidated Balance Sheet

The following table reconciles the reserves for loss and loss expenses as of December 31, 2017 as reported in the Consolidated Balance Sheet to the reserves for loss and loss expenses included in the development tables:

Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and Claim Adjustment Expenses

	At December 31, 2017		
	Net outstanding liabilities	**Reinsurance recoverable on unpaid claims**	**Gross outstanding liabilities**
Insurance Operations			
Property and Other	$ 545,116	$ 2,654	$ 547,770
Marine	166,348	43,920	210,268
Aviation	57,640	1,267	58,907
Credit and Political Risk	44,971	536	45,507
Professional Lines	937,368	14,078	951,446
Liability	308,702	80,455	389,157
Total Insurance Operations	2,060,145	142,910	2,203,055
Reinsurance Operations			
Property and Other	971,982	139,008	1,110,990
Credit and Surety	267,804	5,286	273,090
Professional Lines	573,630	37,828	611,458
Motor	813,806	3,666	817,472
Liability	608,373	66,018	674,391
Total Reinsurance Operations	3,235,595	251,806	3,487,401
Total	$ 5,295,740	$ 394,716	5,690,456
Unallocated claims adjustment expenses			80,222
Foreign exchange and other[1]			(42,526)
Assumed reserves related to retroactive transactions			43,814
Total liability for unpaid claims and claims adjustment			$ 5,771,966

(1) Non-U.S. dollar denominated loss data is converted to U.S dollar at the rates of exchange in effect at the balance sheet date for material underlying currencies. Fluctuations in currency exchange rates cause material shifts in loss development. Reserves for losses and loss expenses, disclosed on our Consolidated Balance Sheets, are also revalued using the exchange rate at the balance sheet date.

(In thousands of U.S. dollars)

7. Reinsurance

In the ordinary course of business, the Company purchases treaty and facultative reinsurance to reduce exposure to significant losses. Facultative reinsurance provides coverage for all or a portion of the losses incurred for a single policy and each facultative contract is negotiated separately.

Treaty reinsurance provides coverage for a specified type or category of risks. Treaty reinsurance agreements provide this cover on either an excess of loss or a proportional basis. Excess of loss covers provide a contractually set amount of coverage after a specified loss amount has been reached. These treaties can provide cover for a number of lines of business within one contract. Under proportional reinsurance, the Company cedes an agreed proportion of the premiums and the losses and loss expenses on the policies it underwrites. These treaties provide a specified percentage of coverage from the first dollar of loss.

All of these reinsurance covers provide the Company the right to recover a portion of specified losses and loss expenses from reinsurers. However, to the extent that the reinsurers do not meet their obligations under these agreements due to solvency issues, contractual disputes or other reasons, the Company remains liable. The Company predominantly cedes business to reinsurers rated A- or better by A.M. Best Company, Inc. ("A.M. Best").

Gross and net premiums written and earned for the years ended December 31, 2017 and 2016 are as follows:

	2017		2016	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
Gross	$ 2,900,055	$ 2,925,334	$ 2,742,457	$ 2,652,001
Ceded	(407,182)	(365,428)	(272,617)	(172,749)
Net	$ 2,492,873	$ 2,559,906	$ 2,469,840	$ 2,479,252

During the year ended December 31, 2017, the Company recognized ceded losses and loss expenses of $330,891 (2016: $73,652).

The Company's provision for unrecoverable reinsurance was $1,415 at December 31, 2017 (2016: $1,779). At December 31, 2017, 72% of the Company's reinsurance balances recoverable were collectible from reinsurers rated A- or better by A.M. Best (2016: 89%) and 28% were fully collateralized (2016: 11%).

8. Financing Arrangements

Letter of Credit Facility

On November 20, 2013, the Company and certain of AXIS Capital's operating subsidiaries ("Participating Subsidiaries") entered into an amendment to extend the term of a secured $750 million letter of credit facility (the "LOC Facility") with Citibank Europe plc ("Citibank") pursuant to a Master Reimbursement Agreement and other ancillary documents (together, the "LOC Facility Documents"). Under the terms of the LOC Facility, letters of credit to a maximum aggregate amount of $750 million are available for issuance on behalf of the Participating Subsidiaries. These letters of credit will principally be used to support the reinsurance obligations of the Participating Subsidiaries. The LOC Facility is subject to certain covenants, including the requirement to maintain sufficient collateral, as defined in the LOC Facility Documents, to cover all of the obligations under the LOC Facility. Such obligations include contingent reimbursement obligations for outstanding letters of credit and fees payable to Citibank. In the event of default, Citibank may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the LOC Facility to any or all of the Participating Subsidiaries.

