RENAISSANCERE HOLDINGS LTD
Form 10-Q
July 25, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
Q QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-14428
RENAISSANCERE HOLDINGS LTD.
(Exact Name Of Registrant As Specified In Its Charter)

Bermuda	98-014-1974
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
Renaissance House, 12 Crow Lane Pembroke, Bermuda	HM 19
(Address of Principal Executive Offices)	(Zip Code)

(441) 295-4513
(Registrant’s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes Q No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes Q No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Act.
Large accelerated filer Q, Accelerated filer o, Non-accelerated filer o (do not check if a smaller reporting company), Smaller reporting company o, Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes o No Q

The number of Common Shares, par value US $1.00 per share, outstanding at July 20, 2018 was 40,263,226.

RENAISSANCERE HOLDINGS LTD.
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NOTE ON FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Form 10-Q”) of RenaissanceRe Holdings Ltd. (the “Company” or “RenaissanceRe”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, us. In particular, statements using words such as “may”, “should”, “estimate”, “expect”, “anticipate”, “intend”, “believe”, “predict”, “potential”, or words of similar import generally involve forward-looking statements. For example, we may include certain forward-looking statements in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” with regard to trends in results, prices, volumes, operations, investment results, margins, combined ratios, fees, reserves, market conditions, risk management and exchange rates. This Form 10-Q also contains forward-looking statements with respect to our business and industry, such as those relating to our strategy and management objectives, market standing and product volumes, competition and new entrants in our industry, industry capital, insured losses from loss events, government initiatives and regulatory matters affecting the reinsurance and insurance industries.

The inclusion of forward-looking statements in this report should not be considered as a representation by us or any other person that our current objectives or plans will be achieved. Numerous factors could cause our actual results to differ materially from those addressed by the forward-looking statements, including the following:

- the frequency and severity of catastrophic and other events we cover;
- the effectiveness of our claims and claim expense reserving process;
- our ability to maintain our financial strength ratings;
- the effect of climate change on our business;
- collection on claimed retrocessional coverage, and new retrocessional reinsurance being available on acceptable terms and providing the coverage that we intended to obtain;
- the effects of United States (“U.S.”) tax reform legislation and possible future tax reform legislation and regulations, including changes to the tax treatment of our shareholders or investors in our joint ventures or other entities we manage;
- the effect of emerging claims and coverage issues;
- continued soft reinsurance underwriting market conditions;
- our reliance on a small and decreasing number of reinsurance brokers and other distribution services for the preponderance of our revenue;
- our exposure to credit loss from counterparties in the normal course of business;
- the effect of continued challenging economic conditions throughout the world;
- a contention by the Internal Revenue Service (the “IRS”) that Renaissance Reinsurance Ltd. (“Renaissance Reinsurance”), or any of our other Bermuda subsidiaries, is subject to taxation in the U.S.;
- the success of any of our strategic investments or acquisitions, including our ability to manage our operations as our product and geographical diversity increases;
- our ability to retain our key senior officers and to attract or retain the executives and employees necessary to manage our business;
- the performance of our investment portfolio;
- losses we could face from terrorism, political unrest or war;
- the effect of cybersecurity risks, including technology breaches or failure, on our business;
- our ability to successfully implement our business strategies and initiatives;

- our ability to determine the impairments taken on our investments;
- the effects of inflation;
- the ability of our ceding companies and delegated authority counterparties to accurately assess the risks they underwrite;
- the effect of operational risks, including system or human failures;
- our ability to effectively manage capital on behalf of investors in joint ventures or other entities we manage;
- foreign currency exchange rate fluctuations;
- our ability to raise capital if necessary;
- our ability to comply with covenants in our debt agreements;
- changes to the regulatory systems under which we operate, including as a result of increased global regulation of the insurance and reinsurance industries;
- changes in Bermuda laws and regulations and the political environment in Bermuda;
- our dependence on the ability of our operating subsidiaries to declare and pay dividends;
- aspects of our corporate structure that may discourage third-party takeovers and other transactions;
- the cyclical nature of the reinsurance and insurance industries;
- adverse legislative developments that reduce the size of the private markets we serve or impede their future growth;
- consolidation of competitors, customers and insurance and reinsurance brokers;
- the effect on our business of the highly competitive nature of our industry, including the effect of new entrants to, competing products for and consolidation in the (re)insurance industry;
- other political, regulatory or industry initiatives adversely impacting us;
- increasing barriers to free trade and the free flow of capital;
- international restrictions on the writing of reinsurance by foreign companies and government intervention in the natural catastrophe market;
- the effect of Organisation for Economic Co-operation and Development (the “OECD”) or European Union (“EU”) measures to increase our taxes and reporting requirements;
- the effect of the vote by the U.K. to leave the EU;
- changes in regulatory regimes and accounting rules that may impact financial results irrespective of business operations; and
- our need to make many estimates and judgments in the preparation of our financial statements.

