FINANCIAL STATEMENTS

Hiscox Insurance Company (Bermuda) Limited
Years Ended December 31, 2017 and 2016
With Report of the Independent Auditor

Hiscox Insurance Company (Bermuda) Limited

Financial Statements

Years Ended December 31, 2017 and 2016

Contents

May 3, 2018

Report of Independent Auditors

To the Board of Directors and Shareholder of Hiscox Insurance Company (Bermuda) Limited

We have audited the accompanying financial statements of Hiscox Insurance Company (Bermuda) Limited, which comprise the balance sheets as of December 31, 2017 and December 31, 2016, and the related statements of income, changes in shareholder's equity, and cash flows for the years then ended.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hiscox Insurance Company (Bermuda) Limited as of December 31, 2017 and December 31, 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter
Accounting principles generally accepted in the United States of America require that the required supplemental information under Accounting Standards Update 2015-09, *Disclosure about Short-Duration Contracts* labelled as Unaudited within Note 6 to the financial statements be presented to supplement the basic financial statements. Such information, although not a 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 not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Hiscox Insurance Company (Bermuda) Limited
Balance Sheets

As of December 31, 2017 and 2016

(expressed in thousands of U.S. dollars, except per share and share amounts)

	2017	2016
Assets		
Cash and cash equivalents (Note 4)	$ 111,960	$ 172,368
Investments in marketable securities (Notes 3 and 4)	1,415,531	1,284,702
Reinsurance balances receivable (Note 4)	279,429	253,781
Loss and loss adjustment expenses recoverable (Note 6)	553,082	111,257
Deferred acquisition costs, net	18,207	20,028
Prepaid reinsurance premiums	57,015	47,213
Accrued interest receivable	6,204	5,110
Receivable for securities sold	13,102	-
Other assets (Note 7)	245,979	118,620
Total assets	$ 2,700,509	$ 2,013,079
Liabilities		
Reinsurance balances payable	$ 188,453	$ 116,226
Unearned premium reserves	299,721	286,058
Loss and loss adjustment expense reserves (Note 6)	1,311,778	734,177
Deferred income	6,989	7,474
Payable for securities purchased	-	2,266
Other liabilities (Note 7)	28,771	32,818
Total liabilities	$ 1,835,712	$ 1,179,019
Shareholder's equity		
Share capital (par value $1.00; authorized, 100,000,000; issued and outstanding, 100,000,000)	$ 100,000	$ 100,000
Additional paid-in capital	402,000	402,000
Retained earnings	362,797	332,060
Total shareholder's equity	864,797	834,060
Total liabilities and shareholder's equity	$ 2,700,509	$ 2,013,079

The accompanying notes are an integral part of the financial statements and should be read in conjunction herewith.

Hiscox Insurance Company (Bermuda) Limited
Statements of Income

Years Ended December 31, 2017 and 2016
(expressed in thousands of U.S. dollars)

	2017	2016
Revenues		
Gross premiums written	$ 793,607	$ 715,074
Change in unearned premium reserves	(13,663)	(22,769)
Gross premiums earned	779,944	692,305
Gross premiums ceded	329,702	243,570
Change in prepaid reinsurance premiums	(9,802)	(7,274)
Earned premiums ceded	319,900	236,296
Net premiums earned	460,044	456,009
Other underwriting income	38,499	34,324
Net investment income	37,180	17,578
Total revenues	$ 535,723	$ 507,911
Expenses		
Loss and loss adjustment expenses incurred	820,745	296,815
Reinsurance recoveries	(527,713)	(63,792)
Loss and loss adjustment expenses incurred, net (Note 6)	293,032	233,023
Acquisition costs	61,469	57,426
General and administrative expenses (Note 7)	9,584	16,097
Foreign exchange loss / (gain)	(14,099)	7,266
Total expenses	$ 349,986	$ 313,812
Net income	$ 185,737	$ 194,099

The accompanying notes are an integral part of the financial statements and should be read in conjunction herewith.

Hiscox Insurance Company (Bermuda) Limited
Statements of Changes in Shareholder's Equity

Years ended December 31, 2017 and 2016
(expressed in thousands of U.S. dollars, except per share and share amounts)

		2017		2016
Common Shares				
Balance, beginning and end of year		100,000,000		100,000,000
Common Shares				
Balance, beginning and end of year	$	100,000	$	100,000
Additional paid-in capital				
Balance, beginning and end of year	$	402,000	$	402,000
Retained earnings				
Balance, beginning of year		332,060		346,361
Net income		185,737		194,099
Dividends paid (Note 8)		(155,000)		(208,400)
Balance, end of year	$	362,797	$	332,060
Total shareholder's equity	$	864,797	$	834,060

The accompanying notes are an integral part of the financial statements and should be read in conjunction herewith.