On March 31, 2015, AXIS Capital entered into an amendment to reduce the maximum aggregate utilization capacity of the LOC Facility from $750 million to $500 million. All other material terms and conditions remained unchanged.

On December 18, 2015, the Participating Subsidiaries renewed the $500 million secured LOC Facility with Citibank for a four year term commencing December 31, 2015, pursuant to certain updates to the LOC Facility Documents. All other material terms and conditions remained unchanged.

On March 27, 2017, the Participating Subsidiaries amended the existing $500 million secured LOC Facility with Citibank to include an additional $250 million of secured letter of credit capacity (the "$250 Million Facility") pursuant to a Committed Facility Letter and an amendment to the Master Reimbursement Agreement. Under the terms of the $250 Million Facility, letters of credit to a maximum aggregate amount of $250 million are available for issuance on behalf of the Participating Subsidiaries. These letters of credit will principally be used to support the reinsurance obligations of the Participating Subsidiaries. The $250 Million Facility is subject to certain covenants, including the requirement to maintain sufficient collateral, as defined in the LOC Facility Documents, to cover all of the obligations under the LOC Facility. Such obligations include contingent reimbursement obligations for outstanding letters of credit and fees payable to the lender. In the event of default, the lender may exercise certain remedies, including the exercise of control over pledged collateral and the termination of the availability of the $250 Million Facility to any or all of the Participating Subsidiaries.

At December 31, 2017, the Company had $299,517 and nil letters of credit outstanding under the LOC Facility and $250 Million Facility, respectively. In addition, letters of credit of $87,005 issued on behalf of other Participating Subsidiaries under the LOC Facility for which the Company provides collateral were outstanding as at December 31, 2017. AXIS Capital and the Participating Subsidiaries were in compliance with all LOC Facility and $250 Million Facility covenants at December 31, 2017.

9. Commitments and Contingencies

a) Concentrations of Credit Risk

Credit Risk Aggregation

The aggregation of credit risk is monitored and managed on an AXIS Capital group-wide basis by considering exposure management strategies for individual companies, countries, regions, sectors and any other relevant inter-dependencies. These credit exposures are aggregated based on the origin of risk. As part of the credit aggregation framework, aggregate credit limits are assigned by single counterparty (a group of companies or country). Limits are based on and adjusted for a variety of factors, including the prevailing economic environment and the nature of the underlying credit exposures. The credit aggregation measurement and reporting process is facilitated by a credit risk exposure database, which contains relevant information on counterparty details and credit risk exposures, and is supplemented by licensed third party tools which provide credit risk assessments.

Credit risk aggregation is also managed through minimizing overlaps in underwriting, financing and investing activities. These AXIS Capital group-wide processes include some entity level monitoring and limits.

The assets that potentially subject the Company to concentrations of credit risk consist principally of cash and investments, reinsurance recoverable and (re)insurance premiums receivable balances, as described below.

Cash and Investments

In order to mitigate concentration and operational risks related to cash and cash equivalents, the Company limits the maximum amount of cash that can be deposited with a single counterparty and limits acceptable counterparties based on current rating, outlook and other relevant factors.

The Company's investment portfolio is managed by external investment managers in accordance with its investment guidelines. The Company limits such credit risk through diversification, issuer exposure limitation graded by ratings and, with respect to custodians, through contractual and other legal remedies. Excluding U.S. government and agency securities, the Company limits its concentration of credit risk to any single corporate issuer to 2% or less of its investment grade fixed maturities portfolio for securities rated A- or above and 1% or less of its investment grade fixed maturities portfolio for securities rated below A-.

At December 31, 2017, the Company was in compliance with these limits.