As a consequence, our future financial condition and results may differ from those expressed in any forward-looking statements made by or on behalf of us. The factors listed above, which are discussed in more detail in our filings with the U.S. Securities and Exchange Commission (“SEC”), including our Annual Report on Form 10-K (“Form 10-K”) for the year ended December 31, 2017, should not be construed as exhaustive. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to revise or update forward-looking statements to reflect new information, events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
RenaissanceRe Holdings Ltd. and Subsidiaries
Consolidated Balance Sheets
(in thousands of United States Dollars, except per share amounts)

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Assets		
Fixed maturity investments trading, at fair value – amortized cost $7,499,997 at June 30, 2018 (December 31, 2017 – $7,434,870)	$7,420,778	$ 7,426,555
Short term investments, at fair value	2,031,943	991,863
Equity investments trading, at fair value	432,804	388,254
Other investments, at fair value	713,200	594,793
Investments in other ventures, under equity method	111,935	101,974
Total investments	10,710,660	9,503,439
Cash and cash equivalents	548,472	1,361,592
Premiums receivable	1,959,647	1,304,622
Prepaid reinsurance premiums	925,501	533,546
Reinsurance recoverable	1,454,991	1,586,630
Accrued investment income	44,810	42,235
Deferred acquisition costs	511,155	426,551
Receivable for investments sold	505,907	103,145
Other assets	122,048	121,226
Goodwill and other intangible assets	240,187	243,145
Total assets	$17,023,378	$ 15,226,131
Liabilities, Noncontrolling Interests and Shareholders' Equity		
Liabilities		
Reserve for claims and claim expenses	$4,702,345	$ 5,080,408
Unearned premiums	2,267,450	1,477,609
Debt	990,371	989,623
Reinsurance balances payable	2,085,034	989,090
Payable for investments purchased	490,589	208,749
Other liabilities	134,100	792,771
Total liabilities	10,669,889	9,538,250
Commitments and Contingencies		
Redeemable noncontrolling interests	1,493,428	1,296,506
Shareholders' Equity		
Preference shares: $1.00 par value – 16,010,000 shares issued and outstanding at June 30, 2018 (December 31, 2017 – 16,000,000)	650,000	400,000
Common shares: $1.00 par value – 40,263,226 shares issued and outstanding at June 30, 2018 (December 31, 2017 – 40,023,789)	40,263	40,024
Additional paid-in capital	35,094	37,355
Accumulated other comprehensive (loss) income	(1,101)	224
Retained earnings	4,135,805	3,913,772
Total shareholders' equity attributable to RenaissanceRe	4,860,061	4,391,375
Total liabilities, noncontrolling interests and shareholders' equity	$17,023,378	$ 15,226,131

See accompanying notes to the consolidated financial statements

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RenaissanceRe Holdings Ltd. and Subsidiaries
Consolidated Statements of Operations
For the three and six months ended June 30, 2018 and 2017
(in thousands of United States Dollars, except per share amounts) (Unaudited)

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues				
Gross premiums written	$977,343	$827,415	$2,136,995	$1,749,505
Net premiums written	$604,509	$555,745	$1,267,553	$1,099,881
Increase in unearned premiums	(175,124)	(173,480)	(397,886)	(351,571)
Net premiums earned	429,385	382,265	869,667	748,310
Net investment income	71,356	54,163	127,832	108,488
Net foreign exchange (losses) gains	(10,687)	3,109	(6,930)	11,274
Equity in earnings of other ventures	5,826	5,543	6,683	4,036
Other income (loss)	1,225	2,392	(17)	4,057
Net realized and unrealized (losses) gains on investments	(17,901)	58,113	(100,045)	101,486
Total revenues	479,204	505,585	897,190	977,651
Expenses				
Net claims and claim expenses incurred	60,167	142,587	231,870	335,668
Acquisition expenses	105,052	88,251	202,763	171,533
Operational expenses	37,543	41,766	78,815	89,049
Corporate expenses	8,301	4,636	15,034	9,922
Interest expense	11,768	10,091	23,535	20,617
Total expenses	222,831	287,331	552,017	626,789
Income before taxes	256,373	218,254	345,173	350,862
Income tax expense	(4,506)	(3,904)	(1,099)	(4,238)
Net income	251,867	214,350	344,074	346,624
Net income attributable to redeemable noncontrolling interests	(54,483)	(37,612)	(84,382)	(71,939)
Net income attributable to RenaissanceRe	197,384	176,738	259,692	274,685
Dividends on preference shares	(5,596)	(5,596)	(11,191)	(11,191)
Net income available to RenaissanceRe common shareholders	$191,788	$171,142	$248,501	$263,494
Net income available to RenaissanceRe common shareholders per common share – basic	$4.78	$4.25	$6.21	$6.50
Net income available to RenaissanceRe common shareholders per common share – diluted	$4.78	$4.24	$6.21	$6.47
Dividends per common share	$0.33	$0.32	$0.66	$0.64

See accompanying notes to the consolidated financial statements

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RenaissanceRe Holdings Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the three and six months ended June 30, 2018 and 2017
(in thousands of United States Dollars) (Unaudited)