Hiscox Insurance Company (Bermuda) Limited
Statements of Cash Flows

Years Ended December 31, 2017 and 2016
(expressed in thousands of U.S. dollars)

	2017	2016
Operating activities		
Net income	$ 185,737	$ 194,099
Adjustments to reconcile net income to net cash provided by operating activities:		
Share compensation expense	1,915	2,465
Realized loss (gain) on marketable securities	6,442	(4,177)
Unrealized (gain) loss on marketable securities	(24,377)	2,214
Unrealized (gain) loss on foreign exchange	(33,361)	37,824
Purchase of investments, net	(84,977)	(72,896)
Changes in assets and liabilities:		
Reinsurance balances receivable	(25,648)	(48,085)
Deferred acquisition costs, net	1,821	(596)
Loss and loss adjustment expenses recoverable	(441,825)	(66,693)
Prepaid reinsurance premiums	(9,802)	(7,274)
Accrued interest receivable	(1,094)	(374)
Other assets	(127,359)	34,412
Receivable for securities sold	(13,102)	-
Reinsurance balances payable	72,227	56,726
Loss and loss adjustment expense reserves	577,601	74,693
Unearned premium reserves	13,663	22,769
Deferred income	(485)	7,474
Payable for securities purchases	(2,266)	(21,628)
Other liabilities	(5,962)	20,972
Net cash provided by operating activities	89,148	231,925
Financing activities		
Dividends paid	(155,000)	(208,400)
Net cash used in financing activities	(155,000)	(208,400)
Net change in cash and cash equivalents	(65,852)	23,525
Cash and cash equivalents, beginning of year	172,368	155,955
Effect of exchange rate movements on cash	5,444	(7,112)
Cash and cash equivalents, end of year	**$ 111,960**	**$ 172,368**

The accompanying notes are an integral part of the financial statements and should be read in conjunction herewith.

1. Organization

Hiscox Insurance Company (Bermuda) Limited (the "Company") was incorporated under the laws of Bermuda on October 21, 2005. The Company is a global provider of property catastrophe and specialty reinsurance coverage to both third party and affiliate insurers and reinsurers. The Company is registered as a Class 4 insurer under The Insurance Act 1978 (Bermuda) and is directly owned by Hiscox Ltd (the "Parent" or "Group"), a company incorporated in Bermuda and publicly traded on the London Stock Exchange.

2. Significant accounting policies

The following is a summary of the significant accounting and reporting policies adopted by the Company:

Basis of accounting and use of estimates

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements and the amounts of revenues and expenses reported during the period. Actual results could differ materially from those estimates. The significant estimates reflected in the Company's financial statements include, but are not limited to, the loss and loss adjustment expense reserves and estimates of written and earned premiums.

Certain prior year figures have been re-presented to conform to current year presentation in the Statement of Cash Flows.

Cash and cash equivalents

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

Premium revenue recognition

To the extent that the amount of written premium is estimable, the Company estimates the ultimate premiums for the entire contract period and records this estimate at the inception of the contract. For contracts where the full written premium is not estimable at inception, the Company records written premium for the portion of the contract period for which the amount is estimable. These estimates are based primarily on information in the underlying contracts as well as information provided by clients and/or brokers.

Premiums written are earned over the exposure period in proportion to the period of risk covered. Unearned premiums represent the portion of premiums written that relate to the remaining term of the underlying policies in force.

Changes in premium estimates are expected and may result in adjustments in any reporting period. These estimates change over time as additional information regarding the underlying business volume is obtained. Any subsequent adjustments arising on such estimates are recorded in the period in which they are determined.

Where coverage is reinstated under pre-defined contract terms after the occurrence of a loss event, reinstatement premiums are recognized as written and recorded in the period in which they are determined. Accruals for reinstatement premiums are based on contractual terms applied to amounts of losses incurred with the only element of management judgment involved being with respect to the amount of loss reserves. Changes in estimates of reinstatement premiums are reflected in the period that changes in loss estimates are determined.

Reinsurance premiums ceded

The Company reduces the risk of losses on business written by reinsuring certain risks and exposures with other reinsurers. The Company remains liable to the extent that any retrocessionaire may fail to meet its obligations and to the extent that the Company does not hold sufficient security for their unpaid obligations. Ceded premiums are written during the period in which the risks incept and are expensed over the contract period in proportion to the period of risk covered. Prepaid reinsurance premiums consist of the unexpired portion of reinsurance ceded.

Reinsurance transactions that transfer risk but are retroactive are included in reinsurance assets. The excess of estimated liabilities for claims and claim expenses over the consideration paid is established as a deferred credit at inception. The deferred amounts are subsequently amortized using the recovery method over the settlement period of the reserves and reflected through the loss and loss adjustment expenses line in the Statements of Income. In transactions where the consideration paid exceeds the estimated liabilities for loss and loss adjustment expenses a loss is recognized immediately. If the adverse development exceeds the original loss, deferred gains are recorded. The deferred gains are subsequently recognized into earnings over the settlement period of the reserves.

Deferred acquisition costs

Acquisition costs consist of commissions, brokerage and excise taxes that are related directly to the successful acquisition of new or renewal reinsurance contracts. These costs are deferred and amortized over the period in which the related premiums are earned. The Company evaluates the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment income is greater than expected future loss and loss adjustment expenses and acquisition costs. If a loss is probable on the unexpired portion of contracts in force, a premium deficiency loss is recognized. As of December 31, 2017 and 2016, deferred acquisition costs were considered to be fully recoverable and no premium deficiency has been recorded.

Profit commissions

Profit commissions are calculated and accrued based on the expected loss experience for contracts and recorded when the current loss estimate indicates that a profit commission is probable under the contract terms. The reinsurance commission income is being presented within other underwriting income on the Statements of Income.