9. Commitments and Contingencies (continued)

Reinsurance Recoverable Balances

Within the reinsurance purchasing activities, the Company is exposed to the credit risk of a reinsurer failing to meet its obligations under reinsurance contracts. To help mitigate this, all of the reinsurance purchasing is subject to financial security requirements specified by the AXIS Group Reinsurance Security Committee. This Committee maintains a list of approved reinsurers, performs credit risk assessments for potential new reinsurers, regularly monitors approved reinsurers with consideration for events which may have a material impact on their creditworthiness, recommends counterparty tolerance levels for different types of ceded business and monitors concentrations of credit risk. This assessment considers a wide range of individual attributes, including a review of the counterparty's financial strength, industry position and other qualitative factors. Generally, the Committee requires that reinsurers who do not meet specified requirements provide collateral.

At December 31, 2017, the top ten reinsurers with the largest balances recoverable accounted for 84% (2016: 79%) of reinsurance recoverable on unpaid and paid losses.

Premiums Receivable Balances

The diversity of the Company's client base limits the credit risk associated with its premium balances receivable. In addition, for insurance contracts, the Company has contractual rights to cancel coverage for non-payment of premiums and for reinsurance contracts, it has contractual rights to offset premiums receivable with corresponding payments for losses and loss expenses.

Brokers and other intermediaries collect premiums from customers to be paid to the Company. The Company has policies and standards in place to manage and monitor credit risk from intermediaries with a focus on day-to-day monitoring of the largest positions.

These contractual rights contribute to the mitigation of credit risk, as does the monitoring of aged receivable balances. In light of these mitigating factors, and considering that a significant portion of premium balances receivable are not currently due based on the terms of the underlying contracts, the Company does not utilize specific credit quality indicators to monitor its premium balances receivable balance. At December 31, 2017, the Company recorded an allowance for estimated uncollectible premium balances receivable of $77 (2016: $274). The corresponding bad debt expense charge for 2017 was $4 (2016: $434).

b) Brokers

The Company produces its business through brokers and direct relationships with insurance companies. Excluding business assumed from affiliates, during 2017, three brokers accounted for 16% (2016: 15%) of the total gross premiums written by the Company. Aon plc accounted for 7% (2016: 5%), Marsh & McLennan Companies Inc. 6% (2016: 6%), and Willis Tower Watson PLC for 4% (2016: 4%). With the exception of reinsurance provided to other subsidiaries of AXIS Capital through quota share and stop loss agreements, no other broker and no one insured or reinsured accounted for more than 10% of gross premiums written in the years ended December 31, 2017 and 2016.

(In thousands of U.S. dollars)

9. Commitments and Contingencies (continued)

c) Lease Commitments

The Company leases office space under operating leases which expire at various dates. The Company renews and enters into new leases in the ordinary course of business, as required. Total rent expense with respect to these operating leases for the year ended December 31, 2017 was $3,489 (2016: $3,423).

Future minimum lease payments under the leases are expected to be as follows:

Year	Amount
2018	$ 3,339
2019	3,339
2020	3,339
2021	2,769
2022	2,769
Later years	7,615
Total	$ 23,170

d) Guarantees

During 2014, the Company entered into a Deed of Guarantee (the “Guarantee”) with a policyholder of AXIS Specialty Europe SE (“ASE”), one of AXIS Capital’s operating subsidiary following which the Company guarantees the obligations of ASE in the event of non-payment of balances owing to the policyholder following ASE’s insolvency. The maximum limit of the guarantee is $250,000 and the amount outstanding which is based on in-force policies was $21,394 at December 31, 2017.

On February 14, 2017, the Company entered into a Guaranty agreement (the "Guaranty") with AXIS Reinsurance Company (“ARC”), one of AXIS Capital’s operating subsidiary following which the Company guarantees the book value of ARC's investment in a credit fund up to an amount of $75,000, in the event of ARC's insolvency or ARC's inability to pay a portion or all of its policyholder claims. The Guaranty expires on the maturity date of ARC's investment in the credit fund. The book value of ARC's investment in the credit fund was $53,469 at December 31, 2017.

e) Credit Facility

On December 29, 2017 the Company provided an unsecured credit facility to the Novae Group Limited ("Novae") following which Novae may borrow up to $75,000 from the Company. The facility expires three hundred and sixty four days from the first drawdown and provides for interest at a rate of 1.65% over LIBOR. Novae did not draw down on this facility in 2017.