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Comprehensive income				
Net income	$251,867	$214,350	$344,074	$346,624
Change in net unrealized gains on investments	(1,295)	219	(1,325)	(1,272)
Comprehensive income	250,572	214,569	342,749	345,352
Net income attributable to redeemable noncontrolling interests	(54,483)	(37,612)	(84,382)	(71,939)
Comprehensive income attributable to redeemable noncontrolling interests	(54,483)	(37,612)	(84,382)	(71,939)
Comprehensive income attributable to RenaissanceRe	$196,089	$176,957	$258,367	$273,413

See accompanying notes to the consolidated financial statements

RenaissanceRe Holdings Ltd. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the six months ended June 30, 2018 and 2017
(in thousands of United States Dollars) (Unaudited)

	Six months ended	
	June 30, 2018	June 30, 2017
Preference shares		
Balance – January 1	$400,000	$400,000
Issuance of shares	250,000	—
Balance – June 30	650,000	400,000
Common shares		
Balance – January 1	40,024	41,187
Repurchase of shares	—	(1,052)
Exercise of options and issuance of restricted stock awards	239	147
Balance – June 30	40,263	40,282
Additional paid-in capital		
Balance – January 1	37,355	216,558
Repurchase of shares	—	(148,608)
Offering expenses	(8,498)	—
Change in redeemable noncontrolling interests	327	(306)
Exercise of options and issuance of restricted stock awards	5,910	(61)
Balance – June 30	35,094	67,583
Accumulated other comprehensive (loss) income		
Balance – January 1	224	1,133
Change in net unrealized gains on investments	(1,325)	(1,272)
Balance – June 30	(1,101)	(139)
Retained earnings		
Balance – January 1	3,913,772	4,207,699
Cumulative effect of adoption of ASU 2016-09 (Note 2)	—	2,213
Net income	344,074	346,624
Net income attributable to redeemable noncontrolling interests	(84,382)	(71,939)
Dividends on common shares	(26,468)	(25,877)
Dividends on preference shares	(11,191)	(11,191)
Balance – June 30	4,135,805	4,447,529
Total shareholders' equity	$4,860,061	$4,955,255

See accompanying notes to the consolidated financial statements

RenaissanceRe Holdings Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the six months ended June 30, 2018 and 2017
(in thousands of United States Dollars) (Unaudited)

	Six months ended June 30, 2018	Six months ended June 30, 2017
Cash flows provided by operating activities		
Net income	$344,074	$346,624
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization, accretion and depreciation	24,741	11,499
Equity in undistributed earnings of other ventures	(7,262)	20,304
Net realized and unrealized losses (gains) on investments	100,045	(101,486)
Net unrealized gains included in net investment income	(8,714)	(12,491)
Change in:		
Premiums receivable	(655,025)	(546,510)
Prepaid reinsurance premiums	(391,955)	(264,062)
Reinsurance recoverable	131,639	(91,022)
Deferred acquisition costs	(84,604)	(94,781)
Reserve for claims and claim expenses	(378,063)	141,512
Unearned premiums	789,841	615,633
Reinsurance balances payable	1,095,944	378,511
Other	(611,550)	(82,708)
Net cash provided by operating activities	349,111	321,023
Cash flows (used in) provided by investing activities		
Proceeds from sales and maturities of fixed maturity investments trading	4,813,208	5,163,972
Purchases of fixed maturity investments trading	(5,014,011)	(5,451,362)
Net (purchases) sales of equity investments trading	(34,298)	46,305
Net (purchases) sales of short term investments	(1,062,422)	276,075
Net (purchases) sales of other investments	(111,921)	2,551
Net purchases of investments in other ventures	(20,952)	—
Return of investment from investment in other ventures	8,464	20,000
Net cash (used in) provided by investing activities	(1,421,932)	57,541
Cash flows provided by (used in) financing activities		
Dividends paid – RenaissanceRe common shares	(26,468)	(25,877)
Dividends paid – preference shares	(11,191)	(11,191)
RenaissanceRe common share repurchases	—	(145,940)
Issuance of debt, net of expenses	—	295,866
Repayment of debt	—	(250,000)
Issuance of preference shares, net of expenses	242,371	—
Net third party redeemable noncontrolling interest share transactions	64,534	(33,655)
Taxes paid on withholding shares	(7,044)	(11,251)
Net cash provided by (used in) financing activities	262,202	(182,048)
Effect of exchange rate changes on foreign currency cash	(2,501)	5,477
Net (decrease) increase in cash and cash equivalents	(813,120)	201,993
Cash and cash equivalents, beginning of period	1,361,592	421,157
Cash and cash equivalents, end of period	$548,472	$623,150

See accompanying notes to the consolidated financial statements

RENAISSANCERE HOLDINGS LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(unless otherwise noted, amounts in tables expressed in thousands of United States ("U.S.") dollars, except shares, per share amounts and percentages) (Unaudited)

NOTE 1. ORGANIZATION

This report on Form 10-Q should be read in conjunction with the RenaissanceRe's Annual Report on Form 10-K ("Form 10-K") for the fiscal year ended December 31, 2017.