Loss and loss adjustment expense reserves

The Company's loss and loss adjustment expense reserves include case reserves and reserves for losses incurred but not yet reported ("IBNR reserves"). Case reserves are established for losses that have been reported, but not yet paid. IBNR reserves represent the estimated loss and loss adjustment expenses that have been incurred by insureds and reinsureds but not yet reported to the insurer or reinsurer, including unknown future developments on loss and loss adjustment expenses that are known to the insurer or reinsurer. IBNR reserves are established by management based on actuarially determined estimates of ultimate loss and loss adjustment expenses.

Inherent in the estimate of ultimate loss and loss adjustment expenses are expected trends in claim severity and frequency and other factors that may vary significantly as claims are settled. Accordingly, ultimate loss and loss adjustment expenses may differ materially from the amounts recorded in the financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are recorded in the Statements of Income in the period in which they become known.

As of December 31, 2017 and 2016, the Company did not deem any losses recoverable from reinsurers as uncollectible. Losses recoverable from reinsurers at December 31, 2017 and 2016 represent amounts that are either fully collateralized by a trust fund whereby the Company is the beneficiary with counterparties not having a credit rating or uncollateralized from parties having a minimum rating of A- from AM Best, AA from Standard & Poor's or Aa from Moody's.

Fair value measurement

The Company determines the fair value of financial instruments in accordance with current accounting guidance, which defines fair value and establishes a three level fair value hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Fair value is defined as the price that the Company would receive to sell an asset or would pay to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines the estimated fair value of each individual security utilizing the highest level inputs available.

The fair value of the Company's assets and liabilities, which qualify as financial instruments, approximates the carrying amounts presented in the balance sheets.

The three level hierarchy of inputs is summarized below:

- Level 1 – Quoted prices available in active markets/exchanges for identical assets or liabilities as of the reporting date.
- Level 2 – Observable inputs to the valuation methodology other than unadjusted quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include, but are not limited to, prices quoted for similar assets or liabilities in active markets/exchanges, prices quoted for identical or similar assets or liabilities in markets that are not active and fair values determined through the use of models or other valuation methodologies.

- Level 3 – Pricing inputs unobservable for assets or liabilities include activities where there is little, if any, market activity for the asset or liability. The inputs applied in the determination of fair value require significant management judgment and estimation.

Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk; for example, the risk inherent in a particular valuation technique used to measure fair value. Inputs may be observable or unobservable.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on observable market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of observable input that is significant to the fair value measurement.

Investments

The Company’s investment portfolio comprises fixed income securities, certain traded mutual funds and other investments. These are classified as trading and are carried at fair value with any unrealized gains/losses included in the Statements of Income. Realized gains and losses are recognized in the Statements of Income using the specific identification method.

The fair value of government fixed income securities is based on quoted market prices and the fair value of non-government fixed income securities is based on bid prices and matrix pricing for less liquid securities (as provided by market leading pricing services). The cost of fixed income securities is adjusted for premium amortization and discount accretion.

Investments in mutual funds and other investments are carried at net asset value with changes in net asset values being included as part of income.

Derivatives

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value at each balance sheet date. Fair values are obtained from quoted market prices and, if these are not available, valuation techniques including option pricing models are used, as appropriate. None of the Company’s derivatives have been designated as hedging instruments and; as such, fair value changes are recognized immediately in the Statements of Income.

Foreign currency transactions

The Company’s functional currency is the U.S. dollar. Transactions in foreign currencies are translated to U.S. dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities in foreign currencies are remeasured at the exchange rates in effect at the reporting date and foreign exchange gains and losses are included in the Statement of Income.

Income taxes and uncertain tax positions

Under current Bermuda law, the Company is not subject to any income or capital gains taxes. In the event that such taxes are imposed, the Company would be exempted from any such taxes until March 2035 pursuant to the Tax Assurance Certificates issued to such entities pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966, as amended.

As of December 31, 2017 and 2016, the Company did not have any uncertain tax liabilities.

Adoption of New Accounting Standards

Short Duration Contracts

The FASB issued Accounting Standard Update 2015-09, Insurance Disclosures about Short-Duration Contracts (ASU 2015-09). ASU 2015-09 requires enhanced disclosures surrounding short-duration insurance contracts, the objective of the amendment is to increase the usefulness of the information of the insurance liabilities and the effect on cash flows related to these liabilities as well as improving comparability between reporting entities. The level of disaggregation is left to the discretion of the entity in order to prevent disclosures from being obscured by the inclusion of a large amount of insignificant data or the aggregation of items that have significantly different characteristics.

The amendments in ASU 2015-09 are effective for financial statements issued for fiscal periods ending December 31, 2017 and interim periods within those fiscal years. This amendment was adopted for the 2017 reporting year.

Accounting Guidance Not Yet Adopted

Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued guidance that affects the recognition, measurement, presentation, and disclosure of financial instruments. The guidance requires equity investments to be measured at fair value with changes in fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee) and an assessment of a valuation allowance on deferred tax assets related to unrealized losses of available for sale debt securities in combination with other deferred tax assets. The standard is effective for the Company in the first quarter of 2018 and is not expected to have an impact on our financial condition or results of operations.

Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued guidance on the accounting for credit losses of financial instruments that are measured at amortized cost, including held to maturity securities and reinsurance recoverables, by applying an approach based on the current expected credit losses (CECL). The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset in order to present the net carrying value at the amount expected to be collected on the financial asset on the balance sheets.