10. Shareholder's Equity

Share capital consists of 50,000,000 authorized common shares of a par value of $0.10 per share. As at December 31, 2017, 12,000,000 common shares were issued and fully paid (2016: 12,000,000 common shares).

11. Retirement Plans

The Company maintains defined contribution plans to provide retirement benefits to eligible employees. Contributions to the plans, which are managed externally, are based on eligible compensation.

During 2017, the Company's total pension expenses were $1,489 (2016: $1,126) for the above retirement benefits.

12. Share-Based Compensation

AXIS Capital adopted long-term equity compensation plans that provide for, among other things, the issuance of restricted stock units, performance units, restricted shares, stock options, stock appreciation rights and other equity-based awards to some of the Company's employees.

Restricted Stock Awards

Restricted stock awards granted generally vest in four equal installments on the first, second, third and fourth anniversaries of the grant date.

Restricted Stock Units

Restricted stock units granted generally cliff vest at the end of a three year period, vest in accordance with a three year graded vesting schedule, or vest in four equal installments upon the first, second, third and fourth anniversaries of the grant date.

Cash Settled Restricted Stock Units

Cash settled restricted stock units granted are liability awards and generally cliff vest at the end of a three year period, or vest in four equal installments upon the first, second, third and fourth anniversaries of the date of grant.

Performance-Vesting Restricted Stock Units

Performance-vesting restricted stock units granted represent the right to receive a specified number of common shares in the future, based upon the achievement of established performance criteria and continued service during the applicable performance period. Awards granted pursuant to these plans generally cliff vest at the end of a three year period. Performance-vesting restricted stock units granted are either share settled awards or cash settled liability awards.

(In thousands of U.S. dollars)

12. Share-Based Compensation (continued)

Acceleration Provisions

Grants provided generally allow for accelerated vesting provisions upon the employee's death, permanent disability, or certain terminations following a change in control of AXIS Capital occurring within two years of the change in control event. Notwithstanding these vesting provisions, the Compensation Committee of the AXIS Capital Board has broad authority to accelerate vesting at its own discretion.

Retirement Plan

In 2016, AXIS Capital established the AXIS Executive Restricted Stock Unit Retirement Plan (the "Plan") to reward certain eligible long-term employees for their dedicated service. The Plan was implemented in 2017. Subject to certain conditions being met, eligible employees will not forfeit all of their outstanding restricted stock units or cash settled restricted stock units on or following their retirement. Absent the Plan, outstanding restricted stock units are generally forfeited upon termination of employment.

At December 31, 2017, the liability for cash-settled restricted stock units, included in other liabilities in the Consolidated Balance Sheets, is $2,322 (2016: $5,603).

At December 31, 2017, there were $7,925 (2016: $8,717) of unrecognized compensation costs which are expected to be recognized over the weighted average period of 2.1 years (2016: 1.7 years).

During 2017, the Company incurred share-based compensation costs of $5,685 (2016: $7,987) related to restricted stock awards, share-settled restricted stock units, and cash-settled restricted stock units.

13. Related Party Transactions

During the years ended December 31, 2017 and 2016, the Company entered into various transactions with AXIS Capital and its subsidiaries.

The following amounts relating to the quota share and stop loss agreements (see Note 1) are included in the Consolidated Statements of Operations for the years ended December 31, 2017 and 2016:

	2017	2016
Gross premiums written	$ 2,370,630	$ 2,276,477
Net premiums earned	2,391,613	2,133,329
Acquisition costs expensed	788,552	745,792
Losses and loss expenses	1,780,223	1,273,990

13. Related Party Transactions (continued)

At December 31, 2017, amounts due from AXIS Capital and its subsidiaries were $2,016,163 (2016: $1,297,688). This balance includes $1,145,715 (2016: $1,040,649) of balances receivable under reinsurance arrangements that typically include quarterly settlement provisions. The balance also includes $496,055 (2016: $109,864) of loans and accrued interest receivable from AXIS Specialty Holdings, $370,558 (2016: $147,175) of unsecured, non-interest bearing advances to AXIS Capital and its subsidiaries that are payable on demand and $3,835 (2016: $nil) outstanding under a short-term credit facility with AXIS Syndicate 1686 ("AXIS Syndicate").