RenaissanceRe was formed under the laws of Bermuda on June 7, 1993. Together with its wholly owned and majority-owned subsidiaries and DaVinciRe (as defined below), the Company provides property, casualty and specialty reinsurance and certain insurance solutions to its customers.

- Renaissance Reinsurance, a Bermuda-domiciled reinsurance company, is the Company's principal reinsurance subsidiary and provides property, casualty and specialty reinsurance coverages to insurers and reinsurers on a worldwide basis.
- Renaissance Reinsurance U.S. Inc. ("Renaissance Reinsurance U.S.") is a reinsurance company domiciled in the state of Maryland that provides property, casualty and specialty reinsurance coverages to insurers and reinsurers, primarily in the Americas.
- RenaissanceRe Underwriting Managers U.S. LLC, a specialty reinsurance agency domiciled in the state of Connecticut, provides specialty treaty reinsurance solutions on both a quota share and excess of loss basis; and writes business on behalf of RenaissanceRe Specialty U.S. Ltd. ("RenaissanceRe Specialty U.S."), a Bermuda-domiciled reinsurer, which operates subject to U.S. federal income tax, and RenaissanceRe Syndicate 1458 ("Syndicate 1458").
- Syndicate 1458 is the Company's Lloyd's syndicate. RenaissanceRe Corporate Capital (UK) Limited ("RenaissanceRe CCL"), a wholly owned subsidiary of RenaissanceRe, is Syndicate 1458's sole corporate member and RenaissanceRe Syndicate Management Ltd. ("RSML"), a wholly owned subsidiary of RenaissanceRe, is the managing agent for Syndicate 1458.
- The Company also manages property, casualty and specialty reinsurance business written on behalf of joint ventures, which principally include Top Layer Reinsurance Ltd. ("Top Layer Re"), recorded under the equity method of accounting, and DaVinci Reinsurance Ltd. ("DaVinci"). Because the Company owns a noncontrolling equity interest in, but controls a majority of the outstanding voting power of DaVinci's parent, DaVinciRe Holdings Ltd. ("DaVinciRe"), the results of DaVinci and DaVinciRe are consolidated in the Company's financial statements and all significant intercompany transactions have been eliminated. Redeemable noncontrolling interest - DaVinciRe represents the interests of external parties with respect to the net income and shareholders' equity of DaVinciRe. Renaissance Underwriting Managers, Ltd. ("RUM"), a wholly owned subsidiary of RenaissanceRe, acts as exclusive underwriting manager for these joint ventures in return for fee-based income and profit participation.
- RenaissanceRe Medici Fund Ltd. ("Medici") is an exempted fund, incorporated under the laws of Bermuda. Medici's objective is to seek to invest substantially all of its assets in various insurance based investment instruments that have returns primarily tied to property catastrophe risk. Third-party investors have subscribed for a portion of the participating, non-voting common shares of Medici. Because the Company owns a noncontrolling equity interest in, but controls a majority of the outstanding voting power of Medici's parent, RenaissanceRe Fund Holdings Ltd. ("Fund Holdings"), the results of Medici and Fund Holdings are consolidated in the Company's financial statements and all significant inter-company transactions have been eliminated. Redeemable noncontrolling interest - Medici represents the interests of external parties with respect to the net income and shareholders' equity of Medici.
- Upsilon RFO Re Ltd., formerly known as Upsilon Reinsurance II Ltd. ("Upsilon RFO"), a Bermuda domiciled special purpose insurer ("SPI"), is a managed joint venture formed by the Company to provide additional capacity to the worldwide aggregate and per-occurrence primary and retrocessional property catastrophe excess of loss market. Upsilon RFO is considered a variable

interest entity (“VIE”) and the Company is considered the primary beneficiary. As a result, Upsilon RFO is consolidated by the Company and all significant inter-company transactions have been eliminated.