The guidance also amends the current available for sale (AFS) security other-than-temporary impairment model by requiring an estimate of the expected credit loss (ECL) only when the fair value is below the amortized cost of the asset. The length of time the fair value of an AFS debt security has been below the amortized cost will no longer impact the determination of whether a potential credit loss exists. The AFS debt security model will also require the use of a valuation allowance as compared to the current practice of writing down the asset.

The standard is effective for the Company in the first quarter of 2021 with early adoption permitted in the first quarter of 2019. Management will assess the effect of adopting this guidance on the Company's financial condition and results of operations closer to the date of adoption.

Statement of Cash Flows

In August 2016, the FASB issued guidance clarifying the classification of certain cash receipts and cash payments within the statement of cash flows. In addition the FASB issued guidance clarifying the classification and presentation of changes in restricted cash in the statement of cash flows. The new standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. The updated guidance is effective for the Company in the first quarter of 2019 with early adoption permitted. The updated guidance should be applied retrospectively. Management is in the process of evaluating the effect the updated guidance will have on the Company's statements of cash flows.

3. Investments and derivatives

The Company's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy as described in the significant accounting policies note.

(a) The fair values of investments in marketable securities is as follows:

	2017	2016
	($ in thousands)	
Government and government agencies		
US	$ 630,830	$ 476,973
Non-US	177,802	163,140
Corporate securities	348,712	401,323
Asset-backed securities	60,101	53,279
Mortgage-backed securities - residential	25,862	21,117
Mortgage-backed securities - commercial	27,382	31,611
Total investments in fixed income securities	1,270,689	1,147,443

Mutual funds	142,500	133,980
Other investments	2,191	3,414
Derivative investments	151	(135)
Total investments in marketable securities	$ 1,415,531	$ 1,284,702

Derivative investments comprise Euro, British Pound and Australian Dollar forward contracts as well as interest rate futures contracts, collectively with notional amounts of $13.8m (2016: $16.4m). The Company recognized in the Statements of Income, within Net investment income, an exchange gain of $0.5m (2016: $0.5m loss) on its forward contract holdings and a loss of $0.5m (2016: $0.1m loss) on its interest rate futures holdings.

(b) The fair values of the Company's investment in fixed income securities, categorized by credit rating is as follows:

	2017	**2016**
	($ in thousands)	
Government and government agencies		
US	$ 630,829	$ 476,973
Non-US	177,802	163,140
AAA	139,688	111,721
AA	28,893	43,938
A	167,546	171,994
BBB	120,104	163,085
Non-investment grade/Not rated	5,827	16,592
Total investments in fixed income securities	$ 1,270,689	$ 1,147,443

Of the Company's fixed income investment portfolio at December 31, 2017, 8% (2016: 8%) is composed of mortgage-backed securities ("MBS") including Government Agency mortgage-backed securities.

The MBS portfolio has a Standard & Poor's weighted average rating of AAA and AA+ at December 31, 2017 and 2016 respectively.

The Company's holdings in MBS are backed by residential and commercial loans and the Company's holdings in Asset Backed Securities are backed by auto, credit card, and student loans originating in the United States of America. Both our MBS and Asset Backed Securities have a weighted average rating of AAA as at December 31, 2017, and a weighted average rating of AA+ as at December 31, 2016.

All of the classes of MBS are sensitive to changes in interest rates and any resulting change in the rate at which borrowers sell their properties, refinance, or otherwise pre-pay their loans. As an investor in these classes of MBS, the Company may be exposed to the credit risk of underlying borrowers not being able to make timely payments on loans or the likelihood of borrowers defaulting on their loans. In addition, the Company may be exposed to significant market and liquidity risks.

(c) The Company realized losses on investments in securities held for trading of $6.1m during 2017 (2016: $4.5m gain) with an associated realized foreign exchange loss of $0.5m (2016: $0.6m). The 2017 change in unrealized gain on investments in securities held for trading was $24.0m (2016: 1.9m loss) and the 2017 change in the unrealized foreign exchange yielded a gain of $27.9m (2016: $30.1m loss).

The realized and unrealized gains and losses on investments in securities held for trading is included in Net investment income in the Statements of Income and the realized and unrealized foreign exchange gains and losses are included in Foreign exchange gain/(loss) in the Statements of Income.

The fair values of the Company's fixed interest securities are based on prices provided by investment managers who obtain observable market data from a variety of market leading independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets. For those securities that are not actively traded, the pricing services use market accepted valuation pricing models to determine fair value.

The following describes the significant inputs used to determine the fair value of our fixed interest securities by asset class.

U.S. treasuries
Pricing services utilize data from multiple real-time market sources, including active broker dealers.

Government agencies
Government Agencies consist of securities issued by a government-guaranteed entity and include MBS, asset-backed securities and corporate securities. The securities are priced as detailed below:

Non-U.S. government (sovereign debt)
Non-U.S. government (sovereign debt) comprises of bonds. When determining a fair value for these securities, pricing services gather data from multiple market sources including observable market data from market and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volume, when available. For securities for which trade volume is low, pricing services utilize data from actively traded securities with similar features.

Corporate
Corporate debt securities consist primarily of investment-grade debt for a wide variety of well-known corporate issuers. When determining a fair value for these securities, pricing services gather information from observable market sources regarding the issuer of the security, credit data, and other inputs.

