FINANCIAL STATEMENTS

Hiscox Insurance Company (Bermuda) Limited
Years Ended December 31, 2018 and 2017
With Report of the Independent Auditor

Hiscox Insurance Company (Bermuda) Limited

Financial Statements

Years Ended December 31, 2018 and 2017

Contents

Independent auditor's report

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

Our opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Hiscox Insurance Company (Bermuda) Limited (the Company) as at December 31, 2018, and results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

What we have audited

The Company's financial statements comprise:

- the Balance Sheet as at December 31, 2018;
- the Statement of Income for the year then ended;
- the Statement of Changes in Shareholder's Equity for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Responsibilities of management and those charged with governance 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for evaluating whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued, or available to be issued, and disclosing, as applicable, matters related to this evaluation unless the liquidation basis of accounting is being used by the Company.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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
April 29, 2019

Reference: Independent auditor's report on the Financial Statements of Hiscox Insurance Company (Bermuda) Limited as at December 31, 2018 and for the year then ended

Hiscox Insurance Company (Bermuda) Limited
Balance Sheets

As of December 31, 2018 and 2017
(expressed in thousands of U.S. dollars, except per share and share amounts)

	2018	2017
Assets		
Cash and cash equivalents (Note 4)	$ 213,452	$ 111,960
Investments in marketable securities (Notes 3 and 4)	1,365,098	1,415,531
Reinsurance balances receivable (Note 4)	281,264	279,429
Loss and loss adjustment expenses recoverable (Notes 4 and 6)	875,171	553,082
Deferred acquisition costs, net	26,872	18,207
Prepaid reinsurance premiums	104,442	57,015
Accrued interest receivable	6,655	6,204
Receivable for securities sold	32	13,102
Other assets (Note 7)	95,515	245,979
Total assets	$ 2,968,501	$ 2,700,509
Liabilities		
Reinsurance balances payable	$ 234,410	$ 188,453
Unearned premium reserves	271,056	299,721
Loss and loss adjustment expense reserves (Note 6)	1,691,690	1,311,778
Deferred income	5,095	6,989
Dividends payable (Note 7 and 8)	80,000	-
Other liabilities (Note 7)	72,433	28,771
Total liabilities	$ 2,354,684	$ 1,835,712
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	111,817	362,797
Total shareholder's equity	613,817	864,797
Total liabilities and shareholder's equity	$ 2,968,501	$ 2,700,509

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, 2018 and 2017
(expressed in thousands of U.S. dollars)

	2018	2017
Revenues		
Gross premiums written	$ 874,507	$ 793,607
Change in unearned premium reserves	28,665	(13,663)
Gross premiums earned	903,172	779,944
Gross premiums ceded	471,948	329,702
Change in prepaid reinsurance premiums	(47,427)	(9,802)
Earned premiums ceded	424,521	319,900
Net premiums earned	478,651	460,044
Other underwriting income	47,041	38,499
Net investment income	7,975	37,180
Total revenues	533,667	535,723
Expenses		
Loss and loss adjustment expenses incurred	897,063	820,745
Reinsurance recoveries	(557,440)	(527,713)
Loss and loss adjustment expenses incurred, net (Note 6)	339,623	293,032
Acquisition costs	72,118	61,469
General and administrative expenses (Note 7)	9,929	9,584
Foreign exchange loss / (gain)	14,977	(14,099)
Total expenses	436,647	349,986
Net income	$ 97,020	$ 185,737

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, 2018 and 2017
(expressed in thousands of U.S. dollars, except per share and share amounts)

		2018		2017
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		362,797		332,060
Net income		97,020		185,737
Dividends declared (Notes 7 and 8)		(348,000)		(155,000)
Balance, end of year	$	111,817	$	362,797
Total shareholder's equity	$	613,817	$	864,797

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, 2018 and 2017
(expressed in thousands of U.S. dollars)