- RenaissanceRe Upsilon Fund Ltd. (“Upsilon Fund”), an exempted Bermuda segregated accounts company, was formed by the Company to provide a fund structure through which third-party investors can invest in reinsurance risk managed by the Company. As a segregated accounts company, Upsilon Fund is permitted to establish segregated accounts to invest in and hold identified pools of assets and liabilities. Each pool of assets and liabilities in each segregated account is structured to be ring-fenced from any claims from the creditors of Upsilon Fund’s general account and from the creditors of other segregated accounts within Upsilon Fund. Third-party investors purchase redeemable, non-voting preference shares linked to specific segregated accounts of Upsilon Fund and own 100% of these shares. Upsilon Fund is an investment company and is considered a VIE. The Company is not considered the primary beneficiary of Upsilon Fund and, as a result, the Company does not consolidate the financial position and results of operations of Upsilon Fund.
- Effective November 7, 2016, Fibonacci Reinsurance Ltd. ("Fibonacci Re"), a Bermuda-domiciled SPI, was formed to provide collateralized capacity to Renaissance Reinsurance and its affiliates. Fibonacci Re raised capital from third-party investors and the Company, via private placements of participating notes which are listed on the Bermuda Stock Exchange. Fibonacci Re is considered a VIE. The Company is not considered the primary beneficiary of Fibonacci Re and, as a result, the Company does not consolidate the financial position and results of operations of Fibonacci Re.
- Effective December 22, 2017, the Company and Reinsurance Group of America, Incorporated closed an initiative (“Langhorne”) to source third party capital to support reinsurers targeting large in-force life and annuity blocks. Langhorne Holdings LLC (“Langhorne Holdings”) is a company that owns and manages certain reinsurance entities within Langhorne. Langhorne Partners LLC (“Langhorne Partners”) is the general partner for Langhorne and the entity which manages the third-party investors investing into Langhorne Holdings. The Company concluded that Langhorne Holdings meets the definition of a VIE. The Company is not the primary beneficiary of Langhorne Holdings and as a result, the Company does not consolidate the financial position or results of operations of Langhorne Holdings. The Company concluded that Langhorne Partners is not a VIE. The Company will account for its investments in Langhorne Holdings and Langhorne Partners under the equity method of accounting, one quarter in arrears.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to the Company’s significant accounting policies as described in its Form 10-K for the year ended December 31, 2017, except as noted below.

BASIS OF PRESENTATION

These consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States (“GAAP”) for interim financial information and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, these unaudited consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company’s financial position and results of operations as at the end of and for the periods presented. All significant intercompany accounts and transactions have been eliminated from these statements. Certain comparative information has been reclassified to conform to the current presentation. Because of the seasonality of the Company’s business, the results of operations and cash flows for any interim period will not necessarily be indicative of the results of operations and cash flows for the full fiscal year or subsequent quarters.

USE OF ESTIMATES IN FINANCIAL STATEMENTS

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

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also provides guidance on accounting for certain contract costs and will also require new disclosures. ASU 2014-09 was to be effective for public business entities in annual and interim periods beginning after December 15, 2016, however in July 2015, the FASB decided to defer by one year the effective dates of ASU 2014-09, and as a result, ASU 2014-09 is effective for public business entities in annual and interim periods beginning after December 15, 2017. ASU 2014-09 notably excludes the accounting for insurance contracts, leases, financial instruments and guarantees. The Company's implementation efforts primarily focused on other income and operational expenses on its consolidated statements of operations. The adoption of ASU 2014-09 did not have a material impact on the Company's consolidated statements of operations and financial position.

Recognition and Measurement of Financial Assets and Financial Liabilities

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

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 clarifies the classification of receipts and payments in the statement of cash flows. ASU 2016-15 provides guidance related to (1) settlement and payment of zero coupon debt instruments, (2) contingent consideration, (3) proceeds from settlement of insurance claims, (4) proceeds from settlement of corporate and bank owned life insurance policies, (5) distributions from equity method investees, (6) cash receipts from beneficial interests obtained by a transferor, and (7) general guidelines for cash receipts and payments that have more than one aspect of classification. ASU 2016-15 is effective for public business entities for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of ASU 2016-15 resulted in the reclassification of $20.0

million of cash inflows from cash flows provided by operating activities, to cash flows used in investing activities for the six months ended June 30, 2017. This amount related to a return of investment associated with the Company's investment in Top Layer Reinsurance Ltd, recorded under the equity method of accounting.

Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 was issued to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and the classification of taxes paid on the statements of cash flows. ASU 2016-09 became effective for the Company in annual and interim periods beginning after December 15, 2016. The cumulative effect of the adoption of ASU 2016-09 was a $2.2 million increase to opening retained earnings as of January 1, 2017.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous guidance. ASU 2016-02 is effective for public business entities for annual and interim periods beginning after December 15, 2018. Early application is permitted. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's consolidated statements of operations and financial position.

Measurement of Credit Losses on Financial Instruments

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

Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). ASU 2016-16 requires entities to recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfers occur; this is a change from current guidance which prohibits the recognition of current and deferred income taxes until the underlying assets have been sold to outside entities. ASU 2016-16 is effective for public business entities for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's consolidated statements of operations and financial position.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). Among other things, ASU 2017-04 requires the following: (1) the elimination of step two of the goodwill impairment test; entities will no longer utilize the implied fair value of their assets and liabilities for purposes of testing goodwill for impairment, (2) the quantitative portion of the goodwill impairment test will be performed by comparing the fair value of a reporting unit with its carrying amount; an impairment charge is to be recognized for the excess of carrying amount over fair value, but only to the extent of the amount of goodwill allocated to that reporting unit, and (3) foreign currency translation adjustments are not to be allocated to a reporting unit from an entity's accumulated other comprehensive income; the reporting unit's carrying amount should include only the currently translated balances of the assets and liabilities assigned to the reporting unit. ASU 2017-04 is effective for public business entities that are SEC filers for annual periods, or any interim goodwill impairment tests in annual periods, beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's consolidated statements of operations and financial position.