Asset-backed securities (including residential and commercial mortgage-backed securities)
When determining a fair value for asset-backed securities, pricing services may apply dealer quotes and other available trade information such as bids & offers, prepayment spreads (which may be adjusted for the underlying collateral or current price data), the U.S. treasury curve, swap curve and to-be-announced ("TBA") market values as well as cash settlement.

Other investments
Other investments comprise an investment in a Limited Partnership which invests in underlying investments in emerging market private equity, infrastructure and real estate securities.

Mutual funds

Investments in mutual funds comprise an underlying portfolio of trading securities for which active market quotes are available. The fair value of shares in unit trusts is based on the net asset value of the fund as reported by either independent pricing sources or a fund manager.

Mutual funds represent investments in funds where the underlying holdings comprise equity securities. The investment managers of these funds calculate a daily to monthly Net Asset Value ("NAV") which is reviewed by the Company as part of our internal control processes. The terms and conditions under which we may redeem our investments where the fund's NAV has been used as a practical expedient of fair value ranges from daily to quarterly other than for one such investment, where there remains 1 year of an original 10 year duration with the ability to redeem being subject to market appetite.

The following tables present the Company's fair value hierarchy as of December 31, 2017 and 2016:

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
		($ in thousands)		
Government and government agencies				
US	$ 521,434	$ 109,396	$ -	$ 630,830
Non-US	80,066	97,736	-	177,802
Corporate securities	-	348,712	-	348,712
Asset-backed securities	-	60,101	-	60,101
Mortgage-backed securities - residential	-	25,862	-	25,862
Mortgage-backed securities - commercial	-	27,382	-	27,382
Derivative instruments	-	151	-	151
Other investments	-	-	2,191	2,191
Total assets	$ 601,500	$ 669,340	$ 2,191	$ 1,273,031
Assets excluded from fair value hierarchy *				142,500
Total assets				$ 1,415,531

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
		($ in thousands)		
Government and government agencies				
US	$ 369,836	$ 107,137	$ –	$ 476,973
Non-US	57,986	105,154	–	163,140
Corporate securities	–	401,323	–	401,323
Asset-backed securities	–	53,279	–	53,279
Mortgage-backed securities - residential	–	21,117	–	21,117
Mortgage-backed securities - commercial	–	31,611	–	31,611
Derivative instruments	–	(135)	–	(135)
Other investments	–	–	3,414	3,414
Total assets	$ 427,822	$ 719,486	$ 3,414	$ 1,150,722
Assets excluded from fair value hierarchy *				133,980
Total assets				$ 1,284,702

** Assets excluded from the fair value hierarchy comprise investments where the Net Asset Value, as provided to the Company, has been used as a practical expedient of fair value.*

During the years ended December 31, 2017 and 2016, the Company made no reclassifications of assets or liabilities between Levels.

4. Concentration of credit risk

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents and investments. The investment portfolio is managed using diversification with restrictions on the allowable holdings of a single issue or issuer.

11% (2016: 11%) of cash and cash equivalents are held at a US financial institution rated A+ by Fitch Ratings. 84% (2016: 84%) at a Bermuda bank rated A- by Standard & Poor’s, 3% (2016: 3%) represent US Government Treasury Bills classified as cash equivalents due to their short duration, rated A-1+ by Standard & Poor’s, 2% (2016: NIL) represent Government of Germany bonds classified as cash equivalents due to their short duration, rated AAA by Fitch, NIL (2016: 1%) in an Irish Corporate Money Fund rated AAA by Standard & Poor’s and NIL (2016: 1%) at a UK financial institution rated A- by Standard & Poor’s. The Company’s management evaluates the financial strength and stability of these institutions on a periodic basis. The Company’s investment portfolio is managed by an external investment manager in accordance with the Company’s investment guidelines.

A credit risk exists should any cedants be unable to fulfill their contractual obligations with respect to the payment of reinsurance balances due to the Company. As at December 31, 2017, approximately 94% (2016: 89%) of reinsurance balances receivable due from rated cedants are due from cedants which are rated ‘A’ or above and/or are fully collateralized. Rated cedants (including those fully collateralized) account for 99% (2016: 99%) of reinsurance balances receivable. Annually the Company evaluates the exposure to individual reinsurers, assessing if the Company requires collateral to support reinsurance balances receivable. As at December 31, 2017 $414.5m (2016: $57.8m) of collateral was held in trust or were funds withheld from reinsurers. The Company is the sole beneficiary of the trusts and funds withheld.

The Company underwrites the majority of its reinsurance business through brokers. The same evaluation process is applied when selecting and monitoring the brokers we work with as for our reinsurers.

5. Commitments and security arrangements

The letter of credit facilities held by the Company as at December 31, 2017 and 2016 are as follows:

	2017	2016
	($ in thousands)	
Citibank	$ 100,000	$ 100,000
Commerzbank	150,000	150,000
National Australia Bank	150,000	150,000
	$ 400,000	$ 400,000

Collectively, the secured facility agreements allow the Company to request the issuance of up to $400.0m (2016: $400.0m) in letters of credit. At December 31, 2017, $100.7m (2016: $95.9m) in letters of credit were issued under these facilities, collateralized by cash, U.S. government and corporate securities with a fair value of $115.8m (2016: $109.1m).