The loans and accrued interest balance due from AXIS Specialty Holdings are comprised of three loans:

- The first loan of $103,500 is unsecured, matures on June 23, 2026 and bears interest at an annual rate of 3.68%, which is payable semi-annually.
- The second loan of $4,365 is unsecured, matures on December 12, 2026 and bears interest at an annual rate of 4.17%, which is payable semi-annually.
- The third loan of $387,063 is unsecured, matures on December 6, 2027 and bears interest at an annual rate of 4.25%, which is payable semi-annually.

AXIS Specialty Holdings may prepay any or all amounts due under these loans at any time without penalty. For the year ended December 31, 2017, the Company recognized $5,118 (2016: $2,000) of interest income in relation to the loans due from AXIS Specialty Holdings.

At December 31, 2017, insurance and reinsurance balances payable included $83,799 (2016: $58,077) payable to affiliates under quota share agreements and other liabilities included $2,672 (2016: $nil) of unsecured, non-interest bearing amounts due to certain of AXIS Capital's subsidiaries that are payable on demand.

On November 7, 2016 AXIS Capital advanced $368,252 to the Company. The loan was repaid in 2017 with interest of $1,216.

In 2016, Harrington Reinsurance Holdings Limited, the parent company of Harrington Re Ltd. ("Harrington Re"), an independent reinsurance company jointly sponsored by AXIS Capital and The Blackstone Group L.P., and Harrington Re commenced operations. In the normal course of business, the Company entered into certain reinsurance transactions with Harrington Re. For the year ended December 31, 2017, the Company ceded reinsurance premiums of $195,407 (2016: $119,402) and ceded losses of $109,026 (2016: $25,746) to Harrington Re. In addition, Harrington Re paid certain acquisition costs and administrative fees to the Company. At December 31, 2017, the amount of reinsurance recoverable from Harrington Re on unpaid and paid losses was $141,024 (2016: $36,882) and the amount of ceded reinsurance payable to Harrington Re included in insurance and reinsurance balances payable was $137,586 (2016: $83,403) in the Consolidated Balance Sheets.

13. Related Party Transactions (continued)

In November 2013, AXIS Capital formed AXIS Ventures Limited and its direct subsidiary AXIS Ventures Reinsurance Limited ("Ventures Re"), a Bermuda domiciled insurer, to develop AXIS Capital's third party capital capabilities. In the normal course of business, the Company enters into certain reinsurance contracts with Ventures Re. In 2017, the Company ceded premiums of $106,594 (2016: $39,984) to Ventures Re and ceded losses of $126,142 (2016: $10,031). In addition, Ventures Re also paid certain acquisition costs and administrative fees to the Company. At December 31, 2017, the amount of reinsurance recoverable from Ventures Re on unpaid and paid losses was $131,285 (2016: $22,335) and the amount of ceded reinsurance payable to Ventures Re included in insurance and reinsurance balances payable was $28,037 (2016: $14,170) in the Consolidated Balance Sheets.

A member of AXIS Capital's Board of Directors, Mr. Charles Davis, is the Chief Executive Officer of Stone Point Capital, LLC ("Stone Point"). In the ordinary course of business, the Company engages SKY Harbor Capital Management, LLC, an affiliate of Stone Point, to provide asset management services for certain of the short duration high yield debt portfolios. For the year ended December 31, 2017, total fees paid to SKY Harbor Capital Management, LLC, were $1,846 (2016: $2,401).

The Company has $30,000 committed to the NXT Capital Senior Loan Fund II and $30,000 committed to NXT Capital Senior Loan Fund III. The manager of these funds is an indirect subsidiary of NXT Capital Holdings, L.P. ("NXT Capital"). Investment funds managed by Stone Point own approximately 42% of NXT Capital. For the year ended December 31, 2017, fees paid to NXT Capital totaled $859 (2016: $914).

The Company's investments portfolio includes certain investments where the Company is considered to have the ability to exercise significant influence over the investment entity's operations. Significant influence is generally deemed to exist where the Company has an investment of 20% or more in the common stock of a corporation or an investment of 3% or more in closed end funds, limited partnerships, LLCs or similar investment vehicles. At December 31, 2017, the Company had $286,733 (2016: $295,435) of investments where it is deemed to have the ability to exercise such significant influence. The Company generally pays management and performance fees to the investment managers of these investments. The Company considers all fees paid to the investment managers to be at market rates consistent with negotiated arms-length contracts.