NOTE 3. INVESTMENTS

Fixed Maturity Investments Trading

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

	June 30, 2018	December 31, 2017
U.S. treasuries	$2,968,855	$ 3,168,763
Agencies	55,199	47,646
Municipal	6,164	509,802
Non-U.S. government (Sovereign debt)	298,811	287,660
Non-U.S. government-backed corporate	185,640	163,651
Corporate	2,280,080	2,063,459
Agency mortgage-backed	762,077	500,456
Non-agency mortgage-backed	300,311	300,331
Commercial mortgage-backed	248,590	202,062
Asset-backed	315,051	182,725
Total fixed maturity investments trading	$7,420,778	$ 7,426,555

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

June 30, 2018	Amortized Cost	Fair Value
Due in less than one year	$385,371	$383,353
Due after one through five years	4,482,713	4,421,536
Due after five through ten years	917,280	904,070
Due after ten years	88,229	85,790
Mortgage-backed	1,310,933	1,310,978
Asset-backed	315,471	315,051
Total	$7,499,997	$7,420,778

Equity Investments Trading

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

	June 30, 2018	December 31, 2017
Financials	$293,779	$ 253,543
Communications and technology	55,100	49,526
Industrial, utilities and energy	33,097	34,325
Consumer	24,678	24,779
Healthcare	21,960	21,364
Basic materials	4,190	4,717
Total	$432,804	$ 388,254

Pledged Investments

At June 30, 2018, $4.9 billion of cash and investments at fair value were on deposit with, or in trust accounts for the benefit of, various counterparties, including with respect to the Company's letter of credit facilities (December 31, 2017 - $4.4 billion). Of this amount, $1.7 billion is on deposit with, or in trust accounts for the benefit of, U.S. state regulatory authorities (December 31, 2017 - $1.7 billion).

Reverse Repurchase Agreements

At June 30, 2018, the Company held $91.8 million (December 31, 2017 - $30.0 million) of reverse repurchase agreements. These loans are fully collateralized, are generally outstanding for a short period of time and are presented on a gross basis as part of short term investments on the Company's consolidated balance sheets. The required collateral for these loans typically includes high-quality, readily marketable instruments at a minimum amount of 102% of the loan principal. Upon maturity, the Company receives principal and interest income.

Net Investment Income

The components of net investment income are as follows:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Fixed maturity investments	$50,416	$44,356	$96,059	$87,775
Short term investments	7,633	2,981	12,937	4,705
Equity investments	1,490	889	2,188	1,700
Other investments				
Private equity investments	3,860	6,611	3,426	14,413
Other	10,658	2,899	18,681	6,971
Cash and cash equivalents	1,039	295	1,604	484
	75,096	58,031	134,895	116,048
Investment expenses	(3,740)	(3,868)	(7,063)	(7,560)
Net investment income	$71,356	$54,163	$127,832	$108,488

Net Realized and Unrealized (Losses) Gains on Investments

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

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Gross realized gains	$5,133	$15,249	$9,716	$26,710
Gross realized losses	(26,519)	(7,243)	(52,372)	(23,776)
Net realized (losses) gains on fixed maturity investments	(21,386)	8,006	(42,656)	2,934
Net unrealized (losses) gains on fixed maturity investments trading	(9,420)	18,760	(64,792)	43,395
Net realized and unrealized gains (losses) on investments-related derivatives	1,038	(268)	(3,326)	(324)
Net realized gains on equity investments trading sold during the period	348	15,146	582	36,061
Net unrealized gains on equity investments trading still held at reporting date	11,519	16,469	10,147	19,420
Net realized and unrealized gains on equity investments trading	11,867	31,615	10,729	55,481
Net realized and unrealized (losses) gains on investments	$(17,901)	$58,113	$(100,045)	$101,486

NOTE 4. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

At June 30, 2018	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed maturity investments				
U.S. treasuries	$2,968,855	$2,968,855	$—	$ —
Agencies	55,199	—	55,199	—
Municipal	6,164	—	6,164	—
Non-U.S. government (Sovereign debt)	298,811	—	298,811	—
Non-U.S. government-backed corporate	185,640	—	185,640	—
Corporate	2,280,080	—	2,280,080	—
Agency mortgage-backed	762,077	—	762,077	—
Non-agency mortgage-backed	300,311	—	300,311	—
Commercial mortgage-backed	248,590	—	248,590	—
Asset-backed	315,051	—	315,051	—
Total fixed maturity investments	7,420,778	2,968,855	4,451,923	—
Short term investments	2,031,943	—	2,031,943	—
Equity investments trading	432,804	432,804	—	—
Other investments				
Catastrophe bonds	501,025	—	501,025	—
Private equity partnerships (1)	186,200	—	—	—
Senior secured bank loan funds (1)	14,414	—	—	—
Hedge funds (1)	11,561	—	—	—
Total other investments	713,200	—	501,025	—
Other assets and (liabilities)				
Assumed and ceded (re)insurance contracts (2)	(2,018)	—	—	(2,018)
Derivatives (3)	(2,161)	(95)	(2,066)	—
Total other assets and (liabilities)	(4,179)	(95)	(2,066)	(2,018)
	$10,594,546	$3,401,564	$6,982,825	$ (2,018)

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

(2) Included in assumed and ceded (re)insurance contracts at June 30, 2018 was $2.5 million and $4.5 million of other assets and other liabilities, respectively.