Hiscox plc, a company related by common control, has a letter of credit and revolving credit facility with Lloyds Banking Group, as agent for a syndicate of banks, of $500.0m (2016: $500.0m) which may be drawn in cash (under a revolving credit facility), letter of credit or a combination thereof, providing that the cash portion does not exceed $500.0m. In addition, the terms also provide that upon request the facility may be drawn in a currency other than US Dollars. At December 31, 2017 $10.0m (2016: $10.0m) was utilised by way of letter of credit and no cash drawings were outstanding (2016: nil). The borrower for this letter of credit is initially responsible for repaying the banks for any amounts drawn. However, the facility is guaranteed by Hiscox Ltd and other affiliated companies, including the Company. This guarantee entitles the banks to pursue any of these entities for any sums due. In addition, the banks have share pledges over the shares of Hiscox Insurance Company Limited, an affiliate company, and Hiscox Insurance Company (Bermuda) Limited which can be called in the circumstance of a payment default.

During 2017, the Company maintained assets in trust accounts to collateralize obligations under various reinsurance agreements. At December 31, 2017 total marketable securities with a carrying value of approximately $670.4m (2016: $468.2m) were held in trust.

At December 31, 2017 $6.1m (2016: $15.9m) of cash was restricted as collateral within various Letter of Credit and trust accounts.

6. Loss and loss adjustment expense reserves

As of December 31, 2017 and 2016, net loss and loss adjustment expense reserves in the balance sheets were comprised of the following:

	2017	2016
	($ in thousands)	
Case loss and loss adjustment expense reserves, net	$ 268,934	$ 202,605
Incurred but not reported loss and loss adjustment expense reserves, net	489,762	420,315
	$ 758,696	$ 622,920

The following table represents the activity in the net loss and loss adjustment expense reserves for the years ended December 31, 2017 and 2016:

	2017	2016
	($ in thousands)	
Gross loss and loss adjustment expenses reserves, beginning of year	$ 734,177	$ 659,484
Less: loss and loss adjustment expenses recoverable, beginning of year	(111,257)	(44,564)
Net loss and loss adjustment expenses reserves, beginning of year	622,920	614,920
Net loss and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	462,571	339,029
Prior year	(169,539)	(106,006)
Total net loss and loss adjustment expenses incurred	293,032	233,023
Acquisitions and (transfers) *	-	(17,400)
Net loss and loss adjustment expenses paid in respect of losses occurring in:		
Current year	(68,015)	(45,906)
Prior year	(120,390)	(120,927)
Total net paid losses	(188,405)	(166,833)
Effect of foreign exchange	31,149	(40,790)

(expressed in U.S. Dollars)

Net loss and loss adjustment expenses reserves, end of year	758,696	622,920
Plus: loss and loss adjustment expenses recoverable, end of year	553,082	111,257
Gross loss and loss adjustment expenses reserves, end of year	$ 1,311,778	$ 734,177

*The net movement relates to a retroactive reinsurance arrangement that transferred the benefits and risks of some quota share agreements with related parties. In the current year, the movement is included in the net losses incurred and net loss expenses paid figures.

The Company experienced favorable loss development of $169.5m (2016: $106.0m) on prior years during the year ended December 31, 2017 primarily due to the reduction of provisions for more developed underwriting years and better than expected loss experience.

Incurred and Paid Claims Development

The Company has disaggregated the disclosures of claims development by accident year by source of business as follows:

(i) Externally placed business

Within business assumed from third parties, the Company principally writes property catastrophe, property risk and proportional reinsurance. Under these contracts, the Company indemnifies an insurer or reinsurer when its aggregate paid claims and claim expenses from a single occurrence of a covered peril exceed the attachment point specified in the contract, up to an amount per loss specified in the contract. The Company's most significant exposure is to losses from hurricanes, earthquakes and windstorms, although the Company is also exposed to claims arising from other catastrophes, such as tsunamis, winter storms, freezes, floods, fires, tornadoes, explosions and acts of terrorism. The Company's predominant exposure under such coverage is to property damage; however, other risks, including business interruption and other non-property losses, may also be covered under the Company's catastrophe contracts when arising from a covered peril.

The Company's coverages are offered on either a worldwide basis or are limited to selected geographic areas, usually within the United States. The Company offers products principally through non-proportional coverage.

(ii) Internally placed business

In addition to the business assumed from third parties (“Externals”), the Company also assumes business from related parties, for which the reserves are determined by Group actuaries responsible for a specific legal entity. The internal reinsured book of business (“Internals”) has a mixture of lines of business and exposures.

As with the external business, Internals can include relatively large limits or exposures. Unlike the external book of business which is dominated by short-tail lines, the Company’s internal reinsurance has a mix of both long and short tailed lines. As a result of the foregoing, the internal book of business can be subject to significant claims volatility.

Reserving Methodology

Reserving methods used include the Bornhuetter-Ferguson ("BF") method and the Expected Loss Ratio method for the most recent year(s). These methods place weight on initial loss expectations and are less volatile to early claims experience. For significant catastrophe exposures, the catastrophe component of the initial expected loss ratio is developed in line with a seasonally adjusted earning pattern rather than a standard triangle runoff pattern. As the years of account become more mature, more weighting is placed on the emerging experience and the projection will move over to a Chain Ladder projection (or blend of the BF and Chain Ladder methods). Over and above the exposure based methods for assessment of Catastrophe IBNR required specific IBNER is held for known events that have occurred. These IBNER estimates are established through the large loss process which is a robust and well established process run within the group. Combining these two approaches the non-attritional IBNR estimates are estimated.