14. Taxation

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on income or capital gains. The Company has received an assurance from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2035. The Branch is subject to taxes in Singapore. The Branch is not under examination in this tax jurisdiction, but remains subject to examination for the tax years 2014 through 2017.

At December 31, 2017, the total operating loss carry forwards for the Branch were $77,467 (2016: $83,532). Such operating losses are currently available to offset future taxable income of the Branch and may be carried forward indefinitely. At December 31, 2017 and 2016, the Company established a full valuation allowance on these operating loss carry forwards due to the cumulative losses historically.

(In thousands of U.S. dollars)

15. Other Comprehensive Income (Loss)

Reclassifications out of AOCI into net income were as follows:

Details About AOCI Components	**Consolidated Statements of Operations Line Item That Includes Reclassification**	**Amount Reclassified from AOCI[1]** Year ended December 31, 2017	2016
Unrealized gains (losses) on available for sale investments			
	Other realized investment gains (losses)	$ 46,313	$ (41,780)
	OTTI losses	(10,862)	(21,425)
	Total before tax	**35,451**	**(63,205)**
	Income tax expenses	—	—
	Net of tax	**$ 35,451**	**$ (63,205)**

(1) Amounts in parentheses are debits to net income

16. Statutory Financial Information

The Company is licensed under the Bermuda Insurance Act 1978, amendments thereto and Related Regulations (the "Act") and is required to comply with various provisions of the Act regarding solvency and liquidity. Under the Act, the Company is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and an Enhanced Capital Requirement ("ECR"). The MSM is the greater of $100 million, 50% of net written premiums, 15% of the net reserve for losses and loss adjustment expenses or 25% of the ECR. The ECR is calculated based on either an internally developed risk-based capital model or a standard risk-based capital model developed by the Bermuda Monetary Authority ("BMA"). In 2016, the BMA implemented an Economic Balance Sheet ("EBS") framework, which is used as the basis to determine the ECR. Actual and required minimum statutory capital and surplus at December 31, 2017 and 2016 were as follows:

	2017	**2016**
Required minimum statutory capital and surplus	$ 1,800,231	$ 1,839,551
Actual statutory capital and surplus	$ 3,641,279	$ 4,132,695

Under the Act, the Company is restricted as to the payment of dividends for amounts greater than 25% of the prior year's statutory capital and surplus, whereby a signed affidavit by at least two members of the Board of Directors attesting that a dividend in excess of this amount would not cause the company to fail to meet its relevant margins is required. The maximum dividend the Company could pay, without a signed affidavit, having met minimum levels of statutory capital and surplus requirements, was approximately $935,924 (2016: $1,013,813).

16. Statutory Financial Information (continued)

In accordance with the Company's license under the Act, loss reserves are certified annually by an independent loss reserve specialist.

The Branch is licensed under the Insurance Act of Singapore and is required to comply with various provisions of the Act regarding solvency.

17. Subsequent Events

On January 1, 2018 the Company terminated all of its assumed affiliated reinsurance agreements with AXIS Capital's subsidiaries domiciled in the United States of America. The termination was done on a cut-off basis and was effective January 1, 2018. The Company will return unearned premiums of approximately $590 million as a result of this termination.

In February of 2018 the Company provided an unsecured credit facility to Novae's Lloyd's Syndicate 2007 ("Novae Syndicate 2007") following which Novae Syndicate 2007 may borrow up to $230,000 from the Company. The facility expires three hundred and sixty four days from the first draw down and provides for interest at a rate of 1.5% over LIBOR. Novae Syndicate 2007 did not draw down on this facility in 2018.

In February of 2018 the Company provided an unsecured credit facility to AXIS Capital's Lloyd's Syndicate 1686 ("AXIS Syndicate 1686") following which AXIS Syndicate 1686 may borrow up to $85,000 from the Company. The facility expires three hundred and sixty four days from the first draw down and provides for interest at a rate of 1.5% over LIBOR. AXIS Syndicate 1686 drew down $20,000 under this facility on February 26, 2018.