(3) See "Note 13. Derivative Instruments" for additional information related to the fair value by type of contract, of derivatives entered into by the Company.

At December 31, 2017	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed maturity investments				
U.S. treasuries	$3,168,763	$3,168,763	$—	$ —
Agencies	47,646	—	47,646	—
Municipal	509,802	—	509,802	—
Non-U.S. government (Sovereign debt)	287,660	—	287,660	—
Non-U.S. government-backed corporate	163,651	—	163,651	—
Corporate	2,063,459	—	2,063,459	—
Agency mortgage-backed	500,456	—	500,456	—
Non-agency mortgage-backed	300,331	—	300,331	—
Commercial mortgage-backed	202,062	—	202,062	—
Asset-backed	182,725	—	182,725	—
Total fixed maturity investments	7,426,555	3,168,763	4,257,792	—
Short term investments	991,863	—	991,863	—
Equity investments trading	388,254	388,254	—	—
Other investments				
Catastrophe bonds	380,475	—	380,475	—
Private equity partnerships (1)	196,220	—	—	—
Senior secured bank loan funds (1)	17,574	—	—	—
Hedge funds (1)	524	—	—	—
Total other investments	594,793	—	380,475	—
Other assets and (liabilities)				
Assumed and ceded (re)insurance contracts (2)	(2,952)	—	—	(2,952)
Derivatives (3)	4,636	(45)	4,681	—
Total other assets and (liabilities)	1,684	(45)	4,681	(2,952)
	$9,403,149	$3,556,972	$5,634,811	$ (2,952)

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

(2) Included in assumed and ceded (re)insurance contracts at December 31, 2017 was $2.5 million and $5.5 million of other assets and other liabilities, respectively.

(3) See “Note 13. Derivative Instruments” for additional information related to the fair value by type of contract, of derivatives entered into by the Company.

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

Fixed Maturity Investments

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

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

In general, broker-dealers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers also determine valuations by observing secondary trading of similar securities. Prices obtained from broker quotations are considered non-binding, however they are based on observable inputs and by observing secondary trading of similar securities obtained from active, non-distressed markets. The Company considers these broker quotations to be Level 2 inputs as they are corroborated with other market observable inputs.

The techniques generally used to determine the fair value of the Company's fixed maturity investments are detailed below by asset class.

U.S. treasuries

Level 1 - At June 30, 2018, the Company's U.S. treasuries fixed maturity investments were primarily priced by pricing services and had a weighted average yield to maturity of 2.6% and a weighted average credit quality of AA (December 31, 2017 - 1.9% and AA, respectively). When pricing these securities, the pricing services utilize daily data from many real time market sources, including active broker dealers. Certain data sources are regularly reviewed for accuracy to attempt to ensure the most reliable price source is used for each issue and maturity date.

Agencies

Level 2 - At June 30, 2018, the Company's agency fixed maturity investments had a weighted average yield to maturity of 2.7% and a weighted average credit quality of AA (December 31, 2017 - 2.1% and AA, respectively). The issuers of the Company's agency fixed maturity investments primarily consist of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. Fixed maturity investments included in agencies are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The fair value of each security is individually computed using analytical models which incorporate option adjusted spreads and other daily interest rate data.

Municipal

Level 2 - At June 30, 2018, the Company's municipal fixed maturity investments had a weighted average yield to maturity of 3.8% and a weighted average credit quality of A (December 31, 2017 - 2.2% and AA, respectively). The Company's municipal fixed maturity investments are primarily priced by pricing services. When evaluating these securities, the pricing services gather information regarding the security from third-party sources such as trustees, paying agents or issuers. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. In certain instances, securities are individually evaluated using a spread over widely accepted market benchmarks.

Non-U.S. government (Sovereign debt)

Level 2 - At June 30, 2018, the Company's non-U.S. government fixed maturity investments had a weighted average yield to maturity of 2.6% and a weighted average credit quality of AAA (December 31, 2017 - 2.0% and AAA, respectively). The issuers of securities in this sector are non-U.S. governments and their respective agencies as well as supranational organizations. Securities held in these sectors are primarily priced by pricing services that employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high issuance credits. The pricing services then apply a credit spread for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets.

Non-U.S. government-backed corporate

Level 2 - At June 30, 2018, the Company's non-U.S. government-backed corporate fixed maturity investments had a weighted average yield to maturity of 3.0% and a weighted average credit quality of AA (December 31, 2017 - 2.3% and AA, respectively). Non-U.S. government-backed fixed maturity investments are primarily priced by pricing services that employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high issuance credits. The pricing services then apply a credit spread to the respective curve for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets.