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

There have been no significant changes in methodologies and assumptions during the year ended December 31, 2017.

Claims Development Tables by Accident Year

The information provided herein about incurred and paid accident year claims development for the years ended prior to December 31, 2017 is presented as supplementary information and is therefore unaudited.

For incurred and paid accident year claims denominated in foreign currency, the Company has revalued using the current period end exchange rate.

The following external loss triangles are presented in thousands.

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	For the Years ended December 31,										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims
Accident Year	UNAUDITED										
2008	105,973	98,840	106,169	99,706	96,793	95,036	94,780	93,997	94,828	94,773	3
2009		67,276	44,052	40,481	39,068	37,629	36,678	36,573	35,531	35,070	106
2010			133,822	97,491	88,795	83,462	81,591	80,959	80,580	78,331	6,986
2011				303,575	281,383	276,766	281,424	274,827	264,400	257,383	4,308
2012					110,557	94,837	90,588	85,858	81,023	76,949	7,117
2013						76,453	61,421	57,231	48,940	46,033	418
2014							44,379	39,605	33,127	37,242	1,250
2015								19,233	20,854	25,130	6,890
2016									24,810	33,378	11,170
2017										97,015	101,480
										781,304	

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

Accident Year	For the Years ended December 31, 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	UNAUDITED									
2008	49,216	90,481	114,027	124,606	131,752	133,368	94,374	94,569	94,775	94,805
2009		10,600	22,947	29,904	33,046	33,771	34,090	34,201	34,680	34,379
2010			11,534	32,831	45,171	51,851	60,011	63,372	71,664	69,668
2011				102,147	168,890	229,060	256,170	281,828	288,488	248,106
2012					12,872	38,851	53,672	58,688	64,048	60,180
2013						8,847	18,016	36,374	39,432	41,768
2014							7,974	23,831	31,235	34,569
2015								3,797	9,300	14,717
2016									4,841	17,350
2017										18,851
										634,393
All outstanding liabilities before 2008, net of reinsurance										128
Liabilities for claims and claim adjustment expenses, net of reinsurance										147,039

The following internal loss triangles are presented in thousands.

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31, 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims
	UNAUDITED										
2008 AY	21,857	45,085	38,774	37,495	38,355	35,515	38,241	39,023	35,668	35,748	4,439
2009 AY		80,552	72,997	70,563	69,012	64,725	66,649	63,086	63,510	60,997	4,186
2010 AY			102,377	103,077	101,007	96,004	92,743	90,824	81,571	79,475	2,802
2011 AY				113,703	103,080	89,112	88,947	86,789	78,398	80,736	3,172
2012 AY					128,285	118,155	105,087	109,355	106,044	109,510	5,766
2013 AY						165,029	135,225	119,990	110,321	112,540	10,221
2014 AY							185,589	165,546	147,824	133,542	21,258
2015 AY								221,971	207,633	189,756	57,868
2016 AY									269,057	243,361	111,141
2017 AY										316,787	163,078
										1,362,452	

(expressed in U.S. Dollars)

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

	For the Years Ended December 31,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Accident Year	UNAUDITED									
2008 AY	9,142	19,334	25,155	27,414	28,903	29,257	30,182	30,260	30,858	30,897
2009 AY		16,771	36,739	40,883	44,458	50,207	53,183	53,755	53,721	54,137
2010 AY			27,761	56,389	62,076	62,314	67,012	74,098	76,573	77,012
2011 AY				21,907	41,718	50,362	53,504	70,865	70,419	78,789
2012 AY					33,728	49,949	55,653	80,934	89,500	92,753
2013 AY						24,697	42,639	71,557	83,981	90,835
2014 AY							22,815	62,132	83,195	94,322
2015 AY								35,728	76,102	95,700
2016 AY									40,911	93,525
2017 AY										51,132
										759,102
All outstanding liabilities before 2008, net of reinsurance										3,826
Liabilities for claims and claim adjustment expenses, net of reinsurance										607,176

Reconciliation of the Disclosure of Incurred and Paid Claims Development to Loss and Loss Adjustment Expense Reserves

The reconciliation of the net incurred and paid claims development tables to the loss and loss adjustment expense reserves in the balance sheet is as follows:

Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and CAEs

Net Outstanding Liabilities	
External	147,039
Internal	607,176
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	754,215
Reinsurance recoverable on unpaid claims	
External	525,634
Internal	25,356
Total reinsurance recoverable on unpaid claims	550,990
Other	6,573
Total gross liability for unpaid claims and claim adjustment expense	1,311,778

Historical Claims Duration

The following is unaudited supplementary information about average historical claims duration by external and internal business sources:

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance
UNAUDITED

Years	1	2	3	4	5	6	7	8	9	10
External	24.3%	32.0%	22.3%	9.0%	6.3%	-1.4%	2.9%	0.9%	0.2%	0.2%
Internal	23.7%	25.0%	12.2%	8.4%	9.2%	3.4%	4.3%	0.2%	1.2%	0.1%

A negative payout relates to a period where reinsurance for the year was received to a greater extent than gross payments as a result of timing differences.