		2018		2017
Operating activities				
Net income	$	97,020	$	185,737
Adjustments to reconcile net income to net cash provided by operating activities:				
Share compensation expense		(109)		1,915
Realized loss on marketable securities		1,884		6,442
Unrealized loss (gain) on marketable securities		15,745		(24,377)
Unrealized loss (gain) on foreign exchange		24,688		(33,361)
Sale (purchase) of investments, net		15,859		(84,977)
Changes in assets and liabilities:				
Reinsurance balances receivable		(1,835)		(25,648)
Deferred acquisition costs, net		(8,665)		1,821
Loss and loss adjustment expenses recoverable		(322,089)		(441,825)
Prepaid reinsurance premiums		(47,427)		(9,802)
Accrued interest receivable		(451)		(1,094)
Other assets		150,464		(127,359)
Receivable for securities sold		13,070		(13,102)
Reinsurance balances payable		45,957		72,227
Loss and loss adjustment expense reserves		379,912		577,601
Unearned premium reserves		(28,665)		13,663
Deferred income		(1,894)		(485)
Payable for securities purchased		-		(2,266)
Other liabilities		43,771		(5,962)
Net cash provided by operating activities		377,235		89,148
Financing activities				
Dividends paid		(268,000)		(155,000)
Net cash used in financing activities		(268,000)		(155,000)
Net change in cash and cash equivalents		109,235		(65,852)
Cash and cash equivalents, beginning of year		111,960		172,368
Effect of exchange rate movements on cash		(7,743)		5,444
Cash and cash equivalents, end of year	$	213,452	$	111,960

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

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements
(expressed in U.S. dollars)

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.

Cash and cash equivalents

Cash and cash equivalents consist of cash held at 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

2. Significant accounting policies (continued)

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, 2018 and 2017, 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

2. Significant accounting policies (continued)

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 the methods described in Note 6.

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, 2018 and 2017, the Company did not deem any losses recoverable from reinsurers as uncollectible. Losses recoverable from reinsurers at December 31, 2018 and 2017 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.

2. Significant accounting policies (continued)

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.

2. Significant accounting policies (continued)

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, 2018 and 2017, the Company did not have any uncertain tax liabilities.

New Accounting Pronouncements

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. ASU 2016-01 was effective for the Company in the first quarter of 2018. The adoption of ASU 2016-01 did not have a material impact on the Company's statements of operations and financial position.

Accounting Guidance Not Yet Adopted

Effective January 1, 2019 the Company will present its financial statements under International Financial Reporting Standards ("IFRS"). The adoption of IFRS will align the Company's reporting with that of its Parent. As a result, U.S. GAAP guidance not yet adopted will not be applicable for the Company's future reporting periods. The initial adoption of IFRS is not expected to have a significant impact on the Company's statements of operations and financial position.

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.

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

	2018	2017
	($ in thousands)	
Government and government agencies		
U.S.	$ 557,157	$ 630,830
Non-U.S.	174,198	177,802
Corporate securities	420,040	348,712
Asset-backed securities	47,092	60,101
Mortgage-backed securities - residential	20,220	25,862
Mortgage-backed securities - commercial	17,151	27,382
Total investments in fixed income securities	1,235,858	1,270,689
Mutual funds	127,452	142,500
Other investments	1,113	2,191
Derivative investments	675	151
Total investments in marketable securities	$ 1,365,098	$ 1,415,531

Derivative investments comprise Euro, British Pound, Japanese Yen and Australian Dollar forward contracts as well as interest rate futures contracts, collectively with notional amounts of $108.9m (2017: $66.0m). The Company recognized in the Statements of Income, within Net investment income, a net exchange gain of $0.7m (2017: $0.5m gain) on its forward contract holdings and a net loss of $0.1m (2017: $0.5m loss) on its interest rate futures holdings. 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.

3. Investments and derivatives (continued)

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

	2018	2017
	($ in thousands)	
Government and government agencies		
U.S.	$ 557,157	$630,829
Non-U.S.	174,198	177,802
AAA	113,491	139,688
AA	46,665	28,893
A	197,532	167,546
BBB	144,578	120,104
Non-investment grade *	2,237	5,827
Total investments in fixed income securities	$ 1,235,858	$ 1,270,689

* *Fixed income securities with a rating of below BBB*

Of the Company's fixed income investment portfolio at December 31, 2018, 4.5% (2017: 8.0%) 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 at December 31, 2018 and 2017 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, 2018 and 2017.

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.

(b) The Company realized losses on investments in securities held for trading, excluding derivatives, of $2.1m during 2018 (2017: $6.1m gain) with an associated net realized foreign exchange loss of $0.6m (2017: $0.5m). The 2018 change in net unrealized gains on investments in securities held for trading was $16.0m (2017: 24.0m gain) and the 2018 change in the unrealized foreign exchange yielded a net loss of $16.4m (2017: $27.9m gain).

3. Investments and derivatives (continued)

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.