Corporate

Level 2 - At June 30, 2018, the Company's corporate fixed maturity investments principally consisted of U.S. and international corporations and had a weighted average yield to maturity of 4.3% and a weighted average credit quality of BBB (December 31, 2017 - 3.8% and BBB, respectively). The Company's corporate fixed maturity investments are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. In certain instances, securities are individually evaluated using a spread which is added to the U.S. treasury curve or a security specific swap curve as appropriate.

Agency mortgage-backed

Level 2 - At June 30, 2018, the Company's agency mortgage-backed fixed maturity investments included agency residential mortgage-backed securities with a weighted average yield to maturity of 3.4%, a weighted average credit quality of AA and a weighted average life of 7.7 years (December 31, 2017 - 3.0%, AA and 6.4 years, respectively). The Company's agency mortgage-backed fixed maturity investments are primarily priced by pricing services using a mortgage pool specific model which utilizes daily inputs from the active to be announced market which is very liquid, as well as the U.S. treasury market. The model also utilizes additional information, such as the weighted average maturity, weighted average coupon and other available pool level data which is provided by the sponsoring agency. Valuations are also corroborated with daily active market quotes.

Non-agency mortgage-backed

Level 2 - The Company's non-agency mortgage-backed fixed maturity investments include non-agency prime, non-agency Alt-A and other non-agency residential mortgage-backed securities. At June 30, 2018, the Company's non-agency prime residential mortgage-backed fixed maturity investments had a weighted average yield to maturity of 4.1%, a weighted average credit quality of non-investment grade, and a weighted average life of 5.4 years (December 31, 2017 - 3.7%, BBB and 5.1 years, respectively). The Company's non-agency Alt-A fixed maturity investments held at June 30, 2018 had a weighted average yield to maturity of 3.8%, a weighted average credit quality of non-investment grade and a weighted average life of 6.2 years (December 31, 2017 - 3.7%, non-investment grade and 6.2 years, respectively). Securities held in these sectors are primarily priced by pricing services using an option adjusted spread model or other relevant models, which principally utilize inputs including benchmark yields, available trade information or broker quotes, and issuer spreads. The pricing services also review collateral prepayment speeds, loss severity and delinquencies among other collateral performance indicators for the securities valuation, when applicable.

Commercial mortgage-backed

Level 2 - At June 30, 2018, the Company’s commercial mortgage-backed fixed maturity investments had a weighted average yield to maturity of 3.5%, a weighted average credit quality of AAA, and a weighted average life of 4.5 years (December 31, 2017 - 2.9%, AAA and 4.5 years, respectively). Securities held in these sectors are primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services discount the expected cash flows for each security held in this sector using a spread adjusted benchmark yield based on the characteristics of the security.

Asset-backed

Level 2 - At June 30, 2018, the Company’s asset-backed fixed maturity investments had a weighted average yield to maturity of 3.6%, a weighted average credit quality of AAA and a weighted average life of 3.1 years (December 31, 2017 - 2.8%, AAA and 3.0 years, respectively). The underlying collateral for the Company’s asset-backed fixed maturity investments primarily consists of bank loans, student loans, credit card receivables, auto loans and other receivables. Securities held in these sectors are primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector.

Short Term Investments

Level 2 - At June 30, 2018, the Company’s short term investments had a weighted average yield to maturity of 1.6% and a weighted average credit quality of AAA (December 31, 2017 - 1.4% and AAA, respectively). The fair value of the Company’s portfolio of short term investments is generally determined using amortized cost which approximates fair value and, in certain cases, in a manner similar to the Company’s fixed maturity investments noted above.

Equity Investments, Classified as Trading

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

Other investments

Catastrophe bonds

Level 2 - The Company’s other investments include investments in catastrophe bonds which are recorded at fair value based on broker or underwriter bid indications.

Other assets and liabilities

Derivatives

Level 1 and Level 2 - Other assets and liabilities include certain derivatives entered into by the Company. The fair value of these transactions includes certain exchange traded futures contracts which are considered Level 1, and foreign currency contracts and certain credit derivatives, determined using standard industry valuation models and considered Level 2, as the inputs to the valuation model are based on observable market inputs. For credit derivatives, these inputs include credit spreads, credit ratings of the underlying referenced security, the risk free rate and the contract term. For foreign currency contracts, these inputs include spot rates and interest rate curves.

Level 3 Assets and Liabilities Measured at Fair Value
Below is a summary of quantitative information regarding the significant observable and unobservable inputs (Level 3) used in determining the fair value of assets and liabilities measured at fair value on a recurring basis:

At June 30, 2018	Fair Value (Level 3)	Valuation Technique	Unobservable (U) and Observable (O) Inputs	Low	High	Weighted Average or Actual	
Other assets and (liabilities)							
Assumed and ceded (re)insurance contracts	$935	Internal valuation model	Bond price (O)	$101.38	$110.93	$106.64	
			Liquidity discount (U)	n/a	n/a	1.3	%
Assumed and ceded (re)insurance contracts	(2,953)	Internal valuation model	Net undiscounted cash flows (U)	n/a	n/a	$4,815	
			Expected loss ratio (U)	n/a	n/a	18.7	%