Claims Frequency

Due to the nature, size, terms and conditions of contracts entered into by the Company changes from one accident year to the next and the quantum of contractual or policy limits, and accordingly the potential amount of claims and claim expenses associated with the reported claim can range from nominal to significant. For some contracts, the Company does not have access to the claim frequency information underlying certain proportional contracts given the nature of the business. As a result of the nature of the Company's business it is not practicable to determine claim frequency.

7. Related party transactions

During the year, the Company entered into reinsurance and retrocession agreements with affiliates. The financial statements include the following amounts which are attributable to reinsurance assumed and retrocession related party transactions:

	2017	2016
	($ in thousands)	
Gross premiums written	$ 526,530	$ 454,670
Gross premiums earned	501,193	434,807
Gross premiums ceded	219,486	132,225
Earned premiums ceded	207,697	128,175
Loss and loss adjustment expenses incurred, net	88,160	205,680
Acquisition costs, net	11,306	11,842
Reinsurance balances receivable	196,146	164,647
Deferred acquisition costs, net	4,002	1,948
Loss and loss adjustment expense recoverable	364,292	70,773
Prepaid reinsurance premiums	32,595	20,812
Reinsurance balances payable	11,329	11,484
Unearned premium reserves	225,107	199,762
Loss and loss adjustment expenses reserves	818,797	529,466

The Company entered into various service agreements with Hiscox Underwriting Group Services Limited ("HUGS") and Hiscox Services Ltd. ("HSL"). HUGS and HSL are wholly-owned subsidiaries of Hiscox Ltd. The service agreements with HUGS cover group wide investment management services, claims & legal services, human resources, IT, actuarial, accounting and other general corporate services, modeling services and outwards reinsurance administration services. The service agreements with HSL cover Bermuda general expenses as well as support services such as underwriting, modeling, outwards reinsurance administration, human resources, operations, claims, and accounting services.

Transactions and balances with HUGS and HSL have been recorded in the financial statements as follows:

	2017	2016
	($ in thousands)	
HUGS:		
Other liabilities	$ 14,503	$ 2,538
General and administrative expenses	4,530	5,470
HSL:		
Other assets	24,495	8,798
General and administrative expenses	15,562	18,975

Related party balances with other Hiscox affiliates have been recorded in the financial statements as follows:

	2017	2016
	($ in thousands)	
Other assets	$ 226,116	$ 93,733
Other liabilities	4,719	5,912

The expense recognized during the year for the fair value of equity awards made to employees of the Company in the form of share options in the parent company, Hiscox Ltd, is $1.9m (2016: $2.5m).

As outlined in Note 5, during 2017 the Company maintained assets in trust accounts to collateralize its obligations under various reinsurance agreements. At December 31, 2017, total cash and marketable securities with a carrying value of approximately $659.5m (2016: $457.2m) were held in trust in favor of Hiscox affiliates.

8. Dividends paid

During April 2017, a dividend of $155.0m was declared and paid to Hiscox Ltd.

9. Statutory requirements

As a Class 4 insurer, the Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of The Insurance Act 1978. Each year the Company is required to file with the Bermuda Monetary Authority (the "Authority") a capital and solvency return within four months of its relevant financial year end (unless specifically extended).

The prescribed form of capital and solvency return comprises the insurer's Bermuda Solvency Capital Requirement ("BSCR") model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities by security type. The BSCR includes a standardized model used to measure the risk associated with an insurer's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The Authority has provided for the use of pre-approved internally developed company models in lieu of the standardized

BSCR. The Authority requires all Class 4 insurers to maintain their capital at a target level which is 120% of the amount calculated in accordance with the BSCR or the company's approved internal model (the Enhanced Capital Requirement or "ECR"). In addition, the Company is required to maintain a minimum solvency margin. Both requirements have been met.

Statutory capital and surplus at December 31, 2017, as determined using statutory accounting principles, was $864.8m (2016: $834.0m). At December 31, 2017 the Company's minimum capital requirement was $297.6m (2016: $268.1m).

The Insurance Act 1978 also requires an insurer engaged in general business to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable and funds held by ceding reinsurers. There are certain categories of assets which, unless specifically permitted by the Authority, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax, sundry liabilities (by interpretation, those not specifically defined) and, letters of credit, guarantees and other instruments. The minimum liquidity ratio has been met.

The Company is prohibited from declaring or paying a dividend if its Class 4 statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause such breach. Further, the Company, as a Class 4 insurer, is prohibited from declaring or paying in any year dividends of more than 25% of its total statutory capital and surplus as shown on its previous year's statutory balance sheet unless it files (at least seven days before payment of such dividends) with the Authority an affidavit stating that it will continue to meet its solvency margin and minimum liquidity ratio. As of December 31, 2017, the Company could pay dividends of $216.2m (2016: $208.5m) without providing an affidavit to the BMA.

The Company must obtain the Authority's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's statutory financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to those under the Companies Act 1981, which apply to all Bermuda companies.

10. Subsequent events

Subsequent to year-end, the Company issued additional letters of credit with effective dates of December 31, 2017, totaling $79.7 million. These letters of credit were collateralized with cash and US government securities with a fair value of $79.7 million.

Subsequent events have been evaluated up to and including May 3, 2018, being the date that these financial statements were available to be issued.