3. Investments and derivatives (continued)

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, 2018 and 2017:

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
		($ in thousands)		
Government and government agencies				
U.S.	$ 487,237	$ 69,920	$ -	$ 557,157
Non-U.S.	95,282	78,916	-	174,198
Corporate securities	-	420,040	-	420,040
Asset-backed securities	-	47,092	-	47,092
Mortgage-backed securities - residential	-	20,220	-	20,220
Mortgage-backed securities - commercial	-	17,151	-	17,151
Derivative instruments	-	675	-	675
Other investments	-	-	1,113	1,113
Total assets	$ 582,519	$ 654,014	$ 1,113	$ 1,237,646
Assets excluded from fair value hierarchy *				127,452
Total assets				$ 1,365,098

3. Investments and derivatives (continued)

2017	Level 1	Level 2	Level 3	Total
		($ in thousands)		
Government and government agencies				
U.S.	$ 521,434	$ 109,396	$ -	$ 630,830
Non-U.S.	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

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

The Company's one Level 3 investment relates to an investment in a limited partnership, where a quarterly net asset value has been used as a practical expedient of fair value.

During the years ended December 31, 2018 and 2017, 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.

9% (2017: 11%) of cash and cash equivalents are held at a U.S. financial institution rated A+ by Fitch Ratings. 79% (2017: 84%) at a Bermuda bank rated A- by Standard & Poor's, 6% (2017: 3%) represent U.S. Government Treasury Bills classified as cash equivalents due to their short duration, rated A-1+ by Standard & Poor's, 4% (2017: NIL) of cash and cash equivalents are held at a U.S. financial institution rated A1 by Moody'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 of our retrocessionaires be unable to fulfill their contractual obligations with respect to the payment of reinsurance balances due to the Company. As at December 31, 2018, of the $875.2m (2017: $553.1) of loss and loss adjustment expenses recoverable, approximately 25% (2017: 22%) or $213.4m (2017: $118.9) are due from cedants who are rated 'A' or above. Of the remaining 75%

4. Concentration of credit risk (continued)

(2017: 78%) or $661.8m (2017: $434.2), we hold collateral of $657.2m (2017: $414.5) in the form of trusts and funds withheld. At December 31, 2018 the Company does not deem any of its loss and loss adjustment expenses recoverable as uncollectible.

The Company regularly monitors and evaluates its exposure to individual cedants and brokers, and assesses if it requires collateral to support its Reinsurance Balances Receivable. As at December 31, 2018 $170.2m (2017: $196.2m) of the Company's total Reinsurance Balances Receivable of $281.3 (2017: $279.4) were due from Hiscox affiliates. External reinsurance balances receivable of $111.1 (2017: $83.2) have been evaluated and at December 31, 2018, the Company does not deem any of its reinsurance balances receivable as uncollectible.

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, 2018 and 2017 are as follows:

		2018		2017
		($ in thousands)		
Citibank	$	150,000	$	100,000
Commerzbank		225,000		150,000
National Australia Bank		225,000		150,000
	$	600,000	$	400,000

Collectively, the secured facility agreements allow the Company to request the issuance of up to $600.0m (2017: $400.0m) in letters of credit. At December 31, 2018, $130.5m (2017: $100.7m) in letters of credit were issued under these facilities, collateralized by cash, U.S. government and corporate securities with a fair value of $152.8m (2017: $115.8m).

During 2018, the Company maintained assets in trust accounts to collateralize obligations under various reinsurance agreements. At December 31, 2018, $622.3m (2017: $670.4m) of marketable securities and $10.7m (2017: $6.1m) of cash were restricted as collateral within various Letter of Credit and trust accounts.

Additionally, as at December 31, 2018, $9.5m of cash and $15.3m of marketable securities were maintained in a trust account for credit enhancement purposes.

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 $800.0m (2017: $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 $800.0m. In addition, the terms also provide that upon request the facility may be drawn in a currency other than US Dollars. At December 31, 2018 $50.0m (2017:

5. Commitments and security arrangements (continued)

$10.0m) was utilised by way of letter of credit and no cash drawings were outstanding (2017: 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.

6. Loss and loss adjustment expense reserves

As of December 31, 2018 and 2017, net loss and loss adjustment expense reserves in the balance sheets were comprised of the following:

	2018	2017
	($ in thousands)	
Case loss and loss adjustment expense reserves, net	$ 339,836	$ 268,934
Incurred but not reported loss and loss adjustment expense reserves, net	476,683	489,762
	$ 816,519	$ 758,696

The following table represents the activity in the net loss and loss adjustment expense reserves for the years ended December 31, 2018 and 2017:

	2018	2017
	($ in thousands)	
Gross loss and loss adjustment expenses reserves, beginning of year	$ 1,311,778	$ 734,177
Less: loss and loss adjustment expenses recoverable, beginning of year	(553,082)	(111,257)
Net loss and loss adjustment expenses reserves, beginning of year	758,696	622,920
Net loss and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	408,106	462,571
Prior year	(68,483)	(169,539)
Total net loss and loss adjustment expenses incurred	339,623	293,032
Net loss and loss adjustment expenses paid in respect of losses occurring in:		
Current year	(58,836)	(68,015)
Prior year	(204,593)	(120,390)
Total net paid losses	(263,429)	(188,405)
Effect of foreign exchange	(18,371)	31,149
Net loss and loss adjustment expenses reserves, end of year	816,519	758,696
Plus: loss and loss adjustment expenses recoverable, end of year	875,171	553,082
Gross loss and loss adjustment expenses reserves, end of year	$ 1,691,690	$ 1,311,778

6. Loss and loss adjustment expense reserves (continued)

The Company experienced favorable loss development of $68.5m (2017: $169.5m) on prior years during the year ended December 31, 2018 primarily due to favorable run-off on Harvey, Irma and Maria and releases of reserves during the period.

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. 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

6. Loss and loss adjustment expense reserves (continued)

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 IBNR estimates are determined.

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, 2018.

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, 2018 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 of U.S. dollars:

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	For the Years ended December 31,										Total of Incurred-but-Not-Reported Liabilities Plus Expected Development
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Accident Year	UNAUDITED										
2009	67,629	44,283	40,693	39,273	37,826	36,870	36,765	35,717	34,809	35,081	55
2010		145,726	106,164	96,694	90,887	88,850	88,161	87,748	81,123	77,868	6,947
2011			293,954	272,465	267,995	272,505	266,117	256,021	247,670	247,582	8,423
2012				109,998	94,357	90,129	85,424	80,613	75,801	76,731	7,576
2013					71,786	57,672	53,737	45,952	42,499	43,102	1,243
2014						49,648	44,308	37,061	42,591	35,781	423
2015							18,640	20,215	25,877	23,952	2,463
2016								16,752	32,957	33,710	481
2017									90,654	56,832	44
2018										152,252	73,364
										782,891	

6. Loss and loss adjustment expense reserves (continued)

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

For the Years ended December 31,

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	UNAUDITED									
2009	10,600	22,947	29,904	33,046	33,771	34,090	34,201	34,680	34,379	34,364
2010		11,534	32,831	45,171	51,851	60,011	63,372	71,664	69,668	69,164
2011			102,147	168,890	229,060	256,170	281,828	288,488	248,106	235,568
2012				12,872	38,851	53,672	58,688	64,048	60,180	60,379
2013					8,847	18,016	36,374	39,432	41,768	40,891
2014						7,974	23,831	31,235	34,569	33,766
2015							3,797	9,300	14,717	20,125
2016								4,841	17,350	23,839
2017									18,851	45,613
2018										25,308
										589,017
All outstanding liabilities before 2008, net of reinsurance										46
Liabilities for claims and claim adjustment expenses, net of reinsurance										193,920

The following internal loss triangles are presented in thousands of U.S. dollars:

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims
	UNAUDITED										
2009 AY	75,658	68,391	66,057	64,589	60,467	62,407	59,046	59,446	57,074	65,001	5,541
2010 AY		97,408	98,020	96,118	91,201	88,136	86,309	77,574	75,641	73,386	(615)
2011 AY			102,167	91,956	78,573	78,503	76,518	68,623	70,957	72,590	2,721
2012 AY				122,382	112,562	100,036	104,331	101,144	104,597	109,452	3,599
2013 AY					159,229	130,728	116,084	106,915	109,037	106,784	6,826
2014 AY						179,479	159,846	142,987	129,403	130,734	9,292
2015 AY							214,693	201,104	184,499	189,390	31,020
2016 AY								260,725	237,038	217,785	49,794
2017 AY									307,176	296,838	127,689
2018 AY										266,506	139,797
										1,528,466	

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

For the Years Ended December 31,

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	UNAUDITED									
2009 AY	16,365	35,785	39,718	43,093	48,534	51,467	52,006	51,974	52,367	52,382
2010 AY		27,225	55,153	60,503	60,545	64,978	72,020	74,359	74,784	73,442
2011 AY			21,256	40,601	48,850	51,814	68,915	68,519	76,457	70,706
2012 AY				33,068	48,623	54,032	78,984	87,350	90,461	92,903
2013 AY					23,889	41,011	69,627	81,568	88,231	94,497
2014 AY						21,766	60,201	80,824	91,668	101,032
2015 AY							34,669	73,920	93,035	123,565
2016 AY								39,505	90,891	130,775
2017 AY									49,560	115,446
2018 AY										53,502
										908,250
All outstanding liabilities before 2008, net of reinsurance										2,383
Liabilities for claims and claim adjustment expenses, net of reinsurance										622,599

(expressed in U.S. dollars)

6. Loss and loss adjustment expense reserves (continued)

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

Liability for claims and claim adjustment expenses, net of reinsurance	
External	193,920
Internal	622,599
Liability for unpaid claims and claim adjustment expenses, net of reinsurance	816,519
Loss and loss adjustment expenses recoverable	
External	875,171
Internal	-
Total reinsurance recoverable on unpaid claims	875,171
Other	
Total gross liability for unpaid claims and claim adjustment expenses	1,691,690

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	22.6%	32.9%	23.1%	10.6%	5.5%	0.2%	-1.3%	-2.1%	0.2%	0%
Internal	23.4%	24.5%	12.6%	9.7%	9.8%	4.5%	4.3%	-2.5%	-0.6%	0.0%

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

The Company enters 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:

	2018	2017
	($ in thousands)	
Gross premiums written	$ 509,359	$ 526,530
Gross premiums earned	549,760	501,193
Gross premiums ceded	337,725	219,486
Earned premiums ceded	299,169	207,697
Loss and loss adjustment expenses incurred, net	57,446	88,160
Acquisition costs, net	17,395	11,306
Reinsurance balances receivable	170,249	196,146
Deferred acquisition costs, net	8,994	4,002
Loss and loss adjustment expense recoverable	619,599	364,292
Prepaid reinsurance premiums	70,023	32,595
Reinsurance balances payable	9,888	11,329
Unearned premium reserves	183,372	225,107
Loss and loss adjustment expenses reserves	968,210	818,797

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 and 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.

7. Related party transactions (continued)

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

	2018	2017
	($ in thousands)	
HUGS:		
Other liabilities	$ 43,748	$ 14,503
General and administrative expenses	$ 12,386	$ 4,530
HSL:		
Other assets	$ 54,778	$ 24,495
General and administrative expenses	$ 18,396	$ 15,562

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

	2018	2017
	($ in thousands)	
Other assets	$ 30,698	$ 226,116
Other liabilities	$ 7,555	$ 4,719
Dividends payable	$ 80,000	$ -

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 $0.1m (2017: $1.9m).

As outlined in Note 5, during 2018 the Company maintained assets in trust accounts to collateralize its obligations under various reinsurance agreements. At December 31, 2018, total cash and marketable securities with a carrying value of $633.0m (2017: $676.5m) were held in trust to support these obligations. Of this amount, $611.6m (2017: $659.5m) were held on behalf of Hiscox affiliates.

8. Dividends paid

During May 2018, a dividend of $268.0m was declared and paid to Hiscox Ltd. Additionally, in December 2018, a dividend of $80.0m was declared, of which the full amount was unpaid as at December 31, 2018. The Company applied for, and received approval from its Regulator, the Bermuda Monetary Authority, to declare and pay dividends up to $348.0m for the year ended December 31, 2018.

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).

9. Statutory requirements (continued)

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, 2018, as determined using statutory accounting principles, was $613.8m (2017: $864.8m). At December 31, 2018 the Company's minimum capital requirement was $327.9m (2017: $297.6m).

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, 2018, the Company could pay dividends of $80.0m (2017: $216.2m) 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, 2018, totaling $30.3m, bringing the total outstanding letters of credit to $160.8m. These letters of credit were collateralized with cash and U.S. government securities with a fair value of $178.2m.

Effective January 1, 2019, the Company will present its financial statements under International Financial Reporting Standards ("IFRS"). The adoption of IFRS will align the Company's reporting with that of its Parent. The adoption of IFS is not expected to have a significant impact on the Company's statements of operations and financial position.

In response to the UK's decision to leave the European Union, the Hiscox Group (the "Group") made some necessary changes to its business. These will ensure continuity of cover and settlement of existing claims to all its customers with European risks, so that it can continue to service its policyholders and claimants across Europe post-Brexit. To make these changes the Group used a legal insurance business transfer process known as a Part VII transfer to novate insurance contracts covering EU risks and written by Hiscox Insurance Company Limited (HIC) prior to Brexit to Hiscox SA (HSA), the Group's EU carrier based in Luxembourg. At December 31, 2018 the Company participated in a quota share agreement with HIC. Effective January 1, 2019 the Company will continue its participation in its quota share agreement with HIC, but will also participate in a new quota share agreement with HAS.

Subsequent events have been evaluated up to and including April 29, 2019, being the date that these financial statements were available to be issued.